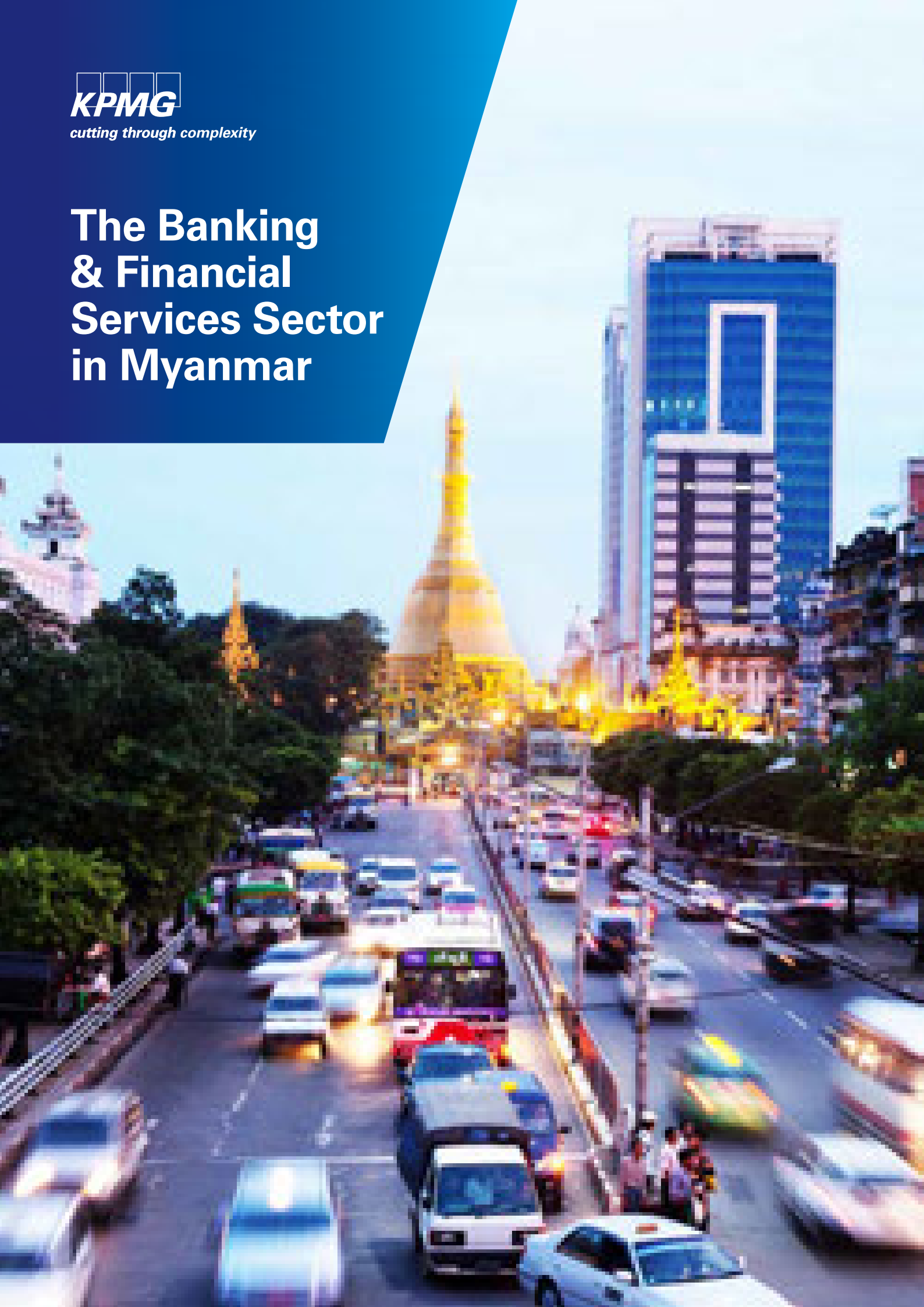




cutting through complexity

The Banking & Financial Services Sector in Myanmar



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FOREWORD

The financial services sector in Myanmar has achieved several important milestones in the last 18 months.

The country has dramatically reduced the quantum of sovereign debt and streamlined the micro-finance sector through the enactment of new laws. The foreign exchange rate has been liberalized to a managed float regime and the insurance sector is now open to private players.

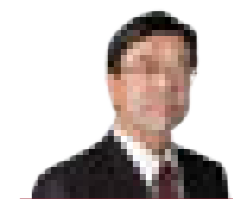
In banking, greater independence has been given to the Central Bank of Myanmar. Its leadership team has also been strengthened. Local banks are now expanding rapidly, branch networks are growing and new services such as automated teller machines, wire transfers and foreign currency accounts are now available.

Yet, despite these achievements, the banking sector in Myanmar needs to modernize, and secure consumer acceptance. Their information technology infrastructure and their accounting and reporting practices need to be quickly upgraded. They will need to retrain their existing staff and hire fresh talent to help build new service lines.

Banks in Myanmar will concurrently need to comply with the rapidly changing regulatory environment, form alliances, and raise more capital. They will have to successfully harness the benefits that come with improved telecom infrastructure, and with the sector eventually opening up to foreign competition. Their management teams will need to be perceived as professional and independent from the parent business houses.

Over the last year, KPMG has been engaging decision makers from the Central Bank of Myanmar as well as government and private banks in the country. We have also been advising foreign banks that have shown interest in Myanmar and through these engagements, we have gained extensive insight and practical experience.

Complemented by primary research from interviews and secondary research in the form of market intelligence, we have compiled this report on Myanmar's banking and financial services sector. We hope you find it both informative and thought provoking.



Yasuhide Fujii
Managing Partner
KPMG in Myanmar



INTRODUCTION

Myanmar: untouched, unexplored, untapped

With a population of around 60 million, Myanmar reopened its doors to the world in 2011 after decades of isolation. Since then, drastic political and economic reforms have followed in an effort to adhere to transparent governance and sustainable development.

The country has made significant efforts in welcoming foreign and private investment by revising several laws, the Foreign Investment Law and the Central Bank Law being two of the more notable ones, awarding licenses for airport construction and telecommunications, and improving severely depleted infrastructure.

The pace at which the country is growing and the increase in investments have been amazingly swift. It is quite evident that Myanmar is eager to catch up with its neighbors and become the Southeast Asian economic giant it once was in the 1960s.

On the right is a comparison of Myanmar's Gross Domestic Product (GDP) per capita to its Southeast Asian neighbors.

Myanmar's GDP per capita Purchasing Power Parity (PPP) for 2012 was USD1,394.

The International Monetary Fund (IMF) and Asian Development Bank (ADB) have estimated the past fiscal year's growth at 6.5% and expect it to accelerate to 6.75% in Financial Year (FY) 2013-14. The growth will be fueled by increased gas production, investments, the lifting of the European Union (EU) sanctions, and the suspension of the United States (U.S.) sanctions¹.

The 6.5% growth rate is a surge from the 5% average growth rate over the past five years. The ADB estimates that at this rate, the country could triple per capita income by 2030 provided it surpasses challenges such as demonstrating sustainable development, increasing labor

productivity, and continuing with its reform efforts². Foreign investments will be a large contributor to future growth rates. The McKinsey Global Institute estimated that in 2010, the size of Myanmar's economy was approximately United States Dollar (USD) 45 billion. It predicts that the economy will double in ten years and more than quadruple by 2030 to over USD200 billion³. There are not many countries left in the world that hold an investment potential of this size.

Myanmar's Directorate of Investment and Companies Administration (DICA) estimates that as of 31 May 2013, over USD42 billion of Foreign Direct Investment (FDI) have flowed into Myanmar.

Of the 32 countries that have invested in Myanmar, investments from China are the largest at close to a third of the total. In the month of June 2013 alone, another half a billion of investments were made⁴.

Gross Domestic Product Per Capita Purchasing Power Parity in 2012

Source: IMF World Economic Outlook Database



Note: All currency in this publication are in USD million unless otherwise stated

¹ International Monetary Fund Press Release, May 2013; "Asian Development Outlook 2013", Asian Development Bank, April 2013

² "Myanmar in Transition", Asian Development Bank, August 2012

³ "Myanmar's Moment: Unique opportunities, major challenges", McKinsey Global Institute, June 2013

⁴ "Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.

BANKING SECTOR

Source: Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.

QUICK FACTS



Associated Laws

- Financial Institutions of Myanmar Law (1991)
- Central Bank Law (1990, 2012)



Associations

- Myanmar Payments Union (MPU)
- Myanmar Bankers Association (MBA)



Domestic Banks

- 9 semi-state owned banks
- 11 private banks
- 33 foreign bank representative offices



Relevant Rates

- Central Bank rate: 10%
- Deposit minimum: 8%
- Lending maximum: 13%
- Liquidity requirement: 20%

EXPORT – IMPORT



Imports

- Fabric, petroleum products, fertilizer, plastics, machinery, transport equipment, cement, construction materials, crude oil, food products, and edible oil



Exports

- Natural gas, wood products, pulses, beans, fisheries, rice, clothing, jade, gems and semi-precious minerals



Export Volume

- USD9.6 billion, 17.8% of GDP

Import Volume

- USD7.5 billion, 14% of GDP



Trade Partners

- Thailand, Singapore, South Korea, Malaysia, India, Japan



State-owned Banks

- Myanmar Economic Bank (MEB)
- Myanmar Agriculture and Development Bank (MADB)
- Myanmar Investment and Commercial Bank (MICB)
- Myanmar Foreign Trade Bank (MFTB)



Banking Products

- Debit Cards/ Automated Teller Machine (ATM) Cards
- VISA, MasterCard, China UnionPay (CUP), Japan Credit Bureau, Western Union
- Syndicated loans
- Hire purchase loans



International Banking Products

- foreign remittance services
- wire transfers (SWIFT)
- opening of foreign currency accounts
- export advising: export advance, export Letter of Credit (LC) advising, export proceed
- import advising: LC issuance, import bill settlement, import documentary
- collection, shipping guarantee, banker's guarantee traveler checks collection



International Banking Banks

- Myanmar Investment and Commercial Bank (MICB)
- Myanmar Foreign Trade Bank (MFTB)
- Myanmar Economic Bank (MEB)
- Kanbawza (KBZ) Bank
- Co-operative (CB) Bank
- Ayeyarwaddy Bank
- United Amara Bank
- Asia Green Development (AGD) Bank



Government Agencies

- Ministry of Finance
- Ministry of Commerce
- Ministry of Agriculture and Irrigation
- Ministry of Livestock Breeding and Fisheries
- Ministry of Environmental Conservation and Forestry
- Ministry of National Planning and Economic Development
- Directorate of Investment and Company Administration (DICA)



Export/Import Banks

- Myanmar Foreign Trade Bank (MFTB)
- Myanmar Investment and Commercial Bank (MICB)
- Myanmar Economic Bank (MEB)
- Kanbawza (KBZ) Bank
- Co-operative (CB) Bank
- Ayeyarwaddy Bank
- United Amara Bank
- Asia Green Development (AGD) Bank



Export/Import Services

- Export advising: export advance, export LC advising, export proceed
- Import advising: LC issuance, import bill settlement, import documentary collection, shipping guarantee, banker's guarantee



Associated Laws

- Central Bank Law (1990, 2012)
- Foreign Investment Law (2012)
- Foreign Exchange Management Law (2012)
- Tariff Law (1992)



Banks in Myanmar were established around the time the country gained independence in 1948. In the early years following Myanmar's independence, several agricultural and commercial financial institutions were set up. The first true central bank, then called Union Bank of Myanmar, was commissioned in 1952.

Following the military coup in 1962, the banks were nationalized and the new Government began a series of demonetization efforts. The first effort was in 1965 when 50 and 100 Burmese Kyat (MMK) notes were demonetized. Then 25, 50, and 100 MMK notes were demonetized in 1985, and in 1987, 25, 35 and 75 MMK notes were replaced with 45 and 90 MMK ones. These changes destroyed the people's trust in the Government and the formal economy.

Significant changes were made to the financial sector following the uprising of 1988. Private banks were allowed, the Central Bank of Myanmar (Central Bank) was re-established and new state owned institutions were set up.

Myanmar banking sector is struggling to recover from 2003 banking crisis

Myanmar's banking system has not always lagged this far behind its peers.

Asia Wealth Bank (AWB) began offering credit cards in 1996 and online banking services in 2001. By 2002, AWB was the largest bank in

Myanmar at the time and had issued over 15,000 credit cards. However, all this ended with the 2003 banking crisis.

The crisis that began in late 2002 and lasted through 2003 left a lasting impact on Myanmar's economy.

In the run-up to the crisis, a number of unauthorized finance companies were collecting monies from the public. They were offering returns of 3-4% per month on speculative investments in real estate, construction and commodity trading.

By the end of 2002, these unsustainable schemes had begun to collapse. Confidence in the formal banking system was eroded when allegations of money laundering against AWB and Mayflower Bank surfaced. A scandal that ended with the resignation of the Minister of Finance fueled further uncertainty. These issues combined led to a run on the banks and a liquidity crisis.

The Central Bank was only able to provide a loan that was 3.5% of total deposits. In FY2002-03, despite restrictions being imposed on withdrawal amounts, demand deposits fell by more than 70% and total loans outstanding to the private sector decreased by 44%.

The crisis in Myanmar's banking sector led to the closure of three banks: AWB, Mayflower, and

Myanmar Universal Bank. This marked the start of a decade of credit crunch for Myanmar, making it predominantly a cash-based economy.

Country grossly under banked

Ten years later, the country is still struggling to recover from the after-effects of the 2003 crisis and the heavy handed regulation that followed.

In a January 2013 report, the International Finance Corporation (IFC) estimated that less than 20% of the population has access to financial services, with only 5% of the population using formal banking services.

