



Bank Keshavarzi
Performance Report 2005-2006



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In the Name of God

Foreword by the Chairman and Managing Director

Concurrent with the auspicious victory of Islamic Revolution and establishment of the Islamic republic system in Iran, reviving breeze of "independence", one of the objectives of Iranian people during their revolutionary activities, started blowing in the country. Remarkable steps were taken and untiring endeavors were initiated to achieve independence from foreign superpowers and to obtain self-sufficiency in various fields, namely economy, politics, and culture. Such attempts, later changed to sacred ones, will surely be maintained by the time the absolute independence is achieved.

The agriculture sector is considered one of the significant parts of the economy, which plays effective roles in meeting people's vital needs, achieving independence and building up the glory of the country and it is obvious to every Iranian individual that independence in other fields and sectors cannot be accomplished without reaching self-sufficiency in production of agricultural crops, especially the functional ones, as well as providing food security for people. This is why, in today's world, we have frequently witnessed how the sector has been exploited as a political tool of intervention to affect the economy and independence of developing countries.

Concerning such circumstances, Bank Keshavarzi (BK), as the only financial entity, specialized in the agriculture sector, holds an outstanding position in the national economy and has undertaken great commitments to support those involved and operative in the sector.

Accordingly, in order to accomplish its legal and intrinsic commitments, BK is bound to boost its effectiveness, efficiency, capacities and abilities through implementing modern banking approaches and methods in line with recent changes and reforms at national, regional and international levels.

Following the formation of the ninth government administration, focusing on the agriculture sector, BK, in line with government's and the ministry of Jihad-e-Agriculture's new approaches, adopted some changes in its mission and as a result, realization of increasing needs of the sector, as a productive and entrepreneurial component of the economy, was prioritized.

Therefore, in 2005-2006, BK set the functional slogan of the government, i.e. **Compassion, Services (Offering Services to Omaha of the Almighty God), Justice, Excellence, as well as Spiritual and Financial Improvement**, as the conductive slogan of its mission and vision. The bank based its mission on principles including: realization of compassion, i.e. **"offering services to customers and creating values for them"**; offering services, i.e. **"respecting customers and facilitating accessibility to banking services"**; achieving justice, or in other words, **"creating equal opportunities for all classes of life, in particular the farmers, to make the best use of banking services"**; and eventually, reaching the point of excellence and spiritual improvement in form of **"contribution to self-sufficiency of the agriculture sector"**. The results of such an approach can easily be traced and witnessed in the bank's proper performance along with its levels of financial returns and outputs.

Providing credit facilities required by the agriculture sector, offering services in compliance with international standards, and attracting customers' confidence to mobilize public deposits aimed at job-creation and entrepreneurship, BK has been able to reach an outstanding position and make remarkable accomplishments at national and international level. To name the chief among many, BK was:

- recognized as the "Best Bank of Iran in 2006" for the fourth consecutive year by "The Banker", an international and specialized magazine associated to Financial Times Institute;
- appreciated as the "Best Organization of Iran" in the 2nd and 3rd National Festivals of Servicing and Accountability;
- awarded as the "Best Electronic Public Relations" for installing and running a comprehensive information site in the 2nd National Forum of Electronic Public Relations;
- awarded the "Special Plaque of the Best and Pioneer Bank of Iran in Electronic Banking" in the 1st Conference of Electronic Banking;
- awarded the Special Plaque of the 3rd International Conference of Public Relations;

- awarded the Special Plaque in the 3rd International Conference of Management for "Valuable and Specialized Participation" in dissemination of science and related experiences and presenting important strategies designed specifically for development and empowerment of organizational management;
- presented the note of appreciation by Mr. Mohammad Reza Eskandari, Minister of Jihad-e-Agriculture, for operating as the best organization and the most compatible bank of Iran with other administrative bodies of provinces, for accepting SME projects as well as offering banking and supportive services to farmers, producers, and rural communities;
- presented the note of appreciation by Mr. Kadkhodae, Deputy Secretary General of Guardian Council of I. R. Iran for playing an effective role in implementation of "Mehr Cards for Guardian Council Supervisors Project";
- presented the note of appreciation by Mr. Ali Safdari, Manager of Administrative Technology Renovation and Development Center, affiliated to Planning and Management Organization, for analyzing the survey on banks' customers regarding the Customer-orientation Plan;
- awarded the appreciation Plaque and trophy of Imam Reza's (PBUH) Fund by the Minister of Labor and Social Security;

In addition, based on assessment of BK performance in 2005-2006 conducted by Planning and Management Organization, 19 directorates of the bank obtained the first to third positions among Iranian administrative entities for implementing the "Customer-orientation and Customers' Satisfaction Plan" and offering unique services such as Farmers' Electronic Cards (Keshavarz Card). Such achievements imply sincere attempts of BK's staff and their commitment to offer satisfying services to customers, in particular, the farmers who are the main and active players of self-sufficiency campaign in the Islamic Republic of Iran.

However, given the expansion of the agriculture sector, the bank is still at initial phases of its mission towards prosperity, and more attempts are required in order to keep



moving along the path towards the objectives and to overcome the obstacles and challenges facing the bank so that, with the blessings of Almighty Allah, we would witness ever-increasing promotion of the bank's position and strengthening its role in the agriculture sector.

Sayed Hassan Nourbakhsh



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Chapter 1: World Economic Outlook

The world economy, in the last few years, has confronted two major trends of evolution. The first was the stable imbalances occurred in foreign sectors of world economy including severe deficit in U.S. current account and, instead, the surpluses in current accounts of other industrially advanced countries, Asian emerging countries and recently in current accounts of oil-exporters. Concurrent with such imbalances, there were severe changes in foreign reserves of some countries. However, the U.S. current account deficit has gradually been recovered through cases of adjustment in foreign currencies rates and as a result, modification of relative prices of financial assets. The second has been the significant run-up in energy prices since 2003, as a result of buoyant demand and projections made about the energy supply. Given the current excess capacities, the gap between world demand and supply for oil is expected not to decrease in a short time and it is projected that prices will hit new highs and will be fluctuating nearly at the existing level.

Comparison of current oil shocks to those in 1970 reveals some major differences: (1) the increase in crude oil import value, during 2002-2005, reached 4 percent of GDP for China and slightly more than 1 percent of GDP for the U.S., other industrially developed countries and some developing ones. Thus, reviewing the world economic outlook indicates that the effects of current oil turmoil in terms of GDP share, the effects on private investment flow, and the size of internal financial markets have been eased relative to the similar ones in 1970. In addition, with new wave of crude oil price increase compared with the increasing shocks in 1970, oil-exporting countries have obviously employed smaller shares of their oil income excess in import expansion, so that the shares of their import value out of their GDP have remained unchanged in recent years. The growth of import value in these nations has been slightly more than half of their income surplus, earned due to oil price surge, while the 1970 shares consisted of three fourth of their excess income.

Statistics, presented by International Monetary Fund (IMF) in 2005, indicate consistency in decreasing growth of macro indices of world economy, whose descending

trend had already started in mid 2004. In the given year, the world real gross production, with a 5.9 percent decrease relative to that of the previous year, reached 4.8 percent. Except for Middle-East countries, experiencing growth with positive and ascending trends, the economic growth in the given year was down from the previous year in other parts of the world in a way that even the growth of Asian emerging countries amounted from 4.8 percent of the previous year to 8.2 percent.

The economic growth of oil-exporting countries in Middle-east, in comparison with that of the previous year (5.7 percent), accelerated to 6.2 percent with an 8.8 percent rise, up from the similar figure in the whole region. Among the region countries, Kuwait, with a growth of 8.5 percent, experienced the highest economic development.

World trade, in 2005, experienced a growth of 5.2 percent relative to that of 2004, indicating slow-down of trade rhythm in all industrially advanced countries and the others in terms of both export and import activities. Such a decline is partially due to reduction of factory products and underlying commodities prices in US dollar. Whereas the oil price in US dollar, in the given year, soared as much as 41.3 percent, which seems remarkable compared to the growth witnessed in the previous year (30.7 percent).

Table 1: Macro Economic Indices

Year	2002	2003	2004	2005
Gross Domestic Production	% of Changes			
All Countries of the World	3.1	4.1	5.3	4.9
Industrially Advanced Countries	1.5	1.9	3.2	2.6
USA	1.6	2.5	3.9	3.2
Euro Region	0.9	0.8	2.1	1.3
Japan	0.1	1.8	2.3	2.6
Other Industrially Advanced Countries	3.2	2.5	4.0	3.1
China	9.1	10.0	10.1	10.2
Middle East	4.1	6.4	5.5	5.7
Africa	3.6	4.6	5.5	5.4
Public Level of Prices				
Industrially Advanced Countries	1.5	1.8	2.0	2.3

Source: World Economic Outlook, IMF, September 2006¹

¹ For more information, see World Economic Outlook, April 2006, Chapter 2.



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Chapter 2: Iran Economic Outlook

2.1. Iran Economic Outlook

In spite of political changes occurred in the region as well as structural problems facing production and servicing units, Iran economy went rather successfully through the first year of implementing the fourth Five-year Developing Plan (FYDP), incorporated in the set of "Iran's 20-year Vision Document". In 2005-2006, in line with economic approaches designed in the fourth FYDP to promote active and constructive interaction with world economy and to expand competitiveness, there were attempts to pave the way and lay the foundation for economic growth and development through significant measures including broad participation of non-governmental sector, promotion of productivity, simplification of commercial regulations, execution of financial discipline, adoption of decentralization policy, utilization of Oil Stabilization Fund (OSF) resources, and establishment of regional balance. Moreover, continuation of oil price run-up followed by its stability in world markets played an important role in creating such circumstances.

Stable and long-term economic growth, in particular realization of economic justice, as one of the main priorities of the government, does require prices stability and inflation control. Thus, the bank strived to finance production units while controlling the liquidity volume in 2005-2006. However, the participatory bonds, issued by Central Bank of Iran (CBI), were not fully purchased by the public and the liquidity growth reached 34.3 percent, in 2005, 10.3 basis points more than the target percentage determined in the plan (24 percent).

In spite of conspicuous growth of liquidity in 2005-2006, inflation rate dropped to 12.1 percent with a 3.1 basis point decrease compared with that of 2004, mainly because of import boost, effective growth rate of tariffs, stagflation in housing sector, inflationary expectation control, and demand decline.

Seasonal statistics indicate that the country real GDP, in terms of 1997 real prices, soared from Rls. 398,234 billion in 2004 to Rls. 419,705 billion, presenting a 5.4 percent growth. Notably, the GDP growth rate in 2004 equaled to 4.8 percent which helps conclude that the real sector of economy, in 2005, had a 0.6 percent increase in its growth

rate. Estimation of value added for various economic sectors reveals that the increase in production growth rate was mainly resulted by the agricultural growth rate.

Based on the findings, the value added share of afore-mentioned activities in 2005 GDP growth was calculated as one percent, presenting an increase of about 0.7 basis point as compared with that of the previous year. However, such an increase was partially offset due to decrease in growth shares of other activities especially the industry sector in a way that the difference between growth rates of 2004 and 2005 was calculated at 0.6 basis points.

Following the poor performance in 2004 crop year, the agriculture sector managed to have a 7.1 percent growth in 2005-2006, as compared with that of the previous year, owing to more desirable status such as relatively appropriate climatic conditions, in particular. Assessment of value added in the agriculture sector represents a remarkable growth in both agricultural crops and livestock products.

Based on preliminary statistics, presented by Ministry of Jihad-e-Agriculture, production of main crops such as wheat, barley, rice, as well as horticulture crops and livestock products, has remarkably increased amounting to 7.1 percent, 4.3 percent, 0 percent, 11.5 percent and 6.9 percent respectively, compared to the figures in 2004-2005.

In 2005-2006, value added of oil group decreased in terms of growth rate mainly because of decline in growth of crude oil extraction, and some other factors such as decrease in direct export of crude oil, and decline in export through buy back as well as decrease in oil products export. Given all these factors, value added of the group, in 2005-2006, in terms of 1997 real prices, amounted to around Rls. 46143 billion, only 0.6 percent more than that of the previous year. Compared with 2.6 percent growth rate of the groups in 2004-2005, oil group value added declined as much as 2 basis points, reflecting the investment problems of the sector.

In 2005-2006, mines and industries group had a relatively successful performance with a growth rate of 6.7 percent so that it could account for 1.6 percent out of total 5.6 percent of economic growth rate in the given period. However, the share, relative to that of the previous year, declined around 0.4 percent and the growth rate amounted to 8.4 percent in 2004. Among the sub-sectors of the group, the industry, in 2005, experienced a decreasing growth which dropped to 7.1 percent from 12 percent in 2004. The main

products of the sector, including crude steel, steel products, automobiles, and cement, grew by 6.5 percent, 10.9 percent, 6.3 percent, and 1.4 percent respectively in 2005-2006, compared with relevant growth in the previous year.

The housing sector affected by recession from the second half of 2003 and more severely in 2004, revealed signs of booming with an 11.4 growth in the second quarter of 2005-2006. The sector performance, in the third quarter of the reported year, faced recession again. However, it managed to recover in the fourth quarter of the year mainly because of acceleration in capital costs of government and increase in the number of fully-constructed buildings, belonging to the private sector, in urban areas. Eventually, in 2005-2006, the growth rate of the sector reached 4.4 percent, representing better conditions relative to -4.1 percent in the year before. Considering the number of construction permits granted to the private sector in urban areas as an index, we can somehow project the continuation of recession period in housing sector for the following year.

The services group, accounting for the highest share in GDP, experienced a gentle growth as the previous year. The sector growth amounted to 5.6 percent in 2005-2006 while the growth rate for value added of the group, in 2004, had been calculated at 4.6 percent.

The growth rate of implicit indices of agriculture, oil, mines and industries, and services groups, in 2005, amounted to 5.7 percent, 35.2 percent, 8.3 percent, and 13.7 percent respectively and the growth rate of GDP and non-oil GDP implicit indices reached 15.9 and 10.9 percent as well. Consequently, the growth rate of implicit indices declined conspicuously in all economic groups, excluding the oil sector. Such a decline caused a decrease in growth rate of non-oil GDP implicit index to 6.1 percent, compared with that of the year before. Following the noticeable global oil price run-up and the growth of production and value added implicit indices, relevant to the oil sector in Iranian economy, the growth of GDP implicit index (including oil) amounted to 15.9 percent.

2.2. National Accounts

Based on preliminary projections of 2005-2006, GDP in terms of 1997 real prices grew as much as 5.4 percent, indicating a rise of 0.6 percent in comparison with that of the year before. In addition, non-oil GDP represented a 6 percent increase, which grew as 0.9 percent relative to that of the previous year. The main factors having impacts on GDP increase in 2005-2006 are considered to be the ones such as: increase in growth rate of agricultural activities because of relatively improvement of climatic conditions, growth in construction activities following the increase in capital costs of the government in the housing sector and increase of privately completed buildings in urban areas compared with the previous year. In this year, the created value added in "mines and industries", and "agriculture" sectors reached 6.7 percent and 7.1 percent respectively, and 5.6 percent in services and 0.6 percent in oil sectors.

According to preliminary assessments, the growth rate of private and public consumptions, in terms of 1997 real prices, amounted to 6.6 percent and 5.4 percent respectively. Such figures, in comparison with the similar ones in 2004 (8.6 percent and 1.3 percent) represent a 6.4 percent increase in total consumption and the change of consumption combination in favor of the public sector. Moreover, based on the assessment in 2005-2006, formation of real gross capital including investment in machineries and real estate had a growth of 5.8 percent in comparison with that of the previous year. The growth of investment in machineries and real estate reached 6.4 and 4.7 percent respectively.

2.3. Balance of Payments

National balance of payments in 2005 was influenced by positive changes in world crude oil market and foreign business. Noticeable modification of regulations and international trade rules as well as offering various facilities and incentives to the sector operatives in previous years resulted in easier trends of transactions compared with those in the year before. Such changes made the surplus in current account balance reach from USD 1442 million in 2004 to USD 14037 million at the end of the year so that a 873.4 percent growth could be recognized. With regard to the 17.6 percent growth in deficit of

services account, which rose from USD 501 million to USD 5894 million, the growth of current account surplus was mainly caused by trade balance surplus, which ascended from USD 5653 million to USD 19043 million and revealed a 236.9 percent growth.

Rising prices of oil in world markets led to constant growth of oil export value during the last few years. Accordingly, the oil and gas export value reached USD 48823 million from USD 36315 million with a 34.4 percent growth in the year under study. Relying on enormous oil revenue, import of intermediary goods and raw materials was easily realized and consequently, non-oil export (customs and non-customs) experienced a 48.5 percent growth, compared to the same period last year, and amounted to USD 11189 million from USD 7537 million.

Export of industrial goods, with an increase of 65.6 percent, played a significant role in non-oil export growth during the given year. Among the goods belonging to industrial group, main shares were allocated to chemical and petrochemical materials (USD 2729 million) with 26 percent and export of cast iron, iron, and steel (USD 1326 million) with 12.6 percent. In this period, the import value of all items in the group of substantially industrial commodities, excluding medical, chemical and ironware products, grew positively. Among the constituent items, industrial appliances and machineries, with 9.1 percent increase, have enjoyed the highest growth of import in comparison with other items of the group.

Capital account, in the given year, faced a 411 million dollar deficit, indicating a drop compared with the surplus in the previous year (\$ 7388 million). Such a decline is mainly due to decrease of borrowing level from abroad because of the increase in foreign currency facilities rate, finance problems in the given year, possibility of using the OSF resources with lower rates and repayment of previous debts.

The total value of inter-bank transactions in 2005-2006 amounted to \$ 29547 million, having a 30.2 percent growth compared to that of the previous year (\$ 22692 million). During the period, the purchase of foreign currencies by Central Bank of I.R. Iran (CBI) in inter-bank market equaled \$ 410 million, which grew 25.8 percent as compared with the previous year. The total sales of foreign currencies by CBI had also a 28.5 percent growth and reached \$ 24366 million. In the given year, the average rate of IRR-USD in

inter-bank market increased from Rls. 8885 in the early 2004-2005 to Rls 9133 in the end of 2005-2006, representing devaluation of national currency as much as 2.8 percent.

The assets balance of OSF account, in the end of 2004-2005, equaled \$ 13060 million, including \$9477 million in cash and \$ 3582 million in form of due from non-government sector. The account balance in the end of 2005-2006, relative to that of the previous year, increased as much as 25.8 percent and amounted to \$ 16425 million, including \$ 10686 million as cash assets. In this period, government budgetary withdrawals from the account reached \$ 9682 million, showing a 28.8 percent increase, relative to total budgetary withdrawals of the previous year (\$ 7513 million). Financial facilities, funded by the account, equaled \$ 2313 million, about 19.4 percent more than those of the previous year.

Foreign obligations in 2005-2006, with a 1.9 percent decrease, reached \$ 41852 million from \$ 42677 million in 2004. In the given period, foreign debts (actual obligations) and potential obligations amounted to \$ 24264 and 17587 million, with 5.2 percent increase from \$ 23074 and 5.6 percent decrease from 18635 million, respectively. It is vital to consider the changes in items classification when analyzing the data on foreign obligations.² Based on the new classification, other items of finance and direct loans from sources out of the banking network altered from potential obligations to actual ones. Moreover, in calculation of actual obligations, unpaid interest has been regarded as a part of actual obligations and as a result, \$ 232.6 million has been accrued to the principal of such obligations.

CBI policies to restrict short-term debts, the propensity of applicants of forex facilities to use OSF resources because of their lower costs, as well as the decline in foreign borrowings due to increase of international interest rates are chief among the reasons for decline of national foreign debts in 2005-2006.

² To make the foreign debts statistics comply with international standards, actual obligations of self-managed projects, classified as potential ones in the past, were added to statistics of actual obligations. Moreover, the accrued interest of the actual obligations was calculated through accrual methods and included in the statistics.

2.4. Monetary Changes

Liquidity and inflation controlling objectives were intended to be realized through some approved monetary measures in 2005-2006, according to the policies of the fourth FYDP, adopted to provide production and investment sectors with required liquidity aimed at achieving the economic growth. However, withdrawals from the OSF and the conversion of funds to national currency (Rial) led to enhancement of the monetary base, eventually amounting to Rls. 921 billion, with a 43.3 percent growth, reflecting an increase of 4.1 percent as compared to the variable growth in 2004-2005 (30.2 percent). There was also an increase of 13.4 percent in liquidity derived from the growth in net balance of foreign assets. The rest (20.9 percent) was resulted by the increase in net balance of internal assets. In this regard, CBI's share from the net balance of foreign assets was also calculated at 86.9 percent.

In the end of 2005-2006, 34.5 percent of the liquidity balance consisted of money (M1), as much as Rls. 318.0 thousand million with a 25.8 percent growth relative to the previous year. The rest (65.5 percent) consisted of quasi money (near money) which reached Rls. 603.0 thousand million by the end of the given year with a 39.3 percent growth.

Table 2: Monetary Base

Item	2004-2005			2005-2006		
	Balance (Billion Rials)	Change in Balance (Billion Rials)	Share out of Growth (%)	Balance (Billion Rials)	Change in Balance (Billion Rials)	Share out of Growth (%)
Money Base	151200.0	22489.1	17.5	220541.4	69341.4	45.9
CBI Foreign Net Assets	183279.4	65236.8	50.7	257567.0	74287.6	49.1
CBI Net Due from Public Sector	65994.7	- 11982.6	- 9.3	8652.1	- 57342.6	- 37.9
CBI Net Due from Banks	21493.2	- 2049.0	- 1.6	35916.2	14423.0	9.5
Net of Other Items	- 119567.3	- 28716.1	- 22.3	- 81593.9	37973.4	25.1
Increasing Liquidity Coefficient (No Unit)	4.536	0.445		4.176	- 0.360	

Monetary base, in the given year, amounted to Rls. 220.5 thousand billion, with a 45.9 percent growth. One of the most important reasons for such a growth in the monetary base is considered to be the net foreign assets of CBI, which grew 49.1 percent with a change as much as Rls. 74.3 thousand billion, in the balance. The increase in CBI net foreign assets was mainly due to purchase of government's foreign currencies to provide the budget resources in Rials and failure in full sale of the currencies in forex inter-bank market. The net debt of government to CBI, with a share decrease amounting to Rls. 57.3 thousand billion, grew -37.9 percent. In contrast, CBI's due from other banks had a share growth of 9.5 percent.

