

### The Bank of Khyber

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#### Brief History

The Bank of Khyber (BoK) was established in 1991 as a provincial commercial bank through an act of the North West Frontier Province (NWFP) Assembly. BoK reached scheduled bank status in 1994. The provincial government is its major shareholder, holding 87% of the capital. It has a network of 29 branches serving more than 100,000 account holders. BoK's microfinance operations started in 1995, aimed at the provision of microcredit to small and medium enterprises. In 1997 BoK extended its operations to rural areas, providing smaller loans to micro-enterprises and individual clients through its cooperation with NGOs and Rural Support Programs (RSP). In 1999 BoK created its Microfinance Unit as a separate profit centre, developing specific products and BoK knowledge of microfinance practices. BoK is the first formal and structured initiative by a commercial bank in Pakistan to broaden its client base and reach the micro-enterprise market.

#### Methodology

BOK provides microcredit services through its branch network where credit officer of the microfinance unit are based. BoK adopts a four-pronged strategy in its lending methodology:

1. Direct lending to individual micro-entrepreneurs
2. Group lending through facilitators in rural areas
3. Lending through business clusters in urban centers and small towns
4. Wholesaling of funds to facilitators (NGOs, RSPs) for on-lending in rural areas

BoK is currently a partner to an ADB project, lending to NGOs in Malakand region.

#### Area of Operations

The Bank of Khyber operates mainly in the North West Frontier Province (NWFP) of Pakistan in both rural and urban settings, and is headquartered in Peshawar. The NWFP constitutes 9.6% of Pakistan's land mass and accounts for 13.6% of its population. It is an agriculture-based economy with almost 62% of the population considered poor.

#### Clients

As of December 2003, BoK has disbursed total Rs.900 million to approximately 18,000 microfinance clients with an average loan size of Rs.33,000 per client. These clients are typically individuals or members of informal groups, with low incomes and few assets. BOK reports that almost 15% of its active clients are women.

Active clients	Active savers	Active borrowers	Gender
8,650	-	8,650	15% women

As of 31 December 2003

**Poverty focus**

BoK targets low-income clients with very little assets.

Average outstanding loan size (US\$)	Average outstanding loan size / GNP per capita	Average deposit size (US\$)
US\$841	201%	-

As of 31 December 2003

**Distinctive features**

BoK is able to provide microfinance services to clients with no previous banking history. For microfinance services, BoK does not require physical collateral.

**Innovations**

The Bank of Khyber has hired highly experienced staff from the development sector. In this way it has pooled local knowledge resources to maximize its efficiency in the NWFP.

**Financial Results**

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits	OSS / FSS	RoE / RoA
4,400,000	47.4%	-	76%	- 256% / -3.9%

As of 31 December 2003

**Challenges and development plans**

Providing microfinance services through a commercial banking structure, not adapted to service grassroots clients, BoK has to cover the high costs associated with its lending methodology. In addition, BoK has a limited outreach in microfinance, particularly amongst women. BoK is restricted by its practice of lending through branches, but is planning to implement mobile banking methodologies.

**Inclusion in the financial sector**

The Bank of Khyber is a commercial bank, based in Peshawar (NSWP), regulated by the State Bank of Pakistan.

**Sources**

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