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# COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES IN BANKING INDUSTRY OF MYANMAR

**MOE MYINT SANDAR OO**

**(MBF-27, 5th BATCH)**

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# COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES IN BANKING INDUSTRY OF MYANMAR

**A thesis submitted as partial fulfilment towards the requirement for the Degree of Master of Banking and Finance (MBF)**


**Supervised by:**

Daw Khin Nwe Ohn
Associate Professor
Department of Commerce
Yangon University of Economics

**Submitted by:**

Ma Moe Myint Sandar Oo
Roll No. 27
MBF-5$^{th}$ Batch
Yangon University of Economics


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## ABSTRACT

This study analyzes corporate governance practices in the banking industry of Myanmar. The objectives of the study are to identify the current corporate governance practices in private banks and to explore the compliance of corporate governance practices in the banking industry. To implement this research, the existing system of corporate governance in private banks is first observed. According to the CBM data, there are 24 private banks registered and approved by the central bank. Primary was collected from 14 private banks that have over 7 years of experiences in the banking industry and by making structured questionnaires. 50 respondents from selected 14 banks who are working at middle and top management levels and this survey covered (56%) of total private banks. This study used a descriptive statistics method and Corporate Governance Scorecard based on the questionnaire, which is prepared by five corporate governance principles of the UK Combine Code to analyze the current situation. These principles are leadership, effectiveness, accountability, remuneration, and relation with shareholders. Each principle is measured with the Corporate Governance Scorecard which is a quantitative tool to measure the level of observance of a code. The findings of this study indicate that the fourth principle remuneration was not complied by some banks and most of the banks have fair practice on Combine Code. The recommendation of this study is Myanmar Government and relevant institution needs to develop human resources. To get a market competitive advantage, public trust, organizational dignity the top management should enforce to more practice of corporate governance code.

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| | |
|---|---|
| CG | - Corporate Governance |
| BOD | - Board of Directors |
| CEO | - Chief Executive Officer |
| UK | - United Kingdom |
| OECD | - Organisation for Economic Co-operation and Development |
| ICGN | - International Corporate Governance Network |
| IFC | - International Finance Corporation |
| YSX | - Yangon Stock Exchange |
| SEC | - Securities Exchange Commission |
| MCB | - Myanmar Citizens Bank |
| FPB | - First Private Bank |
| AGM | - Annual General Meeting |
| CBM | - Central Bank of Myanmar |
| FDI | - Foreign Direct Investment |
| MAC | - Myanmar accountancy Council |
| MFRs | - Myanmar Financial Reporting Standards |
| OTC | - Over-The-Counter |
| MOFR | - Ministry of Finance and Revenue |
| DIR | - Daiwa Institute of Thesis Ltd. |
| JPX | - Japan Exchange Group, Inc. |

# CHAPTER I

# INTRODUCTION

Corporate governance is the system by which organizations are directed and controlled. It is a set of relationships between directors, shareholders and other stakeholders. Corporate governance is corned with holding the balance between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations, and society.

CG is more important in public limited companies whatever listed or unlisted in stock exchange than small companies, because they are running by shareholder fund (owner) and main decisions are making by the management (Agent). So management performance needs to monitor and control who cannot run the company operations. Corporate Governance is a mechanism through which boards and directors are able to direct, monitor and supervise the conduct and operation of the corporation and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction, and control. The objective of practicing corporate governance is contributed to improved corporate performance and accountability in creating long-term shareholder value. Good corporate governance practices support to control the board of directors by increasing the amount of reporting and disclosure to all stakeholders. Ensure that the company is run in a legal and ethical manner and build in control at the top that will cascade down the organization.

Nowadays corporate governance is the main important factor for long term investment decisions. Good corporate governance structure supports to increase the level of confidence and transparency in company activities for all existing and potential investors and thus promote long term growth.

## 1.1 Rationale of the Study

The financial crisis around the world and the consequent collapse of major corporate institutions in both developed and developing economies has brought to the issue of corporate governance. In 1992, many high profile companies are collected including bank and the financial institution, the Cadbury report was issued in the UK which is the earliest report in corporate governance. So corporations, especially banks, need to emphasize on the practice of good governance both at the public and private banks and this is due to the economic primacy of publicly quoted firms in most national economies. Corporate governance is increasingly understood among policymakers as a value-enhancing strategy in a competitive environment and there is a growing consensus globally that corporate governance has a positive link to national growth and development

Most Myanmar companies including banks are managed by individual who is the owner or relatives. In this situation, they don't need corporate governance because the owner and management are the same and cannot happen the agency problems. Now many private equity-owned companies are transforming to the public limited companies under the Myanmar Companies Act 1914 and the Myanmar Companies Act 2017. As a next step, they are trying to list in YSX. In this situation, corporate governance plays an important role. Good corporate governance should involve the main principles of the Code which are Leadership; role of the board and its members, chairman, and their responsibilities, Effectiveness; composition, appointment, commitment, and development of the board, Accountability; financial and business reporting, risk management committee and audit committee, remuneration committee, and Relations with shareholders: rights and equitable treatment of shareholders, (UK Combine Code, 2012). So the public company needs to consider the corporate governance structure. The primary purpose is monitoring those parties within a company that controls the resources owned by investors. The corporate governance structure ensures there is a suitable balance of power on the board of directors, executive directors are remunerated fairly to protect agency problem. Ensure the external auditors remain independent and free from the influence of the company.

In Yangon Stock Exchange (YSX), there are only five public listed companies until the time of doing this survey (2019). Within this 4 year only 2 banks; Myanmar Citizens Bank Ltd (MCB) which is listed in 2016 and First Private Bank Ltd. (FPB) which is listed in 2017 can go to YSX. The other three companies are non-banking organizations. Actually there are some private banks in the industry that are preparing to go IPO. Either the private bank or public banks need to comply with Central Bank's rules and regulations and Myanmar Company Act (2017) which emphasis directors' responsibilities and accountabilities as part of corporate governance principles. In Myanmar, there are no specific corporate governance principles, but they have to comply with the listed companies' compliance with the security and exchange law of YSX. Some of the listed companies are declaring their own corporate governance practices which are adopted by UK principals. This survey is focused on corporate governance awareness of private banks and how much interest to comply the corporate governance practices. Moreover, the survey will study how much they can improve their bank performance in complying the corporate governance practices and what they have to face the challenges of practicing corporate governance in public banks and private banks.

## 1.2 Objectives of the Study

The main objectives of the study are:

(1) To identify the current corporate governance practices in private banks and

(2) To examine the compliance of corporate governance practices in banking industries.

## 1.3 Scope and Method of the Study

This study is based on primary and secondary data and used in the descriptive statistics method and corporate score card. There are 25 private banks registered and approved by the central bank. Primary data will be collected from 14 private banks that have over 7 years of experiences in the banking industry and by making structured questionnaires that are answered by 50 respondents from selected 14 banks. This survey was cover (56%) of the total private bank. The benchmark principles Combine Code is mostly relevant with public company, but this survey is study for private bank and used relevant principles of the Code for survey questionnaires. Another primary data is collected through personal interviews from the selected senior managers, directors and various levels of management from the banking industry.

The secondary data are collected various bank financial statement and annual reports (2017-2018 & 2018-2019) from their websites, especially CEO statement and

CFO declaration, Auditor’s Reports, Securities Exchange Commission Myanmar, Listed Companies' annual reports(2017-2018 & 2018-2019), relevant books, Myanmar Financial Service Monitor Articles, Myanmar Company Law, various websites and previous thesis paper.

### 1.4 Organization of the Study

This thesis is organized into five chapters. Chapters 1 deals with an introductory one that presents the rationale of the study, objectives of the study, scope, and method of the study and organization of the study. The second chapter contains the literature view of corporate governance definition, two methods of CG practice (By Rules & By Principals) role of Non-Executive Director and responsibility of the board. Chapter three examines the overview of the current organization structure and corporate governance practice of private banks in Myanmar. In chapter four, Analysis of research findings and review of current Corporate Governance practice in this industry and describes the detail of the research methodology of Corporate Governance. Finally, chapter five contains the summary of conclusions, different compliance levels of private banks, recommendation and suggestions for further study.

# CHAPTER II

# LITERATURE REVIEW

This chapter includes the literature review of corporate governance definition, corporate governance practices, fundamental concepts and types of corporate governance and detail about the UK Combine Code. This thesis is almost based on the UK Combine Code and relatively studies with current practices of CG in Private Banks of Myanmar.

## 2.1 Corporate Governance

All corporate entities need a governing body or agents we refer “Boards” and their members as “Directors” to lead organization growth and maximizing wealth for the owner (shareholders) or principal. The foundation of governance is the ethical action of the individual and the concept of corporate governance can be viewed in two different ways, the narrow view (Agency Concept) and the board view (Stakeholder Concept) depending on the view of policymaker and researchers.

### 2.1.1 Agency Concept

Agency is important in corporate governance as often the directors or managements are acting as agents for the owners. The shareholder or “principle”, who is the owner of the company, delegates day to day business operations to the directors, who are the shareholder’s “agents”. The directors remain accountable to the principles for the stewardship of their investment in the company. The agent must account for the resources and profit gained working on the principle’s behalf. The problem is arising when the agent does not make a decision in the best interest of the principles.