Falling due in 2005, CBI participation bonds were not displaced on time and their volume dropped from Rls. 20250.3 billion in the end of 2004-2005, to Rls. 10769.1 billion in the late 2005-2006. As a result of releasing the funds of CBI participation bonds and the change in classification of some foreign currency items, net of other items had an increasing share, as much as 25.1 percent, in promotion of the monetary base.

In the given year, increasing coefficient of liquidity fell by 7.9 percent, which seems noticeable in comparison with the 10.9 percent growth in the previous year. The coefficient continued growing as much as 8.8 percent by February 2006, however, facing a severe decrease in March. As usual, the decrease in liquidity coefficient takes place in the early months of year (the final months of Iranian calendar). Nevertheless, the trend, concurrent with OSF account withdrawals subject to the second supplementary to the budget act, accelerated more severely in March 2006.

The debt balance of non-public sector to the banks and credit institutions (excluding profit and earnings of future years), with a 39.0 percent growth, rose to Rls. 745.0 thousand billion. The balance of non-public sector's deposit with the banks and non-bank credit institutions, with 35.8 percent growth, amounted to Rls. 870.3 thousand billion, 69.3 percent of which consisted of after-sight deposits. The growth of the variable was 31.4 percent in the previous year.

In general, the changes in monetary base and liquidity increasing coefficient in 2005, especially the final months of the Iranian fiscal year, indicate that the increasing potential of liquidity in 2006, in terms of monetary base expansion created in 2005, is considerably

strong. The monetary base in March 2005, relative to that of February, grew as much as 27.9 percent mainly because of the 24.3 percent decline in the public sector's deposits. Estimation of the above-mentioned factors, in 2005-2006, led to the acceleration of monetary base concerning liquidity. Such a process can cause increasing growth of liquidity during the year in terms of the banks' ability to grant credit facilities.

In the given year, CBI, conducting one of its tasks, i.e. to control liquidity and inflation, initiated issuing participation bonds in three different times. Interest rate of the bonds, approved by the Credit and Money Council, reduced from 17 to 15.5 percent. The sale volume of CBI bonds in 2005-2006 was approximately Rls.10769.1 billion, down from the approved amount of Rls. 15000 billion. In addition, two private banks, namely Pasargad and Sarmayeh, were granted operation permits by CBI to initiate their activities in line with other four private banks already in operation.

2.5. Foreign Debts

Foreign obligations, with a 1.9 percent decrease, reached USD 41852 million in 2005-2006 from USD 42677 million in late 2004-2005. In the given period, foreign debts (actual obligations) and potential obligations fell by 1.2 percent and 5.9 percent respectively and declined from USD 23982 million and USD 18695 million to USD 24264 million and USD 17587 million. CBI policy to restrict short-term debts, propensity of applicants of receiving foreign currency facilities from OSF account because of its lower cost, and decrease of external borrowings due to escalation of international interest rates are three of the factors involved in slowing the growth of foreign debts in 2005. When analyzing foreign debts of the country, it is vital to pay precise attention to the changes occurred in classification of items. Based on the new classification, the other items of finance and direct loans from sources out of the banking network altered from potential obligations to actual ones. Moreover, in calculation of actual obligations, unpaid interest has been regarded as part of actual obligations and \$ 232.6 million has been accrued to their principal.

2.6. Oil Stabilization Fund (OSF)

The balance of assets in OSF account equaled USD 13060 million in the early 2005, including USD 9477 million in cash as well as due from private sector amounting to USD 3582 million. The account balance in the late 2005-2006 grew 25.8 percent relative to that of the previous year and amounted to USD 16425 million including USD 10686 million as quick assets. In this period, the budgetary withdrawals from the account reached USD 9682 million as compared with total budgetary withdrawal in the previous year (USD 7513 million) and represented a 28.8 percent growth. Credit facilities funded by the account equaled USD 2313 million, 19.4 percent up from those granted in the year before.

2.7. Formation of Gross Fixed Capital

Formation of gross fixed capital from Rls. 144360 billion in 2004-2005 (in real prices of 1997) amounted to Rls. 152741 billion in 2005-2006, with a 5.8 percent increase. Out of the total gross fixed capital, Rls. 97826 billion was allocated to machineries and Rls. 54915 billion to buildings and premises.

2.8. Government Financial Status

Total government revenue in 2005-2006 equaled Rls. 467250.6 billion. During the given year, expenditure payment of the government, excluding the energy subsidies, reached Rls. 597759.8 billion. In addition, assignment of capital assets amounted to Rls. 187294.5 billion with a growth of 23.7 percent, compared to that of the previous year. Total government payments for capital assets possession equaled Rls. 117638.7 billion, representing an increase of 62.7 percent compared with those in the year before. Operational balance surplus, with regard to positive balance of capital assets assignment, made total operational and capital balance of the government budget face a Rls. 60853.4 billion deficit, indicating a growth of 21.7 percent as compared with that of the previous year. Such a deficit was mainly recovered through withdrawals from OSF. Moreover, the ratio of operational and capital balance deficit (budget deficit) to GDP, in the given year similar to that of the year before, remained at 3.6 percent.

2.9. Stock Exchange Market

The activity indices of Tehran Stock Exchange (TSE) in 2005-2006 (including the recession and booming periods) reached Rls. 56528.8 billion in terms of value and 14502912.4 thousand shares in terms of dealt shares number. In the reported year, the averages of number and value indices were 2607.6 and 2801.7 respectively, revealing a growth of 1.6 percent in terms of quantity and a drop of 45.8 percent in terms of value, relative to those of the previous year. TSE confronted many vicissitudes in 2005-2006 due to different factor, chief among which were stock exchange internal procedures, government economic policies, and political shocks caused by international policies.

2.10. Inflation Rate

Average of consumer goods and services, wholesale, and producers' price indices by March 21st, 2006, grew by 8.3 percent, 6 percent, and 4.5 percent respectively, compared to those in September 2005. Comparison of these figures with the similar ones of the previous year indicates that the growth trend of all three indices slowed down in the late 2005 - early 2006. Moreover, the average of consumer goods and services total price index in 2005-2006, relative to similar figure of the previous year, reached 307.6 and grew by 12.1 percent. The growth of the index, known as inflation, slowed down by 3.1 percent, as compared to that of 2004 (15.2 percent). The increase of consumer goods and services price index in 2005-2006, in comparison with that of the previous year, was mainly due to the rise of price index in two main groups, i.e. "housing, energy, and light" as well as "food, beverages and tobacco", so that 38 and 28.9 percent of index changes were allocated to these two groups respectively. Chief among the reasons for easing the inflation rate in 2005-2006 are the increase in commodities import, execution of a price fixing plan, relatively stability of foreign currencies rates, recession in housing market, decrease of fruits tariff rates, and escalation in supply of agricultural crops.



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CHAPTER 3

CHAPTER 3

Chapter 3: Potentiality and Production of Agriculture Sector

3.1. Capacities

Food provision and food safety are main functions of the agriculture sector, in addition to supply of raw materials needed in agriculture and food industries, export promotion, generation of job opportunities, conservation of environment and contribution to stable development.

With regard to genetic diversity, immensity and fertility of lands, forests and pastures and desirable rainfalls in some regions as well as climatic diversity in most areas, Iran is believed to be blessed with a specific and advantaged position. Thus, the agriculture sector includes ideal capacities by which it could play a highly significant role in economic growth of the country.

In spite of the above-mentioned features, decline in rainfalls and snow drops indicates the continuation of draught period similar to the previous year. According to meteorological reports, the average raindrops analysis represents rainfalls as much as 163.21 mm, decreasing by 28 percent relative to the previous crop year and a 20 percent drop relative to the average rainfalls of previous years. Moreover, imbalanced raindrops distribution is regarded as one of the restrictions which led to incomplete utilizing of farmlands, preventing the development of the sector and precluding its promotion in the economy chain of the country.

The agriculture sector is regarded to have a remarkable advantage in creating value added in the national economy owing to some factors, chief among which are acquirable amounts of water as much as 130 billion cubic meters (including recovered water amounts), renewable resources including forests and pastures as large as 102.4 hectares, arable farmlands as much as 37 million hectares along with 2700 kilometers of border rivers, lakes, ponds and natural dams inside the country. Out of the total arable farmlands, 15645961.069 hectares are under cultivation and fallowing and have been placed directly in the production cycle. 2596016.769 hectares of these croplands are allocated to horticulture and 13049944.3 hectares to cultivation.

Moreover, the employment rate of the sector is another noticeable capacity, including 23.5 percent of the country labor force. This is why 20.5 percent of non-oil export and

more than 80 percent of the required food items of the country are provided by the sector. The agriculture sector is one of the main components of the economy and national security, accounting for great percentages of production, protection, logical utilization of natural resource, research and technology development as well as promotion of public participation.

3.2. The Agriculture Sector Performance

In 2005-2006, added value of the agriculture sector (in terms of 1997 real prices) equaled Rls. 58381 billion, representing a 7.1 growth compared with that of the previous year. According to CBI report, the agriculture sector's share from the total GDP (real prices) amounted to 10.4 percent.

The study of the sector in crop year of 2004-2005 indicates that the raindrops in the given year were over 285.9 mm, showing a 17.8 percent growth. Accordingly, desirable climatic conditions and relatively proper raindrops throughout the country made the total agricultural production amount to 82.5 million tones, depicting a 7.1 percent growth relative to that of the previous year. The total agricultural and horticulture crops products were estimated at 67.8 million tones and 14.7 million tones respectively with 5.9 percent and 12.2 percent growth in comparison with those of the previous year.

Implementing "Wheat Self-sufficiency Plan", conduct of supportive policies for guaranteed purchase of wheat in a price more than the ones in international markets, and rising of relative price of guaranteed purchase regarding rival products (such as barley) were among the factors which have fueled increasing growth of wheat production in recent years. Based on preliminary statistics of Jihad-e-Agriculture Ministry, wheat production, in 2005-2006, exceeded 15 million tones, representing a growth as much as 432 million tones as compared with that of the previous year.

Moreover, agro-industry products (cotton, sugar beet, oil seeds, sugar cane, and tobacco) reached 12.5 million tones with a growth of 7.1 percent. Total livestock production (meat, poultry flesh, milk, eggs, and honey), in 2005-2006, also increased by 7.2 percent and amounted to over 10 million tones in comparison with that of the year before.

The balance of credit facilities of the banks and credit institutions, granted to the sector, by 2005-2006, rose to Rls. 114.7 billion with 34.9 percent growth compared to that of the previous year. Besides, credit for possession of government capital assets, granted to agricultural seasons, water and natural resources, in 2005-2006, exceeded Rls. 18.8 billion with 58.8 percent growth relative to the year before.

Table 3: Performance of Some Significant Indices of Agriculture Sector and Natural Resources

Index	Unit	2004-2005	2005-2006
(1) Value Added of Agriculture Sector in Real Prices of 1997	Billion Rials	54512	58381
(2) Growth of Value Added	Percent	2.2	7.1
(3) Agricultural Crops Production	Million Tones	64.9	67.8
(4) Horticulture Crops Production	Million Tones	13.2	14.7
(5) Livestock Production	Million Tones	9.321	10
(6) Fishery Production	Thousand Tones	474.5	522
(7) Agricultural Crops Export	Million Dollars	1742.2	1643.1

(1 & 2) CBI, Summary of Iran Economic Changes, 2005-2006.

(3, 4, 5 & 6) Jihad-e-Agriculture Ministry, Agricultural Statistics Report, 2004 & 2005.

(7) CBI, Summary of Iran Economic Changes, 2005-2006.



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CHAPTER 4

CHAPTER 4

Chapter 4: Bank Keshavarzi Status in Iran Banking System

4.1. BK Status in Iran Banking System

Job generation, i.e. reduction of unemployment rate was one of the most important challenges facing Iran economy in 2005-2006, as the initial year of implementing the 4th Cultural, Social, and Economic Development Plan. Thus, the government and the banking system made some commitments, in line with the 4th FYDP and the annual budget act, to reduce the gap between labor force supply and demand and to generate employment. Aimed at creating motivation for investment and entrepreneurship in the country, especially in underdeveloped regions, intended in the article 27 of the 4th development plan, the government was obliged to grant credit facilities proportionate to the shares of those applying for investment in entrepreneurial projects as well as to finance some portions of profit and service charges of the facilities through the annual budget acts and out of the managed funds. These financial facilities were intended to be utilized to finance working capital of production units and to implement new entrepreneurial and developing projects.

4.2. Financial Facilities Granted by Bank Keshavarzi

In terms of credit facilities, 2004 credit trend, in general, continued in the same manner as in 2005-2006. The total volume of credit facilities, by March 20th, 2006, rose to over Rls. 805255 billion, indicating a growth of 33 percent relative to that of the previous year. In the given year, private sector credit had a growth of 41 percent relative to that of the year before. The growth rate of public sector credit continued its decline as a result of the government reliance on banking system to finance its needs. In fact, the net amount of the government borrowings from CBI and other banks was negative in the given year, in which various factors were involved in increasing the credit facilities. Remarkable increase of CBI foreign currencies assets because of foreign currency income, gained through the government oil export, issuance and sales of participation bonds (according to the 4th FYDP and 2005 budget act), and decisions of the government to increase credit ceiling, to decrease facilities interest rate, and to grant facilities to SMEs are considered some of the reasons fueling the increase in disbursed facilities.

4.3. Facilities Granted to the Agriculture Sector

In the given year, the balance of facilities, granted by banks and non-bank credit institutions, increased by 34.9 percent and reached Rls. 114708.9 billion compared with that of the previous year. Out of the total balance, commercial banks' share and the share of Bank Keshavarzi (BK) were 44.3 percent and 55.7 percent respectively. In the same year, BK disbursed Rls. 49894 billion to the agriculture sector, which represents a growth of 36.98 percent in comparison with that of the previous year. Out of the total credit facilities, granted by BK in 2005, Rls. 4103.5 billion (82.24 percent) was provided from the internal funds of the bank (non-statutory facilities), Rls. 3901.8 billion (7.82 percent) from the funds determined in the budget act (statutory facilities) and Rls. 4960.7 billion (9.94 percent) from the managed funds. In comparison with credit granted in 2004, non-statutory facilities had a growth of 43.3 percent, statutory facilities experienced a growth of 11.3 percent and facilities from the managed funds grew as 106 percent. The increase of non-statutory facilities (provided by the bank internal funds), relative to the previous year ratio, indicates the promotion of public confidence in the bank, the bank's ability to absorb public deposits and more reliance on internal resources.

Table 4: BK's Credit Facilities Granted in 2004-2005 and 2005-2006 (Billion Rials)

Credit Type	2004-2005	2005-2006	
	Facilities Granted	Facilities Granted	Compared Percentage of Changes
Statutory	3503	3901.8	11.3
Non-statutory	30544	41031.5	34.3
Managed Funds	2400.8	4960.7	106.6
Total	36447.8	49894	36.89

4.4. Deposits Absorption and Resources Mobilization

State banks performed properly in absorption of public deposits in the first year of the 4th FYDP. Therefore, total deposits with state banks amounted to Rls. 887984 billion by March 20, 2006, from Rls. 699159 billion in 2004-2005, representing a growth of 27

percent. Such an improvement facilitated the liquidity management and left a positive impact on inflation fall.

BK also continued its growing trend in deposits absorption during 2005-2006, in which Rls. 69300 billion was totally absorbed (including certificates of deposit), showing a growth of Rls. 19300 billion (38.6 percent) as compared to 2004.

4.5. Bank Keshavarzi Branches

In 2005-2006, the number of branches in the banking system of the country (state banks) was counted as 17029, representing a decrease of 0.9 percent compared to that of the previous year. In 2005-2006, BK was operating through 1849 branches, having a growth of 1.8 percent with regard to the number of branches in the year before. It is noteworthy that total number of BK branches accounted for 10.9 percent of the total branches of the state banks.

4.6. Staff Number

The number of staff in the banking system equaled 173446 individuals by March 20, 2006 indicating a growth of 0.8 percent relative to that of the previous year. Out of the total number of staff in the banking system (state banks), 15540 (8.95 percent) are employed at BK.

4.7. Interest Rates

In 2005, Credit and Money Council determined on-account interest rates as 7 percent for short-term deposits, 9 percent for special short-term deposits, and one to five-year-deposit accounts bearing interest at 13 to 17 percent. However, the council determined the same expected rate of 16 percent for state banks facilities, provided that granted to economic sectors. It must be noted that state banks have been authorized to determine interest rates for two/three/four-year deposit accounts, but ranging from 13 to 17 percent, aimed at creating freedom of action and spurring motivation to compete more efficiently.



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Chapter 5: Bank Keshavarzi Performance in 2005-2006

5.1. Preface: Bank Keshavarzi's Mission

Bank Keshavarzi, originally called "Bank Falahati va San'ati-e-Iran" (Iran Industrial and Agricultural Bank), was founded on June 11, 1933. With more than 75 and odd years of experience, it is now operating with 1849 branches and 18 kiosk banks nationwide, as the only financially specialized entity in the agriculture sector, financing more than 70 percent of the sector's financial needs. During the last decade, BK has taken effective measures to realize its objectives and mission namely financing the credit facilities required by the agriculture sector through successful participation in financial markets, efficient resources mobilization, and relying on its loyal customers, as well as its diligent and untiring staff. Besides managing and mobilizing resources through Qard-al-Hassanah deposit accounts (non-interest bearing accounts), short-term and long-term investment deposits as well as other kinds of funds in forms of facilities and credit, the bank is dynamically active in presenting managerial, technical and economic advisory services to investors engaged in the agriculture sector.

Impacts of financial facilities granted by the bank can obviously be observed in various fields and aspects such as creation and development of farms and gardens; preservation of environment and natural resources; establishment of various livestock, poultry, fishery and aquaculture units; accomplishment of infrastructure projects such as leveling and preparation of lands; construction of dams; development of irrigation networks; digging deep and semi-deep wells; mechanization and provision of agricultural machineries and implements; and establishment of agricultural crops processing and industrial plants all over the country.

In this report, since granting credit services is one of the main components of the banking activities, BK credit performance in 2005-2006 has been presented and reviewed in comparison with that of the previous year.

The growth of BK's credit services and deposits, as two main elements of banking activities, reveals the promising horizon and potential success of the bank to achieve the

advanced and modern banking standards. In this regard, the bank has taken great steps towards offering modern banking services, among which are mechanization of branches, execution of comprehensive system of modern banking, and expansion of electronic banking. BK's main objective is outlined as paving the way for growth and development of the agriculture sector through strengthening and expanding financial supports and contribution to the sector, having an active and dynamic participation in financing the needs, as well as offering modern banking services. It is hoped that the measures taken to grant credit facilities, accompanied by sincere attempts of its staff, help BK achieve more success in offering financial services to parties and producers involved in the agriculture sector and associated activities.

BK, within the framework of government policies designed for the agriculture sector, granted more than Rls. 49894 billion to the sector in 2005-2006 and not only did provide the required working capital and current facilities to protect and utilize the existing capacities, but contributed to development of production capacities and job generation through new investments. Financial facilities granted to the sector had a growth of 20 percent compared with that of the previous year. In 2005-2006, the number of credit facilities granted by the bank were counted 1,740,000 cases and amounted to Rls. 49894 billion. Out of the total credit facilities disbursed in 2005-2006, Rls. 3901.8 billion was granted in form of statutory facilities, Rls. 41031.5 billion as non-statutory ones and Rls. 4960.7 billion out of the managed funds of the bank.



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Chapter 6: Resources Mobilization and Allocation

6.1. Deposits Mobilization

Financing and meeting the needs of the agriculture sector through financial resources mobilization was the BK's priority in 2005-2006, the same as previous years. Accordingly, the bank accelerated and increased its activities through attraction and keeping of customers as well as stabilization of public and governmental deposits.

In the given year, increasing the volume of Qard-al-Hassanah, short-term and long-term deposits as well as offering modern banking services and absorbing producers', farmers' and, in general, urban and rural people's deposits, the bank tried to mobilize more financial resources to finance the agriculture sector.

In 2005-2006, BK managed to absorb deposits as much as Rls. 69300 billion owing to its staff endeavors, creativity and innovation. The amount included all types of Qard-al-Hassanah accounts, time deposits, certificates of deposits, and other types of deposits. In this regard, Rls. 14700 billion was mobilized through Qard-al-Hassanah savings accounts (ordinary, circulating, Iran Scheme and agricultural accounts), Rls. 14000 billion through Qard-al-Hassanah checking accounts, Rls. 9000 billion through short-term deposits, and Rls. 17800 billion through long-term deposits. In particular, the sum of effective deposits (including the government ones) amounted to Rls. 55500 billion and other deposits equaled Rls. 13800 billion.

BK effective deposits (including the government ones) in 2005-2006 increased as much as Rls. 18100 billion, having a growth of 48.4 percent in comparison with the ones in 2004 and the bank's total deposits rose to Rls. 19300 billion with a growth of 38.6 percent. Such a growth in various types of the bank's deposit accounts was achieved through the following:

6.1.1. Qard-al-Hassanah Savings Accounts

Qard-al-Hassanah savings accounts include ordinary, circulating, Iran Scheme, and agricultural special accounts, all of which amounted to Rls. 14700 billion by March 20, 2006, Rls. 3000 billion more than the amount mobilized in the previous year, with a growth of 25.64 percent.

6.1.2. Qard-al-Hassanah Checking Accounts

These accounts include personal, corporate, government, and Mehr checking accounts, the total of which amounted to Rls. 14000 billion in 2005-2006, with an increase as much as Rls. 5500 billion, and a growth of 64.7 percent relative to that of the previous year.

6.1.3. Time Deposits

BK time deposits consist of the following:

- **Short-term Deposits:** Total amount of short-term deposits, by 20th of March 2006, equaled Rls. 9000 billion, which indicated a growth of 45 percent amounting to Rls. 2800 billion compared with that of 2004.
- **Long-term Deposits:** Total amount of long-term deposits, March 20, 2006, was Rls. 17800 billion, which indicated a growth of 62 percent amounting to Rls. 6800 billion compared to that of 2004.

6.1.4 Other Types of Deposits

The sum of these types of deposits, by March 20, 2006, reached Rls. 13800 billion, which indicated a growth of 9.5 percent amounting to Rls. 1200 billion relative to that of 2004.

