First Private Bank

Summary

First Private Bank is a historic private-sector bank that was the first to be granted a banking license in Myanmar. Its mission is to enable all people to have access to financing and to contribute to the reduction of poverty through loans to private-sector companies and through financial advice. Earnings have been mostly strong since its founding, and the bank has paid dividends to shareholders each year. In its corporate activities, the bank gives due consideration to transparency and trustworthiness, and it is recognized as a clean bank domestically and abroad. Its loan-to-deposit ratio is higher than average, making it reasonable to say that funds are being used efficiently. With regard to loans, the bad loan ratio is close to zero due to strict credit assessments. In its efforts to improve business efficiency and job performance, the bank is installing computer systems while accounting for the risk of cyber attacks, hiring experienced foreign staff, and working to improve skills through employee education. These efforts can be expected to contribute to further earnings growth.

- First Private Bank (FPB) is a historic bank that registered as a company in September 1991 and was the first to be licensed as a commercial bank in Myanmar in May 1992. Earnings have been mostly strong since its founding, and the bank has paid dividends to shareholders each year. In January 2017, the bank was listed on the Yangon Stock Exchange.

- FPB's mission is to (1) provide loans and financial advice to private-sector companies, (2) contribute to the development of the economy and society, (3) focus on the low income bracket and contribute to the reduction of poverty, and (4) make it possible for all people to have access to financing.

- In its banking activities, FPB gives due consideration to transparency and trustworthiness, and it does all it can to protect the interest of stakeholders. These are timely efforts in view of the growing awareness of the social responsibilities of companies. As a result, FPB is trusted as a clean bank in Myanmar and abroad.

- As of March 2016, FPB accounted for about 1% of the total assets of Myanmar's 21 commercial banks, and it ranked 15th in asset size. Thus, FPB is not a large bank in terms of its assets. Myanmar's banking sector is characterized by (1) the overwhelming presence of first-place Kanbawza Bank with about 42% of total bank assets and (2) banks ranked ninth and lower differing little in asset size. For this reason, depending on the outcome of future activities, there is good reason for believing that FPB will come to be included in the top 10 banks.

Chart 1: Share of Total Bank Assets of the Top 10 Banks (as of March 31, 2016; %)

1	Kanbawza Bank	42
2	Ayeyarwaddy Bank	14
3	Co-operative Bank	10
4	Myawaddy Bank	6
5	Myanmar Apex Bank	6
6	Yoma Bank	6
7	United Amara Bank	3
8	Global Treasure Bank	3
9	Asia Green Development Bank	2
10	Myanmar Oriental Bank	2