### 2.1.2 Stakeholder Concept

Stakeholders are any entity that can affect or be affected by the policies or activities by the organization. Each stakeholder has a different expectations about what they want and difference claim upon the organization. Stakeholders include employees, customers, suppliers, government, creditors and the local community. While the organization maximizing the shareholder's wealth at the same time need to take accounts the best interest for the wider stakeholder Whenever a principal has to rely on agents to handle his or her business, governance issue arise.

### 2.1.3 Different Approaches to Corporate Governance

The main basic approaches for CG are the Principles-based approach and the Rule-based approach. The rule-based approach focuses on regulations and targets that must be met without any leeway. It should be easy to ascertain compliance, but in practice, there may be questionable situation which is not fully covered by the rules. The rule-based approach was mostly used by the US and Sarbanes-Oxley Act (2002) is very popular in the US. This Act was a response to the collapse of Enron, one of the American's biggest companies.

The Sarbanes-Oxley Act of 2002, also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called Sarbanes-Oxley, Sarbox or SOX, is a United States federal law enacted on July 30, 2002. The act applies to all public companies that are required to file periodic reports with the Security Exchange Commission (SEC). Along with rules from the SEC, Sarbox required companies to increase the disclosure of their financial statements, to have an internal code of ethics and to impose restrictions on share trading by and loans to corporate officers.

The major aim of the act is to establish clear accountability for the public company's officers. The chief executive officer (CEO) and the chief financial officer (CFO) are required to clarify for the accuracy of the company's financial disclosure and to its disclosure controls and internal control processes. The Act is more perspective than codes in other jurisdictions, impacting on review of controls, disclosures, audits, ethics and directors' share trading.

Most corporate governance codes use a principles-based approach with board guidelines supplemented by limited specific requirements. Encourage the company to "comply or explain". The principal based approach of major governance codes is the UK Corporate Governance Code, ICGN Global Governance Principles and OECD principal.

OECD (2004) states that the corporate governance framework promotes transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. This framework is developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets. In addition, the enforcement authorities should have the authority, integrity, and resources to fulfill their duties in a professional manner.

The ICGN Global Governance principles (the Principles) describe the responsibilities of boards and shareholders respectively and aim to enhance dialogue between the two parties. The Principles are the ICGN's primary standard for well-governed companies and set the framework for a global work program focused around influencing public policy. The combination of responsibilities of boards and shareholders in a single set of Principles emphasizes a mutual interest in protecting and generating sustainable corporate value. Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as financial operations.

The first version of the UK Corporate Governance Code (the Code) was produced in 1992 by the Cadbury Committee. The global financial crisis starting in 2007 added further stands for corporate governance policy and practice. In the 21st century, CG is the focal point of the organization. So The UK Corporate Governance Code was updated in 2012 as UK Combine Code. It is a guide to a number of key components of effective board practice. It is based on the underlying principles of all good governance: accountability, transparency, probity, and focus on the sustainable success of an entity over the longer term.

## 2.2 The UK Corporate Governance Code (2012)

The first Cadbury report states that "Corporate governance is the system by which companies are directed and controlled". Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meetings.

The "comply or explain" approach is the popular trademark of corporate governance in the UK Code. It is the foundation of the Code's flexibility and has been in operation since the Code's beginnings. It is strongly supported by both companies and shareholders and has been widely adopted and imitated internationally. Satisfactory engagement between company boards and investors is very important to the health of the UK's corporate governance regime. Companies and shareholders both have responsibility for ensuring that "comply or explain" remains an effective alternative to a rules-based system. There are practical and administrative limitations to improved interaction between boards and shareholders. But there is also scope for an increase in trust which could generate a virtuous upward spiral in attitudes to the Code and in its constructive use. The main principle of Code is divided into five portions as Leadership, Effectiveness, Accountability, Remuneration, and Relationship with Shareholders.

### 2.2.1 Leadership of the Organization

#### (A) Role of the Boards

Every organization should be headed by an effective leader which is call board and it is collectively responsible for the long-term success of the organization. The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which capable risk to be assessed and managed. All directors must do what they consider to be the best interests of the company, consistent with their statutory duties. The board should meet sufficiently regularly to discharge its duties effectively. The organization's annual report should include a statement of how the board leads in the organization, including a high-level statement of which decisions are made by the board and which are to be delegated to management. The company should arrange appropriate insurance cover in respect of legal action against its directors.

**(B) Division of Responsibilities**

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unrestricted powers of decision. The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

**(C) The Chairman**

The chairman is responsible for the leadership of the board and ensuring its effectiveness on all aspects of its role. He or She should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between the executive and non-executive directors. He or She is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders.

**(D) Non-Executive Directors**

Non-executive directors should monitor the performance of management in meeting agreed on goals and objectives and always checks the reporting of their performance. They should satisfy themselves on the integrity of financial information, financial controls, and systems of risk management are tough and arguable. NEDs are responsible for determining appropriate levels of remuneration of executive directors and have a major role in appointing and, where necessary, removing executive directors, and in succession planning.

### 2.2.2 Effectiveness of the Board

**(A) The Composition of the Board**

The board and its committees should have the appropriate balance of skills, experience, independence, and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The board should include an proper combination of executive and non-executive directors, in particular, independent non-executive directors such that no one or small group of individuals can dominate the board's decision making. No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee. Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

**(B) Appointments to the Board**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should satisfy itself that plans are in place for an orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing.

**(C) Nomination Committee**

For the appointment to the Board, there should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments.

**(D) Evaluation and Re-election**

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively. None- executive directors should undertake that they will have sufficient time to meet what is expected of them and they should be disclosed to the board before the appointment. All new directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge and familiarity with the company required to fulfill their role. The board should undertake a formal annual evaluation of its own performance. The chairman should act on the results of the performance evaluation by recognizing the strengths and weaknesses of the board. The board should state in the annual report how performance evaluation of the board. The non-executive directors should be responsible for the performance evaluation of the chairman, taking into account the views of executive directors. All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation.

**(E) Information and Support**

The board should be supplied in a timely manner with quality information to discharge its duties. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and between senior management and non-executive directors. The company secretary should be responsible for advising the board through the chairman on all governance matters.

### 2.2.3 Accountability of the Board

The board should present a fair, balanced and understandable assessment to price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. The directors should explain in the annual report their responsibility for preparing the annual report and provides the information necessary for shareholders to assess the company's performance, business model and strategy. The board should be a statement by the auditor about their reporting responsibilities. The directors should include in the annual report an explanation of the basis on which the company generates or preserves their value over the longer term. The directors should report in annual and half-yearly financial statements, if thereis  the business has a going concern.

### (A) Audit Committee and Auditors

The board should establish a formal Audit Committee or Auditors for considering how they should apply the corporate reporting and risk management and internal control principles. The responsibilities of the audit committee should be monitoring the integrity of the financial statements of the company and company's financial performance, reviewing significant financial reporting judgments contained in them; should be review the company's internal financial controls and review the company's internal control and risk management systems, should be monitor and review the effectiveness of the company's internal audit function; should make recommendations to the board in relation to the appointment, re-appointment, and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; should monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant regulatory requirements.

The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible misconduct in matters of financial reporting or other issues. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for suitable follow-up action. The audit committee should monitor, control and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board. The reasons for the absence of the internal audit function should be explained in the relevant section of the annual report.

### 2.2.4 Remuneration

The performance-related compensations of executive directors' remuneration should be structured and designed to promote the long-term success of the company and directly link with their performances. Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration and rewards should be structured as to link with the corporate and individual performance. There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

**(A) The Remuneration Committee**

The remuneration committee is responsible for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and composition of remuneration package for senior management. The committee should carefully consider what compensation commitments to their directors' terms of appointment. The remuneration committee should judge where to position their company relative to other companies with caution. Remuneration for non-executive directors should not include share options or other performance-related elements.

### 2.2.5 Relations with Shareholders

The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders and it was based on the mutual understanding of objectives. The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders regularly. Non-executive directors should be offered the opportunity to attend regulator meetings with major shareholders. The senior independent director should attend several meetings with a range of major shareholders to listen to their views and suggestions in order to develop a balanced understanding of the issues and concerns of major shareholders.

**(A) Constructive Use of the AGM**

The board should use the AGM to communicate with investors and to get their participation in implementing the strategies. The chairman should arrange for all directors to attend the AGM. Moreover the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM. The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

At any general meeting, the company should propose a separate resolution on each separate issue. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution. The company should ensure that all valid proxy appointments received for general meetings are properly recorded, counted and maintain for avoiding the dispute. For each resolution, where a vote has been taken on a show of hands, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website that is maintained by or on behalf of the company.

# CHAPTER III

# OVERVIEW OF CORPORATE GOVERNANCE PRACTICES IN BANKING INDUSTRY

This chapter discusses three parts and the first one presents the legal framework in Myanmar, the second section presents the development of the financial market and the current situation of private banks in Myanmar. The last section discusses the current situation of the banking industry and the impact of future financial and markets.

## 3.1 Legal Framework in Myanmar

The Myanmar Company Act 1914 is the law that governs Myanmar companies that were enacted prior to Myanmar's independence. It allows for companies to be established as either a private company or Bank or Public company. The major week point of the current point comes from the provision that the "directors must be shareholder", means the director does not have relevant qualifications or knowledge of the industry. The person to be eligible as a director is mainly determined by the number of shares he possesses. For anticipating Foreign Direct Investment (FDI) in Myanmar, the new Company Act will replace the current Myanmar Companies Act 1914. The new Companies Law (2017) modernizes the regulatory framework governing how a company is run and it aims to provide more flexibility in how a company operates and provides detail governance and greater shareholder protection to make sure that their interests are protected. The new company law places more emphasis on the director's duties in Division 18 to ensure that the company is properly run and managed in the best interests of the company. The various duties of directors are clearly set out in the law for the first time and set high standards for corporate conduct.

