



CORPORATE GOVERNANCE CASE STUDIES | VIETNAM

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Inspiring People

2017 GROUP REVENUE US\$ 62.8 million

TYPE Private

EMPLOYEES Approximately 1,794 (Source: TMG)

HOTELS 11 (Source: Company Website)

IFC ASSESSMENT DATE December 2014

BUSINESS Provides travel, hospitality, aviation and online travel services across Asia with sales offices in the United States, United Kingdom, Australia, and Russia.

LOCATION Vietnam

SECTOR Tourism

THIEN MINH GROUP (TMG), founded in 1994 and headquartered in Vietnam, is the leading integrated travel and hospitality group in Southeast Asia. A privately held travel company, TMG specializes in destination management services, hospitality, aviation and online travel agent services targeting domestic and international tourists.

TMG operates several brands including Buffalo Tours, Victoria Hotels and Resorts, ÉMM Hotels and Resorts, Hai Au Aviation, and iVIVU.com – an online travel booking website. While the company attracts around 90,000 tourists to the region annually, it hosts over 200,000 guests across its three and four-star modern hotel chain.

Looking forward, the Group aims to become the leading integrated player in the Vietnam market with the capability to serve some 10 million passengers by 2023 and to understand, engage and capture value from customers across customer journeys (or value chain) with its integrated product offerings.

WHY CHANGE?

As TMG ventured into other markets in Asia, the company's senior management realized that the company needed a stronger corporate infrastructure – including a sound framework for corporate governance – a more formalized Board decision-making process, and greater transparency. Subsequently, this would help the company to achieve sustainable growth, meet its strategic objectives, and become investor-ready. A pressing concern was with regard to improving and developing a stronger management control environment from the group level down to the subsidiaries. While transitioning from its modest entrepreneurial roots to becoming a leader in the tourism industry in Southeast Asia, the company's leadership recognized that it outgrew its governance and management infrastructure. So it needed to re-evaluate its internal controls and address specific challenges such as key-person risks, delegation of authorities, succession planning, and disclosures. Executives and Board members were proactive in identifying ways to address these challenges. The aim was to optimize performance and ensure that its corporate governance (CG) practices were in sync with international standards regardless of whether TMG continued as a privately held business or went public.

WHAT DID THEY CHANGE?

IFC conducted a CG Assessment of TMG in December 2014. The goal was to recommend practical governance enhancements in line with projected corporate growth and strategic objectives. Overall, the executive team, Board members, shareholders, and the senior management demonstrated a strong commitment to making CG improvements. The company recognized the need to adopt and administer the highest level of CG standards including bolstering its internal audit capabilities and formalizing its management-level Steering Committee. The Board, although quite functional, required diversification and reinforcement in strategic areas. This was likely to foster independence and enable its directors to be more engaged and well-positioned to provide insightful stewardship and oversight. Although control and compliance systems were in order, the company addressed span of control and human capital issues to help drive sustainability of the business. Additionally, TMG made efforts to improve its quality and frequency of disclosures. The company went beyond an Audit Committee, which was geared for Board level reporting. It established more formal, standardized reporting mechanisms, while publishing corporate information online in a transparent manner that was consistent with best practices and aligned with market expectations.

Mr. Tran Trong Kien, TMG Founder and Chairman of the Board

"My aim, as the chairman, is to create a diverse, inclusive, and effective Board, which is fully informed about the business and is able to provide the executive membership with a judicious blend of challenge and support. The ongoing corporate governance exercise has given TMG a unique opportunity to gain access to best practices. Further, voluntary adoption of key principles in this regard has significantly changed the overall management of the company and its operations. While we remain as flexible and agile as the market demands, our Board fosters an environment of open communication and constructive debate over strategic issues. I believe we are on the right track for a long-term and sustainable growth."

