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CORPORATE GOVERNANCE PRACTICES IN FIRST PRIVATE BANK

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CORPORATE GOVERNANCE PRACTICES IN FIRST PRIVATE BANK

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ABSTRACT

The study aligned with the objectives of the study are to identify corporate governance structure of First Private Bank (FPB) and to examine the corporate governance practices of FPB. To support this study, the required data was collected from interview. For interview, 83 questionnaires were prepared in accordance with 13 principles of Basel Committee on Bank Supervision 2015. The questionnaire is constructed into five sections for analysis. FPB does not follow corporate governance principles of either Organization for Economic Co-operation and Development (OECD) or Basel Committee. FPB does not have corporate culture and values creation and establish the Audit Committee which is to govern the organization. FPB does not appoint the Chief Risk Officer (CRO) to oversee all kinds of risks. According to the result of the study, FPB should establish Audit Committee, create corporate culture and values, and appoint CRO for better corporate governance. The board members should have more diversity to cover the different aspects for sound corporate governance. FPB should have corporate governance report in its annual report for better disclosure and transparency to public and investors. The national corporate governance codes and principles should be developed for businesses in Myanmar by government and regulators.

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LIST OF ABBREVIATIONS

AGM	Annual General Meeting
CBM	Central Bank of Myanmar
CEO	Chief Executive Officer
CRO	Chief Risk Officer
FMI	First Myanmar Investment
FPB	First Private Bank
MAC	Myanmar Accountancy Council
MCA	Myanmar Companies Act
MCB	Myanmar Citizens Bank
MCRB	Myanmar Centre for Responsible Business
MEB	Myanmar Economic Bank
MFRS	Myanmar Financial Reporting Standards
MIoD	Myanmar Institute of Directors
MSEC	Myanmar Security Exchange Centre
OECD	Organization for Economic Co-operation and Development
RAS	Risk Appetite Statement
SECM	Securities and Exchange Commission of Myanmar
TiME	Transparency in Myanmar Enterprises
YSX	Yangon Stock Exchange

CHAPTER I

INTRODUCTION

The appearance of the theme of governance is assigned to the debate opened by Berle and Means by writing and publishing The Modern Corporation and Private Property book in 1932 after the 1929 crisis, the Great Depression.

Financial Institution in Myanmar had been redeveloped and evolved about a decade. Many new local banks established after being awarded the local private bank license from the Central Bank of Myanmar (CBM) along with some foreign representative banks around the world. As banking sector grows, the game has been changed to very competitive among local private and public listed banks on Yangon Stock Exchange (YSX). CBM stated that every bank operating in Myanmar will require the good practice of Corporate Governance as mandatory for sustainability and financial failures.

The experience of business failure, financial scandals and unethical behavior of executives around the world brought about the necessity for good governance practices. Firms, board members and executives have been subject to criminal and civil actions for a high incidence of non-performing loans, weak management and poor credit policy. Developed countries like The United States of American, Canada, Germany, France, England and developing country like Myanmar all witnessed financial failures in 2003.

The banking industry occupies a central position in the stability of the nation's economy. It plays vital roles on fund mobilization, credit allocation, payment and settlement system as well as monetary policy implementation. Management is expected to show good corporate governance structure and practices to ensure achievement of it objectives and avoid the consequences of failure leading to loss of confidence (Fatimoh, 2012). So a discussion on corporate governance of bank needs special attention. And good corporate governance structure and practices should follow among public listed banks on Yangon Stock Exchange (YSX) as one of the bank standards in Myanmar to avoid financial failure and scandals in Myanmar.

This study seeks to explore why the good corporate governance structure is important for banks. Based on relevant questionnaire and findings, this paper contributes to the corporate governance structure in Myanmar by examining the structure and current corporate governance practices of First Private Bank (FPB).

Corporate governance is the system of rules, practices and processes by that an organization is managed and controlled (Cadbury, 2002). Corporate governance primarily involves equalization the interests of a company's stakeholders, like shareholders, management, customers, suppliers, financiers, government and also the community (Al-Hawary, 2011).

The definition of corporate governance differs depending on one's view of the world. From a board perspective (Shleifer & Vishny, 1997) define corporate governance as the ways in which suppliers of finance on corporations assure themselves of getting a return on their investment. Corporate governance is the system of laws, rules and factors that control operations at a company (Gillian & Starks, 2003).

This chapter begins with an introduction. Followed by rationale of study, the objectives of study, scope and method of study and organization of study.

1.1 Rationale of Study

Corporate governance had been developed over many decades in the world. However it is very new to organizations in Myanmar. There are a few local organizations which apply corporate governance principles and practices in Myanmar. Banking industry is vital role of a country's economy. So banks are suggested to comply the corporate governance principles according to Basel Committee on Banking Supervision (2015).

Effective corporate governance is crucial to the right functioning of the banking sector and the economy as a full. Banks serve an important role within the economy by intermediating funds from savers and depositors to activities that support enterprise and facilitate drive economic process. Banks' safety and soundness are key to monetary stability, and also the manner within which they conduct their business, therefore, is central to economic health. Governance weaknesses at banks that play a major role within the monetary system may end up within the transmission of issues across the banking sector and also the economy as a whole.

However, if bank managers face sound governance mechanisms, they will be more likely to allocate capital with efficiency and use effective corporate governance over the firms they fund. In contrast, if banks managers enjoy huge decision to act in their own interests rather than in the interests of shareholders and debt holders, then banks will be correspondingly less likely to allot society's savings with efficiency and use sound governance over firms.

The impact of good governance on a firm's reputation cannot be over emphasized. Good corporate governance promotes goodwill and confidence in the financial system. Recent studies from academic researches shows that good corporate governance lead to increased valuation, higher profit, higher sales growth and lower capital expenditure (Walfgang, 2007).

Banks play a critical role in Myanmar economy, as the dominant financier for the industrial and commercial activities. In Myanmar as of 2018 December, out of the 41 banks operating in Myanmar, seven belong to the government, twenty-one are local private and public and thirteen are foreign owned banks. There are five public listed companies on YSX. Among them Myanmar Citizens Bank (MCB) and First Private Bank (FPB) are from Banking. The reason for choosing FPB for this study is long term established bank with good reputation in Myanmar to deep dive into its corporate governance practices.

Despite the expansion, the operational efficiency of the banking institutions has continued to be dismal. The sector witnessed decreasing profitability, increasing non-performing assets, provision and capital shortfalls, eroded credit discipline, rampant corruption supported by political person, low recovery rate, inferior asset quality, managerial weaknesses, excessive interference from government and owners, weak regulatory and supervisory role etc. (Hassan, 1994) Internal control system along with accounting and audit qualities are believed to have been substandard. Many of the problems have been attributed to lack of sound corporate governance among the banks (World Bank, 2013). Central Bank of Myanmar issued the bank licenses to operate in Myanmar Banking Sector. Along with new banks establishment, good corporate governance structure and practices should be DNA of local banks standard.

1.2 Objectives of Study

The objectives of this study are:

a). To identify the corporate governance organization structure in First Private Bank

b). To examine the corporate governance practices in First Private Bank

1.3 Scope and Method of Study

This study selected one of public listed banks on YSX which is FPB. The study targeted to analyze the current corporate governance structure and practices in FPB. In order to analyze, the descriptive method is used to describe based on primary data from interview and secondary information from references.

Primary data is collected from interview questions which are answered by responsible person from First Private Bank. The questionnaires consist 5 sections: corporate governance practices of FPB; management and the board responsibilities; roles of shareholders and stakeholders; audit and monitoring function; and risk management, transparency and disclosure. Secondary information is collected from Yangon Stock Exchange (YSX), FPB's annual report, references, relevant books, previous thesis papers and websites. Both primary and secondary data were analyzed to find out any outcome(s) which might be revealed to the objectives of the study.

1.4 Organization of Study

This study is organized with five chapters. Chapter I is introduction of the thesis which involves rationale of study, objectives of study, scope and method of the study. In chapter II, the theoretical background, fundamental and principles of corporate governance in banks. Chapter III examines on the current corporate governance structure of FPB. Chapter IV includes the analysis of corporate governance practices in FPB based on primary data from face to face interview and secondary information. Final chapter V presents the conclusion, findings, suggestions, and needs for further study.

CHAPTER II

THEORECTICAL BACKGROUND

This chapter aims to contribute this study which includes the definition of corporate governance, the need for good corporate governance, good corporate governance practices of Global/Asia/Myanmar, and discuss about corporate governance principles in banking based on Basel Committee on Banking Supervision (Basel Committee, 2015).

2.1 Definition of Corporate Governance

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. (OECD, 2015)

There is a very wide literature on corporate governance. Research has been done both in theory and empirical issues. But, why has it become such a hot topic in the last decade so as to attract all this unprecedented interest? According to Becht et al. (2002), we can find the explanation to this on a set of phenomena, such as: (1) the privatization wave that spread all over the world during the past two decades, (2) the pension fund reform and the growth of private savings that meant increased investor activism, (3) the takeover wave of the 1980s in the U.S. and the 1990s in Europe, (4) the deregulation and integration of financial markets, and finally, (5) the recent scandals and failures that took place in some of the largest U.S. firms in the past years.

Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management, including how they: set the bank's strategy and objectives, select and oversee personnel, operate the bank's business on a day-to-day basis, protect the interests of depositors, meet shareholders obligations, and take into account the interests of other recognized stakeholders, align corporate culture, corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations and establish control functions (Basel, 2015).

2.2 The Need for Good Corporate Governance

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and increased benefits to stakeholders. The transparency, accountability and probity of organizations make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation.

The global corporate governance forum notes in its mission statement that Corporate Governance has become an issue of worldwide importance. The Corporation has a vital role in promoting economic development and social progress. It is the engine of growth internationally and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest and governance has thereby come to the head of the international agenda.