As of September 2013, Myanmar's banking sector comprises four state-owned banks, nine semi-state owned banks, 11 private banks and representative offices of 33 foreign banks. There are a total of 863 bank branches¹. In comparison, Thailand and Indonesia have around 7,800 and 20,000 branches, respectively.

The banking sector is regulated by the Central Bank. A total of 17 banks, three state-owned and 14 private ones, are members of the MPU alliance². The Myanmar Banks Association (MBA) is part of the ASEAN Banks Association and has 24 members. The biggest private bank in terms of market share is Kanbawza (KBZ) Bank, followed by Myawaddy Bank and Co-operative (CB) Bank.



FOREIGN EXCHANGE

Source: Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.



Associated Laws

- Foreign Exchange Management Law (2012)
- Foreign Exchange Regulation Act (FERA)
- Central Bank Law (1990, 2012)



Types of Foreign Exchange Licenses

- Authorized Dealer License
- Money Changer License
- Foreign Exchange Acceptor and Holder License



Exchange Rate Average

(June 24 – July 24 2013)

- USD: MMK973.43
- JPY : MMK978.66
- EUR: MMK1,269.03
- GBP: MMK1,478.36
- CNY: MMK158.63
- SGD: MMK767.41
- KRW: MMK85.74

- USD: United States Dollar
- MMK: Myanmar (Burma) Kyat
- JPY: Japan Yen
- EUR: Euro Member Countries
- GBP: United Kingdom Pound
- CNY: China Yuan Renminbi
- SGD: Singapore Dollar
- KRW: Korea (South) Won



Government Agencies

- Ministry of Finance
- Central Bank of Myanmar



Exchange Rate Range

(June 24 – July 24 2013)

USD: MMK955 – MMK980

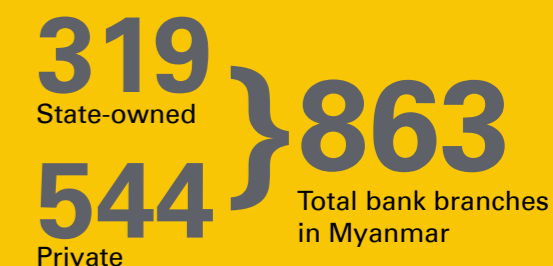
Number of Commerical Bank Branches in 2011

Source: World Bank World Development Indicators



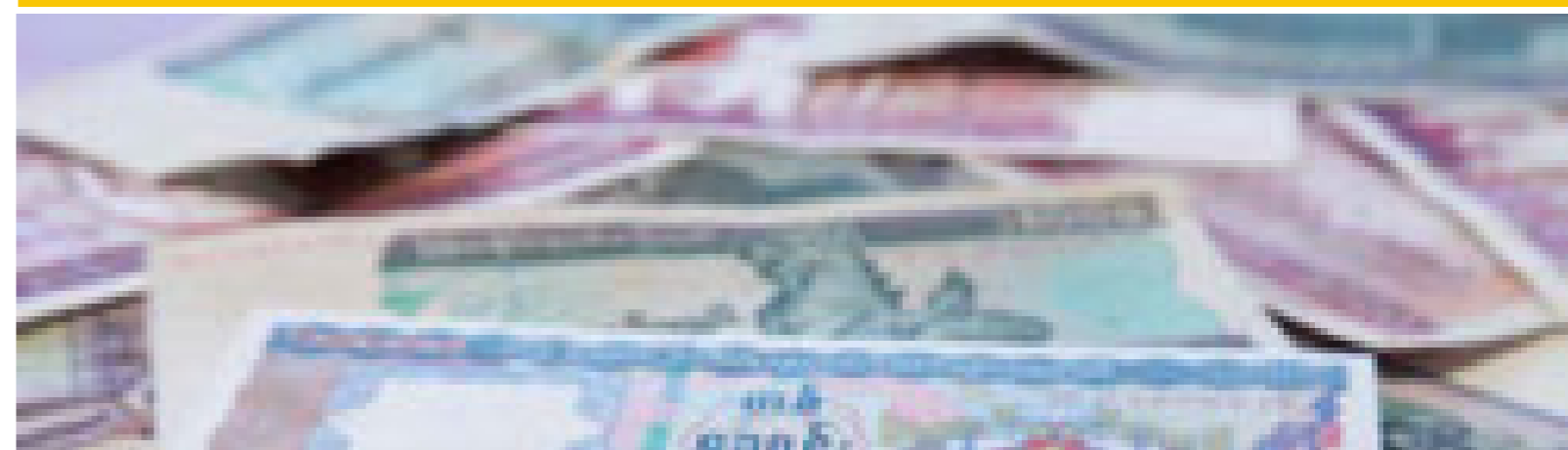
Public Access to Banks (as of September 2013 by number of branches)

Source: KPMG Research



¹ "State-owned/controlled bank number by the US Chamber of Commerce; private bank number from KPMG research

² "JCB credit to be launched in Myanmar in Sept.", Xinhua News, August 2013



Deposits and Loans Share of Top 10 Banks in 2011 – 2012

Source: KPMG Research

	USD BILLIONS	PERCENT	LOAN TO DEPOSIT RATIO		USD BILLIONS	PERCENT	LOAN TO DEPOSIT RATIO
01. Kanbawza Bank Ltd	1.61	22.70	0.64	06. Innwa Bank Ltd	0.22	3.09	0.42
	1.04	32.39			0.09	2.88	
02. Myawaddy Bank Ltd	0.62	8.77	0.76	07. Asia Green Development Bank Ltd	0.18	2.54	0.57
	0.48	14.82			0.10	3.22	
03. Co-operative Bank Ltd	0.49	6.90	0.67	08. Ayeyarwaddy Bank Ltd	0.16	2.37	0.67
	0.33	10.28			0.11	3.50	
04. Myanma Livestock and Fisheries Development Bank Ltd	0.30	4.25	0.81	09. Sibin Tharyar Yay Bank Ltd	0.11	1.58	0.31
	0.24	7.67			0.03	1.09	
05. Myanma Apex Bank Ltd	0.22	3.07	0.75	10. Myanmar Industrial Development Bank	0.08	1.18	0.74
	0.16	5.13			0.06	1.95	

DEPOSIT
LOAN

The banks are not only limited in their reach, but also the availability of banking credit. But it is not because of a lack of a profitable spread. While there is a cap of 13% per annum on lending rates, average deposit rates are very close to the stipulated minimum of 8%. The difficulty in obtaining credit is due to the miniscule deposit base and conservative lending approach.

Hire-purchase remains the most popular form of lending and is used for purchase of automobiles, condominiums and machinery

equipments. Loan-to-value ratio seldom exceeds 50%. Eligible collateral is limited to key agricultural export goods, land, buildings, gold, and bank deposits. The most commonly used collateral is undivided land.

Credit operations allowed under the Financial Institutions of Myanmar Law include loans or advances, discount of bills of exchange, lines of credit, and payment orders and guarantees. There is a credit guarantee mechanism in place but is limited to the state's Small and Medium Development Center set up in 2012¹.

Banks are required to keep 10% of their demand deposits and 5% of their time deposits as non-interest bearing reserves. Of these reserves 75% are to be kept at the Central Bank and the other 25% can be held as cash.

Banks can lend up to 80% of their deposit base. In 1994, a limit of 20% was set on lending to a single individual, an enterprise, or an economic group. In addition, a bank's 10 largest debtors, including economic groups, cannot account for more than 30% of its total loan portfolio.



Kanbawza Bank

Kanbawza (KBZ) Bank is the biggest bank in Myanmar. The bank, established in 1994, is privately-owned and has one-third of the nation's banking customer base as their clients. It has retail and wholesale banking divisions but no investment banking presence. This is characteristic of the banking industry in Myanmar.

With USD1.61 billion in deposits and USD1.04 billion in loans, KBZ Bank's retail banking division is much bigger than that of its closest competitor, Myawaddy Bank, which has USD0.62 billion and USD0.48 billion, respectively.

KBZ Bank has been swiftly aligning itself to the reforms of the financial services sector in Myanmar. It has started offering withdrawal services for international cards, such as MasterCard and VISA, via its ATM. A separate division has also been set up to offer foreign currency banking. In addition to its banking license, KBZ Bank is one of the earliest recipients of an insurance license.

¹ "New Government's Initiatives for Industrial Development in Myanmar", Aung Min and Kudo, K, 2012

According to DICA, foreign banks are allowed to establish representative offices under the Myanmar Companies Act and Section 13 Sub-section (B) of the Financial Institutions of Myanmar Law.

Foreign banks wishing to do so are required to raise a minimum capital requirement of USD50,000 and a registration fee of USD1,000. The

Financial Institutions of Myanmar Law, which is being revised, requires foreign banks to establish representative offices first before they begin offering liaison services. Even after setting up representative offices, foreign banks are prohibited from opening branches or providing direct banking services to the Myanmar public. These banks can only provide

information to headquarters and assist existing clients in Myanmar.

Sector trying to make up for lost time

Myanmar banks have begun forging relationships with international banks following the lifting of sanctions imposed on the country by the EU and Australia, and suspension of the U.S. and Canadian sanctions.

Foreign sanction: Key events in the past 18 months

Source: U.S. Department of State, U.S. Relations with Burma, Bureau of East Asian and Pacific Affairs, Fact Sheet, 13 August 2013. <http://www.state.gov/r/pa/ei/bgn/35910.htm>; "EU agrees to suspend most Burma sanctions", BBC News Asia, 23 April 2012. www.bbc.co.uk/news/world-asia-17813656; Myanmar country brief, Australian Government, Department of Foreign Affairs and Trade. http://www.dfat.gov.au/geo/myanmar/myanmar_brief.html

23 April 2012

The EU sanctions, with the exception of the arms embargo, in place since October 1996 were suspended for a year. The suspension is in recognition of reform efforts by the new Government.

May 2012

President Obama announced the U.S. would ease financial and investment sanctions against Myanmar in response to the 2011 elections and its political reform efforts.

17 May 2012

Hilary Clinton, U.S. Secretary of State, announced the suspension of U.S. sanctions against Myanmar barring U.S. investment for one year, including the restrictions on financial services.

3 July 2012

Australia removed its targeted travel and economic sanctions on Myanmar after reviewing the country's democratic reforms.

11 July 2012

The U.S. Administration broadly authorized the exporting and re-exporting of financial services by U.S. financial institutions. Exporting or re-exporting of financial services include:

1. Transfer of funds, directly or indirectly, by a U.S. national from the U.S. to Myanmar
2. Provision of the following services, directly or indirectly, from the U.S. to individuals in Myanmar:
 - insurance services
 - investment or brokerage services
 - banking services
 - money remittance services
 - loans
 - guarantees
 - letters of credit
 - other forms of credit
 - selling/redeeming traveler's checks, money orders and stored value

The General License No. 16¹ does not permit U.S. nationals to open accounts at blocked Myanmar banks. However, it permits transfers of funds "even though they may involve transfers to or from an account of a blocked Myanmar financial institution, provided the account is not on the books of a financial institution that is a U.S. person".

22 February 2013

U.S. nationals were allowed to conduct financial transactions with AGD, Ayeyarwaddy Bank, MEB and MICB.

The property and interests of property of all four banks remain blocked and no new investment with these four banks is allowed. New investment can be defined as entry into a contract or purchasing a share of an ownership regarding economic development of resources in Myanmar.

To open a bank account at a blocked bank, a U.S. national must obtain a specific license from the Office of Foreign Assets Control (OFAC) of the U.S. Treasury Department.

The following banks remain blocked:

- Myawaddy Bank Ltd
- Innwa Bank
- MFTB

U.S. financial institutions are allowed to enter into direct correspondent relationships with Myanmar banks that are not blocked as well as the four banks allowed to conduct financial transactions with U.S. nationals as of 22 February 2013.

Interest Rate for Loan and Deposit in percentage

Source: World Bank World Development Indicators

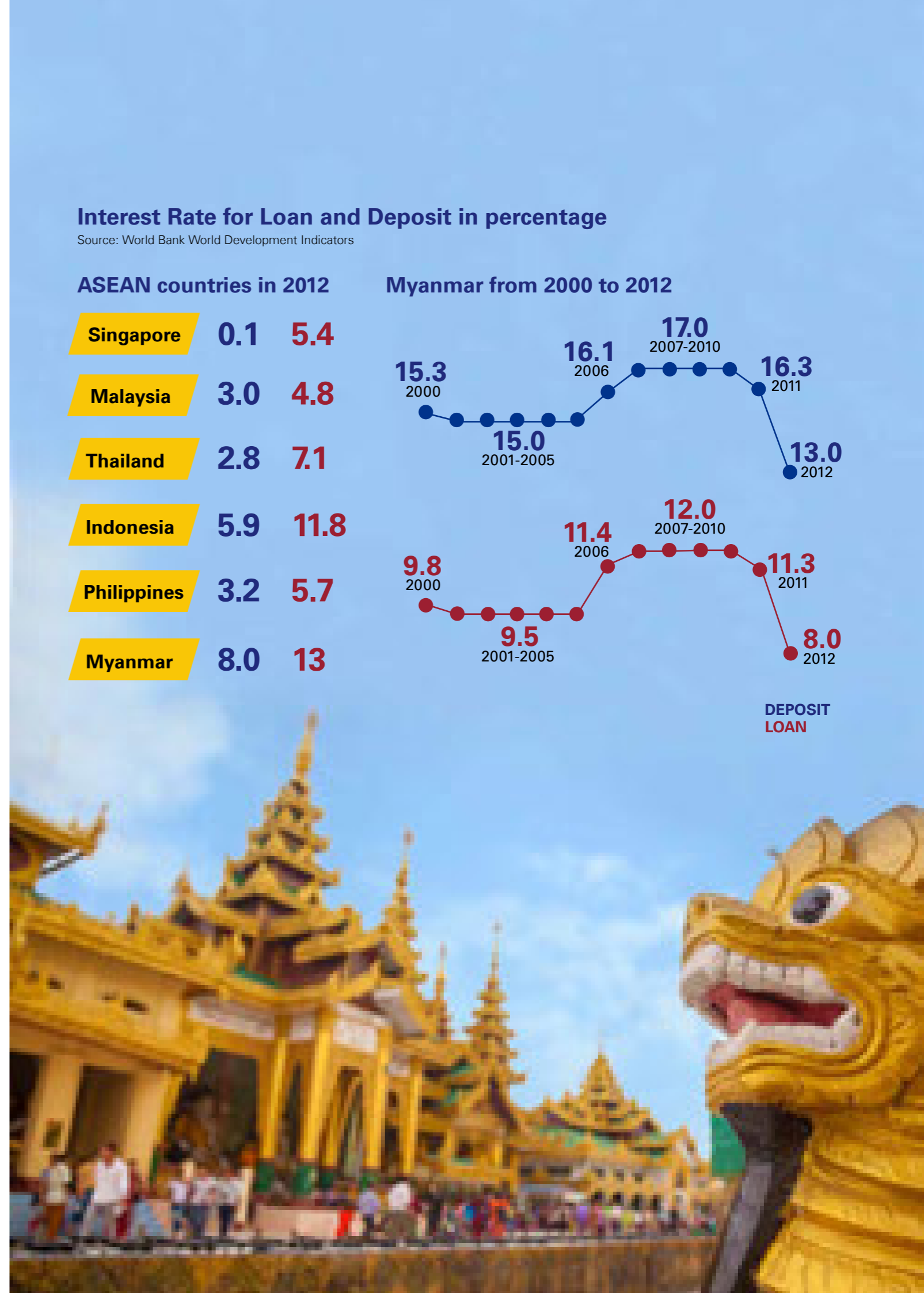
ASEAN countries in 2012

Singapore	0.1	5.4
Malaysia	3.0	4.8
Thailand	2.8	7.1
Indonesia	5.9	11.8
Philippines	3.2	5.7
Myanmar	8.0	13