Additional to the Myanmar Companies Act, the public listed companies need to comply with the seventeen listing criteria in accordance with article 41 (b) of Myanmar Securities and Exchange Law 2013. In these listing criteria, the board of directors shall not do any business which has the same interest carrying out by the public company without the approval of shareholders. Besides, the information of the company shall be disclosed and submitted to the Securities Exchange Commission (SEC) and YSX in a timely manner. The company shall have sound corporate governance, internal management, and internal control system and also the system to prevent insider trading. One of the enforcement mechanisms in Myanmar for better corporate governance is the establishment of Myanmar Financial Reporting Standards (MFRSs) by the Myanmar Accountancy Council (MAC) in 2010. To have better understandability and transparency, MFRS tried to harmonize the internal best practice in accountability and transparency.

### 3.2 Development of Financial Market and Role of Private Bank

Public trading in shares was permitted in since after independence of Myanmar till the military takeover and introduction of the central planning system in 1962. In 1996, the initiative between Myanmar authorities and Daiwa led to the formation of the Myanmar Securities Exchange Center Co., and two companies were the public listing companies which are the Forest Product JV Corporation and Myanmar Citizen Bank. The over-the-counter (OTC) market continues to exist for the shares of these companies. In May 2012, the Central Bank of Myanmar (CBM), under the Ministry of Finance and Revenue (MOFR), Daiwa Institute of Thesis Ltd. (DIR) and Japan Exchange Group, Inc. (JPX) signed on MOU to develop human resources and provide technical assistance for the development of financial and capital market in Myanmar. To establish a systematic financial market in Myanmar, give investor protection through rules and laws, regulate market participants, the stock exchange, the Securities Exchange Law was enacted in 2013.

Myanmar banking industry is mainly organized by Central Bank of Myanmar (CBM), four State-owned banks, thirteen foreign bank branches, two public banks in Yangon Stock Exchange (YSE) and twenty-five private banks. Banking activities are operated by commercial banks and investment banks. They conduct short term loans and trade financing, long term loans, etc.. With the new government policy, CBM has to become independently to laid down the policies in 2011. CBM will set up with a paid-up capital of 300 Billion kyats and of which 100 billion kyats will fully be paid up by the state. The aim of the Central Bank is to control the price stabilities in the domestic market and to preserve the internal and external value of the Myanmar Currency, the kyat. Some of the main responsibilities of the Central Bank of Myanmar are to inspect and supervise the financial institutions and to act as a banker for the financial institutions.

The Capital Market Development Committee was organized in 2008, led by the Union Minister for the Ministry of Finance and Revenue and six sub-committees were formed to provide effective and efficient assistance to main committee. After changing the democratic government, the CBM role is improved and it has been empowered to regulate and supervise the banking system, including the conduct of monetary policy. Under Central Bank guidelines, private banks are responsible to comply with all of the guidelines of the CBM and its supervision department is in charge of inspecting, examining and monitoring the banks as a stakeholder and ensures financial safety.

### 3.3 Current Situation of Private Banks in Myanmar

Before the banking crisis of Myanmar, there was very weak corporate governance practice in the banking industry and loss control of financial services providers. There was no specific law for financial institutions. So illegal financial institutions have emerged in the market and they offer public to higher interest rates on their deposit on a monthly basis. In 2003, these illegal financial institutions could not pay the interest rate that they offer in public and run away from the market. The general public lost their money lost their confidence to the financial firms, including private banks. All of the depositors are withdrawing their money from large private banks, which had made out large loans with the non-performing loans, faced difficulties of paying back to the depositor in a short period of time. Therefore the CBM made available liquidity support to private banks for preventing the collapse of the banking systems, but some of the private banks fell down.

Reviewing this experience, two factors are responsible for corporate governance. There is no supervision upon the non-financial institution which was occupied the role of bank accepted deposits. Responsibilities of BOD are not specifying in Myanmar company law and they are speculating the price to pull up an unrealistic level and end up with liquidation problems in private banks. Starting in

2010, many CBM Laws and financial institution laws were gradually updated and enacted the new laws for investment. According to CBM information, there are twenty-five private banks in the industry in order to contribute to the development of the Myanmar financial market and they are fully and strictly comply with CBM rules and regulations.

Now, these private banks introduce new banking products as home loans, hire purchase, trade financing, safe deposit lockers and payment instruments such as auto-pay (KBZ pay, CB pay), gift cheques, credit card (Master, Visa) and online banking systems. Most of the private banks are fully controlled by individual shareholders and family members. The stakeholders of private banks are the board of directors (BOD), chief executive officer (CEO) and staff of the banking supervision department. Because all of banks are accepting the public deposit and making business with public money. So responsibilities of the board and information transparency and disclosure are important as part of the corporate governance practices.

Current corporate governance practices in private banks are only complying with the statutory Law of Myanmar such as Myanmar Company Act, CBM Laws, Rules and regulations. Most of the banks are trying to complying with the international code because they are preparing to enter the international market and well know about the benefits of complying international codes such as safety, attract the investors and competitive age between local banks.

# CHAPTER IV

# ANALYSIS THE COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES IN BANKING INDUSTRY

This chapter analyses the corporate governance practices in the banking industry. The objective of this survey is to identify the current corporate governance practices in private banks and explore the compliance of CG practices in banking industries as a whole. This chapter includes the research design, demographic information of respondents, corporate governance scorecard for UK Combine code (2012) and data analysis of CG practice in private banks.

## 4.1 Research Design

This survey is analyses the compliance of CG practices in private banks. For the reliability of the study, descriptive statistics method and Corporate Governance Scorecard was used. The Corporate Governance Scorecard defined by International Finance Corporation (IFC) which is a quantitative tool to measure the level of observance of code and/or a standard of corporate governance. Scorecards compare the range of corporate governance practices with a benchmark. In this survey, the benchmark for the scorecard is the UK Combine code (2012).

According to the combined code, the questionnaire is constructed into five main parts. They are;

(1) Leadership ( Board which have collectively responsible for the long-term success of the company)

(2) Effectiveness (The board and its committees should have the appropriate balance of skills, experience, independence, and knowledge of the company to

enable them to discharge their respective duties and responsibilities effectively)

(3) Accountability (The board should present a fair, balanced and understandable assessment of the company's position and prospects.)

(4) Remuneration (Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully.)

(5) Relation with Shareholders (The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place)

The design of the questionnaire is used as a fixed-alternative question and requires the respondent to choose one of two alternatives. For the overall analysis, a summary of data is measured by the corporate governance scorecard. The benefit of the scorecard is not only compliance exercise, but also check observance of codes. To answer the questionnaires, 50 respondents are selected from 14 private banks and 8 respondents were randomly selected from the banking industry.

The scorecard consists of 38 indicators and is divided into five parts corresponding with the UK Combine Code (2012). Each part carries a different weighted based on the relative importance area as Table (4.1).

**Table (4.1) Composition of Elements in Corporate Governance Scorecard**

| Indicator Category | Number of Indicator (A) | Weighted(% of total score (B)) | Contribution/Each indicator (B/A) |
|---|---|---|---|
| Leadership | 7 | 18% | 2.63 |
| Effectiveness | 10 | 26% | 2.63 |
| Accountability | 8 | 21% | 2.63 |
| Remuneration | 4 | 11% | 2.75 |
| Relation with Shareholders | 9 | 24% | 2.66 |
| Total | 38 | 100% | |

Source : International Finance Corporation

## 4.2 Demographic Information of the Respondents

This section presents the demographic factors of respondents. It consists of gender, age of respondents, educational background, position title in the bank and working experiences in the banking industry.

**Table (4.2) The Gender of the Respondents**

| Gender | Number of Respondent | Percentage |
|---|---|---|
| Female | 25 | 50 |
| Male | 25 | 50 |
| Total | 50 | 100 |

Source: Survey Data (2019)

The gender of the respondents is summarized in Table (4.2). According to this table, coincidentally the respondents of male and female are equal with 50%.

**Table (4.3) Age Group of the Respondents**

| Age (in year) | Number of Respondent | Percentage |
|---|---|---|
| < 30 years | 15 | 30 |
| 31 to 40 years | 18 | 36 |
| 41 to 50 years | 12 | 24 |
| 51 to 60 years | 5 | 10 |
| Total | 50 | 100 |

Source: Survey Data (2019)

With the respect of the age group of respondents in Table (4.3), 30% of respondents are less than 30 years. Between 31 years to 40 years are 36%, 41 years to 50 years are 24% and 51 to 60 years are 10% of total respondents. Therefor the most of respondents ages are between 31 to 40 years (36%).

**Table (4.4) Educational Background of the Respondents**

| Education | Number of Respondent | Percentage |
|---|---|---|
| Bachelor Degree | 16 | 32 |
| Professional Certificate | 3 | 6 |
| Master Degree | 31 | 62 |
| Other | 0 | 0 |
| Total | 50 | 100 |

Source: Survey Data (2019)

The educational background of respondent in above Table (4.4) shows that 32% of total respondents are Bachelor Degree holders, 6% of total respondents are Professional Certificate holders and 62% of total respondents are Master Degree holders. So the majority of the respondents are Master Degree holders.