**Table 5: Distribution of BK Deposits in Terms of Deposit Types in 2004-2005 and 2005-2006
(Billion Rials)**

Types of Deposits	2004-2006	2005-2006	Growth %
Qard-al-Hassanah Savings (Ordinary, Circulating and Iran Scheme)	11700	14700	25.6
Qard-al-Hassanah Checking	8500	14000	64.7
Short-term Deposits	6200	9000	45
Long-term Deposits	11000	17800	62
Sum of Effective Deposits (including government deposits)	37400	55500	48.4
Other Types of Deposits	12600	13800	9.5
Total	50000	69300	38.6

6.2. Debts Collection

Debts Collection is regarded as one of the major ways of providing financial resources to meet financial needs of the agriculture sector. Consequently, BK prioritized on-time debts collection so that it could move in line with the general strategy of the bank through re-injection of resources to the sector. In 2005-2006, Rls. 40186 billion of the bank's financial claims was collected, indicating a growth of 33 percent compared with the collection percentage of the previous year. The bank's non-statutory facilities collection was 82.8 percent in 2005-2006. Ratio of statutory facilities collection was 74.7 percent and the collection of financial claims provided by the managed funds reached at 58.3 percent.

Table 6: Debts Collection in 2004-2005 and 2005-2006 (Billion Rials)

Item	2004-2005 Collection	% of Collection	2005-2006 Collection	% of Collection
Statutory	4689	74.4	4076	74.7
Non-Statutory	24889	82.5	34501	82.8
Managed Funds	755	60.9	1609	58.3
Total	30333	80.5	40186	80.6



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Chapter 7: Improvement of Facilities Guarantee System

7.1. Credit Facilities Guarantee System

Accessibility to acceptable collaterals has always been one of the major problems facing those involved in the agriculture sector when applying for banking facilities. Therefore, BK has made some changes in the methods of securing financial facilities to facilitate the process for the farmers. The review of guarantee procedures for facilities granted by the bank in 2005-2006 indicates that 95.3 percent of facilities, in terms of quantity, and 81 percent, in terms of value, have been disbursed without receiving any real estate collateral.

The kind of guarantee, with more frequency in terms of quantity (95.3 percent) and in terms of value (78.2 percent) in 2004, was the secured guarantee (without receiving real estate collateral) and the less used one, in terms of quantity (1.2 percent) was the guarantee by means of promissory notes and securities. Endorsed guarantee was used less than the other ones in terms of value (1.4 percent).

Table 7: Methods of Granted Facilities Guarantee in 2004-2005 and 2005-2006 (Billion Rials)

Types of Guarantee	Facilities Granted in 2004-2005				Facilities Granted in 2005-2006			
	Frequency		Amount		Frequency		Amount	
	No.	%	Billion Rials	%	No.	%	Billion Rials	%
Endorsed	16135	1.1	334	0.9	23958	1.4	449.3	0.9
Secured	1467374	96.4	30985	84.4	1663129	95.3	39045.5	78.2
Immovable	27287	1.8	4901.5	13.4	35414	1.2	9446.2	19
Promissory Notes and Securities	9386	0.7	475.6	1.3	20967	1.2	953	1.9
Total	1521182	100	36696.5	100	1743468	100	49894	100



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CHAPTER 8
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Chapter 8: Granting Facilities: Realization of BK Mission to Finance the Agriculture Sector

8.1. Credit Facilities in Rials

Economic growth and development cannot be achieved without quantitative increase of capital as one of the production factors. The banks, as the most important economic institutes of society, are committed to crucial tasks of attraction, absorption and direction of depositors' funds. The banking system can pave the way for economic growth and development of the country and create opportunities for production, employment and realization of its social responsibility through direction of resources towards the services and production sectors.

Being part of the banking system and disbursing financial facilities as much as Rls. 49894 billion to 1743468 applicants in 2005-2006, BK has also managed to create mobility in different parts of the agriculture sector, to facilitate the growth of GDP, and to enhance the enrichment of the sector. Accordingly, the growth of granted facilities, in comparison with that of the previous year, was 36.89 percent in terms of value and 14.6 percent in terms of quantity. Out of the total credit facilities granted by the bank in 2005-2006, Rls. 41031.5 billion (82.23 percent) was disbursed in form of non-statutory credit, Rls. 3901.8 billion (7.82 percent) in form of statutory facilities, and Rls. 4960.7 billion (9.95 percent) in form of managed funds facilities, which indicate a growth of 34.3 percent for non-statutory facilities, a growth of 11.3 percent for statutory facilities and a growth of 106.6 percent for managed funds facilities in comparison with the ones granted in 2004. The average of granted facilities equaled Rls. 28.6 million, representing a growth of 16 percent relative to that of the previous year.

Table 8: Distribution of BK Credit Facilities in 2004-2005 and 2005-2006

Item	2004-2005	2005-2006		
	Facilities Granted	Facilities Granted	Share out of Facilities Granted	% of Changes
Statutory	3503	3901.8	7.82	11.3
Non-statutory	30544	41031.5	82.23	34.3
Managed Funds	2400.8	4960.7	9.95	106.6
Total	36447.8	49894	100	36.89

8.2. Foreign Currency Credit Facilities

In 2005-2006, funded by the foreign currency credit facilities subject to article 60 of the 3rd Five-year Social, Cultural and Economic Plan Act and part E of the 4th Five-year Social, Cultural and Economic Plan Act related to Oil Stabilization Fund, 284 projects, to the value of USD 1550.85 million, were approved and 201 projects, to the value of USD 1037.33 million, received the required credit. The rest are in the verge of contract conclusion and once the contracts are entered, the facilities would be provided.

Among the credit-granted ones, 84 projects, to the value of USD 203.7 million, reached the stage of productivity. Most of these projects were associated to processing and food industries, which play significant roles in increasing the value added, employment and agriculture commodities export. In addition, 124 projects, to the value of USD 1338 million, are under study and evaluation.

**Table 9: Foreign Currency Facilities Funded by OSF in 2004-2005 and 2005-2006
(Billion Dollars)**

Item	2004-2005		2005-2006	
	No.	Million USD	No.	Million USD
Projects Under Study	202	1784.81	124	1337.68
Approved Projects	207	1114.79	284	1550.85
Contracted Projects	298	1633.2	409	2120
Projects Granted Facilities	146	779.31	201	1037.33
Productivity-reached Projects	60	94.5	84	203.7

8.3. Credit Distribution in the Agriculture Sub-sectors

In 2005-2006, BK disbursed credit facilities proportionate to the capacity of credit absorption of each agriculture sub-sector. As shown in table 10, given the importance of "cultivation and horticulture" as well as "Livestock Farming" sub-sectors, the highest amounts of facilities were granted to these two sub-sectors. Out of the total credit facilities, granted in 2005-2006 by the bank, 93 percent was disbursed to the agriculture sector and 7 percent to other economic sectors of the country.

Table 10: Facilities Granted to Agriculture Sub-sectors in 2005-2006

Item	Total Facilities Granted	
	Amount	Share Percentage
Cultivation and horticulture	15136.2	30.3
Livestock Farming	10095.1	20.2
Fisheries and Aquaculture	333.1	0.7
Agricultural Services and Industries	5827	11.7
Handicrafts and Carpet-Weaving	518	1
Services and Commerce	6450	12.9
Industries	929.2	1.9
Other Agricultural Activities	10605.4	21.3
Total	49894	100

8.3.1. Cultivation and Horticulture

Being blessed with immensity of farmlands, Iran also takes advantage of climatic diversity. However, rainfalls decline, improper rainfalls distribution, water resources limitation, and naturally unlevelled and irregular lands have all made the full use of lands seem difficult.

Based on findings of some assessments on resources and land capabilities, around 37 million hectares of the country's lands do have the required agricultural capabilities. At present, due to lack of adequate acquisition in water resources, only around 18.5 million hectares are considered arable and fit to be cultivated.

According to the latest official statistics, out of the total arable lands, 15645961.069 hectares are currently under cultivation and fallowing and have directly been placed in

production cycle. Some 2596016.769 hectares of the total arable lands have been allocated to horticulture and 13049944.3 hectares to cultivation. The main portion of facilities, granted by the bank, has been allocated to these sub-sectors because of the high shares of horticulture and cultivation and their importance in creating value added of the agriculture sector. In 2005-2006, financial facilities, to the value of Rls. 15136.2 billion (30.3 percent), in total, were disbursed to horticulture and cultivation sub-sectors. The total amount of facilities granted to these sub-sectors in 2005-2006, compared with the ones in 2004 (Rls. 13953.09 billion), indicates a growth as much as Rls. 1183.11 billion.

Wheat is recognized as one of the significant and strategic products of the agriculture sector. The most outstanding achievement of the agriculture sector, particularly in the cultivation sub-sector in 2005-2006, was the consistency of self-sufficiency in wheat production. In the given year, the pivotal plan of wheat production self-sufficiency, for the second year in a row, was conducted successfully and relieved the country from the need to wheat import. Such an achievement could surely not be obtained without financing the plan by the banking system of the country, in particular, BK.

Based on a contract signed between BK and Jihad-e-Agriculture Ministry, the bank committed to grant facilities to projects related to self-sufficiency plan from its internal funds and according to note 3 of article E in 2003 budget act. In this regard, facilities disbursement is made to natural and legal persons of private and cooperatives sectors, which are operative in production, processing and supply of certified wheat seeds, unit construction for wheat seeds processing and sifting as well as purchase of agricultural machineries and equipment. From the beginning of credit advising (June 2004) up to March 20, 2006, the Ministry of Jihad-e-Agriculture allocated Rls 90.53 billion to provinces of the country, in form of profit subsidies and commission charges, Rls. 76 billion of which was disbursed to applicants. The bank has also disbursed Rls. 616.19 billion accordingly. BK's performance in Wheat Self-sufficiency Plan during 2005 is represented in the following table:

Table 11: BK's Performance in Wheat Self-sufficiency Plan by March 20, 2006 (Billion Rials)

Credit Distribution Case	Subsidies Granted to Provinces	BK Disbursed Subsidies	Disbursed Subsidies
Production, Processing and Supply of Certified Wheat Seeds	90.53	144.89	8.5
Purchase of Agricultural Machineries		444.48	62.5
Construction of Sifting Units		26.82	4.9
Total	90.53	616.19	75.9

8.3.2. Animal Husbandry

Most of the society food needs are met by livestock sub-sector, some activities of which include dairy and feeder cattle farming, dairy and feeder sheep farming, camel raising, poultry farming such as broiler chickens and layer hens, silk-worm breeding, and honey bees farming.

Facilities granted to the sub-sector in 2005-2006 amounted to Rls. 10095.1 billion (20.2 percent of the total granted facilities), which shows an increase as much as Rls. 542.58 billion, as compared to those disbursed in the year before.

8.3.3. Fisheries and Aquaculture

Caspian Sea in the north, Persian Gulf and Oman Sea in the south as well as lakes, ponds and natural dams are advantages of the aquaculture sub-sector. Besides, there are diverse climatic conditions throughout the country which is relatively desirable for the sub-sector, to which BK managed to disburse financial facilities as much as Rls. 333.1 billion, in 2005-2006, accounting for 0.7 percent of the total granted facilities.

8.3.4. Industries, Commerce, Services and Other Activities Associated with Agriculture

BK has been granting notable amounts of credit facilities to industries associated with the agriculture sector, including factories manufacturing agricultural machineries and implements, manufacture of technical equipment such as under-pressure irrigation

systems, production industries of chemical fertilizers and pesticides as well as other processing industries.

In order to expand services associated with the sector, such as execution of projects intended for mechanization, construction of refrigerated warehouses, agricultural products marketing, offering veterinary services and botany, the bank also allocates some of its facilities to them. In 2005-2006, the related projects were granted credit facilities to the value of Rls. 22882.6 billion (45.8 percent). Out of the total facilities granted to this sub-sector, Rls. 6450 billion was allocated to commerce and services, Rls. 5827 billion to industries and agricultural services and Rls.106056.6 billion to other agricultural activities. It is noteworthy that a significant part of the foreign currency facilities, disbursed to applicants in 2005-2006, was allocated to projects of agricultural industries but not included in the above-mentioned statistics.

In general, restoration and renewal of the agriculture sector and modernization of production systems call for technological development to be achieved through creating, expanding and strengthening those industries associated with agriculture. To accomplish such a strategic objective, BK has taken remarkable steps in technological renewal of the agriculture sector structure through provision of facilities in Rials and foreign currencies to agricultural modern projects, chief among which are: production of mineral water, potato powder, potato snack, frozen potato sticks, and flour; production of livestock, fish and poultry fodder; production of different types of cheese; products sorting and packaging processes; establishment of chicken hatching units; food production; construction of wheat silos; establishment of livestock slaughterhouses; as well as development of machinery industries associated with agriculture; and the like. All of these projects were financed subject to article 60 of the 3rd FYDP act and out of OSF resources. Some of the projects, financed by BK in 2005-2006, are presented in table 12:



Table 12: Projects Receiving BK Credit Facilities in 2005-2006

Activity	Project Capacity	Location	Amount of Credit (in USD)	Amount of Credit (in Terms of Foreign Currencies)	Exporting Country of Services or Goods	Repayment Period	Contract Conclusion Date
Mineral Water	43.2 mil. bottles/year	Fars	1214490	USD 1214490	-	5 Years	11.04.2005
Chicken Hatching Unit	1 mil./period	Tehran	1208588	Euro 9248333	Belgium	5 Years	17.04.2005
Dry Yeast	4000 tons in 2 work shifts	Kermanshah	8029411	Euro 6500000	-	5 Years	07.05.2005
Mushroom Seeds	100,000 tons Composite + 1000 tons Mushroom Seeds	Ghazvin	3198156	Euro 2665130	Netherlands	5 Years	07.04.2005
Construction of Glass Greenhouse	20,000 m ²	Tehran	625000	Euro 500000	Netherlands	5 Years	14.06.2005
Dairy Products Processing	57900 tons/year	Gilan	1000000	USD 1000000	-	5 Years	13.07.2005
Potato Chips	400 tons/year	Ilam	298117	USD 298117	Taiwan	5 Years	27.07.2005
Starch, Gluten & Glucose	68240 tons/year	Hamedan	291646698	Euro 23072517	Europe	5 Years	24.05.2005
Dairy Products & UF Cheese	15000 tones/year	Hamedan	4735000	Euro 4735000	Denmark	5 Years	14.07.2005
Rice Sifting	4000 tones/year	Mazandaran	87809	87809	China	5 Years	25.08.2005
Wheat Silo	35000 tons	East Azerbaijan	1149050	1417742	Canada	5 Years	17.09.2005
Food Stuff Fast-freeze	2160 tons/year	Tehran	3480621	USD 310000 & Euro 2617944	Netherlands	5 Years	12.07.2005
Potato Snacks	1028	Semnan	2291944	Euro 1850000	Italy-	5	10.10.2005

	tones/year				Germany	Years	
Dairy Products	28637 tones/year	Khorasan Razavi	6000000	USD 6000000	-	5 Years	20/10/2005
Industrial and Baking Flour	90000 tones/Year	Khorasan	1896573	Euro 1565978	Italy	5 Years	06.11.2005
Poultry & Livestock Fodder Supplement	50000 tones/year	Golestan	117818	Euro 97281	Netherlands	5 Years	20.10.2005
French Fries	2 tons/hour	East Azerbaijan	3816142	Euro 3150943	Netherlands	5 Years	22.11.2005
Broiler Chickens and Layer Hens	45000 pieces	West Azerbaijan	513752	Euro 424199	Netherlands	5 Years	26.11.2005
Sorting and Packaging of Carrots and Potatoes	12000 tons/year	Khuzestan	242222	Euro 200000	Netherlands	5 Years	17.12.2005
Food Pre-form	4500 tones/year	Khorasan Razavi	1816666	Euro 1500000	Switzerland	5 Years	19.12.2005
Food Stuff	-	Khorasan Razavi	2540000	USD 500000 - GDP 1200000	Australia - Japan	5 Years	30.01.2006
Poultry Slaughterhouse	1 Full Line	Mazandaran	2183573	Euro 1802950	-	5 Years	01.02.2006
Chicken Hatching Unit	1.8 mil. eggs/period	Mazandaran	1130824	Euro 946500	Belgium	5 Years	12.11.2005

8.3.5. Handicrafts and Carpet-weaving

Regarding the importance and role of carpet-weaving industry and other types of handicrafts in generating jobs for rural population as well as outstanding shares of these products in export revenue, the bank disbursed financial facilities as much as Rls. 518 billion to these activities accordingly.

8.4. Credit Distribution in Terms of Repayment Period

Statistics indicate that around 34.8 percent of BK facilities has been allocated to medium-term and long-term investments in terms of credit amounts and 65.2 percent to short-term investments and financing the working capital of production projects such as cattle breeding, poultry farming, stall-feeding, and etc. as well as covering the production and current services costs.

Such a performance stipulates that BK, as a development bank, has granted credit facilities for the purpose of medium-term and long-term investments for periods of one or two years (medium-term) and over three years (long-term) so as to create and implement new agricultural plans and projects as well as utilizing the existing potential capacities in the agriculture sector. Moreover, the bank, as a specialized entity, has granted financial facilities to short-term investments (up to one year) and financing the working capital and current costs of agricultural activities.

Table 13: Credit Facilities in Terms of Repayment Period in 2005-2006
(Million Rials)

Item	No.	No. (%)	Amount	Amount (%)
Short-term	1088862	62.5	32537.2	65.2
Medium-term	568251	32.6	13699.3	27.5
Long-term	86223	4.9	3639.5	7.3
Total	1743336	100	49876	100

8.5. Credit Distribution based on Islamic Contracts

Out of total facilities granted by the bank to private sector in 2005-2006 through various forms of Sharia' compliant contracts, subject to Usury-free Banking Operations Law and approved by-laws, some Rls. 22368.6 billion (44.8 percent) was granted in form of Bai Muajjal (Deferred Payment Sale) agreement, Rls. 10972 billion (22 percent) through civil partnership contract, Rls. 8331.9 billion (16.7 percent) based on Mudarabah contracts, Rls. 6409.4 billion (12.8 percent) through forward contracts, Rls. 1426.6 billion (2.9 percent) in form of Qard-al-Hassanah, Rls. 104 billion (0.3 percent)

as Jo'aleh facilities and Rls. 280.1 million (0.5 percent) through hire purchase sale. The most important objectives and principles of usury-free banking are outlined as follows:

Implementation of credit and monetary systems based on Islamic justice and equality (according to Islamic Sharia' Principles) in order to regulate the accurate circulation of money and credit facilities aimed at economic growth and soundness, provision of required facilities to expand public cooperation and Qard-al-Hassanah activities through absorption of unemployed funds, savings, and deposits as well as mobilization of these funds to finance the capital requirements for production purposes and increase of employment rate in associated fields.

It is noted that credit facilities exceeding Rls. 10 million to investment sector have been granted following thorough and constant supervision and based on reports on performance of applying units in previous stages of the projects. Facilities to finance working capital have also been granted considering the activities of the production units, related records available in branches and assurance about the accurate consumption of the credit in the agriculture sector.

Table 14: Facilities Granted based on Islamic Contracts (Billion Rials)

Contract Type	2004-2005		2005-2006		% of Growth as Compared to Previous Year
	Amount	%	Amount	%	
Installment Sale	16397	44.7	22370	44.8	36.4
Civil Partnership	7659.3	20.9	10972	22	43.2
Mudarabah	5638.3	15.4	8331.9	16.7	47.7
Forward	5264.5	14.3	6409.4	12.8	21.7
Qard-al-Hassanah	1589.8	4.3	1426.6	2.9	-10.3
Jo'aleh	72.9	0.2	104	0.3	42.6
Hire Purchase	74.9	0.2	280.1	0.5	273.9
Total	36696.7	100	49894	100	36



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Chapter 9: Main Credit Projects of the Agriculture Sector

9.1. Agricultural Mechanization

Mechanization, nowadays, plays an important role in development of the agriculture sector. Development of mechanization processes, in harmony with macro policies of the sector and in line with horticulture and cultivation plans, will make the traditional agriculture model gradually turn into industrial planting and provide the sector with opportunities to compete at international level.

In recent years, development of mechanization has confronted some challenges due to high actual costs of machineries and inadequate financial capacities of farmers to purchase the required equipment. Considering the importance of the issue and to finance the purchase of agricultural machineries needed to develop mechanization processes, BK has allocated a significant portion of its resources to such a purpose. Aimed at enabling farmers to purchase agricultural machineries, BK has granted facilities, to the value of Rls. 1893.9 billion, in 2005-2006, by which 17784 tractors, 840 combine harvesters, 1089 trailers, 455 threshers, 22685 other types of agricultural implements and 383 other types of agricultural machineries were purchased (Table 14).

Table 15: BK Facilities Granted for Agricultural Implements and Machineries in 2004-2005 and 2005-2006

Item	2004-2005		2005-2006	
	No.	Amount	No.	Amount
Tractor	12507	799.4	17784	1052.1
Combine Harvester	539	92.5	840	194.4
Trailer	970	16.7	1089	22
Thresher	382	5.9	455	7.1
Agricultural Implements	18725	462.4	22685	572.6
Agricultural Machineries	730	1422	383	45.7
Total	33853	2798.9	43236	1893.9

9.2. Equipment and Rehabilitation of Farmlands

Given the limitation of water and land resources, BK has granted remarkable amounts of facilities to execution of water and land projects, some of which are planned for dam construction, constructing floodgates to make better use of surface water, performing

watershed projects, land leveling and drainage, and constructing irrigation cement channels as well as executing coverage projects.