Myanmar from 2000 to 2012



¹ "Authorizing the Exportation or Reexportation of Financial Services to Burma", Department of the Treasury, Washington D.C. 20220, Office of Foreign Assets Control, Burmese Sanctions Regulations 31 C.F.R. Part 537, General License No.16. <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/burmag16.pdf>



Before July 2012, only MFTB and MICB were allowed to conduct international banking operations. Since then, the following banks have begun offering international banking services:

- MEB (focuses largely on Border Trade)
- KBZ Bank
- CB Bank
- Ayeyarwaddy Bank
- United Amara Bank
- AGD Bank

A number of Myanmar's banks have begun offering remittances, SWIFT, traveler checks collection, and opening foreign currency accounts.

In December 2011, the Government allowed the installation of ATM machines. Since then, a total of 275 ATM machines have been installed, almost entirely in Yangon¹. ATM's are currently provided by the following seven banks:

- Myanmar Citizens Bank

- CB Bank
- Myawaddy Bank
- KBZ Bank
- AGD Bank
- Ayeyarwady Bank
- Myanma Apex Bank

The ATM withdrawal limit per day is MMK1 million and the withdrawal limit per transaction is MMK300,000. There is a MMK5,000 charge for each transaction.

Payment via cards and ATMS are being provided by VISA, MasterCard, and China UnionPay (CUP).

MPU debit cards have also been introduced but they are for use only within the country. By September 2013, Japan Credit Bureau (JCB) cards can be used with Myanmar ATMs². It was also reported in September that the Central Bank has given CB Bank permission to issue internationally accepted prepaid debit cards³. CB Bank is working with

MasterCard to bring this 'Esai Travel' cards to its customers.

As of July 2013, a total of 616,601 ATM/debit cards have been issued by Myanmar banks.

VISA cards issued by Myanmar banks can be used at over 150 ATMs and at over 200 point-of-sale (POS) locations across Myanmar including shops, restaurants and hotels.

MasterCard cards can be used at over 140 ATMs and 72 POS locations, though some POS may include a surcharge for payments through cards.

Local third-party payment systems, the biggest of which is MyanPay, are for local transactions. MyanPay's transactions amount to about USD15,000 per month. Western Union services are also available but currently limited to inbound remittances.⁴



Western Union

Western Union is a money transfer service that allows individuals from abroad to transfer money into Myanmar. The sender pays the principal and other fees to the Western Union representative in cash and in lawful currency in advance before money can be sent. The Representative will then pay out all transactions in cash to the receiver. There are no representative subcontractors at this point.

Source: Western Union <http://www.westernunion.sg/en/>

Quick wins in the next few months

The Government has been progressively easing banking sector restrictions.

Banks in Myanmar are rapidly expanding their branch network and preparing to offer more banking and financial products.

KBZ Bank, one of the largest local banks, has 117 branches around Myanmar as of September 2013 and it plans to bring that up to 200 branches by the end of FY2013-14¹.

A new development to note is the syndicated loan system being put in place to support the agricultural sector. A preference rate of 11% per annum, 2% less than the regular lending rate, has been given to agribusinesses.

On 11 July 2013, President Thein Sein signed a new Central Bank Act into

law, giving the Central Bank greater autonomy from the Ministry of Finance. The Central Bank will be more autonomous in its monetary operations which were previously mostly undertaken by the state banks. The official reserves, previously maintained by state banks are also being gradually transferred to the Central Bank. The Central Bank has been increasing its foreign reserve through daily foreign exchange auctions.

U Kyaw Kyaw Maung who served as the Central Bank Governor from 1997-2007 has been appointed as the new Central Bank Governor, and Chairman of the Board of Directors. Additionally, U Set Aung, Deputy Minister of National Planning and Economic Development, U Than Nyein, former Central Bank Governor, and Daw Khin Saw Oo, retired Deputy Director General at the Central Bank, have been

On 11 July 2013, President Thein Sein signed a new Central Bank Act into law, giving the Central Bank greater autonomy from the Ministry of Finance.

appointed as vice chairpersons of the Board and as Deputy Governors.

Rules governing the Central Bank have to be adopted within three months of the law coming into force. These rules and regulations are expected to contain details of how joint-venture banks could be set up with foreign lenders². Moving forward, the constitution will be amended to make these rules and regulations constitutionally legal.

¹ "ATM card users still low in Myanmar", Eleven Myanmar, 07 July 2013

² "JCB credit to be launched in Myanmar in Sept.", Xinhua News, 04 August 2013

³ "CB Bank to Issue Prepaid Debit Cards for Domestic, International Use" The Irrawaddy, 26 September 2013

⁴ "It has partnered with Kanbawza Bank, Myanmar Livestock and Fisheries Development Bank, Myanmar Apex Bank, First Private Bank, CB Bank, Myanmar Oriental Bank, United Amara Bank, and Ayeyarwady Bank.

¹ Interview with KBZ bank Managing Director U Aung Kyaw Myo, May 2013

² "Leading local banks prepare for joint ventures", Myanmar Times, 23 April 2013

Under the ASEAN Comprehensive Agreement signed in 2009, Myanmar is committed to opening up its financial services sector in 2015 to banks headquartered in its ASEAN partners.

However, as a developing nation, Myanmar's commitments are flexible until 2020. As IMF noted in a staff report, joint ventures with foreign financial institutions would expedite the transfer of technology before the ASEAN financial integration¹. While awaiting the rules to enable such joint ventures, some of the private domestic banks have already formed partnerships with foreign banks to source technical know-how and training².

Changes expected in the next few months include liberalization of deposit rates, an increase in deposit-to-capital multiples from 10 to 25 and lifting of capital requirements for branch expansions.

In June 2013, the Government announced plans to reduce the Central Bank lending rate per annum from 10% to 6% and the deposit rate per annum from 8% to 4%³. This change will help make capital more accessible for businesses but at the same time make it somewhat harder for banks to build up their deposit base.

This increase in deposit-to-capital ratio is a measure targeted at encouraging banks to improve their deposit growth. Lifting the capital requirements for branches as well as the requirement for banks to own the real estate of their branches will allow banks to expand their access and cater to a larger cross-section of the population.

The MPU has developed an online and mobile payment system that debit cardholders from member banks can use. However, this use is currently limited to domestic transactions.

Private banks are planning to develop mobile banking offerings to reach out to potential customers in remote locations. Eight local banks – Myawaddy Bank, First Private Bank, CB Bank, United Amara Bank, Myanmar Apex Bank, MEB, Myanmar Citizen Bank, and Innwa Bank – indicated they have plans to launch mobile banking systems as well.

According to ADB's estimates, mobile-phone subscription rate was at 9% (5.44 million) as of December 2012 while mobile internet subscription, according to the International Telecommunications Union (ITU), was about 678,000 as of June 2012.

These numbers are expected to grow significantly within 6 to 18 months as the winners of the telecom licensing bid, Ooredoo QSC of Qatar and Telenor ASA of Norway, begin rolling out their services.



While banks are investing in and rapidly acquiring IT hardware, it would take longer to develop the skills needed to make the most of this infrastructure.

Telenor plans to offer a full range of voice and data mobile services by 2014. It has announced that it will use High Speed Packet Access (HSPA) and Long Term Evolution (LTE) ready technologies to build its network.

Ooredoo announced it will provide voice and data services to 97% of the population within five years¹.

Ooredoo and Telenor plan to increase mobile penetration in Myanmar significantly. Between the two companies, the total investment is projected to be around \$17 billion².

With the expansion of the mobile network infrastructure, we can expect to see an increase in access to financial services for a majority of the population. A drop in the average price of mobile phones to below \$100 by 2015³ will also help make financial services accessible to more people.

Improvements in telecommunications infrastructure and penetration rates should make it easier and cheaper for banks to set up mobile banking operations.

Some changes will take longer
In the initial phase of foreign

participation, the Central Bank wants foreign banks to enter into joint ventures with local banks. The foreign banks can hold up to 80% stake⁴ in the joint venture. A secondary phase will permit foreign banks to establish locally incorporated 100% owned subsidiaries.

The Central Bank plans to permit foreign banks to open branches within two years. These plans are contingent upon the Central Bank's assessment of the willingness and readiness of local banks to face competition from foreign players.

Meanwhile, Dr. Maung Maung Thein, Deputy Minister of Finance, has stated that permits for new private banks will not be granted except for those who are already in joint ventures with Myanmar banks⁵.

The prevalence of a cash based economy in Myanmar is the result of public mistrust of the system coupled with the lack of widespread access to banks.

Myanmar's banking system will also need to ramp up in several areas if it hopes to give up its dependence on cash and integrate

into the global financial network. Capital and liquidity requirements prescribed by the Central Bank have not been sufficient to earn the confidence of the public. As a result, this sector is seeing a number of changes. While the Central Bank attempts to optimize regulatory and transparency norms, banks will be challenged to rapidly build up capacity.

A number of banks are working on modernizing their information technology (IT) infrastructure and have already implemented software solutions such as Oracle FLEXCUBE as their core banking software⁶.

While banks are investing in and rapidly acquiring IT hardware, it would take longer to develop the skills needed to make the most of this infrastructure.

Undoubtedly, the lack of banking talent is the most pressing need today. Given the huge talent gap in the domestic market, it is not surprising that Myanmar banks are trying to attract talent from its diaspora⁷, or indeed, foreigners with related experience who see potential in the sector.



Telecom License Bidding

On 27 June 2013, the Myanmar government announced the two winners of the 15-year telecom license bid: Telenor ASA and Ooredoo QSC. The government received Expressions of Interests from 91 international firms and of this list, 12 made it to the pre-qualification round. From the 12, 2 were awarded the license. Other telecom providers in the country are state-owned Myanmar Posts and Telecommunications (MPT) and Yatanarpon Teleport.

Source: "Myanmar to grant wireless licenses to Norway's Telenor, <http://www.forbes.com/sites/simonmontlake/2013/06/27/myanmar-to-grant-wireless-licenses-to-norways-telenor-qatar-telecom/> Qatar Telecom", Forbes, 27 June 2013.

¹ "Myanmar: Staff-Monitored Program", International Monetary Fund, January 2013

² "The Myanmar Times sits down with Maybank's John Wong", Myanmar Times, 07 January 2013

³ "Myanmar to further cut back interest rates", Eleven Myanmar, 11 June 2013

¹ "Ooredoo to invest \$60 million in Myanmar CSR", Myanmar Business Today, 29 August 2013

² "Telenor sees less than \$2bn investments in Myanmar –CEO" Reuters 28 August 2013; "Ooredoo eyes Myanmar network sharing with Telenor-exec" Reuters 2 October 2013

³ Evalueserve 2011 estimates

⁴ Myanmar Foreign Investment Law, enacted November 2012

⁵ Myanmar will not allow more private banks", Eleven Myanmar, 29 July 2013

⁶ Interview with KBZ bank Managing Director U Aung Kyaw Myo, May 2013

⁷ "Myanmar urges millions of exiles to return", Agence France-Presse, 11 May 2012

Access to credit: A priority in the next few years

For the next two decades, infrastructure development is expected to be the key driver of Myanmar’s growth.

The Government has either already awarded licenses or is in the midst of bidding out several large infrastructure projects including airports, electricity, energy and power, telecommunications, ports, and pipeline developments.

As the country goes through the process of rebuilding its severely under-provided energy and transport infrastructure, it is sorely missing the support of local banks. To date, there are hardly any project finance services offered by Myanmar banks.

The lack of financing onshore and access to credit are of concern to the private sector in Myanmar.

In the absence of a clear mechanism for providing collateral to foreign

lenders, and limited precedence to test the enforceability of contracts, foreign lenders are still waiting at the sidelines before opening their doors to project sponsors. It is, however, encouraging to note that Sumitomo Mitsui Banking Corporation (SMBC) and Bank of Tokyo Mitsubishi UFJ, two of the world’s leading five executors of project finance for PPP transactions, have representative offices in Myanmar. Project developers and potential lenders will find that it is in their interest to iron out impediments that currently inhibit lending for projects.