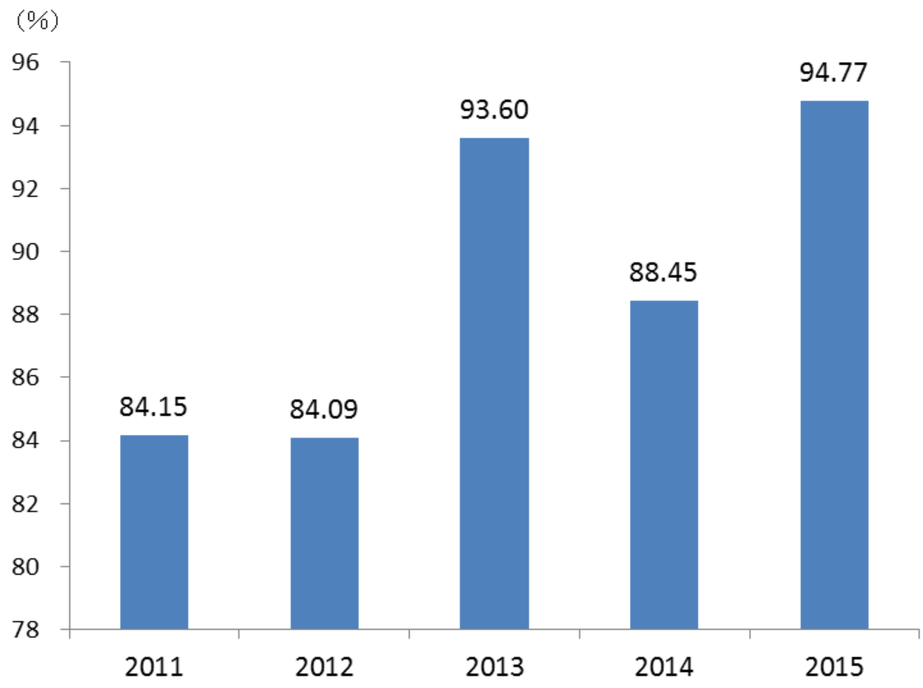
Source: giz

- As of March 2016, FPB had 32 branches and about 610 employees. Its financial year ends in March. About 90% of its lending consists of overdrafts, and general loans come to about 10%. Between 2010 and 2015, overdrafts grew by an annual average of 29.15% and general loans by 23.18%. Of FPB's borrowers, 17% are in manufacturing, 58% in wholesaling and retailing, and 25% in services.

- FPB's loans are secured by collateral. Of such collateral, 99.8% are fixed assets, such as land and buildings. Other collateral includes gold, jewelry, and deposits, but their percentage shares are extremely small. Lending is accompanied with strict credit assessments, and monitoring continues after loans are made. The upper limit for new loans is 30% of the value of collateral, and the credit limit is raised in accordance with subsequent conditions. As a result, the bad loan ratio is extremely low and was less than 0.1% as of March 2016.

- In Myanmar, the loan-to-deposit ratio is a low 70% or so. Funds are not used efficiently, and profitability is poor for many banks. However, FPB's loan-to-deposit ratio has risen for the most part year by year. This is a positive development from the perspective of the efficient use of funds.

Chart 2: Loan-to-Deposit Ratio



Source: Prepared by the author from FPB annual reports.

- With the steady expansion of the economy, asset sizes have continued to grow in Myanmar's banking sector. The earnings environment is generally positive, and FPB has also benefited from this trend. Its revenues rose 2.3 times from 9.8 billion kyat in 2011 to 22.6 billion kyat in 2016. Expenditures appear to have climbed at a somewhat faster pace since 2013. Main contributing factors are the cost of opening new branches, higher personnel costs, and the increase of deposit interest rates so as to secure deposits in a heightened competitive environment. A factor coming into play since 2013 is a rush led by the top-tier banks to open more branches in order to acquire potential customers, a rush that FPB also joined. Going forward, it will be necessary to monitor whether sales efforts gain traction at these new branches.

- FPB's branch expansion strategy is being deployed in small cities targeting the low income bracket. Since this is a strategy that draws a line with the strategies of the large banks, the likelihood is low that FPB will face stiff competition with other banks. Higher earnings are a reasonable prospect if the new branches come up to speed in their business operations, which should make up for the growth of expenditures.

Chart 3: Business Results of FPB (Unit: Millions of kyat)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Income	9,828	11,834	13,959	18,327	20,851	22,646	23,904
Expenditure	6,057	7,008	7,777	10,279	12,089	14,097	15,271
Profit (before taxes)	3,771	4,826	6,182	8,048	8,762	8,549	8,633

Source: Prepared by the author from FPB annual reports.

- FPB's main efforts to promote growth include (1) computerizing bank operations, (2) modernizing operations through the study of foreign cases, (3) improving the skills of personnel through staff education, (4) diversification of financial products, and (5) increasing the number of branches. Regarding the computerization of bank operations, the need for mobile banking and Internet banking is rising with the growing sophistication of such operations, and relevant development is proceeding with full awareness of the necessity for adequate measures against cyber attacks and hacking. This is an extremely careful approach and can be commended. For the banking business offering the same kinds of financial products, the quality of human resources is likely to have a major impact on earnings. Thus, FPB's efforts to improve the skills of employees are a matter that will bear further watching.