**Table (4.5) Job Position of the Respondents**

| Job Position | Number of Respondent | Percentage |
|---|---|---|
| Manager | 18 | 36 |
| Senior Manager | 16 | 32 |
| Director | 8 | 16 |
| Managing Partner | 1 | 2 |
| Other | 7 | 14 |
| Total | 50 | 100 |

Source: Survey Data (2019)

According to the Table (4.5), the job position of respondents are divided into 5 groups. as Manager, Sr. Manager, Director, Managing Partner and other position. Managing Partner is 2% of respondents and other position is 14%, Director is 16%, Senior Manager  is 32% and Manager is 36% respectively. So the majority of respondent are Manager level position (36%).

**Table (4.6) Working Experiences of the Respondents**

| Working Exp. In Bank | Number of Respondent | Percentage |
|---|---|---|
| < 5 years | 12 | 24 |
| 6 - 10 years | 27 | 54 |
| 11 - 20 years | 3 | 6 |
| 21 – 30 years | 8 | 16 |
| > 31 year | 0 | 0 |

| Total | 50 | 100 |
|---|---|---|

Source: Survey Data (2019)

Working experiences of the respondents was surmised in Table (4.6). According to this table 24% of respondents are less than 5 years' experience in bank , 54% of respondents are between 6 to 10 years' experience, 6% of respondent are between 11 to 20 years' experiences and 16% of respondents are between 21 to 30 years' experience. No one is above 31 year experiences. So the majority of the respondents are between 6 to 10 years' working experience in banking industry.

## 4.3 Analysis the Compliance of Corporate Governance Practices in Banking Industry

To analyze the compliance of corporate governance practices in the banking industry in line with the UK Combine Code (2012), the factors was divided into five parts. They are (1)Leadership (2)Effectiveness, (3)Accountability, (4)Remuneration and (5)Relation with Shareholders was analyzed in factors by factors. To examine the other information about corporate governance practices for recommendations.

### 4.3.1 Leadership

The assessment of the leadership means that the Board has collectively responsible for the long-term success of the company. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board. The chairman is responsible for the leadership of the board and ensuring its effectiveness on all aspects of its role. Non-executive directors should scrutinize the performance of management in meeting agreed on goals and objectives and monitor the reporting of performance.

**Table (4.7) Leadership**

| No | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|

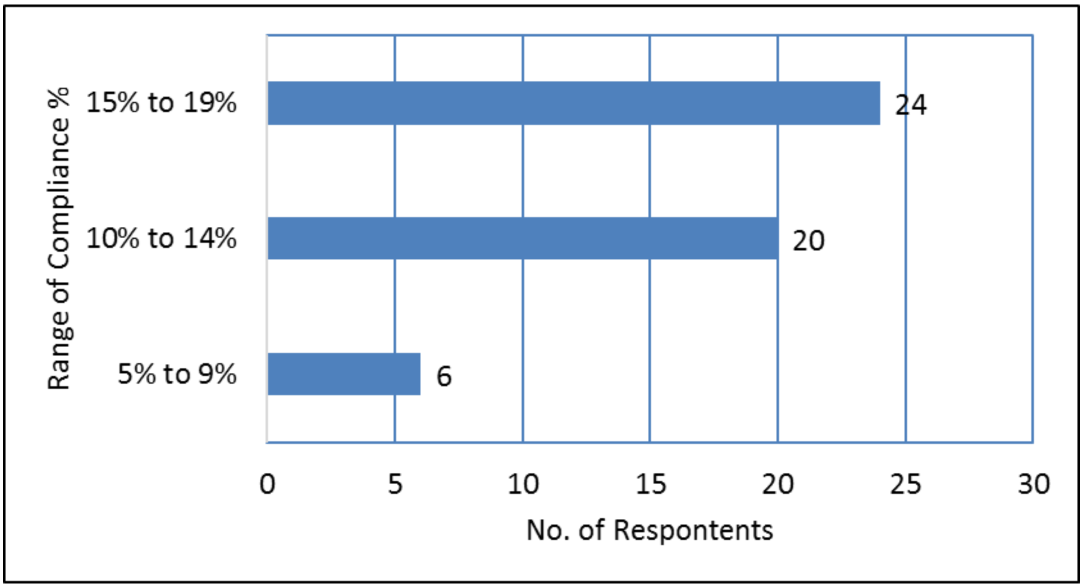
| | | | | |
|---|---|---|---|---|
| 1 | Has the bank set a limit of five board seats that an individual independent director? | Yes | 47 | 94% |
| 2 | Does the BOD play a leading role in set long-term strategy and review annually? | Yes | 44 | 88% |
| 3 | In the organization structure does BOD and CEO is separate? | Yes | 15 | 30% |
| 4 | Does the bank's BOD have separate into ED and NED? | Yes | 35 | 70% |
| 5 | Does the bank CEO and BOD have official clear division of responsibilities? | Yes | 39 | 78% |
| 6 | Does the bank CEO hire from outside as a professional? | Yes | 47 | 94% |
| 7 | Does the BOD members are collectively responsible for the CEO's performance? | Yes | 31 | 62% |

Source: Survey Data (2019)

To cover the principle of leadership it was divided into 7 indicators. Those indicators comprised proper organization structure, separation of Board of Directors (BOD) and Chief Executive Officer (CEO), CEO is bank founder or professional person, declaration of code of ethics, compliance procedure and collectively responsible for the CEO's performance.

According to Table (4.7) 94% of private banks have proper organization structure, the separate the BOD and CEO is 88% of surveyed, CEO is the founder of the private bank is 30% and 70% hired from outside as a professional. The private bank which has a code of ethics or conducts disclosed is 78%, 94% of the private banks have compliance procedures. BOD members are collectively responsible for the CEO's performance is 62% of the private banks.

**Figure (4.1) : Compliance Weighted Score in the Leadership Factors**




Source: Survey Data (2019),

Based on the Table (4.7) Leadership, the results of each respondent are weighted by the scorecard, as the example in **Appendix (1)** The number of indicators achieved by private banks are shown in Figure (4.1). The maximum weighted score of this part is between 15% to 19% compliance range, it means that 48% of the private banks are strongly compatible with the UK Combine code of corporate governance principles "Leadership". 40% of private banks are compliance with more than 10% and the other 12% of private banks are less than 9%.

### 4.3.2. Effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence, and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The principle of effectiveness includes the composition of the board (an appropriate combination of executive and non-executive directors), Nomination Committees for appointment and re-election of the board. Moreover, the board and its committees should have the appropriate balance of skills, experience, independence, and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. To cover the above principles questionnaire was divided into 10 indicators.

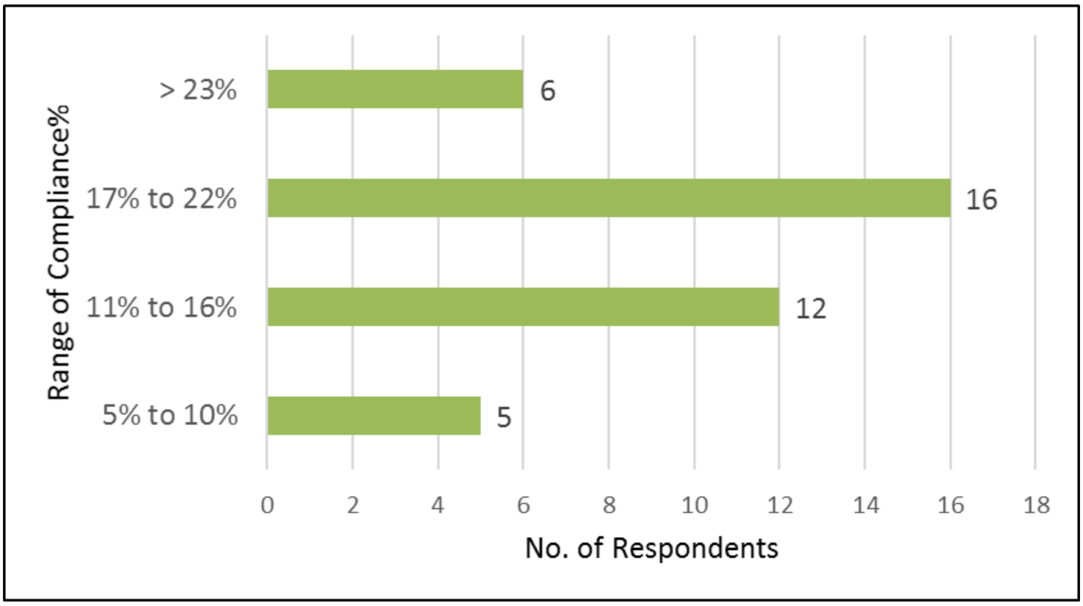
**Table (4.8) Effectiveness**

| No. | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|
| 1 | Does the bank have any specification for BOD's qualification and experience? | Yes | 28 | 56% |
| 2 | Does the bank have appropriate combination of ED and NED? | Yes | 42 | 84% |
| 3 | Does the bank have full time independent Executive Director? | Yes | 39 | 78% |
| 4 | Is there any formal and transparent procedure for the appointment of new directors to the board? | Yes | 36 | 72% |
| 5 | Does the bank have a nomination committee? | Yes | 33 | 66% |
| 6 | Can nomination committee propose the selection of new directors? | Yes | 28 | 56% |
| 7 | Is there annual performance evaluation program for the directors? | Yes | 30 | 60% |
| 8 | Does the bank have induction training program for BOD? | Yes | 23 | 46% |
| 9 | Does the bank have any regular interval for re-election of directors? | Yes | 33 | 66% |
| 10 | Do the BOD members are participating in Bank's day to day operation? | Yes | 26 | 52% |

Source: Survey Data (2019)

According to Table (4.8), 56% of the private bank's BOD is the owner of relatives, so we assumed that the proper appointment of BOD is 44%. In BOD members, the appointment of the executive director and the non-executive director is 84%. The private bank have any specification for BOD members' qualification is 78%. 72% of respondents say that there is any formal and transparent procedure for the appointment of new directors to the board. The banks have a nomination committee is 66% and the nomination committee can propose the selection of new directors is 56%. 60% of the banks are using annual performance evaluation program for the directors. For the new member of BOD, 46% of the banks have an induction training program for BOD. 66% of the banks are using regular intervals for the re-election of directors. BOD members are participating in Bank's day to day operations is 52%.