In July 2013, the United Kingdom (U.K.) government announced the formation of a taskforce to focus on the provision of financial products. The taskforce, headed by Standard Chartered, will also have a special focus on the provision of credit to the Myanmar economy. In addition, the taskforce would advise on regulatory reform and develop effective education and training to build human capital for this sector.

There will be high-level meetings between the two governments with the first scheduled for October 2013, when the Lord Mayor of London visits Myanmar.

India has also expanded its presence in the credit sector of Myanmar through the expansion of the Export-Import Bank of India’s portfolio on Myanmar. The state-controlled bank signed an agreement in May 2012 to extend a USD500 million line of credit¹ to Myanmar. This is a significant increase from the USD247 million line of credit it extended to Myanmar in the five-year period from 2004 to 2009.

The Export-Import Bank of India indicated that an additional USD250 million has been pledged. In its previous efforts², the bank has mainly concentrated on petrochemical, railway infrastructure, and information and communication technology (ICT). In a bid to cement its presence in the country, it is set to open an office in September 2013.

Financing of exports and imports improving rapidly

Three state-owned banks – MFTB, MEB, MICB – and five private banks – KBZ Bank, CB Bank, Ayeyarwaddy Bank, United Amara Bank and AGD Bank – offer export and import financing services. Export services include export advance, export letter of credit advising, and export proceeds. Import services include letter of credit issuances, import bill settlement, import documentary collection, shipping guarantee and banker’s guarantee. In addition, individuals and companies are now allowed to hold foreign currency

accounts in private banks. The new Foreign Exchange Management Law promulgated in 2012 has been effective in lifting restrictions on current payments and international transactions. It is no longer necessary to pay for imports solely from earnings from exports.

Goods such as beans, rice and fish that earlier needed a license to export/import are now exempted. However, the import of cars still requires a license.

Foreign investors are still required to declare their funds to the Central

Bank and provide proof that the funds have been brought into the country.

While international banking regulations and restrictions have eased, it is still somewhat difficult for individuals to send money to the U.S. through direct wire transfers from their personal Myanmar bank accounts. This is because U.S. bank accounts cannot be accessed online from Myanmar. U.S. banks are also wary of allowing Myanmar nationals to transfer sizeable amounts into their country and sometimes require affidavits citing the reasons for the wire transfer.

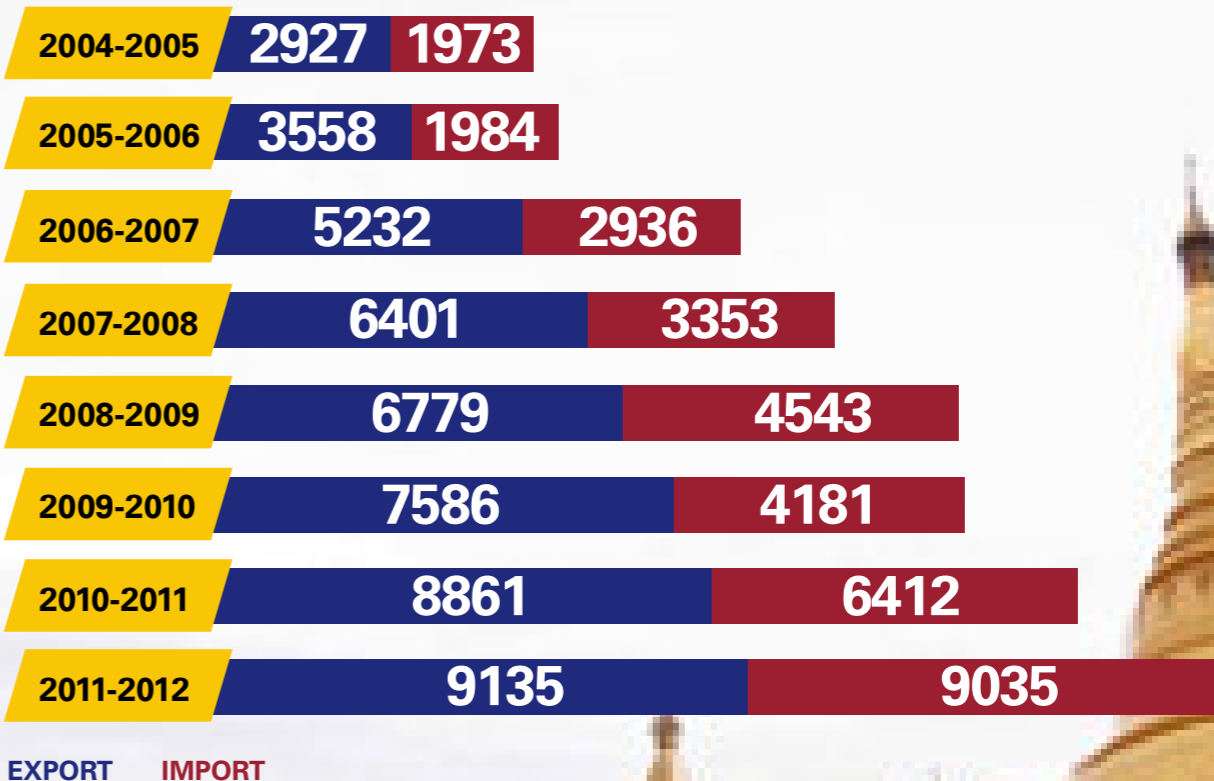
Domestic credit provided by banking sector in 2012 (% of GDP)

Source: World Bank World Development Indicators



Export/Import in Myanmar 2004 – 2011 (in USD millions)

Source: Ministry of National Planning and Economic Development (www.mnped.gov.mm)



¹ “List of documents signed during State visit of Prime Minister to Myanmar”, Prime Minister of India website, May 2012
² “Exim bank to open office in Myanmar next month”, Economic Times India, 23 August 2013

Liberalization of the Kyat

The liberalization of the exchange rate, from an artificial fixed rate to a managed float regime, has helped with payments for exports and imports. Interbank foreign exchange spot trading that began on 5 August 2013 is expected to further liberalize the Kyat.

The Kyat has depreciated considerably against USD since the beginning of 2013, and the official exchange rate is now considered closer to the real exchange rate. While a depreciated Kyat will be good for exports¹, it is worthwhile to note that in the coming years the country will be investing in a number of large infrastructure projects that will require substantial increase in imports of machinery and materials.

Licensed dealers, including non-financial private firms provided they are able to meet capital requirements, currently buy and sell foreign currencies to the public. Under the Foreign Exchange Regulation Act and the Central Bank Law, the Central Bank issues three types of licenses relating to foreign exchange: Authorized Dealer License, Money Changer License, and Foreign Exchange Acceptor and Holder License. A total of 14 domestic banks

have been granted Authorized Dealer Licenses. There is also an informal market comprising an estimated 200 dealers.

In April 2012, with IMF's assistance, the Central Bank facilitated a change from the fixed artificial exchange rate system to a managed float regime. It plans to move to a free float regime within the next year², with guidance from IMF and Japan International Cooperation Agency (JICA).

Interbank foreign exchange spot trading that began on 5 August 2013 is expected to further liberalize the Kyat.

Since April 2012, the Central Bank has been prescribing reference rates of MMK-USD, MMK-SGD, and MMK-EUR and five other rates (only the former three being operational) that authorized dealers are required to use within a +/-0.8% band. The Central Bank has also been holding daily currency auctions for authorized dealers.

An interbank trading market that went live on 5 August 2013 allows banks to

conduct spot transactions amongst themselves.

The currency auctions are still being held to support the banks' foreign currency reserves. The rate is expected to be more volatile as a result of the interbank market. Most of the foreign exchange (FX) transactions being conducted now are spot trades against the USD. Although forwards and swaps comprise almost half of all FX transactions in most countries, these markets currently do not exist in Myanmar. MMK is only traded locally.

Over the last one year, the MMK has fallen significantly against the USD. While it appreciated slightly in late 2012, the MMK has since depreciated considerably throughout 2013. Increasing demand for the USD at daily auctions and withdrawal of the Foreign Exchange Certificates in March 2013 have contributed to this correction.

The MMK is falling even faster on the informal market. Disparity between the informal market rates and licensed traders' rates are at times as wide as 20-30 MMK. Licensed traders have begun asking for more documentation in an effort to restrict the sale of the USD.

By July 2013, the MMK had lost almost a fifth of its value since it was officially floated in April 2012 at MMK818 against the USD. However, it is estimated that the MMK has depreciated by less than 2% against its key trade partners who are all from Asia.

Before the move to a managed float regime in April 2012, the MMK was officially pegged at 8.51 against Special Drawing Rights and the artificially pegged rate stood at MMK6.4 per USD while it was trading on the informal market at around MMK820. This huge discrepancy led to the development of an informal currency market servicing international payments and transfers, some of which were not legally permitted.

As Myanmar's financial services sector opens up and matures, the

informal market will lose its reason to exist.

The Central Bank is targeting unification of the exchange rates and the complete removal of the informal market in two to three years time.

The spread between official rates and the informal market rates have been narrowed to about 1-3%. The aim will be to shift the traded volume from the informal market onto the Yangon Foreign Exchange Market.

However, until this happens, the informal market is leading to segmentation between public and private sectors, and segmentation within the private sector in the form of price gaps.

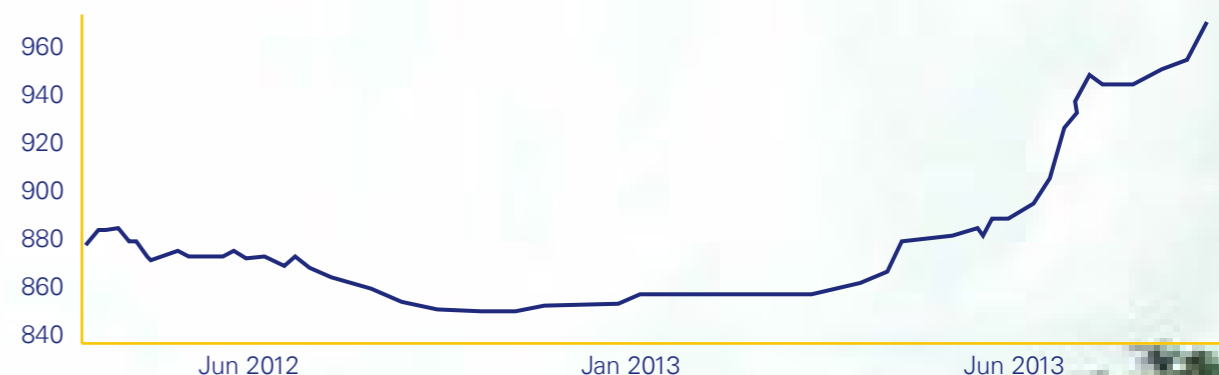
The disparity in the formal and informal rates has severe implications on the country's macroeconomic

stability such as imposing an implicit tax on exporters and an implicit subsidy on imports, price distortion, inefficient allocation of resources, and complications in the implementation of regulations and policies.

To stabilize the MMK, the Institute of Developing Economies (IDE-JETRO) has expressed the need for banks to be intermediaries in the FX market, particularly as transmission channels for policies on exchange rates. It believes banks need to be given more autonomy in their operations so that they are more active in the FX market. Imposing taxes on domestic account transfer of export earnings or foreign currency deposits, and creating a discount market for letters of credit would encourage exporters to sell their foreign exchange to the banks. Stopping foreign currency loans will prevent dollarization.

USD (in MMK) June 2012 to June 2013

Source: Ministry of National Planning and Economic Development (www.mnped.gov.mm)



¹ Myanmar's main exports are wood products, pulses, beans, fisheries, rice, clothing, jade, gems, semi-precious minerals, and natural gas principally to Thailand, China, India and Japan. Its main imports are fabric, petroleum products, fertilizer, plastics, machinery, transport equipment, cement, construction materials, crude oil, food products, and edible oil largely from China, Thailand, Singapore, South Korea, Malaysia and Japan. The Ministry of Commerce estimates total exports at USD9.6 billion, 17.8% of GDP, and imports at USD7.5 billion, 14% of GDP, for FY2012-2013.

² "Volatility likely after government loosens grip on kyat", Myanmar Times, 29 July 2013

MICROFINANCE SECTOR

Source: Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.

QUICK FACTS



Associated Laws

- Microfinance Law (2011)
- Microfinance Notification and Directives (2011)
- Cooperative Law (1992)



Regulators

- Microfinance Supervisory Committee
- Myanmar Microfinance Supervisory Bureau
- Microfinance Development Working Committee



Microcredit Volume

- USD1 billion (2012)
- 2.8 micro clients (2012)



Suppliers

- Myanmar Agriculture and Development Bank (MADB)
- Myanmar Microfinance Bank (MMB)
- Governmental organizations
- Political organizations
- 60 specialized agricultural development companies
- Central Cooperative Society
- Union of Savings and Credit Federation
- Non-governmental organizations
- United Nations organizations
- Multilateral entities
- ACLEDA MFI Myanmar Co. Ltd.
- AEON Microfinance (Myanmar) Co. Ltd.
- 142 Microfinance Institutions (MFI)



Government Agencies

- Ministry of the Office of the President
- Ministry of Finance
- Ministry of Cooperatives
- Rural Development and Poverty Reduction Working Committee, Office of the President



Relevant Rates

- Capital requirements:
- Non-deposit: MMK15 million (USD16,000)
 - Deposit: MMK30 million (USD32,000)

Yearly licensing fee: 0.1% of capital req.
Interest rate cap: 2.5% per month
Deposit rate min.: 1.25% per month

More regulated but a lot more needs to be done...

The World Bank estimated that in 2012, 67% of Myanmar's population live in rural areas and depend on agriculture for their livelihoods¹.