9.2.1. Irrigation and Drainage Projects

Following the 3rd FYDP Act and in order to develop and implement projects related to irrigation and drainage networks, from the outset of the plan to March 20, 2006, BK made contribution to conduct of totally 208 projects, related to the Ministry of Energy, through granting credit facilities, to the value of Rls. 394.4 billion, in approximately 105611 thousand hectares of farmlands. The bank's share in financing these projects amounted to Rls. 201.9 billion (60.7 percent). (Tables 16 and 17)

**Table 16: Summary of BK Performance based on Part A of Article 106 in the 3rd FYDP Act
(Ministry of Energy) (Billion Rials)**

No. of Users (person)	Amount of Paid Installment out of Concluded Contract			Consolidated Credit of Concluded Contract			Approved Projects			
	Total	Organization's Share	Bank's Share	Hectares	Amount	No.	Total	Organization's Share	Bank's Share	No.
44151	332.7	130.8	201.9	105611	394.38	208	1491.49	443.81	1047.68	332

**Table 17: Current Status of Contracted Projects subject to Article 106
(Ministry of Energy) (Billion Rials)**

In progress		Conducted and Pending		Conveyed to Installment Sale		Total	
No.	Amount	No.	Amount	No.	Amount	No.	Amount
105	296.6	48	21.4	55	76.4	208	394.4

Moreover, based on article 106 of the 3rd FYDP Act regarding the Ministry of Jihad-e-Agriculture, 142 projects out of 154 approved ones, related to water and land projects along 48240 hectares of farmlands were conducted from the beginning of the program to March 20, 2006 and the bank's share reached Rls. 85.9 billion (49.9 percent) . (Tables 17 and 18)

Table 18: Credit Performance based on Article 106 of 3rd FYDP Act of Jihad-e-Agriculture Ministry by March 20, 2006 (Billion Rials)

No. of Users	Amount of Paid Installments out of Concluded Contract			Consolidated Credit of Concluded Contracts			Approved Projects			
	Total	Organization Share	Bank Share	Hectares	Amount	No.	Total	Organization Share	Bank Share	No
1069	172.2	86.38	85.9	48240	366.81	14	594.7	206.01	388.7	15
5	8					2	9		8	4

Table 19: Current Status of Concluded Contracts Subject to Article 106 of Jihad-e-Agriculture Ministry (Billion Rials)

Inactive		In Progress		Conducted and Pending		Conveyed to Installment Sale		Total	
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
2	5.043	19	305.11	1	0.180	120	56.5	142	366.81

9.2.2. Financing Pressurized Irrigation Projects

Considering the geographical conditions of the country, recent drought occurrence and necessity to make better use of water resources, as the most important elements of restricting the sector, Rls. 607.5 billion Rials, based on an agreement between the bank and the Ministry of Jihad-e-Agriculture, was allocated to sprinkler irrigation projects. By March 20, 2006, Rls. 593.8 billion was allocated to 3626 projects, conducted along 54 thousand hectares.

In line with the above objectives, some additional Rls. 555.4 billion, in form of consolidated credit facilities, funded by the article 3 of 2003 and 2004 budget acts, was allocated to implement capital projects of sprinkler irrigation. By March 20, 2006, Rls. 364.9 billion was granted to different provinces in different stages, Rls. 356.9 billion of which was contracted. In addition to the allocated credit, based on trilateral agent contracts among Planning and Management Organization, Ministry of Jihad-e-Agriculture and Bank Keshavarzi, Rls. 970 billion, in form of subsidized facilities, related to technical and credit assistance stated in budget act of 2004, as well as some subsidized facilities, as much as Rls. 217.7 billion, related to credit and technical assistance mentioned in 2005 budget act, were allocated to pressurized irrigation projects, Rls. 471.3 billion of which was contracted by March 20, 2006 (Table 20).

**Table 20: Pressurized Irrigation Funded based on 2003, and 2004 Budget Act
by March 20, 2006 (Billion Rials)**

Item	Allocated Credit	Advised Credit to Provinces	Contracted Projects		
			No.	Amount	Hectares
2002 Credits	607.5	602.6	3626	593.8	53817
2003 & 2004 Consolidated Credits	555.4	364.9	1910	356.9	24841
Total	1162.2	970.9	5536	950.7	78658

Item	Allocated Subsidy	Absorbed Subsidy		
	No.	No.	Amount	Hectares
Subsidized Facilities based on 2003 and 2004 Budget Act as well as 2004 Credit and Technical Assistance Act	969.9	5251	471.3	68658
Subsidized Facilities as well as Credit and Technical Assistance of 2005-2006	217.7	598	53.2	2795
Total	1187.6	5849	524.5	71453

9.2.3. Administered Funds for Productive and Entrepreneurial Projects

Facilities subject to articles 3 and 29 are disbursed based on approved decisions of Provincial Employment Committee for all productive and entrepreneurial projects in the agricultural sector. To provide the required resources, Planning and Management Organization disbursed some credit facilities as much as Rls. 2221 billion based on article 29 of 2001 budget act and Rls. 1942.8 billion according to article 3 of 2002 budget act. The total deposited funds to the bank account amounted to Rls. 2899.4 billion.

**Table 21: BK Performance According to Articles 29 and 3 of 2001 and 2002 Budget Acts
by March 20, 2006 (Billion Rials)**

Item	Credit of Article 29 of 2001	Credit of Article 3 of 2002
Advised Credit	2221	1942.8
Total Deposited Funds	1105	1794.4
Approved Projects by the Bank and Referred by Employment Committee	2043.6	2077.3
Contracted Projects	1717.5	1736.9
Projects Under Study in Employment Committee	134.4	38.4
Projects in the Verge of Contract Conclusion	197.2	192.7
Direct Employment Related to Total Credit (in Person)	28365	22257
Indirect Employment Related to Total Credit (in Person)	16311	12353

As table 19 shows, by March 20, 2006, credit contracts as much as Rls. 1717.5 billion according to article 29 of 2001 Budget act and by the same date, some credit contracts, to the value of Rls. 1736.9 billion based on article 3 of 2002 budget act, amounting totally to Rls. 3454.4 billion, were concluded and disbursed under close supervision of the bank's experts.

9.2.4. Credit Facilities out of Managed Funds from Share of Jihad-e-Agriculture Ministry

In this contract, disbursement of facilities to natural and juridical persons engaged in semi-public sector, who applied for mechanization and investment in the agriculture sector, is made based on referring applicants to the bank by the Ministry of Jihad-e-Agriculture. By March 20, 2006, some credit facilities, amounting to Rls. 1902 billion from credits anticipated in budget acts of 2000 and 2001 (including Rls. 760.8 billion as the share of Jihad-e-Agriculture Ministry and Rls. 1141.2 billion as the share of the bank), were advised to all provinces. Hence, Rls. 1893.2 billion (including Rls. 757.3 billion as the share of Jihad-e-Agriculture Ministry and Rls. 1135.9 billion as the share of the bank) was contracted and then granted. In line with intended objectives, Rls. 205.4 billion out of advised credits (including Rls. 68.5 billion as the share of Jihad-e-Agriculture Ministry and Rls. 136.9 billion as the share of the bank) and Rls. 188.3 billion (including Rls. 62.8 billion as the share of Jihad-e-Agriculture Ministry and Rls.

125.5 billion as the share of the bank) were contracted and disbursed funded by the credit resources intended in article 3 of 2002 budget act, (Table 22).

Table 22: BK Performance in Granting Facilities Subject to Article 3 of 2002 Budget Act and Article 11 of 2000 and 2001 Budget Acts of Jihad-e-Agriculture Ministry (Billion Rials)

Item	Advised Credit			Granted Credit Facilities		
	Jihad-e-Agriculture's Share	BK's Share	Total Credit	Jihad-e-Agriculture's Share	BK's Share	Total Credit
Article 11 of 2000 and 2001 Budget Acts	760.8	1141.2	1902	757.3	1135.9	1893.2
Article 3 of 2002 Budget Act	68.5	136.9	205.4	62.8	125.5	188.3
Total	829.3	1278.1	2107.4	820.1	1261.4	2081.5

9.3. Electrifying Water Wells

According to notes of Article 27 in 1999, 2000, and 2001 budget acts and notes of Article 12 in 2002, 2003, and 2004 budget acts, the bank approved payment of Rls. 2348.3 billion in form of financial facilities aimed at electrifying 48319 water wells during the given years by March 20, 2006 for the purpose of reducing the consumption of oil products, preventing environment pollution, and economizing in foreign currencies expenditures based on the law rectified in 1999 by the Parliament of I.R. Iran to expedite electrifying the water wells. Until then, 45964 cases, to the value of Rls. 2224.98 billion, were fully financed and the rest are under progress.

Table 23: Credit Facilities for Electrifying the Agricultural Wells by March 20, 2006 (Billion Rials)

Item	2005-2006	
	No.	Amount
Approved Facilities	48319	2348.3
Contracted Facilities	47690	2315.38
Implemented Projects	45964	2224.98

9.4. Tooba Project

In the early 1999, Tooba project was conducted, in collaboration with the Ministry of Jihad-e-Agriculture, aimed at providing required funds intended for proper use of water and soil resources, producing dried fruits and development of olive planting, which can

create opportunities for job generation, decrease in olive oil import and promotion of dried fruits export. From the outset of the project, in accordance with article 5 in budget acts of 1999, 2000, and 2001 as well as article 20 in 2002, 2003, and 2004 budget acts, 56949 projects were implemented across 214,000 hectares. Banking facilities and government subsidies, granted to these projects, amounted to Rls. 945.34 billion and Rls. 704.8 billion respectively, Rls. 1650.14 billion in total.

Table 24: Performance of Tooba Project by March 20, 2006 (Billion Rials)

Performance of Tooba Project	No.	Hectares	Supplied Resources by BK		
			BK's Share	Government's Share	Total of Facilities
By March 20, 2003	35756	137789	483.1	269.2	752.3
By March 20, 2004	39583	150632	539.82	401.02	940.83
By March 20, 2005	46969	181616	686.53	510.58	1197.11
By March 20, 2006	56949	214010	945.34	704.8	1650.14

9.5. Iran Plan (Special Plan for Iranian Women)

In order to encourage women to play their active role in economy of the country and to pave the way for more and constant participation of women in different social, productive, and economic stages, BK initiated Iran Plan, aimed at facilitating the accessibility of women to banking services, removing existing obstacles before women to have more participation in saving and depositing their funds, and providing account holders and depositors (rural and urban) in the bank with special advantages and bonuses.

From the outset (March 20, 2001) to March 20, 2006, financial facilities, worth Rls. 368.8 billion, were granted to 109555 cases through Qard-al-Hassanah contracts, indicating a growth of 18.8 percent in terms of number (92250 cases) and a growth of 20.8 percent (Rls. 350.3 billion) in terms of facilities amount, for the purposes of self-employment, covering educational expenses of families children, houses reconstruction and repair, as well as providing financial aids to purchase wedding dowry. (Table 25)

Table 25: Iran Plan Facilities Granted from 2003 to the Early 2006 (Billion Rials)

Year	Facilities Number	Facilities Amount
2003	66724	223
2004	92259	305.3
2005-2006	109555	368.8

9.6. Entrepreneurial Projects (Article 56 of the 3rd FYDP)

So as to perform the commitments reiterated in clause 2 of the 43rd principle of Constitutional Law and to observe the employment policies, the banking system was bound to grant facilities in form of Qard-al-Hassanah to the unemployed and the juridical persons residing in rural areas and small towns or even entrepreneurs in rural and urban areas. Following the joint proposal of Ministry of Labor and Social Affairs, Ministry of Economic and Financial Affairs, Planning and Management Organization and CBI, the legislation was amended in first quarter of 2002 and the facilities were merely intended to be granted to operating entrepreneurs subject of article 4 in Labor Law of I.R. Iran, and those operating workshops, permitted by official authorities, in case of employing at least one unemployed person. Meanwhile, credit facilities are granted as self-employment and entrepreneurial loans.

Accordingly, the determined BK's share, in two phases, amounted to Rls. 5027.9 billion, Rls. 2392.7 billion of which was granted to 112541 persons, in form of self-employment and entrepreneurial Qard-al-Hassanah facilities. The ratio of disbursed facilities to total advised ones was 48 percent. It is noteworthy that the permission to disburse these types of financial facilities was due in the late May, 2005.

**Table 26: Granted Facilities to Entrepreneurial Projects (Article 56 of the 3rd FYDP)
by March 20, 2006 (Billion Rials)**

Advised Share			Granted Facilities			Employment per Person		
Self-Employed	Entrepreneurs	Total	Self-Employed	Entrepreneurs	Total	Self-Employed	Entrepreneurs	Total
2204.8	2823.1	5027.9	1576.9	815.8	2392.7	84768	27773	112541



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Chapter 10: Other Major Credit Projects

10.1. Fall Cultivation of Strategic Products

Subject to the 4th FYDP, the Fall Project was initiated through cultivation of three strategic products, namely wheat, barley and canola, during the fall season of the given previous year, as the first program developed to realize the objectives of 20-Year Perspective Plan.

Disbursement of facilities, to support the project, was made by the related branches to provide the farmers with the liquidity required to buy cultivation and harvest tools and essential inputs at the planting time. Accordingly, from the outset of the project until March 20, 2006, BK managed to disburse Rls. 5176.6 to 289945 farmers.

Table 27: BK Performance in Disbursement of Credit Facilities for Fall Cultivation of Strategic Products (Billion Rials)

Product	Current Affairs		Machineries Purchase	
	No. of Granted Credits	Disbursed Amount	No. of Granted Credits	Disbursed Amount
Wheat	224422	3359.6	13977	1308.1
Barley	34199	391.5	1461	30.6
Canola	15520	69.7	366	17
Total	274141	3820.8	15804	1355.7

10.2. Project of Canola and Safflower Production Increase

The project was aimed at granting credit facilities, funded by credit resources mentioned in 1999, 2000, 2001, 2002, 2003, and 2004 budget acts, to juridical and natural persons, engaged in private and co-operative sectors, applying for investment in growing canola and safflower as well as production of hybrid seeds; construction of sifting units, silos, and drying stations; purchase of machineries and establishment of production unions. From the outset of the project to March 20, 2006, the Ministry of Jihad-e-Agriculture deposited totally Rls. 280 billion with BK and the bank, adding around twice as much as the ministry's credit, absorbed the whole credit by March 20, 2006.

10.3. Administered Funds of Ministry of Mines and Industries

Subject to a concluded contract with the Ministry of Mines and Industries and in line with the objectives of the 3rd FYDP, BK undertook to disburse credit facilities to non-governmental natural and juridical persons, who were referred to the bank by the ministry, aimed at promoting investment in the sector. Disbursed facilities were merely allocated to capital costs of industrial activities and were not intended to provide the projects working capital. The performance of the bank by March 20th, 2006, has been presented in table 28.

**Table 28: BK Performance in Granting Facilities out of Managed Funds,
Subject to 2002 and 2003 Budget Acts by March 20, 2006**

Item	Introduced		Approved		Disbursed	
	No. of Projects	Amount of Facilities	No.	Amount	No.	Amount
Credit facilities of Ministry of Mines and Industries and Mines Subject to Article 3 of 2002 and 2003 Budget Acts	100	571750	57	278153	46	232433

10.4. Administered Funds to Pay Blood Money Owed by Insolvent Convicts

According to a signed contract, dated March 4, 2001, between Ministry of Justice and BK, it was intended to finance entire or partial payment of blood money owed by the insolvent convicts, referred to the bank by the ministry, under agreed terms and conditions. By March 20, 2006, the total advised credit facilities, was worth Rls. 78.2 billion, Rls. 47.1 billion of which was disbursed for 991 cases (60 percent of the whole credit).

10.5. Newly-released Prisoners Employment Plan

In order to generate jobs for newly-released prisoners, who are under supportive coverage of Prisons and Penitentiary and Security Measures Organization, total amount of Rls. 145.5 billion was deposited with BK by March 20, 2006, with accordance to credit facilities anticipated in articles 2, 3 and 11 of 2000, 2001, 2002, 2003, 2004 and 2005 budget acts. The bank, adding credit facilities as equal as the deposited amount, disbursed facilities worth Rls. 237.1 billion to 21029 newly-released prisoners. The

organization's share and the bank's share amounted to Rls. 121.6 billion and Rls. 115.5 billion respectively.

10.6. Administered Funds of Islamic Revolution Housing Foundation

Based on a concluded contract with the Islamic Revolution Housing Foundation (IRHF), aimed at building inexpensive residential units for the deprived class of the society, funded from consolidation of BK resources and IRHF managed funds, disbursement of Rls. 2077.7 billion (including the bank's and the foundation's shares) was approved and accordingly, construction of 21863 residential units, to the value of Rls. 704.2 billion (33.9 percent of the whole allocated facilities) was contracted and accomplished.

10.7. Completion and Reconstruction of Commercial and Residential Complexes

In order to construct and reconstruct commercial and residential complexes in urban and rural areas, damaged by natural disasters such as Zarand earthquake in Kerman, and Gilan snow tempest as well as other natural disasters, IRHF deposited Rls. 720 billion with BK and the bank, adding credit resources equal to the foundation's resources, disbursed Rls. 555.6 billion to 18021 applicants by March 20, 2006. The bank's share amounted to Rls. 76.7 billion in disbursed facilities.

Table 29: BK Performance in Granting Facilities for Completion and Reconstruction of Commercial and Residential Complexes (Billion Rials)

Allocated Credit Facilities			Disbursed Facilities (Contracted)								Total	
IRHF's Share	BK's Share	Total	Urban Areas				Rural Areas				No.	Amount
			No.	Amount of Disbursed Facilities			No.	Amount of Disbursed Facilities				
				IRHF	BK	Total		IRHF	BK	Total		
72000	72000	144000	340	6293	791	7085	1461	41597	6878	48476	1802	555617
0	0	0	3	4	6	0	8	9	8	7	1	

10.8. Raw Milk Production Increase Plan

According to article 3 of 2004 budget act and based on a contract entered among Planning and Management Organization, Ministry of Jihad-e-Agriculture, and BK, the bank was bound to disburse facilities, with interest subsidies, for the purpose of conducting projects related to Raw Milk Production Increase Plan.

Hence, credit facilities, exceeding Rls. 600 billion, funded by the internal resources of the bank, were advised to provinces from the early 2005. Besides, interest subsidies and service charges, amounting to Rls. 57 billion, were deposited with the bank directorates' accounts in provinces by the Planning and Management Organization.

From the start of credit facilities allocation until March 20, 2006, some 1903 projects, to the value of Rls. 562.3 billion, were referred to the bank, 935 projects of which, worth Rls. 303.6 billion, were contracted and consequently, 2362 direct and 3149 indirect job opportunities were created.

10.9. Qard-al-Hassanah Fund for Rural Employment Development

Based on article 137 of the 3rd FYDP, the articles of association of Qard-al-Hassanah Fund for Rural Employment Development was approved in the Council of Ministers on January 15, 2000. The main goal to establish the fund was grant of Qard-al-Hassanah facilities to natural persons in order to create, expand, and stabilize sustainable and productive employment in rural areas (in particular, under-developed regions). To achieve the goal, Rls. 252.3 billion (69.3 percent of the advised credit facilities) was approved and disbursed to target groups.

10.10. Replacement Livestock Purchase Plan

Based on a contract concluded among Ministry of Jihad-e-Agriculture, Veterinary Organization and BK, the bank assumed making eligible applicants access financial facilities, as much as Rls. 39.89 billion out of consolidated managed funds, in accordance with article 106 of 2004 administrative guidelines, to invest in purchase of replacement livestock for the ones suffering from Tuberculosis and Brucellosis diseases.

In this regard, credit facilities, amounting to Rls. 9947 million, were allocated to provincial directorates by March 20, 2006, to conduct the plan. Moreover, out of 110 projects, referred to the bank, worth Rls. 6996 million, 80 projects, worth Rls. 6052 million, were contracted and paved the way to generate permanent job opportunities for 107 individuals.

10.11. Veterinary Projects

According to a contract signed by the Ministry of Jihad-e-Agriculture, Veterinary Organization and BK, the bank accepted to disburse credit facilities as much as Rls. 7.88 billion out of the consolidated funds, subject to article 106 of 2004 administrative guidelines, to non-governmental natural and juridical applicants aimed at establishing and equipping diagnostic, treatment and vaccination laboratories. From the start of the plan to March 20, 2006, 46 projects, to the value of Rls. 3769 million, were referred to the bank, 34 of which, worth Rls. 2965 million, were contracted and generated permanent employment opportunities for 70 individuals.



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Chapter 11: Realization of Value-creation Strategy for Customers, Staff and Shareholders

11.1. Value-creation for the Public and Customers

Given the new approach adopted by financial institutions in methods of reporting and with regard to non-financial and financial indices besides financial ratios, the bank attempted to set a modern vision in its activity trends, aimed at creating value for customers, known to be the most significant target group, as well as shareholders (i.e. government), as the beneficial group, and eventually BK staff, as the main capital of the bank. Some of the measures taken to create value for the afore-mentioned are as follows

11.1.1. International Banking

So as to create more diversity in banking services, strengthening the income sources of the bank and meeting the needs of the agriculture sector and others to international services as well as foreign currencies resources, the bank has recently strove to promote its international banking services. The details of BK performance in the field of international banking have been presented in tables 30, 31, and 32.

Table 30: Foreign Exchange Branches and International Banking Infrastructure

Item	2000	2001	2002	2003	2004	2005-2006	Total
No. of Branches and FOREX Windows	3	1	4	2	5	4	19
No. of Branches Connected to SWIFT	1	-	1	7	2	3	14

Table 31: Forex Operations (L/Cs, L/Gs and Forex Dealing (Million Dollars)

Types of Operation	2004	2005-2006
Opening L/Cs	857	953
Depositing L/Cs	737	782
Forex Dealing in Inter-bank Market	375	504
Forex Dealing with Customers and in Inter-bank Market	311	633
Issued Forex L/Gs	16	3

Table 32: Opened L/Cs out of External and Internal Foreign Currencies Resources (Million Dollars)

Type of Foreign Currencies Resources	2004	2005-2006
Credit Line of Islamic Development Bank	-	5
Internal Foreign Currencies Resources	0.822	-
Refinance Credits	109.6	108.14
Total	110.422	113.14

11.1.2. Electronic Banking

Given the importance of Electronic facilities in modern banking, BK initiated implementation of its electronic banking project, namely Mehr (Computerized Smart Management), with the following capabilities:

- Mechanizing all 1849 branches of the bank throughout the country,
- Offering Online-Real time services of Mehr Concentrated Checking Account in over 500 branches nationwide,
- Offering ATM services in more than 500 branches throughout the country,
- Offering card services through distribution of 1,500,000 cards of various types,
- Installing around 10,000 BK POS in shopping centers aimed at facilitating shopping for customers,
- Offering Mehr credit cards with credit ceilings at Rls. 3,000,000 (Green Mehr Credit Card), Rls. 5,000,000 (Silver Mehr Credit Card), and Rls. 10,000,000 (Golden Mehr Credit Card),
- Installing ATMs in underground stations, university campuses, and public areas,
- Offering other types of Mehr system services including Adolescent Mehr Cards; Youth National Cards; Iran Cards (specifically designed for Women); Governmental Accounts; Short-term, Medium-term, and Long-term Deposits; Mehr Checking Account, ...

Other E-banking projects are as follows:

- **Telephone Banking Services:** To offer more desirable services in compliance with standards of international electronic banking and to promote customers' satisfaction, BK has set up and run a telephone answering system for customers to provide them with required information on their accounts since 1999. The original

systems were initiated using fax software and modem. However, with expansion of the network and demand rise as well as development of plans to promote services and remove restrictions, some new systems have been installed based on professional telephone cards since 2003. BK telephone cards are equipped with various capabilities such as high processing power and the ability to respond to several telephone lines simultaneously. Moreover, it is noteworthy that BK telephone services have gone through development and completion stages. For instance, funds transfer to other accounts of customers and from the customers' accounts to other intended ones, with no restriction and ceiling, can be conducted through telephone lines in BK's branches upon the customers' requests. By March 20, 2006, some 845 branches were equipped with telephone banking and commenced offering variety of banking services.