2.3 Principles of Good Corporate Governance

Corporate Governance seeks to find the appropriate mechanisms for governing the relationships of constituent groups within the organization so as to generate long-term value. There are three fundamental principles of Corporate Governance as openness, integrity and accountability.

The Principles are intended to help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to support economic efficiency, sustainable growth and financial stability. This is primarily achieved by providing shareholders, board members and executives as well as financial intermediaries and service providers with the right incentives to perform their roles within a framework of checks and balances. (OECD, 2015)

The Principles do not intend to prejudice or second-guess the business judgment of individual market participants, board members and company officials. What works in one company or for one group of investors may not necessarily be generally applicable to all of business or of systemic economic importance.

There is no single model of good corporate governance. However, some common elements underlie good corporate governance. The Principles build on these common elements and are formulated to embrace the different models that exist.

Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1999, 2004 and 2015), and the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and Organization for Economic Co-operation and Development (OECD) reports present general principles around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

2.4 Pillars of Good Corporate Governance

Different authors and management specialists have argued that corporate governance requires laid down procedures, processes, systems and codes of regulation and ethics that ensure its implementation in organizations. Some suggestions that have been underscored in this respect include the need for banks to set strategies - which have been commonly referred to as corporate strategies - for their operations and establish accountability for executing these strategies.

There are six pillars in OECD (2015) corporate governance principles: (1) Ensuring the basis for an effective corporate governance framework; (2) The rights and equitable treatment of shareholders and key ownership functions; (3) Institutional investors, stock markets and other intermediaries; (4) The role of stakeholders in corporate governance; (5) Disclosure and transparency; and (6) The responsibilities of the board.

In addition to this, the Basel Committee on Banking Supervision (2015) contends that transparency of information related to existing conditions, decisions and actions is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of a bank. The Committee advances further that various corporate governance structures exist in different countries hence there is no universally correct answer to structural issues and that laws do not need to be consistent from one country to another. Sound governance therefore, can be practiced regardless of the form used by a banking organization. The Committee therefore suggests four important forms of oversight that should be included in the organizational structure of any bank in order to ensure the appropriate checks and balances and these include: (1) Oversight by the board of directors or supervisory board; (2) Oversight by individuals not involved in the day-to-day running of the various business areas; (3) Direct line supervision of different business areas, and; (4) Independent risk management and audit functions.

In summary, they demonstrate the importance of key personnel being fit and proper for their jobs and the potentiality of government ownership of a bank to alter the strategies and objectives of the bank as well as the internal structure of governance hence the general principles of sound corporate governance are also beneficial to government-owned banks.

Supervisors have a keen interest in sound corporate governance, as it is an essential element in the safe and sound functioning of a bank and may adversely affect the bank's risk profile if not operating effectively. Well governed banks contribute to the maintenance of an efficient and cost-effective supervisory process, as there is less need for supervisory intervention.

Sound corporate governance may permit the supervisor to place more reliance on the bank's internal processes. In this regard, supervisory experience underscores the importance of having the appropriate levels of authority, responsibility, accountability, and checks and balances within each bank, including those of the board of directors but also of senior management and the risk, compliance and internal audit functions.

Benefits of good corporate governance framework for local companies are: (1) clarity of segregation on duty – effective corporate governance separates the ownership from management where owners set the vision, Board provides the direction and management remains focused with its execution; (2) credibility and standing – Improved governance is expected to raise the credibility of the corporates and lead to better access to institutional funding and/or strategy alliance with the appropriate foreign partner; (3) risk management – effective governance will enable corporates to harness risk in the pursuit of growth, rather than continually being exposed to its downside. (Corporate Governance in Myanmar by PwC, 2016).

2.5 Global Corporate Governance Practices

The World Bank Group and the Organization for Economic Co-operation and Development (OECD) have established the Global Corporate Governance Forum to build a consensus in favor of appropriate policy, regulatory and corporate reforms, co-ordinate and disseminate corporate governance activities, provide corporate development and human capacity building in the associated fields of corporate governance and train the various professionals and other agents who are essential to bringing about a culture of compliance.

The Basel Committee's guidance on Banking Supervision (2015) draws from the principles of corporate governance published by the Organization for Economic Co-operation and Development (OECD). The OECD's widely accepted and long-established principles aim to assist governments in their efforts to evaluate and improve their frameworks for corporate governance and to provide guidance for participants and regulators of financial markets.

In general corporate governance practices, they consist of clearly defined board responsibilities, essential committees to be established, leadership and senior management, growth and profitability, strategic management and risk factors of banks which may lead to higher shareholders confidence and to attract more investors.

2.5.1 Responsibilities of the Board

The board should structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues.

To increase efficiency and allow deeper focus in specific areas, a board may establish certain specialized board committees. The committees should be created and mandated by the full board. The number and nature of committees depend on many factors, including the size of the bank and its board, the nature of the business areas of the bank, and its risk profile.

2.5.2 Leadership and Corporate Governance

Appointments to the board of Directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision making process. The board of directors should determine the purpose and values of the corporation, determine the strategy, purpose and implement its values in order to ensure that the corporations survive and thrive and that procedures and values that protect the assets of the corporation are put in place.

The board should monitor and evaluate the implementation of strategies policies and management performance criteria and the plans of the corporation. It should identify the corporation's internal and external stakeholders; agree on a policy or policies determining how the corporation should relate to, and with them, increasing wealth, jobs and sustainability of a financially sound corporation while ensuring that the rights of stakeholders established by law or custom are expected, recognized and protected. The Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the board so that it can exercise objectives and independent judgment.

2.5.3 Growth and Profitability

The growth in competition among banks in many markets has driven many institutions to better understanding their clients' needs and take a market-led approach to their business. The well-documented high levels of "drop out, exit" or "desertion" in many traditional banking institutions reinforce this tendency. The development of a more client - responsive, market led approach to banking is an important watershed in the industry, (Chavex, 1995).

For most banks responding to the market has meant developing new products that meet the needs of their clients. Experience has shown, however, that product development is the strategic entry point into a broader approach to banking. Developing new products inevitably leads the banks to re-examine and possibly overhaul larger institutional issues. Some banks are beginning to move towards a strategic marketing approach that looks at corporate brand and identity, product delivery systems and customer service strategies, in addition to the product strategy. This broader perspective is known as the market-led approach to banking (Chavex, 1995).

There are many benefits in adopting a market-led approach to micro finance for both the banks and their clients. For the banks, a market-led approach enhances customer loyalty and reduces dropouts and thus increases profitability. More appropriate, client-responsive products allow them to better manage their household finances with a variety of financial services and products, in which they have confidence through systems and people that are secure, efficient and satisfying. Seen at the sectoral level, the market-led approach lies at the heart of making financial markets work for the customers. Commercial viability will increasingly depend on achieving large-scale operational efficiencies and the ability to offer value-added products to clients (Chavex, 1995).

2.5.4 Strategic Management

There is need for strategic management of the commercial banks in Myanmar to ensure their positive performance. The board of directors should determine the purpose and values of the corporation, determine the strategy its purpose and implement its values in order to ensure that the corporation survives and thrives and that procedures and values that protect the assets of the corporation are put in place, as well as to monitor and evaluate the implementation of strategies policies and management performance criteria and the plans of the corporation. In addition, the board should constantly review the viability and financial sustainability of the enterprise and must do so at least once a year.

The board should also ensure that a proper management structure is put in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility.

2.5.5 Risk Factors of Banks

People, property, earning Capacity (Finance) and reputation are the most important assets. Their preservation and security are essential for continued growth and long-term survival. (Ledgerwood 1998). The approach of risk management involves identification and assessment of the risks to which a business enterprise is exposed.

It is often assumed that on average owners/investors are risk averse. Thus, investors seek to minimize risk for a given level of return. Therefore, one of the main objectives of corporate governance is taken to be the creation of decision structures which prevent the agent from engaging in activities which expose the investor to a higher level of risk than that desired by the shareholders. Therefore, proper governance is deemed to require systems that prevent this problem, such that the agent finds it difficult to take higher risks than desired by owners.

In banks, the framework of action, motivation and behavior is quite different. Because current banking regulation is concerned first and foremost with the existence of systemic risk, regulation applies to those policy instruments deemed effective in limiting systemic risk. Of those instruments, the lender of last resort and systems of deposit insurance are the ones deemed to be the best means to prevent contagion, bank runs and other threats to astern integrity. From a governance perspective, however, the presence of these policy instruments dramatically changes the relationship between the agent and the principal in banks and the conceptual framework required to understand it.

While it is common for risk managers to work closely with individual business units, the risk management function should be sufficiently independent of the business units and should not be involved in revenue generation. Such independence is an essential component of an effective risk management function, as is having access to all business lines that have the potential to generate material risk to the bank as well as to relevant risk-bearing subsidiaries and affiliates.

The risk management function should have a sufficient number of employees who possess the requisite experience and qualifications, including market and product knowledge as well as command of risk disciplines. Staff should have the ability and willingness to effectively challenge business operations regarding all aspects of risk arising from the bank's activities. Staff should have access to regular training.

In principle, there appears to be no upper limit to the risk the regulator is willing to bear, the question that arises from a governance perspective is "Would investors (principals) in banks have an incentive to encourage excessive risk taking by their agents?" Banking regulations normally include some attention to risk taking by bank managers.

2.6 Corporate Governance Practices in Asia

An important objective pursued by the OECD's work on corporate governance in Asia is to disseminate accurate and up-to-date information on prevailing corporate governance standards and practices in the region, using the G20/OECD Principles of Corporate Governance (2015) as a reference. The OECD's 2017 survey for Asia provides a unique consolidated snapshot of the legal, regulatory and institutional framework for the corporate governance of listed companies across 14 Asian economies (Bangladesh, China, Hong Kong (China), India, Indonesia, Korea, Malaysia, Mongolia, Pakistan, Philippines, Singapore, Thailand, Chinese Taipei and Vietnam) that participate in the OECD Asian Roundtable on Corporate Governance.