**Figure (4.2) : Compliance Weighted Score in the Effectiveness Factors**




Source: Survey Data (2019),

Based on the Table (4.8) Effectiveness factor, the results of each respondent are weighted by the scorecard, the number of indicators achieved by the private banks are shown in Figure (4.2). The maximum weighted score of this part is more than 23% compliance range, it means that only 12% of the private banks are strongly compatible with the UK Combine code of corporate governance principles "Effectiveness". 32% of private banks are compliance between 17% and 22% of compliance range, 24% of private banks are complying within 11% to 16% and the other 10% of banks are less than 10% of compliance range.

### 4.3.3. Accountability

The third principle of the UK Combine Code is the board's accountability on organization performance. The board should present a fair, balanced and understandable assessment of the company's position and prospects. The board is responsible for determining the nature and extent of the significant risks and maintain sound risk management and internal control systems. The directors should report in annual financial statements if there a going concern issue for the organization.

**Table (4.9) Accountability**

| No. | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|
| 1 | Does the bank issue fair and | Yes | 44 | 88% |

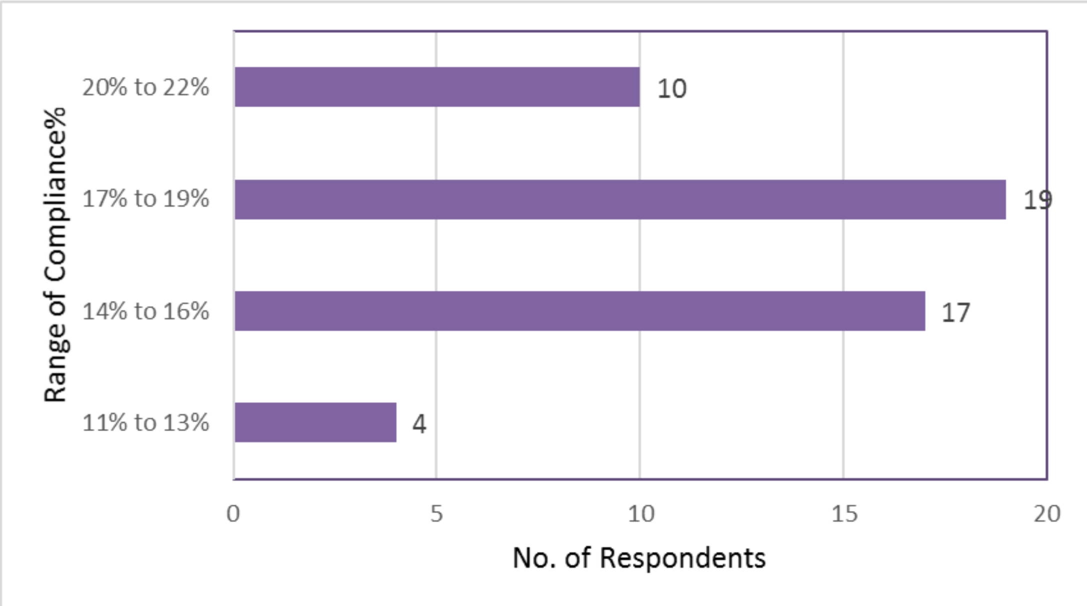
| | | | | |
|---|---|---|---|---|
| | understandable financial report annually? | | | |
| 2 | Does the bank use International Accounting Standard (IAS) and (IFRS)? | Yes | 38 | 76% |
| 3 | Does the bank have risk management committee? | Yes | 50 | 100% |
| 4 | Does the bank have audit committee? | Yes | 50 | 100% |
| 5 | If yes, Is the bank CEO include the audit committee? | Yes | 13 | 26% |
| 6 | Does the Audit Committee have updated accounting and financial experiences? | Yes | 45 | 90% |
| 7 | Does the Audit Committee have responsible for the approval of bank's yearly Financial Statement announcement? | Yes | 47 | 94% |
| 8 | Is there any maximum period determined for external auditor to audit the bank? | Yes | 45 | 90% |

Source: Survey Data (2019)

The main role and responsibilities of the audit committee should be set out in written terms of the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgments. For the survey purpose for this principle, the questionnaire was divided into 8 main parts and presented in the following table. The audit committee should monitor and review the effectiveness of the internal audit activities.

According to Table (4.9), 88% of private banks are issuing the annual financial report. International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS) were using 76%. All of the banks have a risk management committee and audit committee for 100%. But the CEO is a member of the audit committee survey shown in 26%. 90% of the Audit Committee has updated accounting and financial experiences and skills. 94% of Audit Committee have responsible for the approval of bank's yearly Financial Statement Announcement. For an external auditor to the bank is determined maximum period is 90%.

**Figure (4.3) : Compliance Weighted Score in the Accountability Factors**




Source: Survey Data (2019),

Based on the Table (4.9) Accountability factor, the results of each respondent are weighted by the scorecard, the number of indictor achieved by the private banks are shown in Figure (4.3). The maximum weighted score of compliance is 20% to 22% , it means that 20% of the private banks are strongly compatible with the UK Combine code of corporate governance principles of "Accountability". 38% of private banks are compliance between 17% to 19%, 34% of private banks are complying within 41% to 16% and the other 8% of banks are less than 13% of compliance range.

### 4.3.4. Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully. Remuneration for executive directors, CEO, and chairman should be structured as to link rewards to corporate and individual performance. The performance-related executive directors' remuneration should be stretching and designed to promote the long-term success of the company. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. In this section, the questionnaire related to the remuneration package of directors divided into 4 main questions.

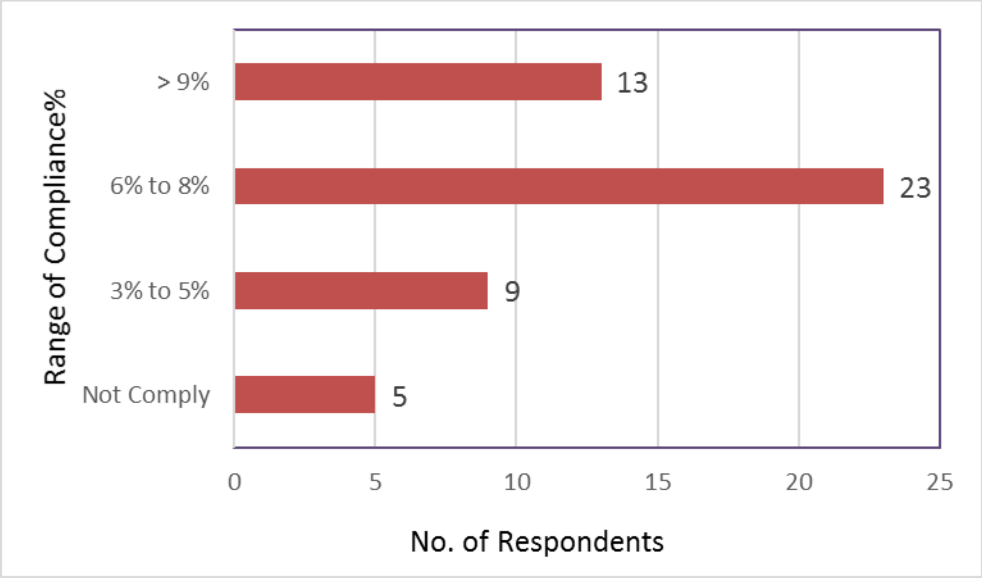
**Table (4.10) Remuneration**

| No. | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|
| 1 | Does the bank have remuneration committee? | Yes | 26 | 52% |
| 2 | Can the BOD decide the bank CEO and executive director's remuneration package? | Yes | 36 | 72% |
| 3 | Are there profit sharing scheme to BOD members and CEO? | Yes | 28 | 56% |
| 4 | Are the remuneration package of BOD and CEO link with corporate performance and individual performance? | Yes | 31 | 62% |

Source: Survey Data (2019)

The answer of the respondent was found in the above Table (4.10), 52% of private banks have a remuneration committee. BOD can decide the bank ECO and the executive director's remuneration package is 72%. The profit-sharing scheme to BOD members and CEO are 56%. The remuneration package of BOD and CEO link with corporate performance and individual performance is 62%.

**Figure (4.4) : Compliance Weighted Score in the Remuneration Factors**




Source: Survey Data (2019),

Based on the Table (4.10) Remuneration factor, the results of each respondent are weighted by the scorecard, the number of indicator achieved by the private banks are shown in Figure (4.4). The maximum weighted score of compliance is 11% , it means that 26% of the private banks are strongly compatible with the UK Combine code of corporate governance principles of "Remuneration". 46% of private banks are compliance between 6% to 8%, 18% of private banks are complying only within 3% to 5% and the rest 10% of banks are not complying with the remuneration principles of the UK Combine Code.