- **Connection of the bank to Banking Data Exchange Network (namely, Shetab Network- ATM Alliance):** BK has been among the pioneer national banks to join Shetab Network (ATM alliance), which was designed with collaboration of Bank Melli, Bank Saderat Iran, Export Development Bank, Saman Bank, Kar Afarin Bank, and Bank Keshavarzi. Currently, all Iranian state and private banks have joined the network. Being connected to the network, all customers are furnished with the ability to use ATM services of the bank, in which they hold various types of accounts, as well as ATM services of other banks, if needed. The network, in the meantime, is even in place for Iranian ATM card-holders in some countries, located in Persian Gulf region as well as Saudi Arabia.
- **Check Cashing via Facsimile:** Through the system, checks on BK accounts are easily cashed and collected on the spot and in the same day even if the intended check account is with the branch, located in the farthest parts of the country.
- **BK Message Terminal:** In order to furnish the public and customers all over the world with facilities to access required information and to contact directly with BK branches through internet, BK Message Terminal at www.agri-bank.ir was designed and developed. The terminal consists of four main components, including: information services, branches information terminal, speaking telephone for foreign currencies rates, and customer relation terminal, all of which create an integrated set for interaction and real-time exchange of information.

- **SMS System:** To constantly provide holders of active accounts with information on the balance of their accounts, BK implemented an account balance statement system on cell phones through SMS services of Iran Telephone Company. The system has been initiated in BK branches since 2003 and the number of customers, using the system, has been increasing ever since. At the moment, some 420 branches of the bank offer the service.
- **Ista Bank:** Aimed at decreasing the physical attendance of customers at branches and facilitating accessibility to banking information when referring to branches, BK has installed Ista Bank System, a set consisting of a touch screen monitor and a customers' accounts data processing soft ware. The system provides customers with required information regarding their accounts directly from the main computer of the bank and is operating in some 100 branches at the meantime.
- **Kiosk Bank System:** Facilitating customers' access to banking services, BK installed the system in 2004. In the first stage, 5 kiosk banks were set up in different locations and conducted banking operations around the clock. Given the outputs and feedbacks, the other Iranian banks started installment of similar systems. By March 20, 2006, the number of Kiosk Banks, set up in crowded parts of the city, reached 20.
- **Internet Bank:** Following the strategy to offer diverse services to customers utilizing modern technology, BK, in 2003, initiated running a system in the bank website to have customers access details of the their accounts and related transactions. For the time being, the system, called "Customers Accounts Data" is applied by those customers holding accounts in the Central and Shahr Ara branches, which have the highest numbers of customers, and it will be implemented in other BK branches in near future.
- **Mehr Gostar Comprehensive System:** Having selected the soft ware and the project administrator to advance toward electronic banking with the aim of equipping 900 branches, BK initiated the administrative stages of the system installment on November 1, 2004 and has approached its final stages thanks to constant endeavors and follow-ups of the staff. Since the most important completing component of electronic commerce cycle is execution of virtual payment methods, the current project of BK, creating a proper foundation for

financial transactions engaging buyers, sellers, finance entities and other involved parties, supports different methods of electronic payment and inter-bank operations such as those of Automated Clearing House (ACH), and Real Time Gross Settlement (RTGS) through 900 CRB installment.

- **Office Automated Administration System:** So as to create and develop electronic systems in the bank, BK has installed a paperless mechanism of documents circulation since 2002. At the present time, all official inter-department correspondence is conducted through the office automated (mechanized) administration system.
- **Smart System of Customers Reception (Electronic Queuing System):** BK has always been trying to make the best use of modern technology to promote the quality of services offered to customers and to have customers' confidence and support. Aimed at reducing customers' physical attendance at branches and avoiding disorderly congestion and line-ups before the branches windows as well as conducting the "Customers Value Creation" project, BK initiated the Smart System of Customers Reception in 190 branches nationwide following expertise studies and reviewing other banks' experiences and those of foreign banks. With respect to the positive outputs of the project and the level of customers' satisfaction assessed through various surveys, the bank intends to equip the other branches with the system as well.
- **Call Center:** Aiming at servicing the target customers and the public, the bank inaugurated the first 24/7 call center (entitled Green Contact Center), the first in the banking system of the country, on January 15, 2004, concurrent with the seventieth anniversary of Bank Keshavarzi establishment. Experts of the center respond to over a thousand per diem telephone calls made by the public, farmers, and those involved in the agriculture sector. Having highly-trained and knowledgeable experts to answer ordinary callers' questions, the bank has also arranged a precise timetable for the bank's managers to attend the center and assist the customers and even the staff with their enquiries regarding the bank and its activities.

Table 33: Statistics of Calls Received by Call Center

Month	2004-2005	2005-2006
March-April	16674	15146
April-May	34412	26462
May-June	20052	32923
June-July	15559	26035
July-August	17339	28181
August-September	17881	25922
September-October	16316	26481
October-November	17605	37137
November-December	22971	29721
December-January	18196	29679
January-February	19224	33107
February-March	25000	35600
Total	241229	346394

- E-Learning:** Believing in creating a learning organization and trying to disseminate the attitude regarding the comprehensive banking systems aimed at execution of E-banking, BK has been making remarkable strides toward running an electronic (i.e. on-line) training system and has made the preliminary arrangements since 2001. For the time being, various training courses including Mehr System, an introduction to diverse services of Bank Keshavarzi, Credit Facilities, The Top Bank-The Learning Bank, Resources Mobilization and Marketing, Accounting, Computer Skills (ICDL), and the like are available with the staff through the system.

11.1.3 Bank Keshavarzi Modern Services: In the last couple of years, to add to competencies and facilities of the bank in terms of mobilizing financial resources and aiming at betterment of banking services through innovative measures, the bank has designed and offered novel services after performing experimental stages. In this regard, the foremost plans executed and measures taken by the bank involve the following:

- **Special Agricultural Qard-al-Hassanah Savings Account:** It has been included in the bank's pack of services since 1998, mainly to absorb required financial resources out of selling crops, especially wheat. In 2005-2006, the closing balance of Special Agriculture Qard-al-Hassanah Savings Accounts amounted to over Rls. 869 billion.
- **The Youth and Kids Bank:** In 2003, the typical branch of the project was opened in Tehran with a special interior and exterior design, serving the youth and kids. By March 20, 2003, special youth and kids windows were set up in 85 Tehran branches and attracted over 28 thousand customers. The statistics reveal that by March 20, 2006, the total savings of special youth and kids Qard-al-Hassanah accounts reached up to Rls. 12.24 billion, deposited in 63097 accounts.
- **Special Investment Certificates of Deposit:** General investment deposit is the one, made with banks and financial institutes having specified maturity, for which a certificate, as a transferable instrument, is issued to a bearer or a named person. As regards, in 2005-2006, some partnership bonds, to the value of Rls. 16800 billion, were issued by CBI bearing interest at 15 percent. Accordingly, some bonds, worth Rls. 10768.3 billion, were sold through BK and other banks. In the same year, having obtained the necessary permission from the CBI, the bank issued and sold certificates of deposits specifically for general agricultural investment worth Rls. 1000 billion bearing interest at 17 percent on demand, i.e. payable without prior notice.
- **Participation in running Agricultural Commodities Stock Exchange as well as effective and active presence in this regard.** In the early 2002, establishment of the Agricultural Commodities Stock Exchange was approved to be conducted by the Ministry of Jihad-e Agriculture, Bank Keshavarzi, and Tehran Stock Exchange. Ministry of Jihad-e Agriculture, as the organization associated with Agricultural Commodities Exchange, put BK on a mission to take preliminary steps to implement the project aimed at reforming and improving the structure of the crops market. During 2003-2004, BK was actively involved in paving the way for establishment and inauguration of stock market and eventually in 2004, Agricultural Commodities Stock Exchange officially began its operation. So far, it has stabilized its place as a financial market in the specialized field of agriculture.

- **Issuing National Youth Card:** Based on an agreement signed with the national youths organization, and aimed at reducing the routine expenses of the youth, intangibly directing them toward the optimal consumption model, and making them familiar with the domain of economic and banking operations, BK took the charge of issuing and distributing the Youth National Cards for the youth between 15 and 29 years of age. Accordingly, efficient actions were taken in 2003-2004 to implement the project and issue the cards for university students in Tehran. By March 20, 2006, some 75322 youth national cards were issued for university students and the youth all over the country.
- **Stock trading through branches:** According to the plan, about 30 branches (at the first stage) were identified as the bank trading agents, to trade stocks with customers. The branches receive customers' stocks dealing orders and relay them to the bank's brokerage companies operating in Stock Exchange, and once the process is over, the contract is settled with customers.

Other novel projects and services of the bank are as follows:

- **Iran Plan (Special Services for Women):** Iran Qard-al-Hassanah Accounts Plan was created to offer services and to absorb savings of women besides helping them have more participation than ever in economic activities.
- **Atieh (Future) Investment Deposit Account:** This type of account is a combination of 1 to 5 year deposits, to which the bank pays the most possible profits through managing the funds. The depositor, entering a contract with the bank, consecutively and regularly deposits an amount of money, based on which the gain profit will be calculated and transferred to the customer's account on monthly basis. The profit is determined based on the interest rate approved in the banking system.
- **Checking Accounts Deficit Financing Plan (designed for target customers):** The plan has been developed to support creditworthy customers having active accounts and included among the target groups of the bank. According to the plan, the bank would finance the insufficient funds for the checks which would otherwise bounce due to balance deficit, while collecting the supplied amount on the first possible occasion.
- **Opening Internal Documentary Credit in Rial.**

- **Inter-branch Transferable Long-term Deposits.**
- **Lobby-teller Plan:** Conduct of the plan in BK branches has been accompanied with relevant trainings of the lobby tellers and pursuing operations.
- **Easy Deposit Plan (Short term deposits with issuing payment order advantage).**
- **Special Supervisors Plan** to monitor the behavior and attitudes of branch staff while offering services to customers. By March 20, 2006, the number of supervisors reached over 1700 persons, who have been able to improve the quality of services through continuous supervision and regular inspection at branches and submitting related reports to the bank authorities.

11.1.4 Disbursing Margin (Increase) of Interest Rate to Customers

In order to substantiate the Riba-free banking system and realize the commitments toward depositors, on behalf of whom the bank invests the available resources in various economic activities, after ensuring of an increase in the profit obtained, the margin will be disbursed to customers.

11.1.5. Customers' and the Public's Suggestions

The bank regularly conducts various surveys and appraises customers' and the public's applicable comments and proposals. In other words, through utilizing their applicable suggestions, objectives such as optimization of the bank's operations on the one hand, and accountability toward the public and customers true needs, on the other, are accomplished. To this end, the public and customers can convey their comments and suggestions to BK Suggestions Secretariat, located in the Management Improvement and Training Department, not only through the call center, but via mail, email or voice mail. By March 20, 2006, BK call center received some 346394 calls, many of which contained comments and proposals. In addition, during the same period, the suggestion secretariat was furnished with 3020 proposals, some of which were applicable and effective.

11.1.6. Bank Keshavarzi Achievements during 2005-2006

Through praiseworthy efforts and optimal performance of BK hardworking staff, there have been some consecutive years, in which the bank has made various achievements and accomplishments at the national and international level. Some of these achievements are as follows:

- Recognized as "I.R. Iran Best Bank" in 2005 by "Euromoney" international magazine;
- Recognized as "Top Bank of the I.R. Iran" in 2005 for the third consecutive years, by "The Banker" international magazine, the banking organization associated to Financial Times;
- Obtaining the certificate of ISO 9001: 2000 series;
- Awarded the plaque of honor by the board of juries in the 6th Environment National Festival;
- Recognized as "The Top State-owned Bank of I.R. Iran" in national E-Commerce Conference;
- Acknowledged as a "Commendable Organization" in Shahid Rejaye National Festival for three consecutive years

11.2. Value creation for BK Employees

11.2.1. Plans, Programs, and Training Methodology for BK Staff

Given the adopted strategy of "The Top Bank, The Learning Bank", Management Improvement and Training Department has developed variety of training programs for the four-fold target groups including managers, experts, branch tellers, and other classes of employees.

The training programs, in 2005-2006, were designed based on the bank strategy including: allocation of financial credit facilities merely to the agriculture sector (serving the public and credit disbursement exclusively to the agriculture sector), developing e-banking, offering distinctive and integrated services, shifting from a duty-based and hierarchical organization into a flat and dynamic one based on team work, and paving the way for development of even better plans and programs such as Pooyesh 1, Pooyesh 2, Mehr Gostar, and the like.

The training programs for the target groups are conducted via combined learning procedures and with regard to three determining factors. i.e. organization, individuals, and learning. Moreover, following the policy of authority delegation, BK developed and promoted its training programs considering the potentialities of each district, i.e. Tehran and pivoting provinces including East Azerbaijan, Isfahan, Khorasan Razavi, Khuzestan,

Fars, Kermanshah, and Mazandaran, through the guidelines and supervision of BK Management Improvement and Training Department.

Training programs and methods are designed and executed based on three training strategies, namely on-the-job training, self-study, and formal education, proportionate with determining factors of qualification in each sector.

11.2.1.1. On-the-job Training Strategies: The method is used to convey the concepts more effectively, make the staff get involved in operations and activities, and provide the staff with the opportunity of interaction with experienced and skillful colleagues. The details of the method are as follows:

- Being recruited, staff should spend a three-month probationary training at branches, in addition to their preliminary trainings upon employment.
- In order to have a good command of the whole branches affairs and to be multifunctional, the staff should work in different parts of branches on a rotary basis being exposed to the working experience.
- Some stages of Deputy Managers Training Plan (Prospective Managers Program) are performed experimentally.
- On-the-job training of the staff is performed by experienced experts or inspectors of the bank.

11.2.1.2. Mechanism of Conducting Self-study Strategy: Preparation and supply of CDs and self-study pamphlets for the purpose of general and specialized trainings of managers and experts through various courses are done through BK intranet, some details of which are as follows:

11.2.1.2.2. Specialized computer trainings such as ICDL courses using various materials.

11.2.1.2.1. Banking and Mehr System courses including:

- An introduction to E-banking and Mehr System (in text),
- An Introduction to E-banking and Mehr System (film clips),
- Customer Recognition and Ways of Treating Them (in text),
- How to Operate an ATM, and

- Money and Banking.

11.2.1.2.3. Pre-entry courses:

- An Introduction to Diverse Services of Bank Keshavarzi,
- The Top Bank, The Learning Bank,
- Mehr System,
- Accounting Principles, and
- Money and Banking.

11.2.1.2.4. On-line publication including:

- Banking Cards and their Applications,
- ATM and How to Load in Money.

11.2.1.2.5. Specialized Knowledge: Specialized knowledge of manager, experts, and branch managers is regularly updated through presentation of the latest articles, specialized books, and relevant training CDs and tapes. Cooperation with institutes and authorized companies, outside the bank, is also performed to hold workshops and specialized managerial seminars for them.

11.2.1.2.6. English Language Courses:

- English learning books, CDs, and self-study audio and video tapes, which are presented to managers and experts based on a specialized and precise syllabus and timetable.
- Holding English-teaching classes at different levels for managers and experts in the very headquarters of the bank and provincial directorates plus paying the tuition of courses the staff take in other well-known and authorized institutes upon submitting passing certificates.
- Giving English placement tests annually to evaluate the English level of the managers and experts.

11.2.1.2.7. E-library: In order for all BK staff to have a wide access to services offered at the library, BK E-library has been established in which:

- Some related PhD and M.A. /M.S. theses could be observed online and the first 15 pages could be printed, if needed.
- Some articles and various specialized national and international publications are offered online.

11.2.1.2.7. Conferences and specialized forums: Annual holding of specialized conferences on various fields of undergraduate studies to exchange knowledge, expertise, information, viewpoints, and experiences.

- Expertise Centers of Suggestions System.
- ISO Centers.
- Evaluation Committee of Scientific and Research Activities of Experts.
- Empowerment training workshops for managers and staff.
- Annual gathering of branch managers, experts, departments' managers, and executive directors.
- Introducing managers and experts to authorized institutes and organizations out of the bank to take necessary training courses.

11.2.1.3. Training Courses of Formal Education Strategy

11.2.1.3.1. Short-term training courses including:

- Pre-entry courses for newly-recruited staff;
- In-the-bank training courses (such as general and specialized courses on computer skills, Mehr system, management, project design, branches functional software, financial affairs, etc.);
- Courses and workshops at authorized institutes out of the bank;
- Empowerment training workshops for branches and directorates staff (on topics such as credit facilities, debts collection, resources mobilization, basic and specialized bank accounting, and so on)

11.2.1.3.2.1. Long-term training courses in High Education Centers and Institutes (such as High Institute of Banking; all state universities; Payam-e-Noor University (Open University); Azad University (Non-governmental University), and the like) to receive official academic degrees. By March 20, 2006, some 1384 employees of the bank had been studying at two-year college, undergraduate, and post-graduate levels.

11.2.1.3.3. Signing agreements with universities, institutes, and other authorized training organizations to have instructors hold required courses in the bank or retraining courses for managers, branch managers, and experts at specialized levels of banking, finance, auditing, economics, agriculture, computer, management, law, and the like.

11.2.1.3.4. Offering scholarship to top students of universities admission exams at majors required by the bank.

Design, Development, and Implementation of Management Improvement Plan and Deputy Managers Training Plan (Prospective Managers Program)

Having conducted relevant researches and necessary feasibility studies, the Management Improvement Plan was designed and developed. The plan includes various training and retraining programs to empower managers and branch managers of the bank. The main focuses of the plan are directed toward training, retraining, developing, empowering, and improving the required and functional skills and abilities of all executive directors, departments' managers, branch managers, as well as prospective managers of the bank (Prospective Managers Program) through adopting variety of training methodologies and holding appropriate courses.

11.2.1.3.5. Experts training programs: To strengthen the expertise competency of the bank, BK's decision makers developed a comprehensive plan, specifically for all experts and employees, chief components of which are as follows:

- Experts specialized seminars and courses, such as the Course on Appraisal of Agricultural Projects Proposals (CAAPP), specialized scientific courses, and retraining courses specifically premeditated for BK agricultural experts.
- Holding diverse and successive exams, aiming to update BK experts on relevant information and expertise knowledge, chief among which are as follows:
 - English Language Placement Tests;
 - Expertise and specialized tests on all existing fields of studies at the bank;
 - Tests on Information Technology, etc.

11.2.1.3.6. Training programs for branch officers and tellers: In addition to the comprehensive plan including all required materials for branch officers and tellers, some

periodic seminars are annually held for the above-mentioned officers as well. One of the purposes to hold such seminars is transfer the newly-adopted and latest strategies of the bank to front office employees at branches. Holding training classes and special courses for branch tellers have also been taken into consideration in this plan.

11.2.1.4. Secretariat of Suggestions

To flourish the staff's new ideas and thinking competency and have them participate in the corporate governance as well as encouraging them to make suggestions and practical proposals, aimed at reforming the existing processes and betterment of customer satisfaction, the Secretariat of Suggestions, located in the Management Improvement and Training Department, was established in the early 2003, as an entity in charge of examining, responding, and implementing the practical suggestions and proposals put forward by the staff and customers. In this regard, the applicable and fruitful ones will be rewarded properly.

**Table 34: Performance of Secretariat of Suggestions from 15/12/02 to 20/3/06
(Cumulative Statistics)**

Item	2002-2003	2003-2004	2004-2005	2005-2006
Total Suggestions Received	268	556	2241	3020
Total Suggestions Accepted	18	56	131	163
Total Suggestions Implemented	4	11	21	27
Total Suggesters	233	473	1921	2710
Total Staff	14174	14472	15325	15506
Staff Participation Rate	1.64	3.27	12.54	17.48

11.2.1.5. Library and Documentation Center

BK Library and Documentation Center is regarded one of the specialized libraries of the country in the fields of banking, economics, agriculture, management, etc., engaged actively in various fields of information.

On March 20, 2006, the number of library members was 2806, indicating a 10.29 percent growth, as compared to 2554 members in 2004-2005. During 2005-2006, some 24905 individuals attended the library to meet their information needs. According to

findings of various surveys conducted, the highest rate of attendance in the library belonged to academically educated members, intending to do their academic studies and researches as well as acquiring information and knowledge required to promote their occupation status.

Besides offering regular services as most of the specialized libraries do, BK library officials have taken significant measures such as the movement toward offering digital and virtual library services during 2005-2006. The process includes collecting and organizing articles, both in Persian and English languages, from available data banks of Persian and English articles and the ones accessible in the information market, as well as changing textual articles into PDF format to be used via library website and within library.

11.2.1.6. Operations of BK Management Improvement and Training Department during 2005-2006

Same as previous years, the operations of Management Improvement and Training Department were focused on short term trainings intended for Managers, experts and other staff.

In the given year, the major training activities of the bank focused on computer and IT; E-banking; English Language Learning; Banking Affairs, Monetary and Financial Affairs; Accountancy; Insurance; and Legal Affairs. In general, totally some 773956 person/hours of training courses were held for 15506 staff. The bank's focus on IT trainings demonstrates the recognition of importance and position of acquiring knowledge and skills required to advance toward e-banking.

Holding pre-entry orientation courses, on-the-job trainings, and retraining courses for more experienced staff was seriously followed by the bank considering the indisputable role of new man power and the importance of promoting the typical organizational culture and attitudes.

Given the role of BK managers in institutionalization of a learning bank and the significant impact they could have on the whole organization, the person/hour rate of specialized training courses for managers was 121416 hours, accounting for 15.7 percent of the total person/hour trainings.