The Integrated Household Living Conditions Survey in Myanmar found that in 2010 26% of the population was living below the national poverty line². With less than a fifth of the population having access to formal financial services³, a majority of the rural poor in Myanmar are forced to rely on personal savings or unregulated moneylenders for credit or transfer services, both of which are expensive and unreliable. It is not surprising, therefore, that President Thein Sein has repeatedly stressed the importance of cooperatives and microfinance provision from the private sector in supporting agricultural finance and reducing poverty.

Last year, United Nations Capital Development Fund (UNCDF) estimated that about USD500 million micro credit has been provided to approximately 3.6 million micro

clients⁴. Demand is estimated to be about four times the current supply, and is rising rapidly with growth in the country's agricultural sector⁵.

Strictly speaking, the microfinance sector in Myanmar should not be put into the same bracket as the other financial sectors. For one, the sector does not come under the purview of the Central Bank, being regulated instead by the MSC (MSC) under the Ministry of Finance. Secondly, private banks in Myanmar are not allowed to provide microfinance services. However, the key differentiating factor is the presence of foreign financial institutions in this sector.

The Cambodian firm ACLEDA and the Japanese firm AEON have both set up operations in Myanmar to provide microfinance services. ACLEDA obtained its license in February 2013 and as of June 2013, it has 448 micro clients and 338 accounts. Its outstanding loans total about USD57,000 and its deposit balance stands at about USD16,000⁶. However, ACLEDA and AEON cover only a very small part of this space.

Last year, United Nations Capital Development Fund (UNCDF) estimated that about USD500 million micro credit has been provided to approximately 3.6 million micro clients.



¹ World Bank World Development Indicators

² Integrated Household Living Conditions Survey in Myanmar, June 2011

³ Microfinance in Myanmar: Sector Assessment, IFC/CGAP, 29 January 2013

⁴ Support to savings-led microfinance market leaders to enter Myanmar 2012-2016, United Nations Capital Development Fund, 2012

⁵ Microfinance in Myanmar: Sector Assessment, IFC/CGAP, 29 January 2013

⁶ ACLEDA CEO helps Myanmar create microfinance association, Phnom Penh Post, 31 May 2013

As of May 2013, there are a total of 142 licensed microfinance institutions (MFI) in Myanmar¹ and these include:

- -state-owned banks such as the Myanmar Agriculture and Development Bank (MADB)
- -governmental organizations such as Myanmar Small Loans Enterprise
- -political organizations such as the Union Solidarity Development Party
- -approximately 60 specialized agricultural development companies
- -cooperatives supervised by the Ministry of Cooperatives
- -financial cooperatives organized under the Union of Savings and Credit Federation
- -Non-governmental Organizations such as PACT, GRET, World Vision, Save the Children, and Proximity
- -UN organizations such as United Nation Development Program (UNDP)
- -multilateral entities such as the World Bank and the Consultative Group to Assist the Poor (CGAP).

The UNDP-PACT microfinance project is a large initiative with 360,000 active borrowers and 420,000 depositors².

The Myanmar Microfinance Bank (MMB) was opened on 2 June 2013 at the Central Department of Cooperative Economy but has yet to begin operations as it is pending approval from the Central Bank. MMB will offer a maximum loan of MMK20,000 to MMK30,000 per borrower, at an interest rate of 30% per annum³.

Cooperative unions have also begun programs to provide micro credit loans and to sell equipments and technologies through a hire purchase system.

The microfinance sector is jointly regulated by the Microfinance Supervisory Committee (MSC), the Microfinance Development Working Committee, and the Myanmar Microfinance Supervisory Bureau. Under the authority of the Microfinance Law passed in

November 2013, the three bodies are delegated specific duties that support microfinance institutions.

The MSC implements the microfinance policy, establishes MFI rules and regulations, and determines the relevant rates and penalties. The respective Microfinance Development Working Committees are responsible for monitoring the MFI's at a local level and reporting their performances to the Supervisory Committee.

The Myanmar Microfinance Supervisory Bureau is responsible for screening applications for licensing, setting auditing and reporting standards, conducting field inspections, and reporting relevant information to the MSC.

The World Bank's Financial Inclusion for National Development (FIND) is working towards supporting the regulatory and supervisory framework of this administrative structure.

The UNCDF's Making Access Possible (MAP) has begun using a diagnostic tool to conduct an in-depth analysis that can inform and influence future policies and donor activities. JICA has also expressed that it will provide development finance (micro credit) for small and medium-sized businesses, particularly in the agricultural sector⁴.

The microfinance sector has tremendous potential if it is able to find a way around limitations imposed by telecommunications and transport bottlenecks. Other concerns in Myanmar's current microfinance climate include the limited differentiation between deposit and non-deposit MFIs, low capital requirements for deposit-taking institutions, the prescribed interest rate ceiling, and MSC's lack of experience in the sector.

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Microfinance NGO Institutions	Outstanding Loan Portfolio (USD millions)	Number of Borrowers
PACT-UNDP	54.6	356,410
PACT MFI	4.4	57,128
Proximity Design	3.2	16,000
World Vision	2.0	13,282
GRET	0.8	6,155

Source: Microfinance in Myanmar: Sector Assessment", IFC/CGAP, 29 January 2013. Information as at 30 September 2013.



¹ Crunching the numbers: what can microfinance achieve?", Myanmar Times, 24 June 2013
² Microfinance in Myanmar: Sector Assessment", IFC/CGAP, 29 January 2013
³ "Myanmar microfinance at 30% interest rate", Investvine, 26 July 2013
⁴ "Microfinance in Myanmar: Sector Assessment", IFC/CGAP, 29 January 2013

INSURANCE SECTOR

Source: Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.

QUICK FACTS



Associated Laws

- Insurance Business Law (1996)



Regulatory Body

- Ministry of Finance



Government Agencies

- Insurance Business Supervisory Board (IBSB)



Approved Local Insurance Providers

Life

1. Myanma Insurance
2. First National Insurance
3. Young Insurance Global Insurance
4. Capital Life Insurance
5. Grand Guardian Insurance Public
6. Excellent Fortune Insurance
7. Pillar of Truth Insurance
8. Citizens Business Insurance Public
9. Myint Mo Minn Insurance

General

1. Myanma Insurance
2. I.K.B.Z. Insurance Public
3. Global World Insurance
4. Aung Thitsar Insurance
5. Ayeyar Myanma Insurance



Types of Insurance Provided by Private Firms

- Life insurance
- Comprehensive motor insurance
- Fire insurance
- Cash-in-safe insurance
- Cash-in-transit insurance
- Fidelity insurance



Types of Insurance Provided by Myanma Insurance

- Myanma Insurance provides 46 classes of insurance including the following (in addition to the aforementioned classes):
- Marine cargo insurance
- Marine hull insurance
- Aviation insurance
- Travel insurance
- Engineering insurance
- Fire insurance
- Third party liability insurance
- Comprehensive motor insurance
- Oil and gas insurance
- Cash-in-transit insurance
- Cash-in-safe insurance
- Fidelity insurance
- Bodily injury insurance
- Miscellaneous insurance

Myanmar private insurance market taking baby steps

Most of Myanmar's population of around 60 million are uninsured, making it one of the least developed insurance markets in the world.

The market potential will further expand with the projected growth of the country's GDP. For general insurers, there are abundant opportunities especially in providing cover for the impending boom in construction projects and growth in other industry sectors.

According to Reuters, if Myanmar grows in line with the 7% per annum

growth rate predicted by ADB, it could produce USD1.6 billion in annual premium revenues in 10 years¹. The insurance penetration rate is estimated to reach 1.5% of GDP, which is the current penetration rate in the Vietnam market. The increase will be approximately 44 times that of the premium collected in FY2012-13.

In May 2013, 12 local firms were approved to begin providing insurance services. Four are general insurance firms and eight are life insurance firms. Of these 12, nine firms have been granted licenses,

- five for providing life insurance: First National Insurance, Capital

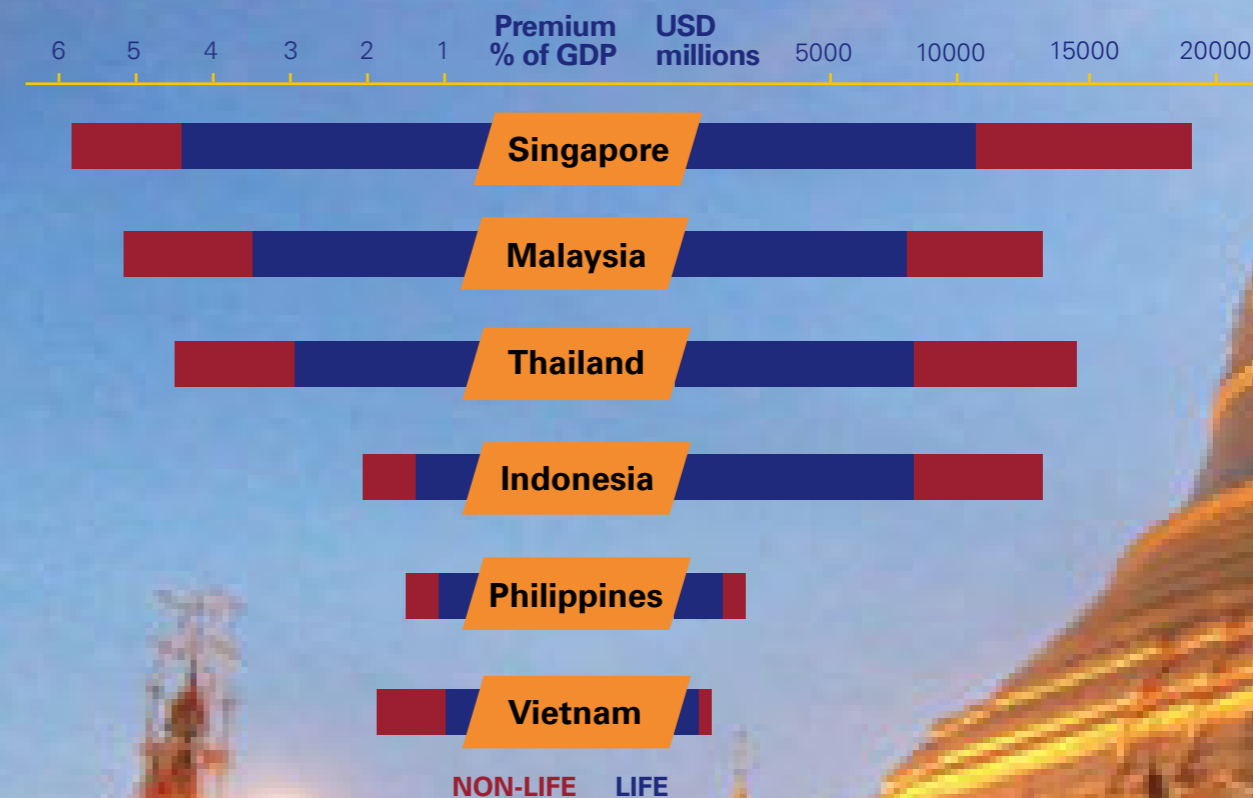
In May 2013, 12 local firms were approved to begin providing insurance services. Four are general insurance firms and eight are life insurance firms.

Life Insurance, Grand Guardian Insurance Public, Citizens Business Insurance Public, and Myint Mo Minn Insurance

- four for providing general insurance: I.K.B.Z. Insurance Public, Global World Insurance, Aung Thitsar Insurance, and Ayeyar Myanma Insurance.

Insurance Penetration 2011

Source: Bank of Japan, Reserve Bank of Australia, New Zealand Treasury, Asian Development Bank, Swiss Re



¹ "Foreign insurers enter Myanmar market with hope, caution", Reuters, 7 November 2012

Private insurance firms have begun offering life insurance, comprehensive motor insurance, fire insurance, cash-in-safe insurance, cash-in-transit insurance, and fidelity insurance.

In contrast, Myanmar Insurance offers 46 classes of insurance including marine cargo insurance, aviation insurance, travel insurance, and bodily injury insurance.

In addition to the 13 approved insurance providers, there are about 10 local insurance brokers and about 600 insurance agents that are licensed and trained by Myanmar Insurance.

Myanmar Insurance is currently the only reinsurer in the market but the Government has plans to allow private

reinsurers to begin operations within the next two years.

Eight foreign insurance companies have also set up representative offices in Myanmar. These are: Sampo Japan Insurance Inc., Tokyo Marine & Nichido Fire Insurance Co., Ltd., Mitsui Sumitomo Insurance Co., Ltd., Taiyo Life, United Overseas Insurance, ACE Group, and McLarens Young International.

The Myanmar Economic Bank acts as the intermediary for financial transactions between the Government and the licensed insurance firms.

The IBSB of the Ministry of Finance has been designated as the regulator. It is responsible for licensing insurance

firms and keeping a check on levels of premiums.

The paid-up capital requirements for life insurance companies is MMK6 billion (est. USD7 million) and for general insurance companies, it is MMK46 billion (est. USD53 million). About 60% of this paid-up capital is returned to the private insurer to be used as working capital.

Insurance firms are also required to pay a license fee of MMK3 million (est. USD3,000) and an annual fee of MMK1 million (est. USD1,000) in addition to the paid-up capital¹.

IBSB has capped premiums at MMK100 million (est. USD100,000) per client. Beyond this limit, terms of the co-insurance contract will apply.

Under such a contract, Myanmar Insurance will provide 20% and the other eight firms that have approval to provide life insurance services will provide 10% each of the remaining premium. The initial firm will receive a commission for finding/seeding the client.

Dr Maung Maung Thein, Deputy Minister of Finance and Secretary of IBSB, told local media in July 2013 that the country will need more insurance companies as its economy develops. He indicated an openness to engage with foreign insurance provider by saying that local private insurance companies will gain operational experience working with the foreign insurers.

Currently, the market remains closed to foreign players, and the extent of

foreign firms' operations is limited. But as with the banking sector, foreign insurance firms are allowed to establish representative offices under the Myanmar Companies Act, with a minimum capital requirement of USD50,000.