### 4.3.5. Relation with Shareholders

The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company The board should use the AGM to communicate with investors and to encourage their participation The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. To cover this principle, the questionnaire was structured into 10 portions for shareholders' right, AGM meeting, voting procedure, proxy voting, replacement or appointment of a new director and external auditor.

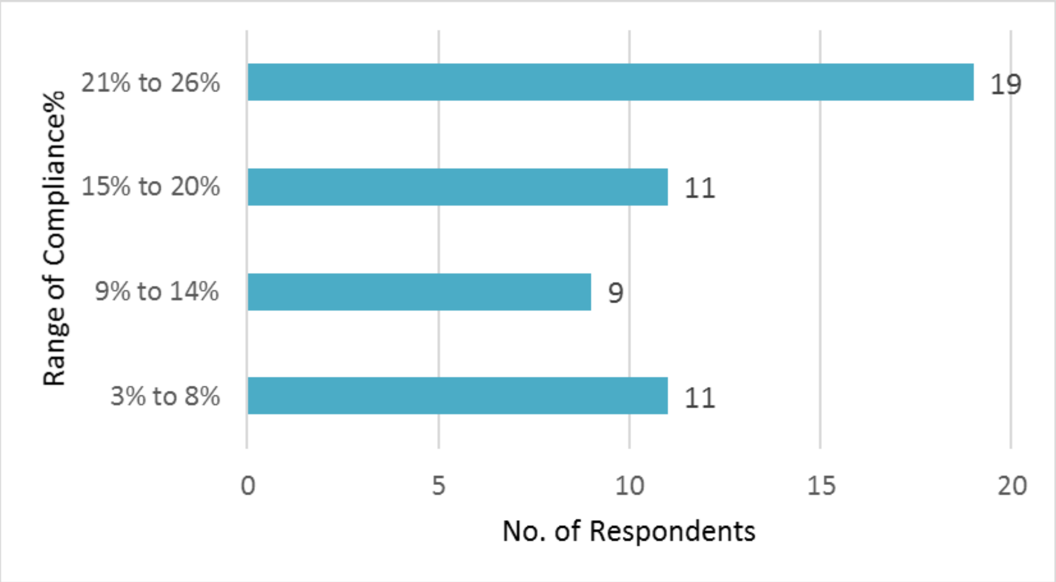
**Table (4.11) Relation with Shareholders**

| No. | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|
| 1 | Does the bank have any shareholder? | Yes | 42 | 84% |
| 2 | Can shareholder participate in fundamental corporate changes? | Yes | 25 | 50% |
| 3 | Does the company hold the Annual General Meeting (AGM) times as per requirement of Companies Act? | Yes | 42 | 84% |
| 4 | Is process and procedure same to all shareholders in AGM? | Yes | 39 | 78% |
| 5 | Is one share one vote rule adopted in your bank? | Yes | 31 | 62% |
| 6 | If a shareholder cannot attend AGM personally, proxy voting can be used? | Yes | 29 | 58% |
| 7 | Can shareholders demand to check bank's financial statements and prospectus? | Yes | 34 | 68% |
| 8 | Can shareholders demand for replacement or appointment of external auditor? | Yes | 33 | 66% |
| 9 | Does it obtain the approval from shareholders for any related party transaction? | Yes | 29 | 58% |

Source: Survey Data (2019)

According to Table (4.11), 84% of the respondents respond to bank have shareholders. Shareholders can be participating in fundamental corporate changes is 50%. The bank holds the Annual General Meeting (AGM) times as per the requirement of the Companies Act is 84%. Process and procedure same to all shareholders in AGM is 78%. One share one vote rule adopted bank is 62%. If a shareholder cannot attend AGM personally, proxy voting can be used is 58%. Shareholders can demand to check the bank's financial statements and prospectus is 68%. Shareholders' demand for replacement or appointment of an external auditor is 66% and 58% of the bank is obtain approval from shareholders for any related party transaction.

**Figure (4.5) : Compliance Weighted Score in the Relation with Shareholders**




Source: Survey Data (2019)

Based on the Table (4.11) Relation with Shareholders factor, the results of each respondent are weighted by the scorecard, the number of indicators achieved by the private banks are shown in Figure (4.5). The maximum weighted score of compliance is 21% to 26%,  it means that 38% of the private banks are strongly compatible with the UK Combine code of corporate governance principles of "Relation with Shareholders". 22% of private banks are compliance between  15% to 20% , the other 18% of private banks are complying only within 9% to 14% and the rest 22% of banks are complying only 3% to 8% range.

### 4.3.6. Other Information

The purpose of doing a survey of this part is for more precise compliance with corporate governance practices in the banking industry. If they are going to YSE, they have to comply with the law of the Yangon Security Exchange Commission and other relevant laws of Myanmar. According to Table (4.12), 52% of the private banks have the plan to list in YSE and 62% of banks are confident that their current corporate governance practices are enough for publicity.

**Table (4.12) Other Information**

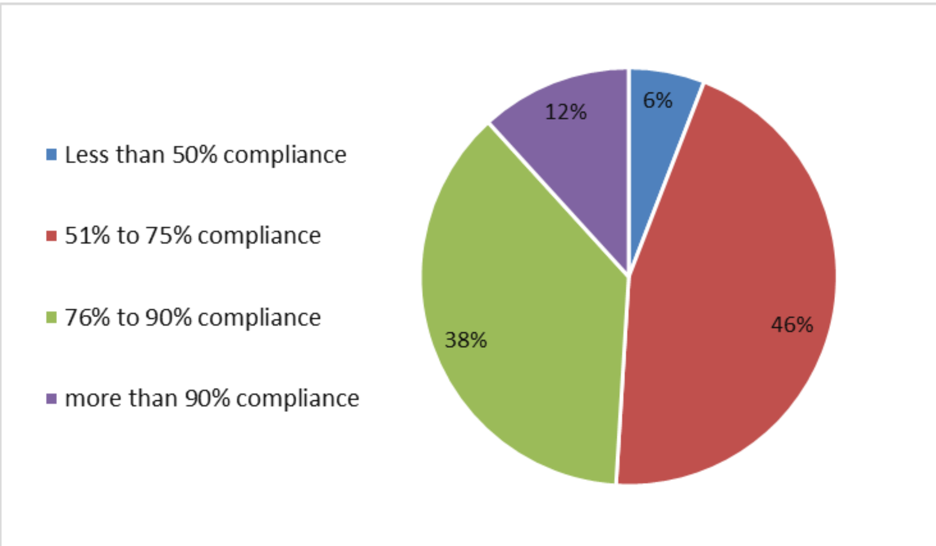
| No. | Questionnaire | Category | Number of Respondent | Percent |
|---|---|---|---|---|
| 1 | Does your bank have plan to list in Yangon Stock Exchange? | Yes | 26 | 52% |
| 2 | Do you think your bank current corporate governance practices is enough for publicity? | Yes | 31 | 62% |

Source: Survey Data (2019)

## 4.4 Overall Corporate Governance Practices in Myanmar

Benchmark with UK Combine Code (2012) to explore the compliance of corporate governance practices, all the survey data are combined and analyzed as the current range of compliance in banking industries.

**Figure (4.6) : Overall Corporate Governance Practices in Banking Industry.**




Source: Survey Data (2019)

The summarized data are divided into 4 groups such as less than 50% can say weekly comply, 51% to 70% can say moderately comply, 71% to 90% can say strongly comply and over 90% can assume as almost fully comply, detail can see in **Appendix-(2**) and figure (5.1).

According to figure (5.1) there is 38% of the private banks are 76% to 90% compliance range in corporate governance practices. The biggest portion of 46% of private banks are complying the corporate governance practices in the range of 51% to 75%.  12% of the private banks are complying the UK Combine Code to over 90% and only 6% of private banks are complying less than 50%.

There are only 6% of the private bank are weakly comply, 46% of private bank are moderately comply, 38% of private bank are strongly comply and 12% of the  private bank are almost fully comply with the UK Combine Code of corporate governance practices, which are going to IPO in very soon. So current compliance of corporate governance practices in the banking industry can say moderately comply in UK Combine Code.

# CHAPTER V

# CONCLUSION

This chapter is organized by two parts; the first one survey finding of corporate governance practices and the second one is the recommendation for the banking industry and needs for further studies.

## 5.1 Findings

Based on the analysis of survey data, findings are summarized in the following. In Myanmar, relation with the principles of the UK Combine Code, there is no establishment of corporate governance principles and they are not fully aware of the detail practices. Some of the principles are something like rule-based as directors' responsibility and accountability in the Myanmar Company Act (2014). Some are practicing the principle-based like 'comply or explain', but there is no specific code in Myanmar. Generally, based on data, most of the private banks are trying to improve their compliance level of corporate governance practices in Myanmar.

The objective of the study is to identify the current corporate governance practices in private banks. The concern with the objective of the study, the first finding of the studies shows that half of the private banks are complying with the principle one of Combine Code, leadership, which have collectively responsible for the long-term success of the company.

The second finding of the studies shows that one-third of the banks are complying the principle two of effectiveness which is board and its committees should have the appropriate balance of skill, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The third finding shows that two-third of private banks are generally complying with the principle of accountability which is the board should present a fair, balanced and understandable assessment of the company's position and prospects. Generally said that the effectiveness of the board and accountability of the board are week in this industry. They may not fully aware of the role of the chief executive officer (CEO) and the role of the board of directors (BODs).