Table 35: Comparison of BK Training Activities in 2004 and 2005-2006

Title	2004-2005	2005-2006
Total Person/Hour Training	1232058	773956
Total Staff	15225	15506
Frequency of Trainees (person)	60127	39556
Training per capita (day)	13.48	8.31
Training per capita (hour)	80.92	49.91

11.2.2. Bank Keshavarzi Human Capital

During 2005-2006, the number of BK permanent staff faced a 2 percent negative growth amounting up to 15540 employees, as compared with that of the year before, (to be noted that the overall number of staff including permanent and contracted ones totally amounted to 15540 employees in the given year). In spite of increased volume of the bank operations in the reported year, reduction in the number of staff demonstrates the unending and sincere attempts of BK staff. Moreover, the considerable portion of university graduates within the bank's man power states the evolution of BK human capital. In 2005-2006, over 28 percent of the bank staff held academic degrees, 62.6 percent held high school diplomas, and just 9.3 percent had degrees lower than high school diploma. By March 20, 2006, the experience years of the employees were as follows: 4895 employees with less than 5 years of work experience, 3129 employees with experiences between 6 to 10 years, 2636 with experiences ranging from 11 to 15 years, experiences of 3116 employees ranged from 16 to 20 years, 1303 of the staff were equipped with 21 to 25 years of experience, and work experience of 461 employees was 25 and odd years. The combination of BK man power in terms of work experience demonstrates the youthfulness of the working human capital at the bank regarding the fact that some 10660 employees have working experience less than 15 years. Such a status increases the capability of human capital programming aimed at promoting the quality level of the staff performance. In table 35, the status of BK staff is illustrated in terms of academic degrees.

Table 36: Frequency of BK Staff according to their Academic Degrees in 2004 and 2005-2006

Types of Degree	2004-2005		2005-2006	
	No.	%	No.	%
Elementary	400	2.5	341	2.2
Junior High School	1172	7.4	1105	7.1
H.S. Diploma	9525	60.1	9720	62.6
Two-Year College	1341	8.5	959	6.2
Undergraduate	2942	18.6	3082	19.8
Graduate	404	2.6	281	1.8
Ph.D.	51	0.3	52	0.3
Total	15835	100	15540	100

Table 37: Frequency of BK Staff according to their Years of Working Experience in 2004 and 2005-2006

Working Experience Years	2004		2005-2006	
	No.	%	No.	%
Less than 5	5713	36	4895	31.5
6 to 10	3760	23.8	3129	20.2
11 to 15	1922	12.2	2636	17
16 to 20	2601	16.4	3116	20
21 to 25	1204	7.6	1303	8.3
25 and above	635	4	461	3
Total	15835	100	15540	100

11.2.3. Structural Evolution

11.2.3.1. Clarification Plan of Professional Promotion Path

The new classification of the bank jobs has been executed, since 2001, based on findings of scientific and functional studies and surveys aimed to upgrade productivity and optimal use of man power. The project was innovative and novel in its kind and was tailored to the nature of duties and operations of the bank. Having expertise studies on a group of classification and evaluation methods such as ranking, grading, factors comparison, as well as optional and consolidated methods, BK decided to use bonus methodology, as one of the most comprehensive methods, because of organization type,

performance of jobs and duties, number of staff, number of occupations and many other official and organizational considerations.

The purpose of job classification is, in fact, to establish specific regulations and criteria to identify and evaluate occupations, to create a dynamic and goal-oriented system in identifying the bank occupations, and to provide the possibility for any assessment and programming for man power. Naturally, along with such a classification, designing a road map for the staff job promotion is of prime importance. Thus, based on the jobs classification plan, in all managerial, specialized, and executive occupations, a particular schedule is followed for jobs promotion from the very time of employment to retirement. Some of the significant and effective factors in staff jobs promotion are as follows: education level, experience, trainings, processing factor, performance evaluation, bonuses and rewards, administrative penalties and punishments, etc.

11.2.3.2. Organizational Restructuring

There is no doubt that the accessibility to BK services in urban regions and business centers, in addition to rural areas, requires operational units in provinces to have modification and conformity of structures with their operations and programs. To this end, a kind of restructuring in organization of the central unit and provincial directorates has been performed as follows:

11.2.3.2.1. Organizational Restructuring in Headquarters

Restructuring headquarters organization depends mostly on policies, rules and regulations, rivals' activities, market status, expansion and development of operational units, and technological advancement. Changes in the government approach toward the state-owned banks, especially Bank Keshavarzi, caused the bank to operate differently, rather than being merely a fund for payment of credit facilities, under the supportive plans of the government during many years of operations. Impressed by the competitive policy of the state, the bank began to absorb its necessary resources from urban areas and business centers to inject them into the agriculture sector.

Undoubtedly, enforcing such a policy within the competitive atmosphere would call for development and expansion of branches, marketing and reconstruction, offering optimal and effective services to customers and efficient presence in monetary and

financial centers of urban areas. Therefore, restructuring headquarters organization in compliance with activities of operational units (branches), BK has always endeavored to prevent expansion of headquarters units through implementation of new approaches of human resource management and other available facilities. To this end, the most prominent measures taken by the bank to restructure and reform the headquarters organization and to achieve an optimal structure are as follows:

- **Regular inspection and revision of organizational tasks and duties in headquarters units:** In some cases, such a measure led to the combination and elimination of some single units, such as combination of duties and operations of Logistics Department with those of Administrative Services and Maintenance Department to create a new one called "Welfare and Logistics Department. In addition to downsizing headquarters, these sorts of actions paved the way to efficiently utilize the man power and other unemployed equipment and facilities in other units of the bank especially operational units (branches).
- **Restructuring the Bank based on Pooyesh Plan:** Through conduct of the plan, BK headquarters is in charge of adopting macro policies of the bank at the national and international levels, and provincial directorates are held responsible for strategic thinking, planning, and policy making especially supervision and regional control. Accordingly, branches authorities increased so remarkably that the accountability of branches to customers increased in proportion with the delegated authorities. In addition, through strategic turn toward team making and team working, the structure of the bank is shifting from a hierarchical and traditional form into a flat and agile one.
- **Re-engineering of Processes and Methods:** One of the effective factors in providing organizational consistency is re-engineering of processes and methods, which through implementation and considering technological advancement and development of electronic systems, leads to helpful results, chief among them are restructuring, adjusting operational methods with regard to objectives, efficiency upheaval and meeting the customers' needs.
- **Continuity and Expediting in Transfer of Companies and Affiliated Units to Non-governmental Sector:** This is one of the important factors, which has been

implemented according to a precise timetable since 2002 and so far a considerable number of affiliated companies have been privatized. Complete realization of the plan, based on which all affiliated companies will be ceded by the early 2007, brings about integration and consistency to the organizational structure of the bank. Moreover, downsizing the bank would decrease the bank's sovereignty, increase productivity, release resources and facilities, and expand private sector partnership.

- **Continuation in Assignment of some Services and Operations to Private Sector:** Such a measure taken by the bank is considered as one of the main pivots in terms of providing consistency in organizational structure of the bank in a way that, despite some restrictions and barriers, the bank has been able to assign over 30 major operations to private sector and make the best use of the achievements for the purpose of development and reaching organizational excellence.
- **Decentralization and Vesting Authority to Administrative Units:** With vertical and horizontal vesting of authorities to operational units, responsibilities of headquarters units, in terms of executive and operational affairs, have been lessened and via downsizing the headquarters, capabilities and capacities of headquarters in terms of policy-making, are more appropriately flourished and realized in an oriented and prompt manner.
- **Organizational Integration in the Bank Structure:** Such integration was performed through providing proportion among macro strategies of the bank and conducting continual coordination in functionalities and prescribed policies as well as promoting convergent approach among operational and central units.
- **Multi-skillfulness Plan:** Implementing the plan of training multi-skilled staff, while emphasizing on practical and multifaceted trainings, is another factor which creates the opportunity to utilize staff expertise properly in due course while preventing the expansion of organizational positions through increasing the potentiality of man power and equipping the staff with required expertise and skills.

11.2.3.2.2. Organizational Restructuring in Provincial Directorates

According to Pooyesh 1 Plan, BK branches are assumed the operational centers of the bank, for which implementing a comprehensive strengthening and support plan, aimed at customer orientation, is a priority and the focal point. To this end, it has been endeavored to make necessary reforms and to improve the organization through continuous reviews and upon received feed backs from branches operations and provincial directorates. The foremost actions done in this regard are as follows:

- **Direct and Immediate Communication between Branches and Headquarters:** In this approach, branches are directly connected to headquarters so that the organizational layers could be reduced aimed at customer orientation and reduction of administrative procedures. Furthermore, in order to practically follow the bank's strategies in terms of branch orientation, BK has emphasized the execution of duties and banking affairs through a processing approach rather than a task-oriented one.
- **Design, Development and Implementation of Branches Flexible Organizational Chart Plan:** To implement the plan, any of the provincial directorates can provide the required man power for any busy and highly-referred branches from the man power employed in less operational ones, in proportion with their capacity and real operations. In fact, provincial directorates can make use of the man power in a floating manner whenever and wherever needed. Preventing the organizational growth of branches, utilizing the existing man power more properly, employing the staff of less busy branches in busier ones and accelerating the execution of the public and customers' banking affairs are the main purposes of the plan.
- **Transferring some of Provincial Directorates Operations to Private Sector:** The strategy has noticeably contributed to downsizing of the bank. It should be noted that, by March 20, 2006, over 1437 individuals were absorbed from the private sector and employed throughout the provinces.
- **Annual Ranking of Branches:** The operational units of the bank (branches) are evaluated and ranked according to determined indicators and performance criteria. The results of the process have had direct impacts on organization and structure of

branches. In this regard, based on the branches performance points and inter-branch comparison results, they can be promoted, descended or kept at its previous rank. In the case of promotion or demotion, the structure and organization of the relevant branch are changed and the number of employees and type of organizational positions may be modified as well.

- **Utilizing Modern Technology:** Utilizing modern technology to establish e-banking such as ATM, POS, Pin-pad as well as programming, development and adjusting virtual branches network to substitute the real ones, which require more extensive organizational structures and consequently more man power in comparison with virtual branches.
- **Branches Performance Evaluation:** Evaluating the performance of low yield branches aimed at dissolution, combination, and making decision on improvement of their future performance.

11.2.3.2.3. Merger of Provincial Units

Since the operational units of the bank are located in urban and rural areas, act as a single unit and have certain financial statements made up according to the needs and accessibility of people in rural and urban as well as business areas, assembling and merger of the units, as mentioned in the related approved plan, deems impossible. Thus, branches operating in different regions of provinces are regarded as the subdivision of provincial directorates, which in turn are parts of the macro structure of the bank. All units of the bank, though independent, belong to BK headquarters. Meanwhile, insurance operations are the rare cases being available at branches and the bank, welcoming the process, has initiated operationalizing them.

11.2.3.2.4. Review of Missions and Duties of Affiliated Institutes and Companies

As for the affiliated companies, based on authorities assignment policy as a pivotal strategy of the bank, the operations of the responsible unit have been concentrated on making legal, financial, personnel, managerial, and technical arrangements in the companies to expose the remaining ones to the sale. Accordingly, there have been continuous endeavors to clarify the legal status of lands pertaining Karoun Agro-industry Co. and Miyan-Ab Agro-industry Co. In addition, required pursuit, control, and

supervision have also been taken into consideration for the purpose of sustaining the productivity level of affiliated companies and acquiring optimal level of desirability for sales, as one of the essential axes of the bank policies toward the affiliated companies.

Furthermore, three major BK producing companies, while following the policies of the bank, have had significant roles in production and meeting a remarkable portion of domestic needs. For instance, Simorq Company, producing one ton of eggs per day and running two major incubators for breeding one-day broilers and one producing unit of commercial broilers and table poultry, as well as producing units for livestock feeds and various agricultural products, is considered the biggest egg producer of the country. Reducing the man power and following privatization process in different sectors, the company has managed to increase its production level, profitability, and efficiency.

Karoun Agro-industry Co., having 50 thousand hectares of farmlands including 25 thousand hectares of sugar beet land and 25 thousand hectares cropland for other agricultural products as well as a sugar producing company with an annual capacity of 200 tons per year, is the biggest sugar producer across the nation. Employing nearly 10 thousand individuals and numerous sub-contractors, the company plays a significant role in reduction of unemployment rate in the region while at the same time it meets a remarkable portion of the country need to sugar through producing an annual average of nearly 1800 thousand tons sugar cane and about 170 thousand tons of sugar.

Miyan-Ab Sugar Cane Agro-industry Co. is also one of the most important producers of the region holding 7000 hectares of cropland including 2500 hectares for sugar cane planting and 4500 hectares for other agricultural products such as wheat, red beet, corn, canola and the like. The company has played an effective role in the economic development of the region by employing nearly 1000 personnel and numerous contractors and has been a key factor in meeting the food needs of the country by producing over 250 thousand tons of sugar cane, over 9 thousand tons of wheat, and 30 thousand tones of red beet.

11.2.3.3. Reforms in Systems and Methods

For the purpose of constant supervision of the units performance in terms of offering services to customers and continual improvement of processes, and along with institutionalizing a process-oriented attitude among the staff and obtaining customer

satisfaction, after identifying the whole processes related to applicable services for customers, the bank determined performance evaluation and measurement indicators and set appropriate improvement objectives for each of the afore-mentioned processes through performance-evaluation and time-evaluation methods and with regard to facilities available to units. Related units were informed to observe these indicators and move toward the improvement objective. The foremost of the indicators and improvement objectives are categorized into three groups including quality, expenses, and delivery so that the bank, according to a certain timetable, could periodically analyze the performance of the selected units in terms of conducting the processes and offering services to customers based on the determined performance indicators and objectives. As a result, in case of an illogical gap between the units' performance and the indicators and objectives, the reasons behind such a deviation and failure would thoroughly be inspected by relevant units and authorities. Accordingly, as regards the identified reasons, precautionary and reforming measures would be decided upon and then taken in order to improve the execution of intended processes.

Given the importance of reformed methods, some of the most important methods and systems reviewed and reformed in the bank are elaborated in the following:

- **Laying the groundwork for implementation of E-banking (Core Banking):**
The system was implemented based on international standards to accelerate and facilitate offering services to the public (according to the plan, from the mid 2006, some branches will be operating equipped with the above for the first time).
- **Implementing electronic queuing system for customers:** The system was installed in some branches to facilitate serving the customers and preventing long line-up of people before the windows (141 branches are employing the system at present). To this end, a customer, upon arrival at the branch, gets a turn slip from the installed turn-taking machine. The slip includes the turn number, the least waiting time, and the number of customers waiting ahead so that they could make the best use of welfare services and facilities provided at the place considering the time left.
- **Simplification of credit granting procedures:** Aimed at acceleration of banking affairs execution, promotion of performance quality, elimination of unnecessary rules, reduction of official paper works and bureaucratic correspondence, and

creation of customer satisfaction, the whole identified processes of credit scoring have gone through review and reconsideration and subsequently, required modifications have been enforced to simplify the existing procedures as much as possible.

- **Reviewing rules, regulations and practices of imposing as well as removing the ban on overseas travel of debtors:** Based on this newly-adopted practice, the names of nearly 50 percent of the bank's debtors, who were banned to go on overseas trips, were deleted from the relevant list.
- **Operationalizing the payment of houses utility bills through E-banking without physical presence at the branches:** The plan was conducted in collaboration with other agent banks. Some feasibility studies are being conducted to extend the operation to customers' financial statements.
- **Reviewing the policy making and planning approaches of the bank and developing the bottom-up strategy (branch-oriented strategy emphasizing on customers' expected realities).** Since the branches, as operational centers and interaction points with customers, hold a significant position in the hierarchy of the bank, it has been endeavored to make the best use of branches officials' opinions on policy-making and planning issues to develop and execute appropriate strategies with regard to current status and conditions as well as emphasizing on customers' expected realities.
- **Re-engineering BK specialized processes and procedures:** To serve the public and customers in three fields of credit systems and procedures, systems and procedures of resources mobilization, as well as the process and procedures implemented by provincial directorates and branches, re-engineering of processes and procedures is at final stage of design and development in collaboration with the Research and Development Institute, affiliated to Ministry of Science, Research, and Technology, with a view on conducting improvement and fundamental reforms in performance indicators such as promptness, quality, and expenses, aimed at achieving the following objectives:
 - Simplifying procedures and practices to reduce customer-bank physical contact and interaction;

- Standardizing the simplified procedures capable to be converted into an automated computerized system;
- Optimizing procedures up to the aforementioned levels in relevant fields in terms of promptness, expenses, precision and accuracy;
- Examining the degree of increase in customers' satisfaction with the reformed and improved procedures;
- Supervising, evaluating, and receiving feedbacks from the staff and customers;
- **Accepting customers' draft issuance request through facsimile.**
- **Dispatching customers' accounts statements through fax.**
- **Revising all banking forms, combining some and eliminating the similar or unnecessary ones.**
- **Rectifying the bank's coding system to facilitate transactions and units correspondence.**
- **Establishing quality control systems and obtaining ISO 9001: 2000** for some of the headquarters departments (besides the previously selected branches) during 2005-2006 to enhance productivity and improvement of serving the public and customers.
- **Reducing the number of inquiries needed to grant credit facilities in terms of the requests subjects.**
- **Developing mother (main) files in credit departments of branches** to accelerate dealing with customer's requests, cost reduction, eliminating some unnecessary affairs and preventing the frequent attendance of customers in branches. Since a large majority of customers frequently deal and interact with the bank's branches for a long period of time, these types of files will prevent from any potential problems and any prolonged procedures.
- **Corporate governance and restructuring through "Pooyesh Plan":** Based on the plan, the bank's headquarters is in charge of macro operations and affairs at national and international level, while responsibilities of strategic thinking of macro planning, policy making and especially supervision and regional inspection are vested to provincial directorates so that they could act as BK policy makers

and supervisors in their own regions. In addition, the scope of branches authorities has been broadened so that the responsibility level of officials working in self-managed branches toward customers is emphasized and strengthening the inspection as well as constant supervision over branches performance are seriously taken into account. Moreover, via reducing the organizational layers, the bank structure is shifting from a hierarchical organization model into a flat one (Replacing hierarchical positions with working teams and focusing on team work).

- **Direct contact of the headquarters with operational units (branches).**
- **Changing the role and duties of provincial directorate.**
- **Moving toward a learning organization.**
- **Making some branches operational, as "Special Branches"** which are vested more authorities and are provided with more facilities, but in return, provide customers with exclusive and unique services (such as longer hours of offering services to customers, offering denomination of banknotes desired by customers, refreshment reception in branch lobby, executing banking operations in the least possible time, for instance, real-time cashing of checks and instant transmission of drafts.
- **Betterment and development of customers' accessibility to information system** through different mechanized communication and responsive systems based on updated technology.
- **Operating the inter-provinces and inter-branches markets** so as to remove the existing problems in terms of liquidity, man power, etc.
- **Designing, developing and implementing "Multi-skills Staff Plan"** and participation of all staff to perform the banking affairs at busy times of branches.
- **Assignment of some operations to private sector** aiming to expedite, and facilitate the tasks execution as well as increasing the quality and efficiency of offering services especially the ones to be offered to the public.
- **Providing accessibility of customers, all over the world, to the balance of their accounts and details of their checking accounts transactions through internet.**

- **Implementing "Special Supervisors Plan"** and selecting entrusted staff and customers to identify and report the behavioral aspects of the staff treatment toward customers with an educating approach.
- **Installation and operation of modern banking machines** and focusing on development and expansion of e-banking such as ATM, POS, and PINPAD extensively.
- **Offering credit cards**, in addition to debit cards, for the first time in the banking system of the country.
- **Establishing BK Call Center.**
- **Prediction, design, and establishment of customer affairs and special supervisors department** at the headquarters and creating communication expertise position in provincial directorates to receive, register, classify, process, and investigate customers' requests and opinions and to make in time responses accordingly.
- **Establishing Customers and Staff Suggestion System**, as one of the remarkable measures of the bank ever done, by which the whole staff and customers are able to send their constructive comments and suggestions to participate in simplifying procedure, improving the quality of services and all other cases leading to improvement of affairs or presentation of new solutions, and thus, enhancing the status of organization and satisfaction of customers more than ever. Enclosed suggestions can be personal or in group by the staff or customers.
- **Operating SMS (Short Message System) service** to inform customers of their checking accounts balances through cell phone system for the first time in the banking system of the country.
- **Designing and establishing inspection system** based on mechanized data and compatible with core banking system for the purpose of performing prompt, accurate, and precise inspection operations.
- **Increase in diversity of banking services** to furnish customers with expected modern services as well as elevating the range of available options as the most essential steps constantly followed by the bank so that the banking services are growing from 70 types in 2000 to over 120 for the meantime.

- **Installation and operation of BK new tele-banking system**, with special dialing numbers, to provide customers with accessibility to data of their different accounts as well as other banking services without attending branches in person on a 24/7 basis. The services applicable for customers through the system include the following:
 - Being informed of accounts turnover by the end of a six-month or a yearly period;
 - Making requests for new checkbooks;
 - Transferring the funds from one account of some customer to another account of theirs at a branch level;
 - Providing statistical reports (times of attending the branch, amounts and details of funds transfer, etc.);
 - Declaring the specifications of lost or stolen checks; and
 - Making suggestions and comments.
- **Design, development and implementation of customers' credit rating system** for the first time in the banking system of the country. The plan is aimed at systematizing the procedures and amounts of credit facilities allocated by each unit to customers, preventing personal discretion, strengthening the funds management system, expansion of utilization range of banking facilities by customers, fair distribution of credit available with units and enhancing the quality of projects and facilities. At present, necessary pursuit is underway throughout the branches to ensure achievement of purposes and objectives.
- **Improving Projects Appraisal, Inspection, and Supervision System** with an emphasis on participation of private sector.
- **Development of a risk management system.**
- **Offering business plan to all units** involved in related fields focusing on customer orientation, as an essential and important principle.
- **Reforming and improving the training programs** of the bank with an emphasis on development of a comprehensive schedule for staff training including pre-entry training courses plan, staff rotary working plan, comprehensive staff empowerment workshops plan, management improvement plan, non-attending

training plan, branch managers improvement plan, and BK Distance (Remote) Training Plan (ARAD Plan). Based on the schedule, BK staff are intentionally exposed to having interaction with customers so as to enhance the quality of their treatment toward customers.

- **Establishing and operating a paperless system of official correspondence.**

11.2.4 Welfare Entities for BK Staff

11.2.4.1 Atieh (Future) Welfare Fund

To achieve the objective determined in article 26 of employment by-law for state-owned banking system and to secure the welfare and future of BK working, retired, and disabled staff as well as the bank annuitants, Atieh Welfare Fund, whose services cover the whole family of BK, was established. Presently, the whole BK staff are members of the fund, whose main services are as follows:

- Payment of death indemnity subject to optional insurance;
- Provision of amputation indemnity;
- Insurance of debit balance for deceased staff;
- Compulsory insurance for over 16000 BK staff (working, retired, and disabled);
- Arrangement and supervision on provision of auto insurance for the staff;
- Entering a contract with Sina Insurance Co. to offer voluntary life insurance for over 19,000 staff (working, retired, and disabled);
- Entering a contract with Sina insurance Co. to offer accident insurance for staff's family members (spouse and children) including over 24,000 persons (working, retired, disabled, and annuitants);
- Signing a contract with Alborz Insurance Co. to supply tangible and intangible properties insurance including over 10500 staff (working, retired, and disabled);
- Entering contracts with all provincial branches of Alborz Insurance Co. and Iran Insurance Co. to supply insurance coverage for staff automobiles;

11.2.4.2 BK Pension Fund

The fund was established, subject to the board of directors' approval dated September 25, 2004 to:

- identify and implement profitable investment plans, and
- update implicit debts and collect dues to the fund through actuary studies.