The OECD has conducted several studies on corporate governance issues with securities regulators and stock exchanges across Asia. In recent years, thematic reports with recommendations have been developed collaboratively by the OECD and Asian jurisdictions in order to shed light on specific corporate governance challenges, including on related party transactions, board nomination and election, as well as public enforcement. (OECD Survey of Corporate Governance Frameworks in Asia, 2017)

The jurisdictions which participated in 2017 OECD Survey at a glance of corporate governance codes and principles will be discussed further in alphabetical order. Bangladesh has “Corporate Governance Guideline for list companies only” as national corporate governance codes and principles and updated in 2012 with binding approach. China has “The Code of Corporate Governance for Listed Companies in China” as national corporate governance codes and principles and updated in 2002 as voluntary approach. Chinese Taipei has “Corporate Governance Best Practice Principles” as national corporate governance codes and principles and latest version was updated in 2016 as comply/explain approach. Hong Kong, China also has “Corporate Governance Code under the Listing Rules” as national corporate governance codes and principles and latest version is updated in 2013 as comply/explain approach. India has “Corporate Governance Voluntary Guidelines” as national corporate governance codes and principles with version updated in 2009 in binding approach. Indonesia has 2 types of national corporate governance codes which are “Indonesia Code on Good Corporate Governance” with version updated in 2006 as voluntary approach and “Corporate Governance Guidelines for Public Company” with 2015 version as comply/explain approach. Korea has “Code of Best Practice for Corporate Governance” as national corporate governance codes and principles with 2016 version in voluntary approach. Mongolia has “Mongolian Corporate Governance Code” as national corporate governance codes and principles with 2014 version in binding, comply/explain and voluntary approaches. Pakistan has “The Code of Corporate Governance” as national corporate governance codes and principles which was updated in 2014 as binding approach. Philippines has “The Revised Code of Corporate Governance” as national corporate governance codes and principles with 2009 version in either binding or voluntary approach. Singapore has “The Code of Corporate Governance” as national corporate governance codes and principles with 2012 version as comply/explain approach. Thailand has “The Principles of Good Corporate Governance for Listed Companies” as national corporate governance codes and principles with 2012 version as comply/explain approach. Vietnam has “Regulations on Corporate Governance applicable to public companies” as national corporate governance codes and principles with 2012 updated version as binding approach.

2.7 Corporate Governance Practices in Myanmar

Corporate governance practices in Myanmar are relatively absent in most companies and organizations. In fact, Myanmar has left behind its neighbors and the global economy in corporate governance. One reason for this absence of Corporate Governance is that most companies are family oriented. Moreover, motivation to disclose information and improve governance practices by companies is felt negatively. The current system in Myanmar does not provide sufficient legal, institutional and economic motivation for stakeholders to encourage and enforce corporate governance practices; hence failure in most of the constituents of corporate governance is witness in Myanmar. Poor bankruptcy laws, no push from the international investor community, limited or no disclosure regarding related party transactions, weak regulatory system, general meeting scenario, lack of shareholder active participations is some of the result of poor corporate governance.

The Myanmar Centre for Responsible Business (MCRB) was set up in 2013 by the Institute of Human Rights and Business, and the Danish Institute for Human Rights with funding from several donor governments. Based in Yangon, it aims to provide a trusted and impartial platform for the creation of knowledge, building of capacity, undertaking of advocacy and promotion of dialogue amongst businesses, civil society, governments, experts and other stakeholders, with the objective of encouraging responsible business conduct throughout Myanmar. Responsible business means business conduct that works for the long-term interests of Myanmar and its people, based on responsible social and environmental performance within the context of international standards. MCRB receives funding from the governments of UK, Norway, Switzerland, Netherlands, and Ireland. It generated Pwint Thit Sa 2018 report (Transparency in Myanmar Enterprises - TiME) in 2018. The report is the forth report from MCRB together with Yever and FMI ranked #1 in the report whereas FPB ranked #21 and #50 in disclosure of information for 2018 and 2016 respectively. (MCRB, 2018)

Myanmar Institute of Directors (MIoD), the first independent and private-led organization, has been established in March 2018 to promote corporate governance standards and best practices in Myanmar. MIoD aims to advance board professionalism, promote business ethics and transparency, create networks between corporate leaders and stakeholders, and boost investor confidence in Myanmar's private sector. (MIoD, 2018)

2.8 Good Corporate Governance Practices of Basel Committee 2015

The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

Standard agency theory of corporate governance focuses on the separation of ownership and control and investigates the mechanisms via which the suppliers of capital influence managerial decisions with varying degrees of success. (Shleifer and Vishny, 1997)

Caprio and Levin (2002) develop this further by observing that small shareholders may seek to exert corporate governance by voting directly on major decisions, electing boards of directors, and signing incentive contacts with managers that link pay to performance.

Similarly, debt holders may seek to constrain managerial discretion through covenants, such that default or violation of a covenant typically gives debt holders the right to repossess collateral, initiate bankruptcy proceedings and vote on removing managers.

Large informational barriers imply that outside bidders will neither have sufficient information to initiate a takeover, nor will outsiders generate a sufficient takeover threat to limit managerial discretion. They argue that regulatory restrictions on entry and takeovers also reduce competition for corporate control in banking. (Caprio and Levine, 2002)

Thus from many angles, Caprio and Levine argue, the opaqueness of the banking industry along with pervasive government regulations severely limits effective corporate governance of banks.

In a synopsis, the enhancement of information disclosure system, creation of incentives for private agents to monitor banks, and strengthening legal and bankruptcy systems will fundamentally improve the infrastructure of corporate governance. Please see 13 principles of corporate governance for bank supervision by Basel Committee 2015.

2.8.1 Principle 1: Board's Overall Responsibilities

The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

a. Responsibilities of the Board

The board has ultimate responsibility for the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. The board may delegate some of its functions, though not its responsibilities, to board committees where appropriate. The board should establish and be satisfied with the bank's organizational structure. This will enable the board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the board itself and of senior management and of those responsible for the risk management and control functions.

The members of the board should exercise their "duty of care" and "duty of loyalty" to the bank under applicable national laws and supervisory standards. In discharging these responsibilities, the board should take into account the legitimate interests of depositors, shareholders and other relevant stakeholders. It should also ensure that the bank maintains an effective relationship with its supervisors.

b. Corporate Culture and Values

A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behavior. These norms are especially critical in terms of a bank's risk awareness, risk-taking behavior and risk management (i.e. the bank's "risk culture"). A bank's code of conduct or code of ethics, or comparable policy, should define acceptable and unacceptable behaviors. The bank's corporate values should recognize the critical importance of timely and frank discussion and escalation of problems to higher levels within the organization.

c. Risk Appetite, Management and Control

As part of the overall corporate governance framework, the board is responsible for overseeing a strong risk governance framework. An effective risk governance framework includes a strong risk culture, a well-developed risk appetite articulated through the RAS, and well defined responsibilities for risk management in particular and control functions in general. Developing and conveying the bank's risk appetite is essential to reinforcing a strong risk culture. The risk governance framework should outline actions to be taken when stated risk limits are breached, including disciplinary actions for excessive risk-taking, escalation procedures and board of director notification.

d. Oversight of Senior Management

The board should select the CEO and may select other key personnel, including members of senior management. The board should provide oversight of senior management. It should hold members of senior management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the board's performance expectations.

2.8.2 Principle 2: Board Qualifications and Composition

Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank.

a. Board Composition

The board must be suitable to carry out its responsibilities and have a composition that facilitates effective oversight. For that purpose, the board should be comprised of a sufficient number of independent directors. The board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank.

b. Board Member Selection and Qualifications

Boards should have a clear and rigorous process for identifying, assessing and selecting board candidates. Unless required otherwise by law, the board (not management) nominates candidates and promotes appropriate succession planning of board members. The selection process should include reviewing whether board candidates: (i) possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the bank's business and risk profile; (ii) have a record of integrity and good repute; (iii) have sufficient time to fully carry out their responsibilities; and (iv) have the ability to promote a smooth interaction between board members.

If a board member ceases to be qualified or is failing to fulfil his or her responsibilities, the board should take appropriate actions as permitted by law, which may include notifying their banking supervisor. The bank should have in place a nomination committee or similar body, composed of a sufficient number of independent board members, which identifies and nominates candidates after having taken into account the criteria described above.

2.8.3 Principle 3: Board's Own Structure and Practices

The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.

a. Organization and Assessment of the Board

The board should structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues. The board should maintain and periodically update organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. To support its own performance, the board should carry out regular assessments – alone or with the assistance of external experts – of the board as a whole, its committees and individual board members. The board should maintain appropriate records (e.g. meeting minutes or summaries of matters reviewed, recommendations made. decisions taken and dissenting opinions) of its deliberations and decisions. These should be made available to the supervisor when required.

b. Role of the Chair

The chair of the board plays a crucial role in the proper functioning of the board. The chair provides leadership to the board and is responsible for its effective overall functioning, including maintaining a relationship of trust with board members. The chair should possess the requisite experience, competencies and personal qualities in order to fulfil these responsibilities. The chair should ensure that board decisions are taken on a sound and well informed basis. The chair should encourage and promote critical discussion and ensure that dissenting views can be freely expressed and discussed within the decision-making process. The chair should dedicate sufficient time to the exercise of his or her responsibilities.

c. Audit Committee

An audit committee should: be required for systemically important banks and is strongly recommended for other banks based on an organization's size, risk profile or complexity; be distinct from other committees; have a chair who is independent and is not the chair of the board or of any other committee; be made up entirely of independent or non-executive board members; and include members who have experience in audit practices, financial reporting and accounting.