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Commitment to Corporate Governance	<p>To support TMG's national and regional expansion, the company needed to make changes to its CG framework over the medium/long-term. First and foremost, TMG needed to substantiate its commitment to CG by developing its own CG and policies in alignment with international best practices.</p>	<p>CG Commitment: Developed formal Board charters including a CG Manual and Company Code of Ethics and Conduct. Adopted a CG model similar to multinational firms with operations across multiple jurisdictions.</p>
Board Effectiveness	<p>Composition: Comprised two-thirds executives and shareholder board appointees, so there was a low level of independence. The Board needed members with relevant industry expertise and multinational experience for the company to expand regionally.</p> <p>Structure: There was a need to formalize and adopt several functional committees.</p> <p>Roles: There was a blurred division between the Board and management, given the number of executives on the Board. It was important to try to enforce the roles of directors as stated in the Charter.</p> <p>Procedures: The TMG Board procedures and practices, especially on meetings, level of discussions, Board materials, etc., needed improvement.</p> <p>Succession Planning: The company had not addressed the succession issue of the chairman/CEO, thus exposing the company to significant 'key-person' risk.</p>	<p>Composition: Strengthened the functional effectiveness of its Board by gradually putting plans in place to revise and expand the Board membership over time. This included the addition of a third independent director with relevant industry expertise.</p> <p>Structure: Adopted plans to establish more subcommittees on the Board including Audit & Risk and Governance & Organization Committees. Set up a CG working group with the Corporate Secretary, CEO, and an independent director.</p> <p>Roles: A Corporate Secretary was appointed with formal scope of work to improve functioning of the Board.</p> <p>Procedures: The Board adopted procedures to ensure efficiency and good communication, thus helping Board members to be more informed during Board discussions. This included more regular and frequent meetings, distribution of Board papers in advance, and discussing candid issues facing the business.</p> <p>Succession Planning: Initiated a process of transition with a separate chairman and CEO. This way, the chairman could dedicate time to strategic matters and the CEO could focus on operational concerns. Groomed a prospective deputy CEO as part of the gradual succession plan prior to its public offering.</p>
Management Control	<p>Structure: The company needed to ensure that the right control structure was in place to deliver consistent, quality, and international standard services across all businesses regardless of location.</p> <p>Executive Committee: Though there</p>	<p>Structure: Strengthened key control functions including formalizing the Executive Steering Committee and establishing more structured frameworks related to compliance, accountability, finance, HR, and internal controls.</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Management Control	<p>was a committee of senior executives, the authority was vastly centralized with a top-down approach, which undermined other management authorities. Information exchange was mostly through shared business reporting.</p> <p>Risk Management: TMG needed to put in place a governance structure and controls to make any key executive, especially the CEO, replicable if one of them was incapacitated. With its aggressive growth objectives, the company faced more complex risks.</p> <p>Human Resources: HR went through a robust expansion and TMG experienced a high turnover. There was a shortage of key skillsets including capable General Hotel Managers and skilled hospitality professionals. The company faced challenges to strengthen human capital management and reinforce mechanisms to incentivize and retain staff.</p> <p>Internal Audit: The Internal Auditors were not specialized in the company's business segments or helping with corrective action plans. It was rather a box-ticking exercise, otherwise meant to identify risks and problems. The auditors reported directly to the Board chairman.</p>	<p>Executive Committee: Established a formal management-level Steering Committee to help take stock and ownership of decision-making, oversight, human capital, and span of control issues. This committee helped decentralize authority, formalize approval limits, and give the management discretion and accountability.</p> <p>Risk Management: Developed a more formal risk management system and proactively identified, evaluated, and managed business risks associated with operations, E&S, health safety, financial, and regulatory policies. A risk register was frequently updated with plans to develop a live register to prevent risks in real time.</p> <p>Human Resources: Developed a more comprehensive understanding of the laws, benefits, insurance policies, and general market practices of each country of operation as TMG expanded. Further, regional consolidation followed due to the ASEAN integration. Aligned HR policies of the group with each country in operation.</p> <p>Internal Audit: Ensured the independence of the Internal Audit function and strengthened it to validate that key risk management and governance processes worked effectively. Formal job descriptions and audit manuals were developed. Reports to the Audit and Risk Committee and provides value-added suggestions to support business managers in their risk mitigation efforts.</p>
Disclosure and Transparency	<p>Public Disclosures: While information flowed in a transparent and open manner, the company had no standardized reporting tools or business intelligence systems. There was scope to better align with international standards in terms of developing an Annual Report, online disclosures, and information for shareholders. Even though TMG's current ownership was concentrated in three investors, its share ownership would become more diffused after an Initial Public Offering (IPO), and the company would need to improve its transparency practices.</p>	<p>Public Disclosures: In anticipation of an IPO, it realized a public listing would demand higher expectations from the market and regulators. Remodeled the corporate website to include improved online disclosures encompassing a CG manual, an annual report, and an investor corner including key financial and non-financial information.</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Shareholder and Stakeholder Relations	Shareholder Protection: Shareholders had easy access to corporate information and the Supervisory Committee was designed to protect their interests, however the independence of the Board was a concern with primary representation from shareholders or executives.	Shareholder Protection: Aimed to eliminate conflicts of interest and prepared to become "investor ready" by establishing shareholder protection mechanisms and policies on Related Party Transactions and Conflicts of Interest. Replaced the Supervisory Committee with an Audit and Risk Committee to discuss risks and other findings openly with shareholders at Board meetings.