11.2.4.3 Mehr Fund

To furnish the staff with the peace of mind and mental security as well as removing their dire financial straits and meeting their welfare needs, the establishment by-laws of Mehr Fund have been developed so that the whole BK staff, including permanent, contracted, sub-contracted, agent, retired, disabled, and annuitants, can join the fund by paying membership fees to benefit from financial facilities predicted in the by-laws in return.

11.3 Value creation for shareholders

11.3.1 Income and Expenses

BK income from received interest and commission fees, offering banking services, and sale of investments and partnership totally amounted to Rls.10691 billion, showing a 20% growth as compared with the same amount obtained the year before (Rls. 8877 billion), owing to the rise in balance of granted credit facilities and collection of due from non-public sector, to the value of Rls.23526 billion.

Subject to article 5 of Riba-free banking operation law, the earnings from investment time deposits must be shared between the bank and depositors, on the basis of concluded contracts, in proportion with the amounts and time of such deposits. Given the profitability of the bank in 2005-2006, depositors' share out of the income exceeds Rls. 3189 billion. As a result, the payable on-account profit, as compared with that of the previous year, has grown 64 percent, amounting to Rls. 1241 billion. Some factors, such as the growth of depositors' earnings share, decrease in banking interest rate, increase in outstanding and past-due financial claims, and eventually, uncollected dues from government resulting in financing the resources deficit with a rate of 40 percent, have all

caused the bank income before tax reach Rls. 503 billion, having a 67 percent decline, in comparison with that of the year before.

Subject to section (C) of article 1 in 2005 budget act, 40% of declared income in 2005-2006, as the government share, has been deducted from the bank's before tax income. The summary of BK financial performance in the reported year and its comparison with the previous year has been reflected in table 38 as follows:

Table 38: Summary of BK Financial Performance in 2004 and 2005-2006
(Billion Rials)

Description	2004	2005-2006	Changes (%)
Interest and commission fees received	8609	10475	21.7
Interest and commission fees paid	(3913)	(5660)	44.6
Net Operating income	4696	4815	2.5
Other income	268	216	(19.7)
Doubtful debts expenses and investments devaluation	(582)	1279	119.7
Administrative and personnel expenses	(2282)	(2555)	11.9
Depreciation allowance	(326)	(249)	(23.7)
Other expenses	(316)	(445)	40.9
Net profit (loss)	1458	503	(65.5)
40% of declared income as government share	(570)	(201)	(64.7)
Tax	(283)	(76)	(69.3)
Profit after tax and government share	605	226	(64.5)

As depicted in table 38, the total income of the bank including interest and commission fees received and other income amount to Rls. 10619 billion.

11.3.1.1. Break-down of BK Income: The following table shows the break-down and ratios of the bank's income:

Table 39: Break-down and Ratios of BK Income in 2005-2006

Income	Amount (Billion Rls.)	Ratio to Total Income (%)
Common Income:		
Received profit & retention Fund	9267	86.69
Other income	47	0.43
Sub-total	9314	87.12
Uncommon Income:		
Received profit & retention Fund	453	4.23
Received commission fees	755	7.06
Other income	169	1.58
Sub-total	1377	12.88
Total Income	10691	100

Out of total expenses of the bank, amounting to Rls. 10187 billion, 53.3 percent goes to resources mobilization and 25.07 percent to administrative and personnel expenses, and 21.6 percent to other expenses including depreciation allowance as well as expenses of doubtful debts and investments devaluation.

11.3.1.2. Break-down of BK Expenses: The following table shows the break-down and ratios of the bank's expenses:

Table 40: Share of Each Section of Expense Relative to Total Expenses in 2005-2006

Expenses	Amount (billion Rials)	Ratio to Total Expenses (%)
Depositors' interest share	3189	31.30
Interest paid (except to depositors)	2245	22.03
Personnel expenses	1816	17.82
Doubtful debts expenses	1241	12.18
Administrative expenses	739	7.25
Other expenses (Qard-al-Hassanah prizes)	445	4.37
Depreciation allowance	249	2.44
Commission fees paid	226	2.22
Investments devaluation expenses	38	0.38
Total	10187	100

As revealed in table 40, the largest shares of the bank expenses go to resources mobilization expenses, as 31.03 percent, and borrowing expenses, as 22.03 percent. The table also implies that resources mobilization and borrowing expenses have little differences but the funds obtained through resources mobilization (deposits) is over 2.5 times more than borrowing resources, indicating the fact that the severe shortage of resources has caused the bank to borrow its required funds incurring extravagant costs to be able to achieve its mission, namely granting credit facilities to different parts of the agriculture sector.

In addition, doubtful debts expenses, as 12.18 percent out of total expenses, seem significant, which was only 7 percent in the previous year. The reason for such an increase is believed to be the remarkable increase in past-due and outstanding debts resulting from executing the resolutions of the government board.

11.3.1.3. Status of Assets and Liabilities by March 20, 2006: BK assets increased over Rls. 31070 billion because of a growth as much as Rls. 25000 billion in volume of credit facilities disbursed, including a Rls. 23000 billion net increase in non-public credit facilities, and Rls. 2000 billion net increase in facilities granted to public sector resulting from rise of dues from the government. The share of each item of assets, as compared with similar figures in the year before, involves the following:

**Table 41: Comparison of BK Summarized Financial Performance in 2004-2005 and 2005-2006
(Billion Rials)**

Assets	2004-2005		2005-2006	
	Amount	Percentage (Relative share)	Amount	Percentage (Relative share)
Cash and bank	513	0.58	511	0.43
Due from Central Bank	3866	4.35	4704	3.92
Due from banks and other credit institutions	4102	4.61	5306	4.4
Net credit facilities granted and due from public sector	2102	2.36	4019	3.35
Net credit facilities granted and due from non- public sector	60389	67.87	83915	7

Partnership bonds and other similar securities	1555	1.75	764	0.6
Investments and equity participation	404	0.45	378	0.3
Tangible fixed assets	6620	7.44	6966	5.8
Other assets	8280	9.31	13480	11.2
Items in transit	1143	1.28	-	-
Total	88974	100	120043	100

As table 41 indicates, credit facilities (73 percent) have the biggest share relative to total consumption and Investments and equity participation (0.31 percent) account for the smallest share relative to total consumption.

Table 42: Changes in Assets during 2005-2006 as Compared with the Previous Year

Assets	Assets Changes relative to last year	Relative share (%)
Cash and bank	-3	-0.01
Due from Central Bank	838	2.74
Due from banks and other credit institutions	1204	4.21
Net credit facilities granted and due from public sector	1917	6.22
Net credit facilities granted and due from non- public sector	23526	76.85
Partnership bonds and other securities	-791	-2.85
Investments and equity participation	-26	-0.08
Tangible fixed assets	346	1.11
Other assets	5201	16.86
Items in transit	-1143	-5.31
Total	31070	100

The above table implies that credit facilities and due from non-public sector, with a Rls. 23526 billion increase, faced the highest level of changes, equivalent to 76 percent, relative to total increases in the bank consumption, followed by other assets with a change amounting to Rls. 5201 billion, accounting for a 17 percent share of changes in assets. Increase in assets has mainly been due to the remarkable increase in the number of debtors for indemnities, reaching about Rls. 2797 billion, paid by the Insurance Fund.

The third rate of increase is related to credit facilities and due from public sector with a share equal to 6 percent of total changes.

It is to be noted that such an increase is caused by remarkable growth in due from the government.

Table 43: Comparison of Relative Shares of Assets in 2004 and 2005-2006

Assets	2004 Relative share (%)	2005-2006 Relative share (%)
Investments and equity participation	0.45	0.32
Cash and bank	0.58	0.43
Partnership bonds and other securities	1.75	0.64
Credit facilities granted and due from public sector	2.36	3.36
Due from central bank	4.35	3.94
Due from banks and other credit institutions	4.61	4.44
Tangible fixed assets	7.44	5.83
Other assets	9.31	11.29
Credit facilities granted and due from non-public sector	67.87	70.25
Total	100	100

Table 43 compares the components of the bank expenditures, depicting that the share of assets such as credit facilities granted and due from public sector, granted facilities and due from non-public sector as well as other assets, as compared with those of the year before, have risen and other expenditures of the bank have less share than those of the year before.

11.3.1.4. Provision of BK Assets: Provision of BK assets in terms of different groups of financial resources by March 20, 2006, and comparison of figures with those in the previous year have been presented in the following.

Table 44: Resources for Provision of BK Assets in terms of Various Financial Resources in 2004-2005 and 2005-2006 (Billion Rials)

Liabilities and Equity	2004-2005	2005-2006
Individual checking accounts, demand deposits and partnership bonds of in-progress projects	19888	28788
Time and savings deposits of any type	30120	42644
Sub-total	50008	71432
Due to central bank	8496	14057
Due to banks and other credit institutions	11893	12074
Items in transit	--	597
Sub-total	20389	26728
Provisions and other liabilities	9708	12732
Equity	8869	9150
Total	88973	120043

Most part of the bank resources in 2005-2006 was dedicated to time and savings deposits, having a share over 35% of total resources. In addition, equity has the least share of the bank financial resources.

11.3.1.5. Percentage of Relative Shares of Different Financial Resources

in Increasing BK Assets: Percentage of relative shares of different financial resources in increasing the bank's assets during 2005-2006 and its comparison with that of the previous year have been depicted as follows.

Table 45: Frequency of Relative Shares of Various Financial Resources in Increasing BK Assets in 2004-2005 and 2005-2006 (Billion Rials)

Item	2004-2005	2005-2006
Net growth of assets	29603	31070
Growth percentage:		
Out of deposits	53.25	69.13
Out of due to banking system	16	20.41
Out of equity gain	19.82	0.73
Out of other resources	10.94	9.73
Total	100	100

As observed in the above table, an increase amounting to Rls. 31070 billion in the bank net assets has been provided out of the following resources:

- Over 70 percent out of deposits;
- 19 percent out of borrowings from the banking system;
- Equity gain (changes in accumulated profits and provisions) less than 1 percent;
- Other resources as much as 10 percent.

Bank Keshavarzi Balance Sheet as at March 20, 2006 (In Rials)

Assets	March 20, 2005 (Restated)	March 20, 2006
Cash and bank	513,374,803,690	510,692,232,879
Due from Central Bank	3,866,071,275,932	4,703,893,551,563
Due from banks and other credit institutions	4,102,156,374,247	5,306,090,134,788
Credit facilities granted and due from public sector	2,101,729,342,409	4,018,549,527,052
Credit facilities granted and due from non- public sector	56,947,628,532,709	81,301,219,666,453
Debtors re: Forex deferred payment L/Cs	3,441,300,897,552	2,614,144,036,381
Partnership bonds and other securities	1,554,846,391,247	764,022,309,616
Investments and equity participation	403,662,557,384	377,874,542,295
Tangible fixed assets	6,620,026,900,751	6,966,180,293,380
Other assets	8,279,890,420,555	13,480,488,703,823
Items in transit	1,142,726,115,168	--
Total before effects of below the line items	88,973,386,612,344	120,043,154,998,230
Customers' commitments re: L/Cs	3,724,123,506,546	5,417,996,165,237
Customers' commitments re: L/Gs	518,391,895,591	502,330,040,476
Other commitments	66,223,272,267,318	128,621,840,940,789
Administered funds and the like	7,536,352,141,793	10,460,193,793,970
Total	166,975,526,423,591	265,045,515,938,702

Liabilities and Shareholders' Equity	March 20, 2005 (Restated)	March 20, 2006
Due to Central Bank	8,496,455,845,942	14,057,058,880,658
Due to banks and credit institutions	10,952,046,206,732	11,307,974,890,197
Demand deposits	19,877,505,403,229	27,798,343,684,110
Savings deposits and the like	11,789,782,231,160	14,699,273,936,715
Time investment deposits	17,588,801,864,125	27,068,254,633,184
Other deposits	741,547,918,416	877,357,808,840
Participation bonds of in-progress projects	--	989,420,225,830
Provisions and other liabilities	7,122,037,822,010	10,806,455,505,003

Due to foreign banks	3,525,715,314,828	2,690,979,233,942
Items in transit	--,596,945,872,495	
Shareholders' Equity		
Capital	8,021,118,455,398	8,021,118,455,398
Reserves	502,158,959,754	632,598,602,599
Retained earnings/loss	346,216,590,750	497,373,469,259
Total before effects of below the line items	88,973,386,612,344	120,043,154,998,230
Customers' commitments re: L/Cs	3,724,123,506,546	5,417,996,165,237
Customers' commitments re: L/Gs	518,391,895,590	52,330,040,476
Other commitments	66,223,272,267,318	128,621,840,940,789
Administered funds and the like	7,536,352,141,793	10,460,193,793,970
Total	166,975,526,423,591	265,045,515,938,702

11.3.2. Some Solutions to Enhance BK Productivity

- Reformation of procedures and re-engineering of processes in credit affairs and services offering;
- More authorities vesting to branches management, provincial directorate and headquarters managers;
- Concluding an MOU between Ministry of Jihad-e-Agriculture and Bank Keshavarzi;
- Holding national branch managers conferences to convey the bank's policies;
- Moving toward e-banking via core banking project;
- Planning for establishing a quality control system in branches and headquarters departments;

11.3.3. Privatization (Cession of Companies and Operations)

In recent years, BK has taken some comprehensive actions to pursue transferring of affiliated companies. As a result, the bank incumbency in some companies has remarkably reduced. At the beginning of the 3rd FYDP, the number of affiliated companies was 52 (not listed), 8 of which were transferred during the third development plan, 2 companies were dissolved, and 2 were newly established. During 2005-2006, 5 companies were transferred and 3 dissolved. By March 20, 2006, 18 companies were under the accounts settlement and transferring process. Out of BK affiliated companies,

there are still only 18 companies which are also under study for accounts settlement and cession processes.

Moreover, in the early 2001, following the implementation of feasibility studies and comparative studies, the bank initiated vesting some of its operations to private sector based on government fundamental policies to hand over the affairs which are possible to be carried out by private sector, and also subject to section 4-1-16 of Strategic Reforms in Iran Banking System Plan (assignment of some operations to private sector) aimed at reducing the incumbency of the bank and eventually, providing optimal facilities and real-time conduct of tasks.

Operations and tasks vested to private sector include:

- Cession of BK affiliated companies to private sector;
- Tasks related to design, inspection, evaluation, and supervision of credit projects;
- Auditing affairs, supervision and internal auditing of the bank;
- Conducting various studies and research activities relevant to the bank's affairs;
- Conducting some affairs of studies and implementation of job classification plan and design of a software program regarding staff salary decrees;
- Some of staff training affairs to public and non-public scientific and training institutions and other authorized natural persons;
- Typewriting and operators affairs at headquarters and provincial directorates;
- Cleaning-up and public services at headquarters departments and some major provincial directorates;
- Inner-city commute services for headquarters staff and provincial directorates and as a result, selling the bank-owned cars already in use by some staff;
- Headquarters publication and printing-unit affairs;
- Partial assignment of publication affairs required in provincial directorates;
- The bank's vehicles repair affairs;
- Cleansing , re-counting , and changing of bank-notes band rolls;
- Sort-out, arrangement and registration of antique and precious books and documents existing in the bank library;
- Checks clearing services in Tehran and other provinces;
- Screening and selection affairs of the bank man power;

- Conduct of Branches Location Analysis Plan and locating affairs for new branches;
- Affairs and operations related to welfare and sporting centers and some social affairs such as sports complexes, restaurants, and day-care centers; health and medical affairs; staff pilgrimage travels and excursions;
- Preparation of consolidated balance sheet and transferring information of accounts vouchers and documents;
- Back-up and maintenance affairs of branches hardware systems;
- The whole measures required for expansion of e-banking services;
- Implementation and operating the computer programs of statistics and credit systems in the bank units;
- Advertisements and promotions; publication of magazines, posters, and different catalogues and brochures for the purpose of introducing the bank's diverse services to customers;
- Telephone-banking services plan and development of the plan to related branches;
- Risk management studies and researches;
- Holding seminars, conferences, forums, Qard-al-Hassanah prizes ceremonies, and the like;
- Photocopy affaires needed by departments at headquarters and as a result, economizing in purchase of stationeries and equipment required for conduct of such affairs;
- Partial assignment of dues collection affairs to natural and juridical persons;
- Assignment of auditing affairs of some units, which has seriously been put on the bank agenda to be extensively implemented throughout the bank units;
- Legal counseling affairs;
- Support and back-up affairs in providing statistics, controlling insurance policies, ... in 25 percent of central and main branches of each province;
- Conduct of feasibility studies regarding partial assignment of resources mobilization and offering banking services;
- Conduct of feasibility studies regarding the expansion of international corresponding relations and services.



Among the central units of the bank, assignment of a large portion of operations related to e-banking development department to private sector, aimed at optimal and appropriate conduct of related affairs using the facilities and capabilities of the private sector, is regarded one of the significant measures of the bank in terms of privatization.



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CHAPTER 12
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Chapter 12: Bank Keshavarzi and Social Responsibilities

12.1. Bank Keshavarzi and Women

Considered as half of the human capital of the society, not only are women the subject matter and target for any development measure, but also they are effective strengthening factors in achieving social and economic objectives. Thus, planning for active participation of such important human capital to have the society utilize their potentialities, on the one hand, paves the way to achieve social, cultural, and economic objectives, and on the other, would have positive effects on realizing fair distribution of income and enhancement of families' welfare.

Paying due care to the above and following its mission, BK has executed various plans and projects aimed at alleviating poverty; improving economic status; and offering more desirable services to women in terms of financial, credit, and banking affairs. The bank has also granted remarkable credit facilities through significant credit plans such as "Iran Plan", family-headed women support plan, titled "Hazrat Zaynab (PBUH) Plan", and establishment of rural women cooperatives. It should be noted that the three above-mentioned plans are exclusively developed for Iranian women. However, just like the male group, women utilize granted credit facilities through other economic plans, especially the sanitation and reconstruction plan of carpet weaving workshops, and the joint plan carried out by International Fund for Agricultural Development (IFAD) and Bank Keshavarzi.

Iran Plan has been implemented to encourage women to have a more active role and position in the national economy and to provide a proper basis for better and stable participation in different social, productive, and economic situations. The plan is also aimed at facilitating women's accessibility to banking services, removing existing barriers against their participation in depositing and saving activities, and providing both urban and rural depositors and account holders with especial advantages.

Opening Iran Qard-al-Hassanah savings accounts, in addition to enjoying other advantages of the project, women can utilize Qard-al-Hassanah facilities to meet their self-employment financial needs, to afford purchase of dowry and wedding expenses, to have academic education financial aids for them or their children, to be granted financial aids to buy computer equipment, and to be provided with house reconstruction financial aids, based on specific terms and conditions.

Some specifications of the plan, operative since 1999, are as follows:

- The plan includes all employed women or housewives across the nation, urban or rural;
- Opening Iran Qard-al-Hassanah savings accounts, women receive credit facilities according to the average turnover of their accounts balance;
- Women cooperatives operating based on Iran Plan are exempt from payment of commission fees for inter-branch money-order and drafts;
- Iran Plan savings account-holders have the chance of being presented annual Qard-al-Hassanah savings accounts prizes.

As mentioned earlier, another BK plan for women is grant of credit facilities to "Rural Women Cooperative Companies". The bank annually provides these cooperatives with financial facilities out of credit resources allocated based on article 3 of the national budget act. The facilities can be granted to finance the required working capital of the companies. Supplementary information on Iran Plan and Family-headed Women Support Plan has been supplied in other sections of the report.

12.2. The Youth and Kids Bank

In 2000, the bank approved establishment of the Youth and Kids Bank with the purpose of familiarizing them with modern banking services. From October 2002, BK laid the groundwork for operation and development of the bank in Tehran (phase one) and major branches in provincial directorate (phase 2).

In 2003, the typical branch of the plan was inaugurated in Tehran and initiated serving the youth and kids. To achieve the objectives of the plan (following the inauguration of The Youth and Kids Bank, the bank included the following advantages for the above age group:

- Opening accounts by parents for the youth and kids under 15 years of age;
- Opening accounts and withdrawing funds by the youth over 15 years old in their parents absence;
- Advantage to participate in savings accounts lottery twice a year (i.e. general lottery for all BK accounts and Kids Day Festival on October the 8th);

- Priority in receiving credit facilities as they turn 18 (legal age);
- Exemption from payment of expenses and commission fees of inner-city and inter-city money orders.
- Opening Atieh Investment Deposit Accounts and being provided with advantages of such account.

To make a multitude of 30 million teenagers and kids bankable, BK has been regarded the first founder of the youth and kids bank. The bank takes it as a part of its social mission to make kids familiar with economic operations and banking services and thus, deems it necessary to make investments for them, as prospective customers of the bank. To this end, The Youth and Kids Bank has been established and developed with the major objective of making them bankable in the long run, aiming at training, disseminating the savings culture to secure their future. During 2005-2006, special windows of The Youth and Kids Bank could nearly be found in every BK branch.

12.3. Bank Keshavarzi and Young Adults

Man power and proper programming to make better use of young adults' role are considered as important factors of development and growth. In addition, developing man power and increasing employment levels are also significant indicators of economic development and growth. Accordingly, BK, as an organization financing a remarkable portion of credit facilities required for production and service units as well as the agriculture sector, has given special priority to young adults, agriculture graduates and young entrepreneurs aimed at realizing the government's economic objectives and expansion of investment in the sector.

12.3.1. Young Adults National Card

Following the approval of Young Adults National Card (YANC) Plan in 2003 by the board of government, a three-fold MOU was concluded involving BK, Young Adults National Organization and a private institute to provide 200,000 young adult university students, aged 15 to 29, with YANCs and financial facilities at the initial stage of the pilot plan in Tehran Province.

Based on the MOU, Young Adults National Organization was designated to operate as the policy maker and supervisor on good performance of the plan; BK as the card issuer, switching point, provider of financial services, and supervisor on good performance of the plan financial operations; and the private institute as the administrator and provider of services and facilities to card holders.