The audit committee as a whole should possess a collective balance of skills and expert knowledge – commensurate with the complexity of the banking organization and the duties to be performed – and should have relevant experience in financial reporting, accounting and auditing. Where needed, the audit committee has access to external expert advice.

d. Risk Committee

The risk committee of the board is responsible for advising the board on the bank's overall current and future risk appetite, overseeing senior management's implementation of the RAS, reporting on the state of risk culture in the bank, and interacting with and overseeing the CRO. The committee's work includes oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank, such as credit, market, operational and reputational risks, to ensure they are consistent with the stated risk appetite.

e. Compensation Committee

The compensation committee is required for systemically important banks. It should support the board in overseeing the remuneration system's design and operation and in ensuring that remuneration is appropriate and consistent with the bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. The compensation committee should be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create. The compensation committee works closely with the bank's risk committee in evaluating the incentives created by the remuneration system.

f. Other Board Committees

Other specialized committees that are recommended include: Nomination/human resources/governance committee: provides recommendations to the board for new board members and members of senior management. The committee should analyze the role and responsibilities of the board member and the knowledge, experience and competence which the role requires. Ethics and compliance committee: ensures that the bank has the appropriate means for promoting proper decision-making, due consideration of the risks to the bank's reputation, and compliance with laws, regulations and internal rules.

g. Conflicts of Interest

Conflicts of interest may arise as a result of the various activities and roles of the bank or between the interests of the bank or its customers and those of the bank's board members or senior managers. Conflicts of interest may also arise when a bank is part of a broader group. For example, where the bank is part of a group, reporting lines and information flows between the bank, its parent company and/or other subsidiaries can lead to the emergence of conflicts of interest. There is a potential conflict of interest where a bank is both owned by the state and subject to banking supervision of the state. If such conflicts of interest do exist, there should be full administrative separation of the ownership and banking supervision functions in order to minimize political interference in the supervision of the bank.

2.8.4 Principle 4: Senior Management

Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.

Senior management consists of a core group of individuals responsible and accountable to the board for the sound and prudent day-to-day management of the bank. The organization and procedures and decision-making of senior management should be clear and transparent and designed to promote effective management of the bank. This includes clarity on the role, authority and responsibility of the various positions within senior management, including that of the CEO. Members of senior management should have the necessary experience, competencies and integrity to manage the businesses and people under their supervision.

2.8.5 Principle 5: Governance of Group Structures

In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities. The board and senior management should know and understand the bank group's organizational structure and the risks that it poses.

a. Parent Company Boards

In operating within a group structure, the board of the parent company should be aware of the material risks and issues that might affect both the bank as a whole and its subsidiaries. It should exercise adequate oversight over subsidiaries while respecting the independent legal and governance responsibilities that might apply to subsidiary boards.

b. Subsidiary Boards

Subsidiary boards and senior management remain responsible for developing effective risk management processes for their entities. The methods and procedures applied by subsidiaries should support the effectiveness of risk management at a group level. While parent companies should conduct strategic, group-wide risk management and prescribe corporate risk policies, subsidiary management and boards should have appropriate input to their local or regional application and to the assessment of local risks.

c. Complex or Opaque Structures

Banks create structures for legal, regulatory and tax purposes. Structures can take the form of units, branches, subsidiaries or other legal entities that can considerably increase the complexity of the organization. The number of legal entities, and in particular the interconnections and intragroup transactions among such entities, can lead to challenges in identifying and managing the risks of the organization as a whole. Operating through complex or non-transparent structures may pose financial, legal, reputational and other risks to the bank.

2.8.6 Principle 6: Risk Management Function

Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board. The independent risk management function is a key component of the bank's second line of defense. This function is responsible for overseeing risk-taking activities across the enterprise and should have authority within the organization to do so.

a. Role of the CRO

Large, complex and internationally active banks, and other banks, based on their risk profile and local governance requirements, should have a senior manager (CRO or equivalent) with overall responsibility for the bank's risk management function. In banking groups, there should be a group CRO in addition to subsidiary-level risk officers. Because some banks may have an officer who fulfils the function of a CRO under a different title, reference in this document to the CRO is intended to incorporate equivalent positions, provided they meet the independence and other requirements set out herein.

2.8.7 Principle 7: Risk Identification, Monitoring and Controlling

Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice. The bank's risk governance framework should include policies, supported by appropriate control procedures and processes, designed to ensure that the bank's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the bank's size, complexity and risk profile. Risk identification should encompass all material risks to the bank, on- and off-balance sheet and on a group-wide, portfolio-wise and business-line level.

2.8.8 Principle 8: Risk Communication

An effective risk governance framework requires robust communication within the bank about risk, both across the organization and through reporting to the board and senior management. Ongoing communication about risk issues, including the bank's risk strategy, throughout the bank is a key tenet of a strong risk culture. A strong risk culture should promote risk awareness and encourage open communication and challenge about risk-taking across the organization as well as vertically to and from the board and senior management. Senior management should actively communicate and consult with the control functions on management's major plans and activities so that the control functions can effectively discharge their responsibilities. Information should be communicated to the board and senior management in a timely, accurate and understandable manner so that they are equipped to take informed decisions.

2.8.9 Principle 9: Compliance

The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk. An independent compliance function34 is a key component of the bank's second line of defense. This function is responsible for, among other things, ensuring that the bank operates with integrity and in compliance with applicable, laws, regulations and internal policies. The bank's senior management is responsible for establishing a compliance policy that contains the basic principles to be approved by the board and explains the main processes by which compliance risks are to be identified and managed through all levels of the organization.

2.8.10 Principle 10: Internal Audit

The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank. An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. It provides an independent assurance to the board of directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation. The internal audit function should have a clear mandate, be accountable to the board and be independent of the audited activities. It should have sufficient standing, skills, resources and authority within the bank to enable the auditors to carry out their assignments effectively and objectively.

2.8.11 Principle 11: Compensation

The bank's remuneration structure should support sound corporate governance and risk management. Remuneration systems form a key component of the governance and incentive structure through which the board and senior management promote good performance, convey acceptable risk-taking behavior and reinforce the bank's operating and risk culture. Systemically important financial institutions should have a board compensation committee as an integral part of their governance structure and organization to oversee the compensation system's design and operation.

2.8.12 Principle 12: Disclosure and Transparency

The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants. Transparency is consistent with sound and effective corporate governance. As emphasized in existing Committee guidance on bank transparency, it is difficult for shareholders, depositors, other relevant stakeholders and market participants to effectively monitor and properly hold the board and senior management accountable when there is insufficient transparency. The objective of transparency in the area of corporate governance is therefore to provide these parties with the information necessary to enable them to assess the effectiveness of the board and senior management in governing the bank.

2.8.13 Principle 13: The role of supervisors

Supervisors should provide guidance for and supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management, should require improvement and remedial action as necessary, and should share information on corporate governance with other supervisors.

a. Guidance on Expectations for Sound Corporate Governance

Supervisors should establish guidance or rules, consistent with the principles set forth in this document, requiring banks to have robust corporate governance policies and practices. Such guidance is especially important where national laws, regulations, codes or listing requirements regarding corporate governance are not sufficiently robust to address the unique corporate governance needs of banks. Regulatory guidance should address, among other things, expectations for checks and balances and a clear allocation of responsibilities, accountability and transparency among the members of the board and senior management and within the bank. In addition to guidance or rules, where appropriate, supervisors should also share industry best practices regarding corporate governance with the banks they supervise.

b. Comprehensive Evaluations of a Bank's Corporate Governance

Supervisors should have processes in place to fully evaluate a bank's corporate governance. Such evaluations may be conducted through regular reviews of written materials and reports, interviews with board members and bank personnel, examinations, self-assessments by the bank, and other types of on- and off-site monitoring. The evaluations should also include regular communication with a bank's board of directors, senior management, those responsible for the risk, compliance and internal audit functions, and external auditors.

c. Regular Interaction with Directors and Senior Management

Supervisors should interact regularly with boards of directors, individual board members, senior managers and those responsible for the risk management, compliance and internal audit functions. This should include scheduled meetings and ad hoc exchanges, through a variety of communication vehicles (e.g. e-mail, telephone, in-person meetings). The purpose of the interactions is to support timely and open dialogue between the bank and supervisors on a range of issues, including the bank's strategies, business model and risks, the effectiveness of corporate governance at the bank, the bank's culture, management issues and succession planning, compensation and incentives, and other supervisory findings or expectations that supervisors believe should be particularly important to board members. Supervisors should also provide insights to the bank on its operations relative to its peers, market developments and emerging systemic risks.

d. Cooperation and Sharing of Corporate Governance Information

Cooperation and appropriate information-sharing among relevant public authorities, including bank supervisors and conduct authorities, can significantly contribute to the effectiveness of these authorities in their respective roles. Such information-sharing is particularly important between home and host supervisors of cross-border banking entities. Cooperation can occur on a bilateral basis, in the form of a supervisory college or through periodic meetings among supervisors at which corporate governance matters should be discussed. Special arrangements, such as a memorandum of understanding, may be warranted to govern the sharing of information among supervisors or between supervisors and other authorities.

CHAPTER III

OVERVIEW OF CORPORATE GOVERNANCE STRUCTURE IN FIRST PRIVATE BANK

In this chapter, the corporate governance practices in First Private Bank has been studied into three parts: legal framework for companies in Myanmar, background of Yangon Stock Exchange (YSX) and First Private Bank (FPB); and corporate governance organization structure of First Private Bank (FPB).

3.1 Legal Framework for Companies in Myanmar

There is the Myanmar Companies Act which was enacted in 1914 to govern Myanmar companies. It was a comprehensive one at the beginning of implementation. MCA allows companies to be incorporated as either public or private company in three options: a company limited by shares, a company limited by guarantee or an unlimited company. Most of the companies in Myanmar are commonly incorporated in company limited by shares.