Establishing representative offices will be a key first step for foreign insurance firms looking to enter the market. A representative office can liaise with its head office and carry out market assessment studies and feasibility studies. They are prohibited from conducting direct commercial exchanges or running any revenue generating businesses in Myanmar.

According to Dr Thein, 2015 is the earliest that foreign insurance firms

... foreign insurance firms are allowed to establish representative offices under the Myanmar Companies Act, with a minimum capital requirement of USD50,000.

will be allowed to offer broking, underwriting or reinsurance services². Granting of such licenses is contingent upon the government's assessment of whether local insurers will be able to face foreign competition and may be delayed considerably.



¹ "Private insurance companies given go ahead", Myanmar Times, 10 September 2012

² "Myanmar to open insurance sector to foreigners in 2015", Reuters, 14 September 2012

SECURITIES MARKETS

Source: Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm). Information as at 30 September 2013.

QUICK FACTS

Debt Securities



Associated Laws

- Securities and Exchange Law (July 2013)



Active Players

- Ministry of Finance
- Central Bank of Myanmar (Central Bank)
- Myanmar Securities Exchange Center (MSEC)



Relevant Personnel

- U Win Shein, Minister of Finance
- U Kyaw Kyaw Maung, Central Bank Governor
- U Soe Thein, Executive Director of Myanmar Securities Exchange Center (MSEC)



Available Products

- 2, 3, and 5-year sovereign bonds of MMK10,000, MMK100,000, MMK1 million, and MMK10 million at fixed interest rates
- 2-year bonds: 8.75%
- 3-year bonds: 9%
- 5-year bonds: 9.5%

Equity



Associated Laws

- Securities and Exchange Law (July 2013)



Relevant Agencies

- Ministry of Finance
- Central Bank of Myanmar (Central Bank)
- Myanmar Securities Exchange Center (MSEC)



Relevant Personnel

- U Win Shein, Minister of Finance
- U Kyaw Kyaw Maung, Central Bank Governor
- U Soe Thein, Executive Director of Myanmar Securities Exchange Center (MSEC)



Listing Criteria for Firms

- Recorded profits for two years
- minimum capital of MMK500 million (USD519,750)
- shares can be held only Myanmar citizens
- there must be at least 100 shareholders
- the minority of shareholders must hold at least 10% of the equity

Securities Exchange



Associated Laws

- Securities and Exchange Law (July 2013)
- Central Bank Law (1990, 2012)



Target

- Yangon Stock Exchange (YSE)



Relevant Personnel

- U Win Shein, Minister of Finance and Revenue
- U Kyaw Kyaw Maung, Central Bank Governor
- U Soe Thein, Executive Director of Myanmar Securities Exchange Center (MSEC)



Relevant Agencies

- Ministry of Finance and Revenue
- Central Bank of Myanmar (Central Bank)
- Daiwa Institute of Research Ltd. (DIR)
- Myanmar Economic Bank (MEB)
- Myanmar Securities Exchange Center (MSEC)
- Tokyo Stock Exchange (TSE)
- Japan International Cooperation Agency (JICA)
- International Monetary Fund (IMF)
- Korea Exchange (KRX)

Commodities



Associations and Agencies

- Ministry of Finance
- Ministry of Commerce
- Ministry of Agriculture and Irrigation
- Ministry of Livestock Breeding and Fisheries
- Ministry of National Planning and Economic Development
- Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI)
- Yangon Region Chamber of Commerce and Industry (YRCCI)
- Myanmar Pulses, Beans & Sesame Seeds Merchants Association (MPBSSAA)



Relevant Personnel

- U Win Shein, Minister of Finance
- Wunna Kyaw Htin U Win Myint, Minister of Commerce
- U Myint Hlaing, Minister of Agriculture and Irrigation
- U Ohn Myint, Minister of Livestock Breeding and Fisheries
- Dr. Kan Zaw, Minister of National Planning and Economic Development
- Win Aung, President of UMFCCI
- U Ohn Saing, President of YRCCI



Agriculture Sector Related Figures

Percent of GDP: 58%
Percent of Exports: 48%



Major Traded Commodities

- Beans
- Pulses
- Rice



Other Commodities

- Wheat, maize, oil crops, other fruits and vegetables, rubber, gold, and steel



Trading Centers

- Total: 44 commodities exchange centers
Notable ones include:
- Bayintnaung Commodities Exchange Center (YRCCI), Yangon
 - Mandalay
 - Pyay
 - Mone Ywa

Yangon Stock Exchange: source of capital to banks in Myanmar

At present, MSEC, formed in 1996 as a joint venture between MEB (50%) and Japan's Daiwa Institute of Research (DIR) (50%), serves as Myanmar's only securities market¹. Securities offered are limited to sovereign bonds and equity-backed stocks/shares.

There are only two companies listed on the MSEC: Forest Products Joint Venture Corporation and Myanmar Citizens Bank. In addition to the two firms, there are more than 10 publicly listed companies in Myanmar. Most of them listed in the early 1990s when restrictions on private investments were relaxed to some extent. Despite being severely constrained due to the absence of a stock exchange, a number of these businesses have raised capital through selling shares from their offices or through authorized brokers.

The Central Bank is working with the TSE and DIR to develop Myanmar's financial markets and financial products. The goal is to have a fully operational stock exchange by 2015, the YSE, with a link to the ASEAN Stock Exchange Center.

Modernization of the IT infrastructure has been delegated to DIR while TSE is assisting with technical issues and operating standards.

The Central Bank's plans include launching the first Modular Data Center with DIR's help. The modular data center is expected to be operational by early 2014². KDDI Corporation and Toshiba are expected to assist with the development of this custom-built data center, which will serve both the Central Bank as well as YSE. This will be Toshiba's first data center outside of Japan³.

In addition, the Central Bank has engaged South Korea's KRX to advise on infrastructure requirements for YSE, and help implement personnel training⁴. It is believed that TSE and DIR, in an agreement with the Central Bank, will help set up a stock exchange in Mandalay.

The Central Bank is also working with JICA and IMF Technical Assistance to establish the Automatic Clearing System House (ACH) and Real Time Gross Settlement System (RTGS) by 2015. The Central Bank has allowed financial intermediaries and fund management firms to begin operations.

For the securities and exchange market in Myanmar to develop and be sustainable in the longer term, an independent regulatory entity should be set up and given sufficient authority to develop and implement a code of conduct and best practices in corporate governance.

An ecosystem of dealers, brokers, investment banks, rating agencies, market research firms, accounting firms and law firms will also need to be developed.

Though the widely recognized timeline for the opening of the stock exchange is 2015, Dr Thein has expressed that the Finance Ministry is willing to accelerate the process. He commented that the Ministry is seeking to establish capital markets as early as late 2013⁵.

However, as of August 2013, the Securities and Exchange Law passed by the Union Parliament on 31 July 2013, is yet to be enforced.

The Securities and Exchange Commission and the appropriate by-laws have to be implemented before a stock exchange and securities market can be effectively established.

Number of Domestic Listed Companies in 2012

Source: World Bank World Development Indicators



Market Capitalization of Listed Companies in USD billions 2012

Source: World Bank World Development Indicators



¹ "Competition heats up to establish Burma stock exchange", Irrawaddy, 9 April 2012

² "DIR and Central Bank of Myanmar sign MOU for provision of IT support", DIR, 31 May 2013

³ "Toshiba to supply modular data center for securities exchange system in Myanmar", Toshiba, 3 July 2013

⁴ "KRX to assist Myanmar in launching 1st stock market", Yonhap News, 4 June 2013

⁵ "Myanmar set for stock exchange", Mizzima, 17 Jul 2013



To be an effective source of capital for the banking sector, the Yangon Stock Exchange would need to offer a wide range of products

Bonds are the only form of debt securities that currently exist in Myanmar.

The Central Bank has issued 2-year, 3-year and 5-year bonds at yields of 8.75%, 9%, and 9.5%, respectively.

It also issued 3-year and 5-year government treasury bonds at MMK10,000 and MMK100,000 in December 1993 in Yangon, and January 1994 in Mandalay.

In April 1996, the Central Bank issued 3-year sovereign bonds of MMK1 million, followed by the issuance of 5-year bonds of MMK1 million in January 1997. In January 2010, 2-year government treasury bonds of MMK10,000, MMK100,000, MMK1 million, and MMK10 million were issued.

MEB and MSEC have been underwriting such government treasury bonds since 2010.

Financial institutions are prohibited from issuing bonds as of now and corporations do not issue bonds due to logistical difficulties.

Only sovereign bonds are available but a secondary market does not exist.

DIR, through the Asian Bond Market Initiative, has recommended releasing a schedule of issuance by the Government for investors, diversifying the kinds of bonds offered and

activating a secondary bond market that will be sensitive to price changes and interest rate changes¹.

Myanmar's public has also expressed the need for low-risk investments such as debt securities, fixed income instruments and bonds.

However, it will take a few years of operations of the YSE before bonds could start trading freely. In the case of Japan, the Government continued to regulate interest rates for approximately 18 years, from 1962 to 1980.

Some Myanmar-based businesses have not let the absence of a formal stock exchange prevent them from raising capital from retail investors.

A recent example is Mandalay Myotha Industrial Development (MMID), a real estate company established in 2013. MMID is working towards developing a new industrial zone in Mandalay. The company had an initial public offering on 2 April 2013 and raised MMK36 billion (USD37.42 million) by selling its shares at MMK100,000 (USD104) through selected distributing agents and its offices. Its prospectus was available online².

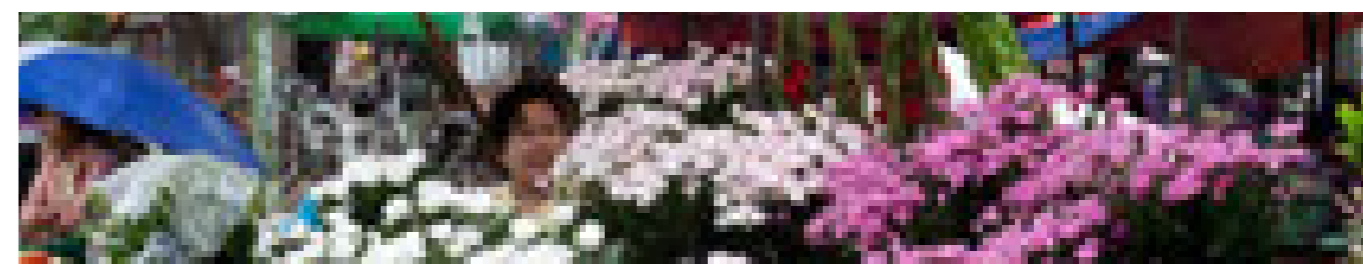
The most well known example of firms raising funds through retail investors is First Myanmar Investment (FMI). The company, initially listed in 1991, sells a small portion of its floated shares at its office through an over-the-counter trading service and charges a 1% broker fee³. The firm's sister company, Yoma Strategic

Holdings Ltd., is listed on the Singapore Stock Exchange (SGX) and has seen a more than 80% increase in their stocks in the recent year.

To be eligible to list on the YSE once it becomes operational, companies should have made profits for two years and have a minimum paid up capital of MMK500 million⁴ (USD519,750). The companies will be allowed to sell shares only to Myanmar nationals as foreigners cannot acquire shares in a 100% locally owned companies. There must be a minimum of 100 shareholders with minority shareholders holding at least 10%.

There are opportunities for foreign firms to invest through joint ventures. Foreign firms can establish a third-party joint venture with a local firm funded by a capital injection. However, not all assets can be as easily transferred from the locally owned company to the newly formed company. It will often require the consent of the local authorities.

Foreign equity firms looking to invest can also set up production-sharing contracts or joint operating agreements with local companies. In such set-ups, the foreign company is entitled to the operations' profits but not the company's shares. However, under Notification 40/2011 in the Foreign Investment Law, this arrangement does not protect the foreign firm's right to repatriation of profits and provisions.



The Asian Bond Markets Initiative

The Asian Bond Markets Initiative (Initiative) is an ASEAN+3 initiative, endorsed by the ASEAN+3 Finance Ministers in 2003. It is sponsored by the ADB and funded through the Investment Climate Facilitation Fund of Japan's Ministry of Finance.

ASEAN+3 members include: Brunei Darussalam, Cambodia, the People's Republic of China, Indonesia, Japan, the Republic of Korea, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

The Initiative aims to foster the growth of the bond market in Asia by encouraging variety in issuances, unifying government bonds issuance authorities, simplifying corporate bond issuance procedures and removing other barriers for bonds issuance.

Source: Asian Bond Markets Initiative (ABMI), Regional Financial Cooperation Division, Ministry of Finance, Japan, 5 April 2013. <http://www.adbi.org/files/2013.04.05.cpp.sess6.3.kawashima.asian.bond.markets.initiative.pdf>

First Myanmar Investment

First Myanmar Investment (FMI) is an investment holding company whose investments (consisting of varying stakes of considerable managerial discretion) lie in its subsidiaries in seven sectors: agriculture, automotive, financial services, services, retail, tourism and real estate. Its subsidiaries in the financial sector are: Yoma Bank (35%), FMI Trading Center (100%) and YSH Finance (20%).

FMI revenue consists of dividends of its subsidiaries. Its primary revenue is from real estate which accounts for 87% of total revenue.

Yoma Strategic Holdings is the sister company of FMI and is listed on the SGX. Almost all of Yoma Strategic Holdings' projects are joint ventures with FMI.

As of July 23, 2013, Yoma Strategic Holdings' market cap is SGD1.05 billion.

As of June 2013, the market cap of FMI is MMK144.45 billion.

Between June 2012 and December 2012, FMI issued 1,335,827 shares and is expected to issue more shares.