The fourth finding of this study is interesting. This may be very newly principle of corporate governance as “Remuneration” means the level of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully. Ten percent of private banks are not comply with this principle. The overall range of compliance levels is also very low. For the last principle of Combine Code of shareholder relation, it means that the board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders take place. It may say that this principle is the highest range of compliance level. Most of the banks are understand what is shareholder right, how to communicate them, how to get approval from shareholders for major changes in principle.

Benchmark with UK Combine Code (2012) to explore the compliance of corporate governance practices, all the survey data are combined and analyzed as a current range of compliance in banking industries. The overall finding presents that the overall range of compliance levels is not more than 30% of the code. So current compliance of corporate governance practices in the banking industry can say moderately comply in UK Combine Code.

## 5.2 Recommendation and Need for Further Study

To attract more Investors in Myanmar, Governance should enact the strong law and doing enforcement for gaining investor trust. Myanmar Human Resources development also needs in this banking industry for widely used in corporate governance practices. Nowadays the central bank of Myanmar permitted to operate the foreign banks for banking operations and most foreign banks are coming day by day. The local private banks should focus on enhancing transparency, particularly in financial, non-financial information.

Most local banks need to improve in the Board's function, such as reinforce the director’s duties, to improve in internal control and risk management, carefully make investment decisions for long term business. Banks are an important pillar for developing the financial market and capital market. Moreover, banks are operating the depositor money, so each and every function should be transparent and comply with many codes of conduct. Moreover, to get the public awareness on the importance of corporate governance there should be promoting and practices on corporate governance concepts in every industry.

In conclusion, this study is only conducted on private banks in Yangon only. Data collection is a little bit difficult and not easy to get specific data. The suggestion of this paper based on not only my survey data and but also the secondary data such as the annual report of a public bank which is listed in YSX, annual general meeting minutes of a public company and other relevant websites.

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APPENDIX (1)

## 1. Leadership ( :xample)

| No.of scored by Respondents | 2.1 | 2.2 | 2.3 | 2.4 | 2.5 | 2.6 | 2.7 | Total Score | Score card indicator | Total Contribution (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 2 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 3 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 4 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 5 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 2.00 | 2.63 | 5 |
| 6 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 7 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 5.00 | 2.63 | 13 |
| 8 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 9 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 10 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 11 | 1 | 1 | 0 | 1 | 0 | 1 | 0 | 4.00 | 2.63 | 11 |
| 12 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 13 | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 5.00 | 2.63 | 13 |
| 14 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 15 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 16 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 3.00 | 2.63 | 8 |
| 17 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 4.00 | 2.63 | 11 |
| 18 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 19 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 5.00 | 2.63 | 13 |
| 20 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 21 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 2.00 | 2.63 | 5 |
| 22 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 3.00 | 2.63 | 8 |
| 23 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 7.00 | 2.63 | 18 |
| 24 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 5.00 | 2.63 | 13 |
| 25 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 5.00 | 2.63 | 13 |
| 26 | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 4.00 | 2.63 | 11 |
| 27 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 28 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 29 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 30 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 7.00 | 2.63 | 18 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 31 | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 3.00 | 2.63 | 8 |
| 32 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 33 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 34 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 35 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 36 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 7.00 | 2.63 | 18 |
| 37 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 7.00 | 2.63 | 18 |
| 38 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 39 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 40 | 1 | 1 | 0 | 1 | 0 | 1 | 0 | 4.00 | 2.63 | 11 |
| 41 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 42 | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 5.00 | 2.63 | 13 |
| 43 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 44 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 2.00 | 2.63 | 5 |
| 45 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 5.00 | 2.63 | 13 |
| 46 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 5.00 | 2.63 | 13 |
| 47 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 48 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 49 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 6.00 | 2.63 | 16 |
| 50 | 1 | 1 | 0 | 1 | 0 | 1 | 0 | 4.00 | 2.63 | 11 |

| Range | |
|---|---|
| 5% - 9% | 6 |
| 10% - 14% | 20 |
| 15% - 19% | 24 |

APPENDIX (2)

# Total Contribution on UK Combine Code (2012) %

| No. of Respondents | Leadership | Effectiveness | Accountability | Remuneration | Relations with shareholders | Total % of Compliance |
|---|---|---|---|---|---|---|
| 1 | 15.78 | 21.04 | 13.15 | 5.5 | 2.66 | 58.13 |
| 2 | 13.15 | 15.78 | 15.78 | 5.5 | 7.98 | 58.19 |
| 3 | 15.78 | 21.04 | 21.04 | 11 | 21.28 | 90.14 |
| 4 | 15.78 | 10.52 | 18.41 | 8.25 | 15.96 | 68.92 |
| 5 | 5.26 | 10.52 | 15.78 | 8.25 | 13.3 | 53.11 |
| 6 | 13.15 | 18.41 | 18.41 | 11 | 10.64 | 71.61 |
| 7 | 13.15 | 7.89 | 21.04 | 0 | 21.28 | 63.36 |
| 8 | 15.78 | 18.41 | 18.41 | 8.25 | 18.62 | 79.47 |
| 9 | 15.78 | 15.78 | 18.41 | 5.5 | 18.62 | 74.09 |
| 10 | 15.78 | 21.04 | 15.78 | 8.25 | 21.28 | 82.13 |
| 11 | 10.52 | 15.78 | 15.78 | 8.25 | 18.62 | 68.95 |
| 12 | 13.15 | 21.04 | 18.41 | 2.75 | 7.98 | 63.33 |
| 13 | 13.15 | 10.52 | 15.78 | 2.75 | 23.94 | 66.14 |
| 14 | 15.78 | 18.41 | 18.41 | 0 | 7.98 | 60.58 |
| 15 | 13.15 | 5.26 | 10.52 | 2.75 | 5.32 | 37 |
| 16 | 7.89 | 7.89 | 15.78 | 0 | 5.32 | 36.88 |
| 17 | 10.52 | 13.15 | 21.04 | 2.75 | 18.62 | 66.08 |
| 18 | 15.78 | 23.67 | 18.41 | 11 | 2.66 | 71.52 |
| 19 | 13.15 | 13.15 | 10.52 | 8.25 | 13.3 | 58.37 |
| 20 | 13.15 | 18.41 | 18.41 | 5.5 | 23.94 | 79.41 |
| 21 | 5.26 | 18.41 | 18.41 | 5.5 | 13.3 | 60.88 |
| 22 | 7.89 | 13.15 | 15.78 | 5.5 | 23.94 | 66.26 |
| 23 | 18.41 | 15.78 | 21.04 | 11 | 21.28 | 87.51 |
| 24 | 13.15 | 21.04 | 18.41 | 11 | 21.28 | 84.88 |
| 25 | 13.15 | 13.15 | 18.41 | 11 | 18.62 | 74.33 |
| 26 | 10.52 | 21.04 | 18.41 | 8.25 | 21.28 | 79.5 |
| 27 | 15.78 | 21.04 | 18.41 | 11 | 13.3 | 79.53 |
| 28 | 13.15 | 10.52 | 18.41 | 5.5 | 21.28 | 68.86 |
| 29 | 15.78 | 21.04 | 15.78 | 2.75 | 7.98 | 63.33 |
| 30 | 18.41 | 10.52 | 15.78 | 2.75 | 13.3 | 60.76 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 31 | 7.89 | 10.52 | 15.78 | 5.5 | 15.96 | 55.65 |
| 32 | 15.78 | 26.3 | 21.04 | 11 | 23.94 | 98.06 |
| 33 | 15.78 | 7.89 | 10.52 | 2.75 | 5.32 | 42.26 |
| 34 | 15.78 | 26.3 | 21.04 | 8.25 | 23.94 | 95.31 |
| 35 | 15.78 | 18.41 | 15.78 | 11 | 10.64 | 71.61 |
| 36 | 18.41 | 26.3 | 21.04 | 11 | 23.94 | 100.69 |
| 37 | 18.41 | 26.3 | 21.04 | 11 | 23.94 | 100.69 |
| 38 | 15.78 | 26.3 | 21.04 | 11 | 23.94 | 98.06 |
| 39 | 15.78 | 21.04 | 15.78 | 8.25 | 21.28 | 82.13 |
| 40 | 10.52 | 15.78 | 15.78 | 8.25 | 18.62 | 68.95 |
| 41 | 13.15 | 21.04 | 18.41 | 2.75 | 7.98 | 63.33 |
| 42 | 13.15 | 10.52 | 15.78 | 2.75 | 23.94 | 66.14 |
| 43 | 15.78 | 18.41 | 18.41 | 0 | 7.98 | 60.58 |
| 44 | 5.26 | 10.52 | 15.78 | 8.25 | 13.3 | 53.11 |
| 45 | 13.15 | 18.41 | 18.41 | 11 | 10.64 | 71.61 |
| 46 | 13.15 | 7.89 | 21.04 | 0 | 21.28 | 63.36 |
| 47 | 15.78 | 18.41 | 18.41 | 8.25 | 18.62 | 79.47 |
| 48 | 15.78 | 15.78 | 18.41 | 5.5 | 18.62 | 74.09 |
| 49 | 15.78 | 21.04 | 15.78 | 8.25 | 21.28 | 82.13 |
| 50 | 10.52 | 15.78 | 15.78 | 8.25 | 18.62 | 68.95 |

| | | |
|---|---|---|
| < 50% | 6% | 3 |
| 51% - 75% | 46% | 23 |
| 76% - 90% | 38% | 18 |
| > 90% | 12% | 6 |