Recently the new Companies Law was introduced in 2017 which modernizes the regulatory framework to govern how a company is run, bringing it to align with current practices in other countries. The new law aims to provide more flexibility in company's operation and provides a detailed governance regime and greater shareholder protections to ensure that their interests are protected.

In new Companies Act (2017), the directors' duties may be more emphasized to ensure that the company is properly run and managed in the best interests of shareholders. Various duties of directors are clearly set out in the new Company Act for the first time and set high standards for corporate conduct. The new Companies Act brings much protection of minority shareholders such as key decisions will now need the approval of the minority shareholders, where they affect the rights of the majority and minority shareholders in particular.

In addition to Myanmar Companies Act, the public listed companies need to comply 17 listing criteria in accordance with article 41(b) of Myanmar Securities and Exchange Law 2013. One of the enforcement mechanisms in Myanmar for good corporate governance is the establishment of Myanmar Financial Reporting Standards (MFRS) by

Myanmar Accountancy Council (MAC) in 2010. To have better understanding in accountability and transparency, MFRS tried to harmonize the international best practices in accountability and transparency. Besides these listing criteria, the information of company shall be disclosed and submitted to the Securities and Exchange Commission of Myanmar (SECM) and Yangon Stock Exchange (YSX) with timely manner. Furthermore, the company shall have sound corporate governance, internal management and internal control system and also the system to prevent insider trading.

3.2 Background Information of First Private Bank

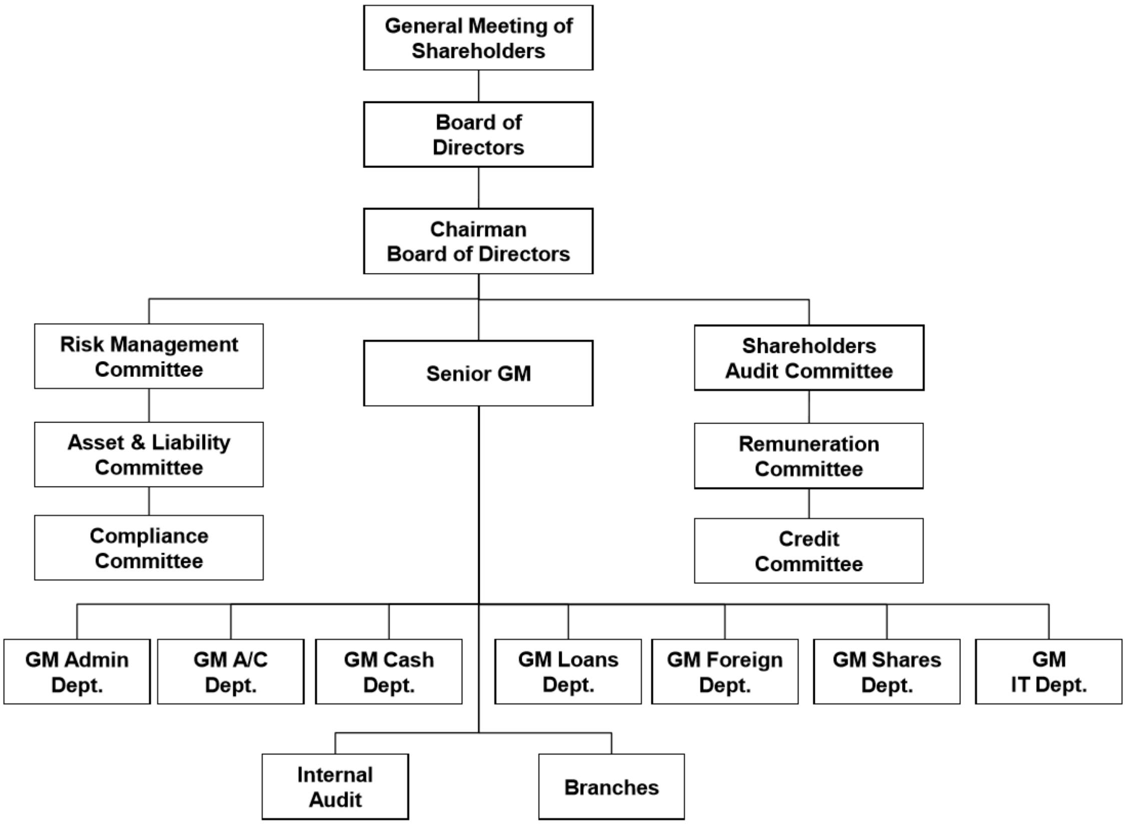
First Private Bank (FPB) is the fourth listed company on YSX by 20 January 2017 under trading code 00004. FPB was granted to be listed on the YSX on 30 December 2016. FPB was established since 9 September 1991. FPB was awarded Commercial Bank License from CBM on 25 May 1992 which is 27 years ago. There are 35 branches operating across Myanmar as at 31 December 2018.

There are 2,472,053 outstanding shares by end of 2018. FPB ranks top 10 by capital among private banks in Myanmar for 2018. FPB's total outstanding shares is 2,472,053 shares and paid capital amount is 24,720.53 million Myanmar Kyats (MMK) as at 31 December 2018. FPB has 8,261 shareholders in 2018.

The range of available services from FPB are Domestic Financial Services, Loan Services, International Banking Services, Western Union Services and Digital Banking/Mobile Payment Services. In Financial Year 2017-2018, FPB ranked 8th position of tax payer among banks and 27th position among Myanmar businesses/companies for corporate income tax to government.

Since the founding of FPB in 1992, FPB has grown steadily and made profits continuously. FPB started paying dividends to shareholders beginning with FY 1992-93 till to date, 31 March 2015. Because of its performance and good reputation FPB has been able to sell its shares with a premium of 200 percent. The share capital of the bank (authorized capital) increased 100 times since it was established. In terms of asset quality, NPL ratio is Zero percent of outstanding loans. In short, FPB is a model of good corporate governance in terms of responsibility, transparency and accountability. FPB enjoys public confidence, trust and is highly reputable. Please see the organization structure of FPB in Figure (3.1).

Figure (3.1) Organization Structure of First Private Bank



Source: First Private Bank

3.3 Organization of Corporate Governance Structure in First Private Bank

The founder and chairman sets high bars in terms of corporate governance as specifically stated in our vision, mission and core values - to set high ethical and moral standards in banking and finance; to contribute to reduction of poverty; to be accountable, responsible, transparent and trustworthy. FPB was established to serve the national and public interest.

FPB board of directors consist of 16 members and 4 independent Advisors and four directors who serve full time. All directors are elected by shareholders at annual general meeting which is held annually. Under section 85 of the Articles of Association one-third of directors retire every year in rotation.

The Board of Directors sets up the following key committees consisting of members and senior management to ensure good corporate governance.

1. Shareholders Audit Committee
2. Credit Committee

3. Asset and Liability Committee
4. Remuneration Committee
5. Risk Management Committee
6. Compliance Committee

The Board of Directors of FPB has appointed six key committees for the efficient operation and sound management.

1. Shareholders Audit Committee

Myanmar Financial Institutions Law requires banks to set up shareholders Audit Committee consisting of three shareholders. At every annual general meeting (AGM) of shareholders, the shareholders elect three members. The Committee sits once every three months and examines and analyses the financial statements and performance of the bank and submits its report to the Board of directors meeting. Shareholder audit committee is an additional layer on top of CBM audit, external audit, and internal bank audit. Its value lies in being an independent audit committee and is beneficial to shareholders and investors.

2. Credit Committee

The Board of Directors appoints the Credit Committee which includes all directors. The operational rule of the committee is that at least five directors must be present for its meetings. The decision and recommendations of the committee have to be submitted to the nearest board meeting for approval. The credit committee is crucial in approving and rejecting loan applications. It thoroughly reviews and decides on all loan applications submitted by branch managers and HQ loan officers based on a set of loan criteria and scoring. It reviews loan policies and procedures form time to time. The credit committee is highly effective in analyzing, approving, supervising loans throughout the loan cycle. Currently there is no NPL.

3. Asset and Liability Committee

The new Financial Institution Law requires banks to set up the Asset and Liability Committee. The members are Senior General Manager, General Manager (Accounts), General Manager (Foreign Department), General Manager (Loan Department) and General Manager (Cash Department). The main responsibilities of the Committee are to meet the guidelines of the regulatory body regarding liquidity, solvency, reserve requirements and profitability etc.

4. Remuneration Committee

Remuneration Committee is headed by the most senior director and consists of seven directors. It decides on matters of directors' allowances and benefits. It is an independent committee appointed by the Board of Directors. Duties and Responsibilities of remuneration committee are: the committee makes recommendations concerning the principles by which members of the Board of Directors and senior managers are remunerated, taking into consideration contribution and performance of directors and the achievement of the objectives of the Bank, the committee also advises and approves the salary and benefits of all staff members.

5. Risk Management Committee

Risk Management Committee is led by the Chairman, executive director, senior general manager and senior management including heads of operational departments. It needs to be strengthened as the bank grows. FPB has plans to set up an independent risk department reporting directly to the Board of Directors.

6. Compliance Committee

The compliance committee consists of Senior General Manager, Senior management and branch managers. The Committee reports to the Chairman for general compliance matters. The Committee is responsible to comply with all the FATF guidelines and the guidelines issued by CBM from time to time. The company's code of conduct and written compliance policies and procedures that guide the bank and the conduct of its staff day to day operations, and relevant education and training for the staff.

CHAPTER IV

ANALYSIS OF CORPORATE GOVERNANCE PRACTICES IN FIRST PRIVATE BANK

In this chapter IV, it consists of research design, analysis of corporate governance practices of FPB, management and the board responsibilities, roles of shareholders and stakeholders, audit and monitoring function, risk management, transparency and disclosure.