The Chairman of FMI is Serge Pun, who is also the Chairman of the SPA group and the Executive Chairman of Yoma Securities Holdings Ltd.

The managing agent of FMI is Serge Pun and Associates (SPA).

Source: First Myanmar Investment research report, Thura Swiss Company Limited, 13 June 2013. <http://www.thuraswiss.com/sites/default/files/FMI-research-report.pdf>

¹ "Bond market enters new territory", Myanmar Times, 18 June 2012

² MMID Prospectus, April 2013

³ "Forgotten securities market eyeing revival", Myanmar Times, 29 August 2011

⁴ Draft rules for Securities & Exchange Law

ROLE OF MULTILATERALS

ENABLERS

International Monetary Fund

The IMF has been actively assisting the Union of Myanmar and its agencies to craft a suitable monetary policy. With the help of the IMF, Myanmar has successfully given the Central Bank the authority to pursue price stability and decrease deficit monetization, and is working towards improving public financial management.

In April 2012, the IMF advised the Government to move from a pegged rate to a managed float regime. It aims to continue supporting the Central Bank and the Ministry of Finance to further liberalize the exchange rate. It has also been instrumental in the de-linking of the Central Bank from the Ministry of Finance, which took effect on 11 July 2013.

Working with JICA, the IMF will help the Central Bank install ACH and RTGS from 2013-15 and will be involved in the supervision and regulation of the clearing systems and personnel.

The IMF has also been assisting the Government in its efforts to:

- establish macroeconomic stability so that an appropriate tax revenue base is maintained, debt is appropriately managed and spending is cost effective and aimed at development priorities
- foster inclusive growth, accelerate financial development, improve local

business climate, attract foreign investment and bolster trade

- structure reforms to increase agricultural productivity.

The Staff-Monitored Program (SMP), initiated by the IMF at the request by the Minister of Finance and the Governor of the Central Bank, will run for a year from December 2012 to December 2013. The SMP supports the Government in its pursuit of sustainable growth, and efforts to reduce poverty and reintegrate Myanmar into the global economy. It will do this through the monitoring of the Government's activities, policies, decisions and reforms. In addition, the SMP will help Myanmar clear its arrears.

The IMF has also committed to continue supporting the Government in carrying out its economic reforms agenda through intensive technical assistance on monetary and fiscal policies, retrieval of statistical information and financial services and products¹.

World Bank

In November 2012, the World Bank re-initiated its direct engagements with Myanmar when it endorsed the Interim Strategy for Myanmar.

The Strategy is designed to help the Government improve economic governance, sustain macroeconomic stability and cultivate growth through policy advice and technical assistance. The areas of focus are public financial

management, regulatory reform in microfinance, capital provision for small and medium-sized businesses, private sector investment, development to promote economic growth and jobs creation.

In January 2013, the World Bank Group cleared the USD440 million arrears from the Myanmar Reengagement and Reform Support credit. This is so that Myanmar could once again resume full partnership with the World Bank and pursue its development objectives.

Of the USD440 million in arrears, USD430 million was provided by the Japan Bank for International Cooperation (JBIC) in the form of short term bridging loans². In February 2013, the World Bank provided USD165 million zero-interest loan.

The Government has recently agreed to join the World Bank's Multilateral Investment Guarantee Agency (MIGA). MIGA supports economic development and foreign investment through providing risk guarantees so that investors can obtain financing at competitive rates.

Asian Development Bank

The ADB has stated that its main focus in the early stages of Myanmar's development will be to assist with the development of the infrastructure in Myanmar.

It aims to concentrate its energies on

growing the agriculture and energy sectors. It has approved 18 projects to help Myanmar through the provision of technical assistance and one loan in mid-January 2013 of USD575,500 to the Myanmar Government for public sector management in economic and public affairs.

The ADB plans to provide Myanmar with a USD500 million loan over the next three years. This loan will be provided at an annual rate of 0.75% over 32 years with an eight year moratorium if the country meets the stipulated lending requirements. It has also expressed an interest in starting a microfinance project³.

Japan International Cooperation Agency

JICA has stated that Myanmar's financial sector – improving the banking systems and building up Myanmar's financial markets – will be one of its focus areas as it continues its partnership with Myanmar.

It has worked alongside IMF to help Myanmar transition from a pegged rate to a float regime⁴. In March 2013, JICA offered Myanmar's Government ¥19.462 billion (USD192.6 million) in grant aid⁵.

JICA is helping the Central Bank establish a payment system and associated ICT infrastructure that will improve the Central Bank's efficiency in handling financial transactions. This ICT

infrastructure will serve both private banks as well as YSE once it is set up. In addition, JICA will provide development finance (micro credit) for small and medium-sized businesses, and to the agriculture sector.

Japan Bank for International Cooperation

JBIC, an export credit agency, has provided Myanmar with short-term bridging loans of around USD940 million.

Authorized by the Minister of Finance of Japan under the Japan Bank for International Cooperation Act, these loans are meant to help Myanmar clear its debt repayment arrears. Of the total loan amount, USD512 million was allocated to clear the arrears of past loans from ADB, and USD430 million was repaid to the International Development Association (IDA) of the World Bank Group. Once the arrears were cleared, further loans from the IDA and ADB were issued and its proceeds are being used to repay the bridging loans.

Nippon Export and Investment Insurance

Japan's export credit agency, Nippon Export and Investment Insurance, has provided a USD500 million credit line meant to enhance Japanese private sector trade and investment in Myanmar.

Daiwa Institute of Research

The DIR has been active in helping

Myanmar improve the financial sector's infrastructure. It recently signed a "Memorandum of Understanding on the Provision and Development of IT System" with the Central Bank. It is making significant contributions in modernizing the Central Bank's infrastructure and developing a stock exchange in Yangon, and subsequently in Mandalay.

In December 2012, in cooperation with Fujitsu Limited and KDDI Corporation, DIR helped the Central Bank install the country's first cloud computing environment to expand the volume of, and improve the efficiency of, the operations of the Central Bank. In addition, it plans to work with the Central Bank, KDDI Corporation, and Toshiba to launch a Modular Data Center by January 2014. The center will serve the YSE.

Korea Exchange

South Korea KRX will help establish an exchange market in Myanmar through consultancy on infrastructure implementations and personnel training.

China Development Bank

In May 2011, China Development Bank agreed to provide Myanmar's Ministry of Finance with a credit line of USD718 million. It also provided a credit line to state-owned MICB to finance the USD2.5 billion Sino-Myanmar pipeline project that went online on 28 July 2013.

¹ Myanmar: Staff-Monitored Program", IMF, January 2013
² "Bridge loans to the Republic of the Union of Myanmar", JBIC, 28 January 2013
³ "ADB aims to add more fuel", Myanmar Times, 17 June 2013
⁴ "Reforming Myanmar's financial system", JICA, 25 February 2013
⁵ "Grant agreement for the Republic of the Union of Myanmar", JICA, 22 March 2013

CONCLUSION

Strong regulatory framework, physical infrastructure and trained personnel are needed

Myanmar is in the process of re-writing regulations for its financial services sector.

The industry is awaiting the release of a new set of banking rules that would accompany the recently promulgated Central Bank of Myanmar Law. It is widely anticipated that these rules will provide greater operational freedom along with more oversight.

Banks will need to invest in both hardware and software to manage future compliance and reporting requirements. It would be relatively easier to upgrade physical infrastructure. Indeed, some of the larger banks have already installed cutting edge IT hardware and software. However, symptomatic of the challenges that management face in Myanmar, most of the newly installed capacity is currently lying unused. Servers are generally located in the head office and limited internet connectivity means remote branches are left unconnected. Even if this is resolved over the next year, banks would still struggle to find enough trained people who could extract full value from any state-of-the-art technology.

Decision makers should judiciously exploit alliances...

Concurrently and possibly more urgently, banks need to navigate the rather tortuous path of forming alliances with foreign banks, financial service providers and technology firms.

Several of the larger banks are being courted by financial institutions and service providers not only from the region, but also from countries outside of the region.

Against a backdrop of rapidly changing business and regulatory environment, and under the constant scrutiny of the national and international media, it is easy for management to be blindsided by offers of collaboration and for sharing of technology and expertise.

It would be a fair assumption that banks in Myanmar have less cross-border deal-making experience than their foreign counterparts. Therefore, it is imperative that management take the time to make a clear assessment of what each side brings to any potential collaboration and its relative value.

If the partnership is to be sustainable in the long term, discussions need to move beyond vague concepts of brand

value and claims of understanding the local context. It has to be based on a clear identification of attributes that the market currently needs and the extent to which each party can contribute to satisfying these needs.

Risks should be allocated to the party that is in the best position to manage it, with compensation matching the risks underwritten. It is worth noting that in some cases, collaboration between two Myanmar entities may be more suited and there may not be a need to involve a foreign entity at this stage.

... and tap all possible sources of capital...

The immediate focus of a number of leading banks in Myanmar is to prepare for a private placement followed by listing on YSE around 2015.

Transitioning from a private company to a public one is a demanding and time consuming process in the best of times. When attempted in a market and regulatory environment that is itself in transition, the uncertainties and complexities are multiplied manifold.

When valuing these companies, regulators may find it quite

challenging to balance the significant growth potential of the sector in the medium to long term with risks inherent in the system in the immediate future.

...to expand their suite of services

Banks in Myanmar currently only offer basic banking services. This is not because more sophisticated services are not in demand. In actual fact, local and international businesses in Myanmar are desperately in need of credit that would help them service business opportunities being created as the economy opens up.

Until recently, these banks have been hamstrung by legacy regulation and limited deposit base. As a result they are unable and unwilling to lend outside of their comfort zones.

With new regulations aimed at fostering lending, banks have an opportunity to expand their suite of products and reach out to a wider range of customers, from corporate to project sponsors.

To be able to do so, they will first need to develop the capability to structure and price these products. As bankers in Myanmar have had

limited exposure in this area, banks have rightfully begun to target the diaspora to bring back talented individuals to lead these functions.

Harness the power of technology...

While banks are dependent on rapid improvement in the telecom infrastructure to expand their reach outside of Yangon and integrate their branches, they also need to carefully assess the disruptive impact of technology on the growth of their business.

On the face of it, rapid improvements in both the quality and spread of telecom infrastructure coupled with the relative scarcity of bank branches in remote parts of the country makes a strong case for the development of mobile banking. Kenya and a number of African countries have demonstrated how mobile banking can be used to supplement the banking network and make banking more accessible to large sections of the rural poor.

... and leverage experienced foreign players to benefit all stakeholders

The role that foreign financial

institutions can play in the development of the financial services sector in Myanmar is another area that demands careful consideration.

The number of foreign banks with representative offices in Myanmar is greater than the total number of Myanmar banks. This is evidence enough of their interest in being a part of Myanmar's growth story. However, this desire is not necessarily an outcome of recent events in Myanmar as several of these banks have had a presence in the country for over a decade.

The Central Bank is understandably cautious in opening up the sector to unbridled competition from foreign players. The protection of incumbents should not be at the cost of stunting economic growth by limiting credit at a time when it is most needed.

It is important that the policy makers and Myanmar banks work together to map the best way forward. The international banking expertise and experience should be leveraged such that it aids the growth of the country without compromising growth prospects, or indeed even the very survival of Myanmar's indigenous banking industry.



APPENDICES

APPENDIX 1

LIST OF BANKS IN MYANMAR

State-owned Banks

1. Myanmar Agriculture and Development Bank (MADB)
2. Myanmar Economic Bank (MEB)
3. Myanmar Foreign Trade Bank (MFTB)
4. Myanmar Investment and Commercial Bank (MICB)

Private Banks

1. Asia Green Development (AGD) Bank
2. Asia Yangon Bank
3. Ayeyarwaddy Bank
4. Co-operative (Co) Bank
5. First Private Bank
6. Innwa Bank
7. Kanbawza Bank (KBZ)
8. Myanma Apex Bank
9. Myanma Industrial Development Bank (MIDB)
10. Myanma Livestock and Fisheries Development Bank (Shwe Yadana Bank)
11. Myanmar Citizens Bank
12. Myanmar Oriental Bank
13. Myawaddy Bank
14. Nay Pyi Taw Sibin Bank
15. Rural Development Bank
16. Tun Foundation Bank