At the 1st stage, YANCs were issued for students of prominent universities in Tehran. The cards, valid for one year, are just issued upon presenting valid university ID cards. YANCs are multi-purposes with two capacities, i.e. smart magnetic cards for cash withdrawals from ATMs and an especial e-wallet. By March 20, 2006, over 75322 cards were issued and delivered to the target group. The cards may be used in over 500 BK ATMs and 4340 ATMs of SHETAB banking network.

Facilities and applications of YANCs are as follows:

- Accidents insurance coverage up to Rls. 6 million for card-holders;
- A one-million-Rial loan bearing commission fees at 4 percent, being granted 3 months after issuance of the card;
- Discounts on purchases (10-30 percent) from entities in contract with the bank in Tehran Province;
- Obtaining Mehr Credit Cards (with Rls. 3 million credit ceiling) having special time conditions;
- Use of YANCs as debit cards in all BK and SHETAB points of sale (POS).

12.3.2. Sponsoring National Science Olympiads

Sponsoring Science National Science Olympiads of University Students aiming at advocating those students active in scientific and technological innovations, helping flourish talented students, enhancing the science and specialty levels of the country, and preventing brain-drain phenomena, BK has been offering financial aids to top students of the Olympiads (ranking first to third) majoring for M.A., M.S. and PhD degrees.

To this end, and based on an MOU involving National Educational Evaluation Organization and Bank Keshavarzi, at postgraduate level, the first top students are provided with Rls. one million financial aids per month, the second-ranked students are

granted Rls. 750 thousand, the third top students with Rls. 500 thousand, and PhD students are granted financial aids amounting to Rls. 2 million.

12.3.3. Supporting Young Inventors

In addition to supporting different young groups, BK has taken actions to advocate young entrepreneurs and inventors and is studying the development of some programs to sponsor and contribute to different groups of students.

Accordingly, in collaboration with Sharif University authorities, the first to third-ranked in 2005-2006 universities admission exam, and the top students of Science Olympiads were honored and presented with BK Mehr Cards.

12.3.4. Agriculture Graduates Employment Plan

To manage and control employment crisis and to extensively advocate the agriculture sector, BK has furnished agriculture graduates with special credit facilities amounting to Rls. 1000 billion, funded from the bank's internal resources since 2001.

In this regard, all unemployed graduates majored in agriculture, having at least undergraduate degrees, and those graduated in veterinary and natural resources majors may be granted credit facilities upon proposal of a project in agriculture, agro-industry and agricultural services as well as presentation of required documents. The ceiling for the credit is Rls. 300 million, which is paid under guarantee. The amount and requirements are determined in a way that the earned income can properly make a living for the applicants and assure job satisfaction for projects executives, i.e. the educated young adults.

The funds granted through the plan are mostly invested on agriculture sub-sectors, such as horticulture and farming, animal husbandry, poultry breeding, aquaculture and associated industries. In this regard, the relative value of absorbed resources in horticulture and farming is more than those of other sub-sectors.

12.4. Bank Keshavarzi and Vulnerable Classes of Society

12.4.1. Family-headed Women Support Plan

To provide means of employment for rural family-headed women and increasing their production capacity as well as having a special support on this vulnerable class of society through financing agricultural crops production, and eventually aiming at poverty alleviation, BK has executed Zaynab Kobra (PBUH) Plan since 1994. The plan has paved the way and laid the groundwork for optimal employment of rural women labor force and development of agriculture in rural areas. The credit ceiling for each person is Rls. 5 million, which is granted through Qard-al-Hassanah contracts, to start operations in activities such as handicrafts, farming, animal husbandry, and any other activities conventional in rural areas. The maximum BK credit allocated to applicants is Rls. 200 billion, funded out of the bank's internal resources. From the outset of the plan to March 20, 2006, some 76537 family-headed women received credit facilities, amounting to Rls. 180.9 billion, for their activities including farming, horticulture, animal husbandry, carpet weaving, handicrafts, sewing, and knitting.

12.4.2. Released Prisoners Employment Plan

To provide employment for released prisoners, under supporting cover of Prison, Security and Penitentiary Organization (PSPO), whose qualifications and capabilities to have sustainable and healthy jobs are certified, BK initiated allocation of credit facilities to conduct of SMEs and self-employment plans with priority on generating productive jobs. By March 20, 2006, PSPO deposited the total amount of Rls. 145.5 billion with the bank, subject to article 11 of 2000, 2001, 2002, 2003, and 2004 budget acts and article 2 of 2005 act. Adding equal amount of credit, the bank provided 21029 released prisoners with credit facilities to the value of Rls. 231.1 billion, out of which Rls. 121.6 billion was calculated as PSPO's share and Rls. 115.5 billion as the bank's share. The approved credit ceiling for creation of a job is Rls. 50 million with a seven-year repayment period at most.

12.4.3. Payment of Blood Money Owed by Insolvent Convicts

In 2001, to help release of prisoners, unable to pay their victims' blood money, and to contribute their families, the bank concluded an MOU with Ministry of Justice. Based on the agreement, the ministry undertook to provide the bank with funds out of its financial resources, as administered funds so that the bank would be able to pay for the blood money owed by the convicts, who have been introduced by Provincial Loan Committee and are able to repay the whole or part of their debts (if being supplied loans), under rules and regulations declared by the ministry. Based on the concluded MOU, the following is applicable:

- The committee introduces the qualified individual to the bank in a written request;
- The credit ceiling and repayment period are determined by the committee;
- Facilities are granted as Qard-al-Hassanah (interest-free) loans; and
- Type and amount of collaterals are determined and received by the bank.

In this regard, the total credit facilities advised by March 20, 2006, amounted to Rls. 78.2 billion, out of which Rls. 47.1 billion (60 percent of the total advised facilities) was granted to 991 prisoners.

12.4.4. Qard-al-Hassanah Fund for Rural Employment Development

Subject to clause D of Article 137 in the 3rd FYDP, the articles of Association of Qard-al-Hassanah Fund for Rural Employment Development were approved by the board of Ministers on January 12, 2001, aimed at disbursing Qard-al-Hassanah credit facilities to natural persons to create, expand, and stabilize sustainable productive jobs in rural areas (especially the underdeveloped ones). Out of Rls. 64.1 billion advised credit facilities, Rls. 252.3 billion (about 69.3 percent) was approved and then disbursed.

12.5. Bank Keshavarzi and Universities

12.5.1. Sponsoring Scientific Societies, Seminars, and Conferences

Aiming at supporting universities intellectuals and sponsoring scientific societies and academic events, BK has always endeavored to side with the elite class of society and

have an active participation in scientific and cultural events as a sponsor. Accordingly, during 2005-2006, the bank took part in the following scientific events:

- Conference on Banking System Achievements;
- Pistachio and Dried Fruits Symposium;
- E-commerce Conference;
- The 1st National Conference on Forage Plants;
- The 5th International Conference of Asia Agricultural Economy Association;
- The 3rd International Conference on Management;
- Livestock and Agricultural Crops Insurance Conference;
- The 4th Biennial Conference on Islamic Economy;
- The 4th Conference on Investment Advisors of Banking and Financial System;
- National Conference on Irrigation and Drainage Networks;
- The 3rd Conference on E-commerce (Development , Straits, and Strategies);
- The 4th International Symposium on Pistachio and Almond;
- Seminar on Micro Credit, Rural Development and Poverty Alleviation;
- The 5th National-Cultural Festival of Women and Rural Areas;
- The 2nd Festival of Servicing and Accountability;
- The Great Festival of The Youth, Kids and Environment.

12.6. Bank Keshavarzi and Sporting Activities

BK has always encouraged its staff on sports activities to have highly spirited and motivated personnel. Athletic spirit and sporting activities make staff work diligently and have better interaction with the bank's customers. The bank also advocates national sports champions and appreciate their efforts. Thus, it holds inner-organizational, inter-organizational and national sports contests, some of which are as follows:

- Track and Field Mehr Cup: To engage in activities in accordance with its excellence objectives and to develop sporting attitude among rural youngsters, the bank held Rural Track and Field Cup, known as Mehr Cup, for the age group of adults on May 6, 2005 for the first time in the country. The tournament was held in four stages and 4 events, namely 100 meter and 3000 meter running races, shot put, and long jump. The 1st stage began on May 6 in all rural areas of the country. On May 13, 2005, the

2nd stage of contest was held in towns and then in provinces on May 20, 2005. The final competition was performed concurrent with one of the soccer matches of the national premier league in Azadi Sports Complex in Tehran in June 2005. As the pioneer of holding such sports contests, BK awarded the top three winners of each event.

- Honoring the national U-18 volleyball team and women climbers of Mount Everest.
- The 4th BK Women Staff Cup including events in volleyball, chess, table tennis, and physical fitness.
- The 13th BK Men Staff Cup in volleyball, soccer, chess, table tennis, track and field, clay court tennis, and badminton.
- The Four-fold Tournament on the anniversary of BK establishment with 4 teams from Bank Keshavarzi, Bank Saderat, CBI, and Ministry of Jihad-e Agriculture including events in volleyball, chess, and table tennis (men and women).
- Sports Camps for managers' families and handicapped children of staff.
- Participation in Iranian Banks Olympiads, in which BK won the 2nd place for the first time since the start of its sporting activities.
- BK Ramadan Cup and Fadjr Cup for men and women in volleyball, chess, futsal, table tennis, and physical fitness.
- Holding morning aerobics and sports training courses.

12.7. Bank Keshavarzi and Environment

To achieve sustainable development and safeguard environment, including water resources, soil, air, forests, rangelands, and other natural resources, the bank offers considerable credit facilities in terms of environment sustainability. The following actions are to be noted:

12.7.1. Electrifying Agricultural Wells

Subject to clauses (a), (c), and (e) of article 27 in 1999, 2000, and 2001 budget acts and clauses (b), (b-1), and (c) of article 12 in 2002, 2003, and 2004 budget acts, aimed at reducing consumption of oil products, preventing environmental pollution, and economizing foreign currencies expenditures, and according to the laws on acceleration of electrifying agricultural wells enacted by the parliament on June 9, 1999, the bank

approved allocation of some credit facilities, as much as Rls. 2348.3 billion, to equip 48319 water wells by March 20, 2006. As a result, by March 20, 2006, 45964 projects, worth Rls. 2224.98 billion, were executed and the rest are in progress. Electrifying agricultural wells has been implemented to reduce consumption of oil products; to prevent leakage and spread of gas oil into environment, as well as preventing sound pollution, earth layers compression, and ground subsiding resulted from irregular and illegal water consumption from underground water resources.

12.7.2. Tooba Plan

The plan was developed, in collaboration with Ministry of Jihad-e-Agriculture, in the early 1999, aimed at providing required funds for proper use of water and soil resources, preventing depletion of natural resources, producing dried fruits and development of olive planting, which can create opportunities for job generation, decrease in olive oil import and promotion of dried fruits export. From the outset of the project, in accordance with article 5 in budget acts of 1999, 2000, and 2001 as well as article 20 in 2002, 2003, and 2004 budget acts, 56949 projects were implemented across 214 thousand hectares. Banking facilities and government subsidies, granted to these projects, amounted to Rls. 945.34 billion and Rls. 704.8 billion respectively, Rls. 1650.14 billion in total.

12.7.3. Water and Soil Projects

Because of restriction and stagnation of water resources and agricultural lands, the only best way to develop the sector is the increase in the productivity of the resources. To this end, BK has been trying to have active participation in projects related to water and soil such as dam building, flood gates, aquifer, etc.

12.7.4. Pressurized Irrigation Development Plan

The plan was carried out aimed at optimization of irrigation methods and management of water distribution. As regards geographical status of the country, recent droughts and the necessity to optimally use water resources, as the most significant restricting factor in the sector, Rls. 607.5 billion was allotted to development of pressurized irrigation based on an agreement between the bank and the Ministry of Jihad-

e-Agriculture and article 3 in 2002 budget act. By March 20, 2006, Rls. 593.8 billion was contracted to be granted to 3626 projects in an area of about 54000 hectares.

To achieve the above objectives, another consolidated credit, worth Rls. 555.4 billion, was allotted to implement capital projects of pressurized irrigation based on clause (h) of article 3 in 2003, and 2004 budget acts, so that, by March 20, 2006, some Rls. 364.9 billion was directed to provincial directorates in different stages and Rls. 356.9 billion was contracted.

In addition to the above-mentioned credit, through a three-fold agreement involving Management and Planning Organization, Ministry of Jihad-e-Agriculture, and Bank Keshavarzi, subsidized credit facilities to the value of about Rls. 970 billion were allocated to pressurized irrigation projects funded from credit resources mentioned in clause (h) of article 3 of 2004 budget act regarding technical and credit aids. Moreover, some subsidized credit facilities, worth Rls.217.7 billion, regarding technical and credit aids stated in 2005 budget act, were allotted to pressurized projects and by March 20, 2006, Rls. 471.3 billion was contracted.



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Chapter 13: Major BK Associated Entities

13.1. Relief Fund for Damaged-incurred Producers of Livestock and Agricultural Crops

In line with providing facilities for sustainability of production activities subject to the Revolutionary Council's approval dated December 28, 1989, the fund was established to help livestock breeders and crops producers, who suffer from damage-incurring natural hazards and unpredictable incidents. Operations in agriculture sector are exposed to various forms of damage and loss resulted from natural hazards. Up until the spread of crop insurance all across the nation, the continuation of the fund's operation to advocate damaged-incurred producers is essential. Accordingly, and especially in recent years, in which agricultural sector has been exposed to loss and damage resulted from drought, some portions of the incurred loss have been compensated through the fund.

Based on the estimation surveys of Loss Evaluation Committees, composed of BK and Ministry of Jihad-e-Agriculture and local government offices, conducted in towns and provinces, the level of damage imposed on crops and livestock and factors of production, mainly due to flood and heavy rainfalls, reached over Rls. 20 billion in 2004-2005 crop year, depicting a 50 percent decrease, as compared with that of 2003-2004 crop year.

Total Credit facilities allocated to the fund in 2005 amounted to Rls. 470 billion, out of resources stated in article 10 of Adjustment Act of government financial regulations, enacted in 2001 to compensate the incurred damage to farmers, livestock breeders, aquaculture farmers, nomads, and vegetable growers, and Rls. 189 billion was funded from the resources allocated in the bill passed by Government Expediency Council to compensate the loss resulted from frostbite and other hazards. The total credit of the fund, in 2005-2006, equaled Rls. 659 billion, about 99.42 percent of which was paid to 325095 crop farmers, livestock operatives, and vegetable growers, incurring damage due to natural disasters, showing a 3.88 percent growth in terms of value and a 46 percent decrease in terms of number, in comparison with damage level in 2004-2005. The reasons of such a decrease in the number of contribution receivers are known to be the rise in the ceiling of aids granted to individual aids up to Rls. 5 million based on the amendment to Article 10 of Adjustment Act for government financial regulations, the

increase in special credit for vegetable growers up to Rls. 32 million, and quality improvement of credit facilities disbursed to individuals.

In 2005-2006, nearly 61 percent of total granted credit facilities pertained to the damage incurred due to frostbite and remaining frost of the previous year and the period of March to April 2005, and 22 percent was associated with compensating the loss incurred by the vegetable growers to prevent spread of epidemic cholera.

As regards the fund's policies and its current and long-term strategies, out of total credit of the fund in the reported year (except the credit intended for vegetable growers), 49 percent was granted to 93063 persons mainly to implement collective projects for purposes such as reconstruction, repair, and revival of subterranean canals, springs, floodgates; excavation and equipment of farming wells; building water canals; construction of water reservoirs and embankment dams; as well as purchasing and installing electric pumps in order to sustain production infrastructure of rural areas leading to sustained agricultural operations, prevention of migration to urban areas and employment stability.

Table 46: Number and Amount of Indemnities Paid by Relief Fund from 2004 to the Early 2006

Year	Number	Amount (billion Rials)
2004-2005	604198	630
2005-2006	325095	655.2
Difference (%)	- 46	3.88

13.2. Livestock and Agricultural Crops Insurance Fund

Livestock and Agricultural Crops Insurance Fund (LACIF) began its operation in September 1983 following the law enacted by the Islamic Council Parliament in the same year. During its 20 years of operation, the fund, through executing its support policies aimed at enhancing production yields and more qualified management of production units, has caused elevation of the farmers' and livestock breeders' income, and has also been playing an important role as a strong backbone for their peace of mind.

The major task of the insurance fund is advocate production of different sectors and sub-sectors including crop farming; horticulture; aquaculture; livestock raising as well as poultry, honeybees, and silk worm farming. In addition to increasing insurance capital in

recent years, the fund has also taken the following steps to strengthen the role of insurance in supporting the agriculture sector:

- Extension of insurance to investments and production factors;
- Diversification of insurance products and tariff;
- Diversification and privatization of brokerage activities;
- Collaboration with other insurance and reinsurance companies;
- Insurance of breeding one-day broilers in the country;
- Extension of drought insurance coverage, damage compensation, indemnity payment and participation in struggle against unexpected disasters;
- Price and income insurance.

The summary of LACIF's performance in two crop years, i.e. 2003-2004 and 2004-2005, are as follows:

Table 47: LACIF's Performance in 2003-2004 and 2004-2005 Crop Years

Item	2003-2004	2004-2005
Crop farming insurance (hectares)	5130480	5396349
Horticulture insurance (hectares)	210312	315962
Livestock insurance (heads)	6381231	9094805
Poultry insurance (pieces)	289694696	375756467
Aquaculture insurance (hectares)	34230229	74718136
Silk worm insurance (boxes)	5474	10614
Natural resources (hectares)	2412179	2609301
Total indemnities paid	1701339	2505490
Premium received (Million Rials)	1264221	1445274
No. of the insured (persons)	1203517	1552082
No. of insured products & activities	65	75
No. of Tariffs	704	599

13.3. Farmland Reclamation and Development Company (Land Bank)

Through a direct investment contract in 1992, BK established Farmland Reclamation and Development Company (Land Bank), by means of which a portion of public deposits with the bank was accurately utilized aimed at agricultural development. Land reclamation and development operation are performed through:

- acquiring areas of reclaimable land through purchase, rent, or other modes;

- conducting comprehensive and detailed evaluation studies with an emphasis on establishment of an optimal utilization system;
- design of executable projects such as water supply plans, equipment and renovation of farmlands (leveling, irrigation networking, drainage, inter-farm tracks, etc.), and establishment of general installations;
- construction of livestock raising, glasshouse, and fishery complexes;
- establishing processing and supplementary industries on transferred lands, and then
- ceding pieces of reclaimed land and constructed complexes to natural and juridical persons, in cash or installment, proportioned to production yield and financial terms and conditions, according to policies of the agriculture sector.

The operations of Land Bank, from the beginning to March 20, 2006, include identification, study, and performance of executive operations on reclaimable land pieces in different areas of the country.

To achieve the objectives, the company has so far transferred totally over 12000 hectares of reclaimed lands to farmers and local residents in different provinces (1200 hectares in Ilam, 3000 hectares in Kerman, 2100 hectares in Fars, 3300 hectares in Sistan and Baluchistan, 600 hectares in Isfahan, 1700 hectares in East Azerbaijan, and 120 hectares in Gilan). Moreover, some 2500 hectares are being prepared and about to be transferred.

In addition, through coordination made between provincial organizations of Jihad-e-Agriculture and Land Bank and concluded agreements, in 113 towns within 27 provinces, about 225 projects have been identified across 114860 hectares. The projects are to be implemented following the conduct of required studies, transfer of land pieces, and supply of required financial resources. The projects include 84 glasshouse complexes across 4608.6 hectares, 59 livestock raising units across 4324.4 hectares, 9 aquaculture complexes across 11349 hectares, and 72 land reclamation and development plans (crop farming and horticulture) across 94576 hectares.

13.4. Bank Keshavarzi Stock Brokerage Firm

Bank Keshavarzi Stock Brokerage Firm (a closely-held company) was registered at Tehran Ownership and Company Registration Department, numbered 103697, on March 12, 1993. The objectives, according to its articles of association, are as follows: subscribing securities, trading listed securities, managing investments on behalf of individuals, offering counseling services, and offering advisory services to investors in terms of financial management and systems. Major operations of the company include:

13.4.1. Investment and brokerage services

Trading securities listed in Stock Exchange as individuals' agent or on its own account and subscription of listed securities.

13.4.2. Financial services

Conducting financial, economic, and investment studies, and offering counseling services to investors and advisory services in terms of financial management and systems.

13.4.3. Financial affairs

Expressing financially specialized views on analysis statements of organizations resources and expenditures on a periodical basis along with the final approval of financial documents, supervising good performance of organizations' accounting and financial affairs and managing investment affairs as representatives of individuals.

13.5. Stock Exchange Structure

Stock exchange is founded by the private sector and operates under a supervisory body, whose policies are determined and enforced by the highest relevant governmental authorities. The clearing house, in charge of guarantee and settlement of contracts, is considered the most significant component of the stock exchange. In addition, internal auditing unit (as one of inner departments of the stock exchange), and board of inspectors and arbitrators are regarded the major parts of stock exchange structure.

13.6. Groups Benefiting from Stock Exchange

Utilizing the stock exchange is not monopolized by any special group and all qualified and engaged groups and individuals may directly or indirectly benefit from stock exchange services.

13.6.1. Social groups operating in stock exchange are as follows:

- Producers,
- Brokers,
- Owners of processing industries,
- Businesspersons,
- Guaranteed dealers,
- Business intermediaries, and
- Market-makers,
- And all natural and juridical persons willing to employ their savings in the market.

13.6.2. The most significant projects in the pipeline or under study are as follows:

- Culture formation and familiarizing agricultural operatives with the concept of stock exchange and its functions,
- Striving on expansion of agricultural stock exchange across the nation (geographical spread) and paving the way for participation of all end-users via BK branches networks,
- Sharing the stock exchange advantages among all layers of market operatives, and major players of the production, distribution and consumption fields, as well as realization of prime objectives of agricultural stock exchange,
- Granting lines of credit to brokers aimed at conducting renewal measures in the stock exchange,
- Striving to spread stock exchange concepts and admission of products of other agricultural sub-sectors in the stock exchange,
- Developing variety of micro credit methods for small beneficiaries and providing facilities for participation of this multi-million class of society of the agriculture sector by means of various instruments and derivatives such as converting credit forward contracts into stock exchange transactions, and
- Encouraging the bank's customers, active in stock commodities transactions, to invest in stock exchange, and furnishing them with special bonuses and advantages.