4.1 Research Design

The study adopted a descriptive sample survey of First Private Bank (FPB) in Myanmar. The descriptive survey is useful in locating and obtaining primary data for the study and describes issues as they are. Gay (1981) defines a survey as "an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables”. A descriptive study determines and reports the way things are and commonly involves assessing attitudes, and opinions towards individuals, organizations and procedures.

4.2 Corporate Governance Practices of FPB

FPB has a written code of corporate governance and it applied the application of both corporate governance code and own corporate governance policy as per CBM guidelines and Companies Act. FPB has followed the corporate governance principle according to CBM guidance. It takes into account the interest of all shareholders in accordance with corporate governance principles while making decision. The compliance and corporate governance report are not announced in annual financial report. It may lead to weakness in transparency and disclosure.

The adoption of corporate governance practices in banks made the increment of transparence, accountability, shareholder’s value, the responsibility of the Board of Directors and internal control exercise in the bank. The bank has formulated its own policies for corporate governance based on CBM guidance and Companies Act.

The areas of disparity between the bank’s corporate governance practices and international corporate governance practices in the bank sector are awareness of corporate governance of board of directors, shareholders rights awareness and stakeholders' responsibilities.

4.3 Management and the Board Responsibilities

There are 16 members in the board of directors which consists of 3 executive directors, 12 non-executive directors and 1 independent director. The board composed with 1 lawyer, 2 engineers, 2 economists and 11 other professions and it consists of 14 males and 2 females in the board composition. The board is appointed by the vote of all shareholders. Every director's validity is for 3 years on rotation basis and shareholder who has 100 shares can participate in board of director election. Once he/she is elected as director, he/she must possess at least 1,000 shares in FPB.

The board adopted a decision on the master plan of the bank's activities, including the list of its regular meetings and data to be made available to board members regularly and in a timely manner. It passed its internal code of conduct and conflict of interest among board members. The bank has a written policy for induction of Independent Director. After exercising of the board to achieve the bank's objectives, the board is very effective in leadership and integrity and effective in enterprise, judgement and very effective in decision making. The board has monthly board meeting and decisions of the board are communicated to shareholders and other stakeholders via newsletters and posted letters. There is no Chief Risk Officer (CRO) appointed on FPB. Only risk management committee oversees and manages the all types of risks in FPB.

The board has the assessment procedure on the performance and effectiveness of itself, individual board member and the CEO. The board assesses the performance and effectiveness of itself, individual board members and the CEO is done yearly. The reports are generated from the assessment of performance and effectiveness by board. Monthly board meeting discusses on monthly financial statement, annual general meeting discusses BOD report and special meetings discuss about ad hoc decision making.

There are induction programmes for new board member, board members' continuous skill development programmes and training programmes for the management and staffs. So far the bank has management trainee program for the bank's succession planning in order to work as senior management. The Board of Directors sets up six key committees consisting of members and senior management to ensure good corporate governance. They are 1). Shareholders Audit Committee, 2). Remuneration Committee, 3). Credit Committee, 4). Risk Management Committee, 5). Compliance Committee and 6).

Asset and Liability Committee. The Board of Directors of FPB has appointed six key committees for the efficient operation and sound management of the bank.

Every board member receives the remuneration according to their contribution to the bank's business performance as per the articles of association of the bank on partly basis. The bank has detailed records on all remunerations and other earnings of individual board member received from the bank or from other persons related to the bank is being made internal because the remuneration amount is low to disclose as public. Every member of the Board informs the bank on every change relating to their acquisition or disposal of shares of the bank, or to the possibility to exercise voting rights arising from the bank's shares, not later than five trading days after such a change occurs.

The transactions such as loan related and remittance above 100 million kyats involving members of the board or persons related to them and the company and persons related to it are clearly presented in the reports of the bank. There are agreements or contracts with all board members such as insider policy agreement and non-disclosure agreement. Majority of the committee members was selected from the board members.

There is no specific audit committee composed with board members. FPB has only shareholders audit committee which is to comply with Myanmar Financial Institutions Law requirement since its establishment in 1992. At every annual general meeting (AGM) of shareholders, the shareholders elect three members. The Committee sits once every quarter and examines and analyses the financial statements and performance of the bank and submits its report to the Board of directors meeting. Shareholder audit committee is an additional layer on top of CBM audit, external audit, and internal bank audit. Its value lies in being an independent audit committee and is beneficial to shareholders and investors.

The relevant documentation for the work of board was submitted to all members on time. The board meeting minutes contain all adopted decisions, accompanied by data on voting results. The Board of Directors has evaluated their work in the proceeding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of committees established, and evaluation of the bank's objectives reached in comparison with the objectives set on general basis (e.g. Budget Evaluation of Financials). FPB is required to have specific and proper corporate culture and values created in FPB. A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behavior.

FPB didn't publish on the remuneration policy for the management and the board member in the annual report because of benefit amounts are distinctly small for every board member. The statement on the remuneration policy for the management or executive directors is not permanently available on FPB's website because of small amount of expenses. Detailed data on all earnings and remuneration received by all members of the management or executive directors from FPB not published in the annual report because of very minimal amount. All forms of remuneration to the members of the management and the board of directors, including options and other benefits of the management, made public in lump sum amount, in FPB's annual report. All transactions involving members of the management or executive directors and persons related to them, and the bank and persons related to it, are clearly presented to external audit, YSX and CBM audit.

4.4 Roles of Shareholders and Stakeholders

FPB treats equally between majority and minority shareholders. The voting right is one share one vote. The shareholders exercise the authority to ensure that only competent and reliable persons are elected or appointed to the board of directors for the bank's transparency, disclosure, financial growth and efficiency of the operation by checking the biography, qualification, educational background and working experience in FPB. Every director is assigned by region to oversee the performance of the region's financial performance and notice board of YSX.

Shareholders ensure that the Board is held accountable for the effect running of the bank in good governance and increase profitability by every general manager administration. The shareholders have the power to change the board that does not perform to expectations or in accordance with the mandate of the bank as per Articles of Association by calling extraordinary general meeting. FPB communicates its shareholders and stakeholders via posted letters, website, email, Facebook page and newspaper. FPB is accountable to its shareholders on profitability, dividend and 6 month profit & loss statement. Monitoring, regular reporting and Internal Auditing and Controls procedures are in place. The board members are satisfied with those accounting procedures. Staffs, customers and other contracted parties are FPB's internal stakeholders and Government and community are external stakeholders of FPB. There is no policy that guides how the bank should relate with stakeholders. There is customer satisfaction survey conducted by FPB to know the level of satisfaction. The bank has presented its financial performance on website of both FPB and YSX. FPB has its own Management Information System.

4.5 Audit and Monitoring Function

CBM audit and Sein Win & Associates are external auditors of FPB. External auditor of the bank is not related with FPB in terms of ownership or interests. The external auditor of the bank is providing to FPB through related persons, other services. FPB has published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided. The bank has internal auditors and an internal audit system established by recruiting auditor in every branch of FPB.

The board of directors determines in the purpose and values of the bank, the strategy to achieve the bank's purpose and implementation of the bank's values in all cases. Management level staff, the board and CEO ensure that the procedures and values that protect the assets and reputation of the bank are put in place, also monitor and evaluate the implementation of the bank's strategies, policies, plans and management performance, and also review the viability and financial sustainability of the bank on daily basis. There is any measure in place to ensure that FPB complies with all relevant laws, regulations, governance practices, accounting and auditing standards by putting risk based policies, inviting external auditors and CBM audit and internal compliance. The Management Level Staff, the Board and CEO enforce those measures. FPB has a whistle-blower policy.

4.6 Risk Management, Transparency and Disclosure

The risk areas identified by FPB are credit risk, market risk, interest rate risk, exchange rate risk, liquidity risk, operational risk, terrorism risk and money laundering risk. The key performance indicators that FPB has in place are loan deposit ratio, loan internal increment and earning per share/dividend per share. FPB has sought the advice of external consultants for external auditing, taxation, accounting principles, new account head recruitment and regulatory related. The semi-annual, annual and quarterly reports are available to the shareholders. FPB prepared the calendar of important events throughout the whole year. FPB established mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it by employees are signing Non-Disclosure Agreement. FPB established mechanisms to ensure supervision of the flow of inside information and possible abuse thereof. Anyone has not suffered negative consequences for pointing out to the competent authorities or bodies in the bank or outside, shortcomings in the application of rules or ethical norms within FPB. The management of the bank held two meetings with interested investors, in the last year. All the members of the management agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful.

The comparison summary of Basel Committee and FPB is shown in Table (4.1).

Table (4.1) Comparison of Principles of Basel Committee and FPB

Principle 1: Board's overall responsibilities	**Basel Committee**	**FPB**
Clearly defined board responsibilities	Yes	Yes
Corporate culture and values creation	Yes	No
Risk appetite, management and control	Yes	Yes
Oversight of senior management	Yes	Yes
Principle 2: Board qualifications and composition	**Basel Committee**	**FPB**
Board Composition	Yes	Yes
Board member selection and qualifications in diversity	Yes	No
Principle 3: Board's own structure and practices	**Basel Committee**	**FPB**
Organization and assessment of the board	Yes	Yes
Role of Chair and basic committees establishment	Yes	Yes
Board Committees	Yes	No
Conflict of Interest	Yes	No
Principle 4: Senior Management	Yes	Yes
Principle 5: Governance of group structures	Yes	N.A.
Principle 6: Risk management function	Yes	Yes
Role of the CRO	Yes	No
Principle 7: Risk identification, monitoring and controlling	Yes	Yes
Principle 8: Risk communication	Yes	No
Principle 9: Compliance	Yes	Yes
Principle 10: Internal audit	Yes	Yes
Principle 11: Compensation/Remuneration	Yes	Yes
Principle 12: Disclosure and transparency	Yes	No
Principle 13: The role of supervisors	Yes	No

CHAPTER V

CONCLUSION

Last but not least part of the study is chapter V which is conclusion of the study. The study's main objectives are to identify the corporate governance structure in First Private Bank (FPB) and to examine the corporate governance principles and practices in FPB. To achieve the objectives, an interview is conducted with 83 questionnaires. The interview is to assess the prevalence and extent of the use of FPB's Corporate Governance practices. The findings, suggestions and needs further study are described in later part of this chapter.