17. United Amara Bank
18. Yadanabon Bank
19. Yangon City Bank
20. Yoma Bank

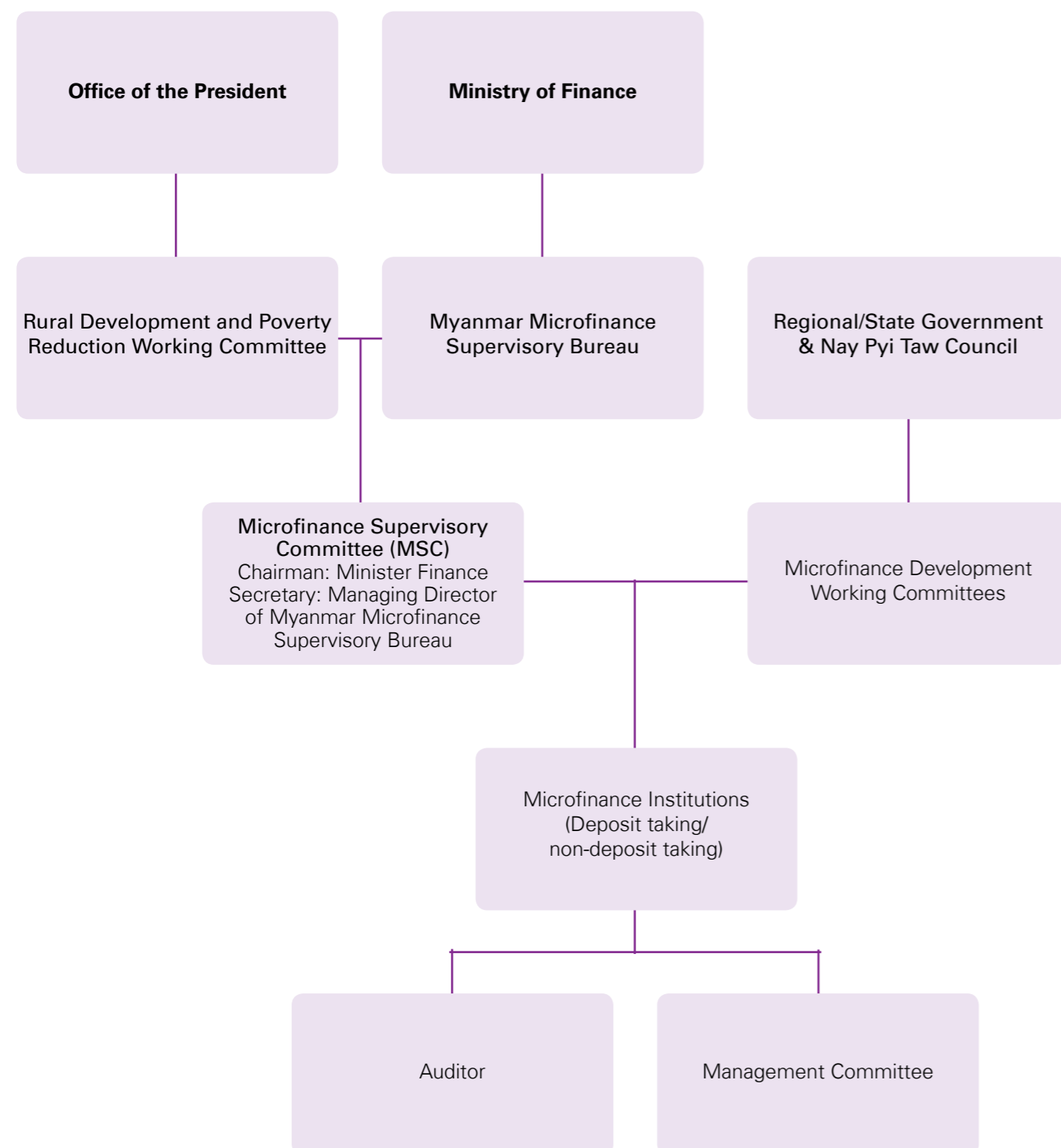
Foreign Representative Banks

1. AB Bank Ltd. [Bangladesh]
2. AEON Credit Service Company [Malaysia]
3. ANZ Bank [Australia]
4. Bangkok Bank Public Company Ltd. [Thailand]
5. Bank for Investment and Development of Vietnam [Vietnam]
6. Bank of India (BOI) [India]
7. Brunei Investment Bank (BIB) [Brunei]
8. CIMB Bank Berhad [Malaysia]
9. DBS Bank Ltd. [Singapore]
10. E.SUN Commercial Bank, Singapore Branch [Taiwan]
11. First Commercial Bank [Taiwan]
12. First Overseas Bank Ltd. [Cambodia]
13. Hana Bank [South Korea]
14. Industrial and Commercial Bank of China Ltd. [China]
15. Industrial Bank of Korea [South Korea]

16. KASIKORNBANK Public Company Ltd. [Thailand]
17. Kookmin Bank [South Korea]
18. Korea Development Bank [South Korea]
19. Krung Thai Bank Public Company Ltd. [Thailand]
20. Malayan Banking Berhad (MAYBANK) [Malaysia]
21. MARUHAN Japan Bank PLC [Japan]
22. Mizuho Corporate Bank Ltd. [Japan]
23. National Bank Ltd. [Bangladesh]
24. Oversea - Chinese Banking Corporation Ltd. [Singapore]
25. Shinhan Bank [South Korea]
26. Siam Commercial Bank Public Company Ltd. [Thailand]
27. Standard Chartered Bank [United Kingdom]
28. Sumitomo Mitsui Banking Corporation (SMBC) [Japan]
29. The Bank of Tokyo-Mitsubishi UFJ, Ltd. [Japan]
30. United Overseas Bank Ltd. [Singapore]
31. United Bank of India [India]
32. Vietin Bank [Vietnam]
33. Woori Bank [South Korea]

APPENDIX 2

STRUCTURE OF MICROFINANCE GOVERNING BODIES IN MYANMAR



Source: Myanmar Microfinance Supervisory Enterprise

APPENDIX 3

LIST OF INSURANCE PROVIDERS IN MYANMAR

Life Insurance

1. Myanma Insurance
2. First National Insurance
3. Young Insurance Global Insurance
4. Capital Life Insurance
5. Grand Guardian Insurance Public
6. Excellent Fortune Insurance
7. Pillar of Truth Insurance
8. Citizens Business Insurance Public
9. Myint Mo Minn Insurance

General Insurance

1. Myanma Insurance
2. I.K.B.Z. Insurance Public
3. Global World Insurance
4. Aung Thitsar Insurance
5. Ayeyar Myanmar Insurance
6. United Amara Bank
7. Yadanabon Bank
8. Yangon City Bank
9. Yoma Bank

APPENDIX 4

SYNOPSIS OF FOREIGN INVESTMENT LAW

The new Foreign Investment Law, passed on 2 November 2012, outlines the kinds of actions potential foreign investors can exercise within Myanmar as well as their rights and responsibilities concerning their actions.

A significant part of this law focuses on the formation of the Myanmar Investment Commission (MIC), the vehicle that concerns itself with approving and supporting investment endeavors through evaluating the criteria, such as:

- financial credibility
- economic justification of the business
- appropriateness of technology

- protection and conservation of environment.

Some of the rights of foreign investors as prescribed in this law are of note. They include:

- 100% foreign investment ownership of licensed companies
- land leases of up to 70 years
- ability to propose ratios of foreign capital to citizen capital
- guaranteed repatriation of profits
- guaranteed non-nationalization policy
- extension of tax exemption and tax relief beyond the normal duration of five years if investment occurs in areas that are less developed and difficult to access for development

- tax exemption on profits that are re-invested within a year.

Some of the responsibilities of note, as prescribed in this law, include:

- investments shall be insured with relevant insurance businesses currently operating in the country
- employment of citizens
 - first two-year period, at least 25% of the employees must be citizens
 - second two-year period, at least 50% of the employees must be citizens
 - third two-year period, at least 75% of the employees must be citizens

Source for Appendix 3: Central Bank of Myanmar Law (The Pyidaungsu Hluttaw Law No. 16/2013), 11 July 2013. http://www.cbm.gov.mm/sites/default/files/cbm_law_unofficial_translation_29-7-2013_1.pdf

Source for Appendix 4: The Foreign Investment Law (The Pyidaungsu Hluttaw Law No. 21/2012), 2 November 2012. http://www.dica.gov.mm/includes/FIL%20English%20Version_%2029-1-2013_.pdf; New Regulations under the Foreign Investment Law released, Updated February 12, 2013 <http://www.kpmg.com/mm/en/issuesandinsights/articlespublications/articles/pages/articles-06022013.aspx>

APPENDIX 5

SYNOPSIS OF FINANCIAL INSTITUTIONS OF MYANMAR LAW

The Financial Institutions of Myanmar Law was enacted by the State Law and Order Restoration Council on 4 July 1990. This law provides the legal structure for establishing a financial services institution in Myanmar.

This law allows for the establishment of the following four types of financial institutions:

- 1 commercial banks
- 2 investment or development bank
- 3 finance companies
- 4 credit societies.

Section 13 is an important section of this law. Sub-section (a) sets out the guidelines that allows a financial institution with foreign capital or a branch of a foreign bank to establish a presence in Myanmar, with the approval of the Central Bank. Sub-section (b) covers the requirements overseas financial institutions have to fulfill in order to open a representative office(s) in Myanmar.

Credit operations allowed under this law include loans or advances, discount

of bills of exchange, lines of credit, and payment orders and guarantees.

Capital to risk-weighted assets ratio (CRAR) shall be at least 10%.

Under the new rules and regulations, the minimum capital requirements for a private investment bank are MMK60 million, and for a private commercial bank, MMK30 million.

APPENDIX 7

SYNOPSIS OF MICROFINANCE LAW

The Microfinance Law was enacted by the Pyidaungsu Hluttaw (Myanmar's Legislative Assembly) on 30 November 2011. This law provides the legal structure for many organizations that had been operating without proper regulatory framework for many years.

This law provides the framework for the establishment of the MSC which works closely with the Rural Development and Poverty Reduction Working Committee. The supervisory committee plays a key role in determining the minimum capital requirement and the interest rates on deposits and loans.

This law also recognizes both deposit-taking and non-deposit-taking microfinance institutions. It allows international financial institutions and international non-governmental organizations to operate in Myanmar to provide microfinance services.

Microfinance institutions can offer the following services under the law:

- -Extend microcredit
- -Accept deposit
- -Carry out remittance
- -Carry out insurance business
- -Borrow from local and overseas institutions
- -Carry out other financial activities.

APPENDIX 6

SYNOPSIS OF FOREIGN EXCHANGE MANAGEMENT LAW

The Foreign Exchange Management Law was enacted by the Pyidaungsu Hluttaw (Myanmar's Legislative Assembly) on 10 August 2010. This law was enacted one week after the MMK transitioned to a managed float regime.

The Central Bank plays a key role in supporting the foreign exchange market.

In accordance with this law, the Central Bank publishes the MMK daily reference rate for the foreign exchange market and is responsible for facilitating interbank transactions for foreign currency.

This law also provided the legal structure for domestic banks to offer foreign currency accounts to customers.

Four main foreign exchange operations are subject to this law. They are:

- 1 domestic payments in foreign currencies
- 2 other payments in foreign exchange
- 3 international payments and transfers in foreign exchange
- 4 purchases and sales of foreign exchange in the country.

APPENDIX 8

SYNOPSIS OF INSURANCE BUSINESS LAW

The Insurance Business Law was enacted by the State Law and Order Restoration Council on 24 June 1996. This law provides the legal structure for the establishment of an insurance company in Myanmar.

This law places the insurance business under the supervision of the IBSB, and allows for the establishment of the following types of insurance services:

- Life assurance
- Fire insurance

- Comprehensive motor insurance
- Cash-in-transit insurance
- Fidelity insurance
- Other types that may be permitted by the Ministry from time to time, by notification, with the approval of the Government.

The premium rates the insurance business and underwriters charge have to be approved by the supervisory board.

This law mentions that the Ministry of Finance and Revenue may, with government approval, grant permission for an insurance underwriting agency or an insurance brokerage to be set up using foreign investments.

Myanma Insurance, the state-owned insurance company, is not covered under this law, and is under the Myanma Insurance Law.

APPENDIX 9

SYNOPSIS OF SECURITIES AND EXCHANGE LAW

The Securities and Exchange Law was enacted by the Pyidaungsu Hluttaw (Myanmar's Legislative Assembly) on 31 July 2013. This law provides the legal structure for the creation of a stock exchange and securities market in Myanmar.

Under this law, a securities company can be formed to provide the following services:

- a) Securities dealing
- b) Securities brokerage
- c) Securities underwriting
- d) Securities investment advisory
- e) Securities depository and clearing.

A separate investment advisory business license is not required if a company already has a license to operate services (a) – (c). The duration of the licenses will be specified by the Securities and Exchange Commission (Commission).

A public company seeking a public offering has to obtain approval from the Commission, which will either approve or deny the proposal decide within 60 days.

The Securities and Exchange Law, though passed by the Union

Parliament, has yet to be enforced by the Government as of August 2013. Certain procedures such as the formation of the Commission and writing by-laws will be carried out only after the enforcement of the law by the Office of the President.

KPMG

Who We Are

KPMG member firms are among one of the world's leading professional services providers. We are proud of our reputation which is founded on a long history of independence, integrity, and objectivity. It is what drives KPMG professionals to deliver clear and practical advice to help clients grow and succeed in their chosen field. It is also what makes us committed and successful leaders in our profession.

Global Presence

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We have over 152,000 outstanding professionals working together to deliver value in 156 countries worldwide. KPMG's purpose is to turn knowledge into value for the benefit of our clients, our people, and the capital markets. KPMG's member firms aim to provide clients with a globally consistent set of multidisciplinary financial and accounting services, based on deep industry knowledge.

KPMG in Myanmar

KPMG in Myanmar provides a wide range of Tax and Advisory services. Our Myanmar team includes experienced Myanmar nationals and expatriates. The team is enhanced by the technical and industry

knowledge of our global network. This gives us the tools and knowledge to gain a deep understanding of our clients' businesses.

Our leadership

KPMG in Myanmar is dedicated to helping clients achieve strong, sustainable business performance. We are committed to delivering on our capital market responsibilities, as well as assisting clients in effectively communicating true business performance to stakeholders.

Since its establishment in October 2012, KPMG in Myanmar has been involved in innumerable projects across key growth sectors such as telecommunications, agriculture and infrastructure. We have provided tax, audit and advisory services to private businesses, local and international firms, as well as government and non-government organizations.

Supporting our communities

KPMG in Myanmar believes in supporting the community in which we live and work. Our contribution will take the form of time commitment by our staff – tapping into their experience, knowledge and skills for projects that benefit the greater community – and philanthropic contributions that will help improve lives.

Why select us

Independent, clear and practical advice

Business owners and corporate executives choose us for the independent, objective and professional advice that we bring to all our client engagements. We help clients make effective and informed decisions with our clear, concise views of the increasingly complex business environment.

Multidisciplinary and industry focused approach

Our clients receive advice from dedicated professionals who understand their business. This is because our team of audit, tax and advisory specialists has diverse industry experience. They bring a multidisciplinary and industry focused approach to every engagement.

Global knowledge sharing

KPMG's global knowledge sharing system puts the technical and industry knowledge at our people's fingertips.

This means our professionals are on top of global technical and industry developments. They will provide relevant, timely in-depth advice no matter where in the world you do business.

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