APPENDIX (3)

QUESTI NAIRES

**Yangon University of Economics**

**Department of Commerce**

**Master of Banking and Finance Programme**

Corporate Governance Practices in Private Banks of Myanmar

**I. Demographic Information of Respondents (Please mark ( ))**

1.1 Gender

| Male | Female |
|---|---|
| | |

1.2 Age Group

| < 30 years | 31 to 40 years | 40 to 51 years | 51 to 60 years | > 61 years |
|---|---|---|---|---|
| | | | | |

1.3 Qualification of Respondents

| Bachelor Degree | Professional Certificate | Master Degree | Other (please describe) |
|---|---|---|---|
| | | | |

1.4 Your current job position in the Bank

| Manager | Senior Manager | Director | Managing Partner | Other (Please describe) |
|---|---|---|---|---|
| | | | | |

1.5 Working Experience in Banking Sectors

| < 5 years | 6 - 10 years | 11 - 20 years | 21 – 30 | > 31 year |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | | | years | |
| | | | | |

**II. Leadership ( Board which have collectively responsible for the long-term success of the company)**

2.1 Has the bank set a limit of five l seats that an individual Independent director?

(YES / NO)

2.2 Does the BOD play a leading role in set the long-term strategy and review annually?

(YES / NO)

2.3 In the organization structure does BOD and CEO is separate? (YES / NO )

2.4 Does the bank's BOD have separate into ED and NED? (YES / NO)

2.5 Does the bank CEO and BOD have official clear division of responsibilities?

(YES / NO )

2.6 Does the bank CEO hire from outside as a professional? (YES / NO )

2.7 Does the BOD members are collectively responsible for the CEO's performance?

(YES / NO )

**III. Effectiveness (The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively)**

3.1 Does the bank have any specification for BOD's qualification and experience?

(YES /NO )

3.2 Does the bank have appropriate combination of ED and NED? (YES/NO)

3.3 Does the bank have full time independent Executive Director? (YES/NO)

3.4 Is there any formal and transparent procedure for the appointment of new directors to the board? (YES / NO )

3.5 Does the bank have a nomination committee? (YES / NO )

3.6 Can nomination committee propose the selection of new directors? (YES / NO )

3.7 Is there annual performance evaluation program for the directors? (YES / NO )

3.8 Does the bank have induction training program for BOD? (YES / NO )

3.9 Does the bank have any regular interval for re-election of directors? (YES / NO )

3.10 Do the BOD members are participat Bank's day to day operation?

(YES / NO )

**IV. Accountability (The board should present a fair, balanced and understandable assessment of the company's position and prospects.)**

4.1 Does the bank issue fair and understandable financial report annually? (YES / NO )

4.2 Does the bank use International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS)? (YES / NO )

4.3 Does the bank have risk management committee? (YES / NO )

4.4 Does the bank have audit committee? (YES / NO )

4.5 If yes, Is the bank CEO include the audit committee? (YES / NO )

4.6 Does the Audit Committee have updated accounting and financial experiences? (YES / NO )

4.7 Does the Audit Committee have responsible for the approval of bank's yearly Financial Statement announcement? (YES / NO )

4.8 Is there any maximum period determined for external auditor to audit the bank? (YES / NO )

**V. Remuneration (Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully.)**

5.1 Does the bank have remuneration committee? (YES / NO )

5.2 Can the BOD decide the bank CEO and executive director's remuneration package?(YES/ NO )

5.3 Are there profit sharing scheme to BOD members and CEO? (YES / NO )

5.4 Are the remuneration package of BOD and CEO link with corporate performance and individual performance? (YES / NO )

**VI. Relation with Shareholders (The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place)**

6.1 Does the bank have any shareholder? (YES / NO )

6.2 Can shareholder participate in fundamental corporate changes? (YES / NO )

6.3 Does the company hold the Annual General Meeting (AGM) times as per requirement of Companies Act? (YES / NO )

6.4 Is process and procedure same to all shareholders in AGM? (YES / NO )

6.5 Is one share one vote rule adopted in your bank? (YES / NO )

6.6 If a shareholder cannot attend AGM personally, proxy voting can be used?(YES/NO)

6.7 Can shareholders demand to check bank's financial statements and prospectus? (YES / NO )

6.8 Can shareholders demand for replacement or appointment of external auditor? (YES / NO )

6.9 Does it obtain the approval from shareholders for any related party transaction? (YES / NO )

**VII. Others information**

7.1 Does your bank have plan to list in Yangon Stock Exchange? (YES / NO )

7.2 If yes, please describe an estimate initial public offering (IPO) time in stock exchanges.

………………………………………

7.3 Do you think your bank current corporate governance practices is enough for publicity? (YES / NO )

7.4 If No, please make a list of the requirements of your bank corporate governance practices. (YES / NO )

7.5 What additional corporate governance practices do you need to comply for international standards, please make a list below.

(a) ………………………………………

(b) ……………………………………….

(c) …………………………………………

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

**Thanks for your precious time for my questionnaires.**

The answer will be keep as confidential and will use for only educational purpose.

APPENDIX (4)

**List of Private Banks in Myanmar**

| Sr.No | Name of Bank | Date of Licence Issued | Head-Office Address |
|---|---|---|---|
| 1 | Co-operative Bank Ltd | 3.8.1992 | No-334/336 Corner of Strand Road and 23rd street, Latha Township, Yangon |
| 2 | Yadanabon Bank Ltd | 27.8.1992 | No-58(A) 26 Bayintnaung Street Between 84*85 Street, Aung Myay Tharzan Township, Mandalay |
| 3 | Myawaddy Bank Ltd | 1.1.1993 | Plot B-1 Near Thiriyadana Super Market, Hotel Zone, Naypyitaw |
| 4 | Yangon City Bank Ltd | 19.3.1993 | Coner of the Settyon Street & Banyerdala Street Mingalar Taung Nyunt Township,Yangon |
| 5 | Yoma Bank Ltd | 26.7.1993 | No-1, Kungyan street Mingalar Taung Nyunt Township,Yangon |
| 6 | Myanmar Oriental Bank Ltd | 26.7.1993 | No-166/168 Pansodan Road Kyauktada Township, Yangon |
| 7 | Asia Yangon Bank Ltd | 17.3.1994 | No-319/321 Mahabandoola Road Botadaung Township Yangon |
| 8 | Tun Commercial Bank Ltd | 8.6.1994 | No-165/167 Bo Aung Kyaw Road(Middle), Kyauktada Township Yangon |
| 9 | Kanbawza Bank Ltd | 8.6.1994 | 615/1, Pyay Road, Kamayut Township, Yangon |

| | | | |
|---|---|---|---|
| 10 | Small & Medium Enterprises Development Bank Ltd | 12.1.1996 | Plot No-2, Oktayathiri Quarter, Naypyitaw |
| 11 | Global Treasure Bank Ltd | 9.2.1996 | No-654/666 Merchant Road Pabedan Township, Yangon |
| 12 | Rual Development Bank Ltd | 26.6.1996 | Plot-2, Compound of Thiriyadanar Super Market, Naypyitaw |
| 13 | Innwa Bank Ltd | 15.5.1997 | No-550/552 Corner of Merchant Road and 35th Street Kyuktada Township, Yangon |
| 14 | Asia Green Development Bank Ltd | 2.7.2010 | No-168, Thiri Yatanar Shopping Complex, Zabu Thiri Township, Nay Pyi Taw |
| 15 | Ayeyarwady Bank Ltd | 2.7.2010 | Block (111, 112), High Grade Market, Datkhina Thiri Township, Nay Pyi Taw |
| 16 | UAB Bank Limited | 2.7.2010 | Block (2), Asint Myint Zay, Yaza Thingaha Road, Oattara Thiri Township, Nay Pyi Taw |
| 17 | Myanma Apex Bank Ltd | 2.7.2010 | Block (10), Asint Myint Zay, Yaza Thingaha Road, Oattara Thiri Township, Nay Pyi Taw |
| 18 | Naypyitaw Sibin Bank Limited | 28.2.2013 | Shopping Complex No(25/26), Yazathingaha Road, Oaktarathiri Township, Nay Pyi Taw |
| 19 | Myanmar Microfinance Bank Limited | 2.7.2013 | Sayar San Plaza, Corner of New University Avenue & Sayar San Road, Bahan Township, Yangon |
| 20 | Construction, Housing and Infrastructure Development Bank Limited | 12.7.2013 | No.(60), Shwedagon Pagoda Road, Dagon Township, Yangon |
| 21 | Shwe Rural and Urban Development Bank Limited | 28-7-2014 | No.(420), Merchant Road, Botataung Township, Yangon |
| 22 | Ayeyarwaddy Farmers Development Bank Limited(A Bank) | 17-11-2015 | No. (33), Corner of Mahar Bandoola Road and Myaing Haymar Road, Ward (3), Pathein |
| 23 | Glory Farmer Development Bank | 8.6.2018 | No. (149), Corner of Bogyoke Road & Circular Street, South |

| | | | |
|---|---|---|---|
| | Limited (G Bank) | | Monywa Quarter, Monywa City |
| 24 | Mineral Development Bank Limited | 6.7.2018 | No.(66), Kabar Aye Pagoda Road, Mayangone Township, Yangon |
| 25 | Myanma Tourism Bank Limited | 9.7.2018 | No. (437/A), Pyay Road, Ward (8), Kamayut Township, Yangon |

Source: Central Bank of Myanmar Website.