5.1 Findings

The major findings of the study are that the central system for corporate governance responsibility in FPB lies with the board of directors. Therefore the manner of appointment to the board, the board composition and the board committees play a vital role in the corporate governance of FPB. This compares well with the Basel Committee, which recognizes that the primary responsibility for good corporate governance rests with the board of directors and senior management of banks. There is no Audit Committee established with board members and lack of appointed CRO and corporate culture and values creation in FPB.

This study found that the board in FPB pursues sound corporate governance practices and in this regard have those responsibilities: 1). Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures, 2). Selecting, compensating, monitoring and, where necessary, replacing key executives and succession planning, 3). Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process, 4). Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law and 5). Overseeing the process of disclosure and communications. FPB participated actively in TiME report and ranked #50 in 2016 and ranking climbed to #21 in 2018. TiME 2018 report result shows that FPB is doing continuous improvement of its corporate governance practices and the score had jumped.

The board of directors of FPB is involved in determining purpose and values, and strategies of their banks in all cases and are sometimes involved in implementation, Management level staff, the Board and CEO of FPB, shares the responsibility of creating procedures and values. The board of undertakes viability and sustainability reviews quarterly. Currently there is no corporate governance report in FPB's annual report. And FPB's current corporate governance practices is not showcasing in its website.

The Basel Committee on Banking Supervision (2015) considers corporate governance in the banking industry perspective to include how banks set the bank's strategy and objectives, select and oversee personnel, operate the bank's business on a day-to-day basis, protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders, align corporate culture, corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations, and establish control functions. The results of the interview, which indicate that the board of directors is involved in setting the values and objectives of the bank, are in line with the suggestions of the Basel Committee even though FPB is following OECD principles.

Given the above results it's concluded that corporate governance within FPB involves the board of directors setting up the strategies, values and procedures of a bank and ensuring that there is some form of measures to guide the implementation of such strategy and also to ensure that the bank complies with laws, regulations and generally accepted governance practices.

It is also concluded that there is moderate use of corporate governance practices within FPB. The practices most commonly embraced emanate from the following: a). FPB owns self-regulatory mechanisms, Banking Act requirements, b). Prudential guidelines from the CBM and FATF, c). Requirements by the Capital markets Authority and d). Membership to professional bodies such as MCRP and MIoD in Myanmar.

From this study, it can be concluded that there is a general awareness on the importance of corporate governance in FPB and that there have been great advances in it in complying with the basic corporate governance framework. While the responsibility of corporate governance rests with the board of directors, it is not evident that all the diverse stakeholders are represented in the board.

5.2 Suggestions

An import policy implication is to bridge the gap that may exist on board representation, there is need for sound regulatory governance. The quality of bank supervision and prudential guidelines needs to be carefully crafted. This sound regulatory governance, which encompasses the governance practices of institutions that have an oversight role in the financial system and not entirely on central bank alone, should be formulated implemented and enforced. To date, CBM bemoans that not all their prudential guidelines have been applied or adhered to in their entirety.

FPB should establish Audit Committee to increase efficiency and allow deeper focus in specific areas. To support board own performance, the board should carry out regular assessments with the assistance of external experts. FPB should appoint CRO to oversee and develop risk mitigation plan. With sound corporate governance, there will be more opportunities to attract investors and it is easier to raise capital for their growth and less likely to suffer from mismanagement. FPB should start studying Basel Committee on Bank Supervision (2015) to follow and apply to it for future growth. Corporate governance report should be generated and included in its annual report for more transparency and disclosure. FPB’s corporate governance practices and related information should be available in website.

FPB should join and participate in the activities of MIoD to promote the corporate governance practices within Myanmar’s organizations. It should provide more trainings and conduct seminars and workshops for the board and staff awareness about corporate governance practices. Almost every country in Southeast Asia already has its own corporate governance codes and principles. Only Myanmar, Cambodia and Laos are left behind without specific corporate governance codes within Southeast Asia. So Myanmar should have its own dedicated codes and principles to prevent financial crisis, scandals and reduce the inefficiencies that arise from moral hazard and adverse selection.

5.3 Needs for Further Study

This study is only conducted on First Private Bank (FPB) which is listed on YSX. Due to weak infrastructure of the developing country, the available information is much limited than the information provided by developed country. The primary data of interview and secondary data such as annual report, financial statement of FPB, news, journals and websites is fairly limited. Additionally, there was time constraint and the lack of face to face interview with the board of directors of FPB supports the limitation of the study.

While the responsibility for the governance lies with board of management, more often, the board relies on information from FPB's senior management in their decision-making. The area of further research would be to focus on the role of senior management and its relationship with the board of directors. Since board composition is playing a central role in governance there is need to research on what determines this composition in FPB and the banking industry. Another possible area of the study is bank performance and awareness of corporate governance practices of private banks through various stakeholders.

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APPENDIX - I

Key national Corporate Governance codes and principles in Asia

Jurisdiction	Key National Corporate Governance Codes and Principles	**Update** (Latest)	Implementation Mechanism			
			Approach *C/E: comply or explain B: Binding V:Voluntary*	***Disclosure*** *in annual company report or corporate governance report*	***Basis for framework*** *L: Law or regulation LR: Listing rules*	***Surveillance*** *SR: securities regulator SE: stock exchange P: private institution CB: Central Bank*
Bangladesh	Corporate Governance Guideline (listed companies only)	2012	B	Yes	L	SR
China	The Code of Corporate Governance for Listed Companies in China	2002	V	Yes	L	SR
Chinese Taipei	Corporate Governance Best Practice Principles	2016	C/E	Yes	LR	SR and SE
Hong Kong, China	Corporate Governance Code under the Listing Rules	2013	C/E	N/A	LR	SE
India	Corporate Governance Voluntary Guidelines	2009	B	Yes	L	SR and SE
Indonesia	Indonesia Code on Good Corporate Governance	2006	V	No	N/A	N/A
	Corporate Governance Guidelines for Public Company	2015	C/E	Yes	L	SR
Korea	Code of Best Practice for Corporate Governance	2016	V	N/A	L	SR
Mongolia	Mongolian Corporate Governance Code	2014	B, C/E & V	Yes	L/LR	SR

Jurisdiction	**Key National Corporate Governance Codes and Principles**	**Update** (Latest)	**Implementation Mechanism**			
			Approach *C/E: comply or explain B: Binding V:Voluntary*	***Disclosure*** *in annual company report or corporate governance report*	***Basis for framework*** *L: Law or regulation LR: Listing rules*	***Surveillance*** *SR: securities regulator SE: stock exchange P: private institution CB: Central Bank*
Pakistan	The Code of Corporate Governance	2014	B	Yes	LR	SR, SE, and CB
Philippines	The Revised Code of Corporate Governance	2009	B or V	Yes	L	SR and SE
Singapore	The Code of Corporate Governance	2012	C/E	Yes	LR	SR and SE
Thailand	The Principles of Good Corporate Governance for Listed Companies	2012	C/E	Yes	L/LR	SR/SE
Vietnam	Regulations on Corporate Governance applicable to public companies	2012	B	Yes	L	SR

Source: OECD Survey of Corporate Governance Frameworks in Asia 2017

APPENDIX - II

13 Corporate Governance Principles by Basel Committee on Banking Supervision

Category	Corporate Governance Principle	Synopsis of the Principle
(Risk) Governance	Principle 1: Board's overall responsibilities	The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.
	Principle 2: Board qualifications and composition	Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank.
	Principle 3: Board's own structure and practices	The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.
	Principle 4: Senior management	Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite,

		remuneration and other policies approved by the board.
	Principle 6: Risk management function	Banks should have an effective independent risk management function, under the direction of a Chief Risk Officer (CRO), with sufficient stature, independence, resources and access to the board.
	Principle 7: Risk identification, monitoring and controlling	Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice.
	Principle 8: Risk communication	An effective risk governance framework requires robust communication within the bank about risk, both across the organization and through reporting to the board and senior management.
Independent Internal Control	Principle 9: Compliance	The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying,

		assessing, monitoring and reporting and advising on compliance risk.
	Principle 10: Internal audit	The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank.
External Control	Principle 12: Disclosure and transparency	The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.
	Principle 13: The role of supervisors	Supervisors should provide guidance for and supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management, should require improvement and remedial action as necessary, and should share information on corporate governance with other supervisors.
Supporting Factors	Principle 5: Governance of group structures	In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the

		structure, business and risks of the group and its entities. The board and senior management should know and understand the bank group's organizational structure and the risks that it poses.
	Principle 11: Compensation	The bank's remuneration structure should support sound corporate governance and risk management.

Source: Basel Committee on Banking Supervision 2015

APPENDIX - III

QUESTIONNAIRE

Yangon University of Economics
Department of Commerce
Master of Banking and Finance Programme

Corporate Governance Practices in First Private Bank

I. CORPORATE GOVERNANCE PRACTICES OF FPB (Please tick [√])

1. Does the bank have a written Code of Corporate Governance?

   ☐Yes ☐No

2. Did the bank accept the application of the Corporate Governance Code or its own policy of corporate governance?

   ☐Yes ☐No

3. Does the bank have adopted principles of corporate governance within its internal policies?

   ☐Yes ☐No

4. Does the bank take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?

   ☐Yes ☐No

5. Does the bank announce the compliance within its annual financial reports?

   ☐Yes ☐No

6. In your opinion, has the adoption of Corporate Governance practices in banks made any difference with regard to the overall functioning of banks in the following areas?

   ☐Increasing Transparency and Accountability

   ☐Increasing Shareholder's value

   ☐Increasing the Responsibility of the Board of Directors

   ☐Increasing the Internal Control exercised in the Bank

7. Has the bank formulated its own policies for Corporate Governance? If yes, please specify.

   ____

   ____

____
____

8. According to you, what are the areas of disparity between the bank's corporate governance practices and international corporate governance practices in the banking sector?
____
____
____
____

II. MANAGEMENT AND THE BOARD RESPONSIBILITIES (Please tick [√])

9. What is the total number of the Board of Directors? [______]

10. What is the composition of Board of Directors in the bank? (Give numbers)
Executive Directors: [______]
Non-Executive Directors: [______]
Independent Directors: [______]

11. What is the composition of the board in terms of professional qualification? (Give numbers)

☐Lawyers [____] ☐Banking and Finance Specialists [____]

☐CPA/ACCA/CFA holders [____] ☐Engineers [____]

☐Economists [____] ☐Other professions [____]

12. What is the composition of the Board of Directors in terms of gender? (Give numbers)
Male: [________] Female: [________]

13. How is the board appointed? (Please tick **[√]** <u>one</u> only)

☐by the vote of majority shareholders

☐by the vote of all shareholders

☐by the old board when a new one is coming into office

☐a head hunt by the chairman

☐other process [please describe] ____________

14. Did the Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Board members, regularly and in a timely manner? (If not, explain)

15. Did the Board of Directors pass its internal code of conduct? (If not, explain)

16. Does the Bank have a written policy for induction of Independent Directors?

☐Yes ☐No

17. How effective do you consider the Board to be in exercising the following so as to achieve the bank's objectives? [Rate as per the following options]

(1) very effective (2) effective (3) average (4) below average

[i] Leadership [__]
[ii] Integrity [__]
[iii] Enterprise [__]
[iv] Judgment [__]
[v] Decision making [__]

18. How frequently does the Board meet? (Please tick **[√]** <u>one</u> only)

☐Bi-weekly ☐Monthly

☐Quarterly ☐Bi-annually

19. How are deliberations/decisions of the board communicated to shareholders and other stakeholders? (Please tick **[√]**)

☐Newsletters

☐Press

☐Posted letters

☐Board meetings [< 10 Shareholders who are also board members]

☐Management Memos and Circulars

20. Does the bank have the Chief Risk Officer (CRO) appointed?

☐Yes ☐No

21. Does the board assess the performance and effectiveness of:

1). itself? [☐Yes ☐No]

2). individual members? [☐Yes ☐No]

3). the Chief Executive Officer? [☐Yes ☐No]

22. If the board assess the performance and effectiveness, how frequently is this done annually? (Give numbers)
1). for itself [______]
2). for individual members [______]
3). for the Chief Executive Officer [______]

23. Are reports made from these assessments?

☐Yes ☐No

24. At what level are the reports discussed? (Please tick **[√]**)

☐Board meeting

☐Annual General Meeting

☐Special meetings

25. Are there any induction programmes in place for new Board members?

☐Yes ☐No

26. Are there continuous members' skill development programmes for the Board?

☐Yes ☐No

27. Is there any training programme for the management and other staff?

☐Yes ☐No

28. How does the bank's succession planning for the senior management work? (Please tick **[√]** <u>one</u> only)

☐Graduate Trainee Program

☐Management Trainee Program

☐Succession Planning Program

☐No Succession Planning at all

29. What are the committees being set up in the bank by the Board of Directors?

____

____

30. Is the remuneration received by the members of the Board of Directors entirely or partly determined according to their contribution to the bank's business performance? (If not, explain)

31. Is the remuneration to the members of the Board of Directors determined by a decision of annual general meeting or in the articles of association of the bank? (If not, explain)

32. Have detailed records on all remunerations and other earnings of each member of the Board of Directors received from the bank or from other persons related to the bank, including the structure of such remuneration, been made public? (If not, explain)

33. Does every member of the Board of Directors inform the bank of each change relating to their acquisition or disposal of shares of the bank, or to the possibility to exercise voting rights arising from the bank's shares, not later than five trading days, after such a change occurs? (If not, explain)

34. Were all transactions involving members of the Board of Directors or persons related to them and the bank and persons related to it clearly presented in reports of the bank? (If not, explain)

35. Are there any contracts or agreements between members of the Board of Directors and the bank?

36. Was the majority of the committee members selected from the group of independent members of the Board of Directors? (If not, explain)

37. What is the purpose of Audit Committee at the bank?

38. Was the documentation relevant for the work of the Board of Directors submitted to all members on time? (If not, explain)

39. Do the Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)

40. Has the Board of Directors evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the bank's objectives reached in comparison with the objectives set?

☐Yes ☐No

41. Does the bank have specific and proper corporate culture and values created?

☐Yes ☐No

42. Did the bank publish a statement on the remuneration policy for the management and the Board of Directors in the annual report? (If not, explain)

____
____
____
____

43. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the bank? (If not, explain)

____
____
____
____

44. Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the bank published in the annual report of the bank? (If not, explain)

____
____
____
____

45. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the bank? (If not, explain)

____
____
____

46. Are all transactions involving members of the management or executive directors, and persons related to them, and the bank and persons related to it, clearly presented in reports of the bank? (If not, explain)

____
____
____

III. ROLES OF SHAREHOLDERS AND STAKEHOLDERS (Please tick [√])

47. Does the bank treat minority shareholders and majority shareholders equally?

☐Yes ☐No

48. To what extent do the shareholders exercise the authority to ensure that only competent and reliable persons are elected or appointed to the Board of Directors?

____

____

____

____

What mechanisms are in place to ensure accountability?

____

____

____

49. To what extent do the shareholders ensure that the Board is held accountable for the effective running of the bank - so as to achieve its objectives?

____

____

____

50. Do the shareholders have the power to change the composition of the Board that does not perform to expectations or in accordance with the mandate of the bank?

☐Yes ☐No

51. How does the bank communicate with its shareholders and stakeholders?

____

____

____

52. To what extent is the bank accountable to its shareholders?

____

____

____

53. What accounting procedures are there in place to effect this?

☐Monitoring ☐Regular reporting

☐Internal Auditing and Controls ☐None

54. Do you think the members are satisfied with these accounting procedures?

☐Very satisfied ☐Satisfied ☐Not satisfied at all

55. Who are the internal stakeholders of the bank?

☐Staff ☐Staff and supplier ☐Staff, customers and other contracted parties

56. Who are the external stakeholders of the bank?

☐Community ☐Government and community ☐Customers and suppliers

57. Is there a policy that guides how the bank should relate with stakeholders?

☐Yes ☐No

58. Please specify whether the Bank has conducted any survey to know the level of Customer Satisfaction?

☐Yes ☐No

59. Has the Bank presented the results of its financial performance on its website?

☐Yes ☐No

60. Does the Bank have a Management Information System?

☐Yes ☐No

IV. AUDIT AND MONITORING FUNCTION (Please tick [√])

61. Who are the external auditors of the bank?

____

____

____

62. Is the external auditor of the bank related with the bank in terms of ownership or interests?

☐Yes ☐No

63. Is the external auditor of the bank providing to the bank, him/herself or through related persons, other services?

☐Yes ☐No

64. Has the bank published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)

____

____

____

65. Does the bank have internal auditors and an internal audit system established? (If not, explain)

____

____

____

66. Would you say the Board of Directors do determine the following:

(1) in all cases (2) sometimes (3) not at all

[i] The purpose and values of the bank [__]
[ii] The strategy to achieve the bank's purpose [__]
[iii] Implementation of the banks values [__]

67. Who ensures that the procedures and values that protect the assets and reputation of the bank are put in place?

☐the Board

☐the Chief Executive Officer

☐all Departmental heads

☐ Management Level Staff, the Board and CEO

68. Who monitors and evaluates the implementation of the bank's strategies, policies, plans and management performance?

☐the Board

☐the Chief Executive Officer

☐Management Level Staff, the Board and CEO

69. Who reviews the viability and financial sustainability of the bank?

☐the Board

☐the Chief Executive Officer

☐Management Level Staff, the Board and CEO

70. How frequently does the bank review its viability and financial sustainability?

☐Yearly ☐Half Yearly ☐Quarterly ☐Daily

71. Is there any measure in place to ensure that the bank complies with all relevant laws, regulations, governance practices, accounting and auditing standards?

☐Yes ☐No

If 'YES', please select at least <u>three</u> such measures

☐Membership of Professional Bodies

☐Transparency Index Listings

☐Subscribing to certain pieces of legislation

☐Risk based policies

☐Inviting external auditors and Central Bank of Myanmar Audit

☐Internal compliance

72. Who enforces the above measures?

☐the Board

☐the Chief Executive Officer

☐Management Level Staff, the Board and CEO

73. Does the Bank have a Whistle-Blower Policy?

☐Yes ☐No

V. RISK MANAGEMENT, TRANSPARENCY AND DISCLOSURE (Please tick [√])

74. What are some of the key risk areas that the board has so far identified?

____

____

____

____

75. What are some of the key performance indicators that the bank has in place?

____

____

____

76. In what circumstances has the bank sought the advice of external consultants?

____

____

____

____

77. Are the semi-annual, annual and quarterly reports available to the shareholders?

☐Yes ☐No

78. Did the bank prepare the calendar of important events?

☐Yes ☐No

79. Did the bank establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?

☐Yes ☐No

80. Did the bank establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?

☐Yes ☐No

81. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the bank or outside, shortcomings in the application of rules or ethical norms within the bank?

☐Yes ☐No

82. Did the management of the bank hold meetings with interested investors, in the last year?

☐Yes ☐No

83. Do all the members of the management agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

☐Yes ☐No

The answer will be published in MBF thesis and used for only educational purpose.

Thank you for your time and answer for the above questions.