IMPACT REPORT

FOUR YEARS AFTER THE CHANGES, TMG REPORTED THE FOLLOWING RESULTS:

Access to Capital

As TMG continues to adopt and implement best CG practices, it gained confidence in its ability to meet Vietnam's regulatory requirement with regard to how public companies must be governed. This, in turn, enabled the company to be one step closer to achieving its goal of going public and accessing capital through an IPO.

Reputation

CG enhancements sent a signal to the market about TMG's commitment to corporate governance. Improved disclosures via the company's website and other external communication channels increased transparency, as well as consumer and investor confidence in the business.

Sustainability

With the execution of numerous CG improvements over the years, TMG developed a long-term vision towards the management and scale of business. Strategies for succession planning, risk mitigation, disaster prevention, and business continuity contributed to a more sustainable and viable business plan in the long run.

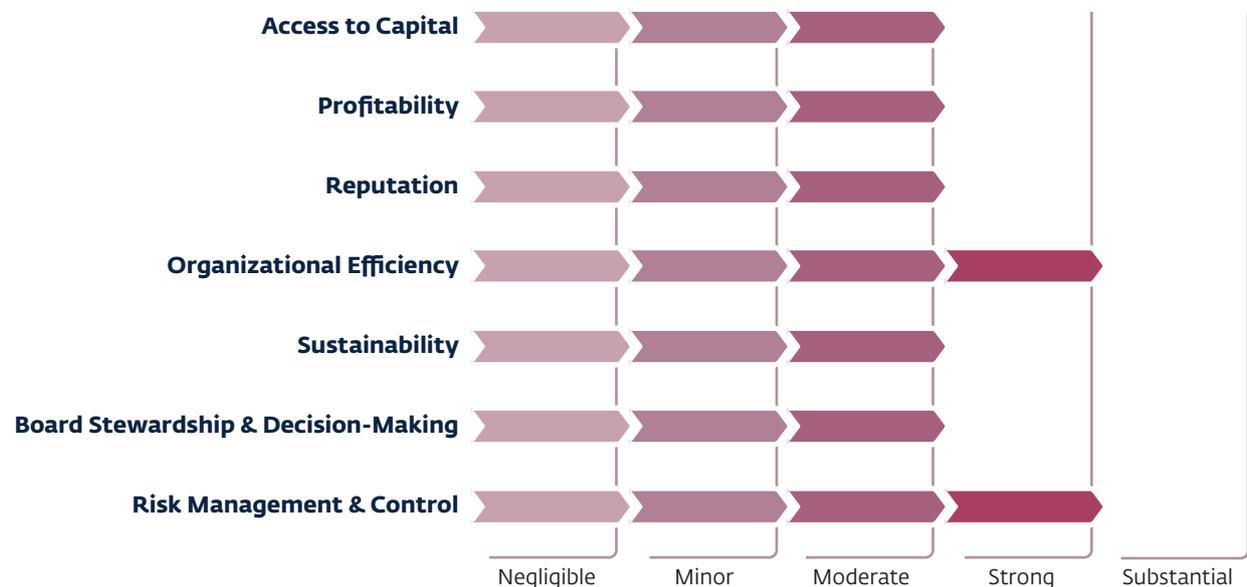
Board Oversight

TMG's Board clearly defined the roles and responsibilities of its members and committees, thus improving the Board's ability to make informed decisions, provide effective leadership to the management, and steer the course of the company.

Risk

Frequent discussions about potential risks – along with strategies to mitigate them – have become a part of routine debates at the Board level. These practices significantly improved TMG's overall ability to identify and eliminate risks even before they emerged.

IMPACT SCORECARD



Value of financing facilitated:

Divestment of US\$ 45 million (sale of Buffalo Tours in March 2017)
Investment of US\$ 13 million (by Air Asia into Hai Au Aviation in March 2017)



BUSINESS	Provides retail, SME and commercial banking services in Vietnam.
LOCATION	Vietnam
SECTOR	Financial
2017 PROFIT Before Tax (Yr. Growth)	US\$ 363 million (65%) (Source: 2017 Annual Report)
TYPE	Private
# EMPLOYEES	23,826 employees (Source: 2017 Annual Report)
# OUTLETS	216 branches and 4.9 million active customers (Source: 2017 Annual Report)
IFC ASSESSMENT DATE	September 2012

“Improved CG and greater transparency has positively impacted our IPO efforts. Our experience shows that when foreign investors look for good companies, they not only consider profitability, but also take into account non-financial factors such as CG and sustainability. In the race for capital, VPBank has paid close attention to improving its CG practices. Subsequently, that has significantly helped in securing foreign funding. We can now borrow from international lenders a lot more easily than we did earlier — a clear example of how CG has improved our overall operations, rating, and reputation.” - Mr. Ngo Chi Dung, Chairman of the Board.

“Thanks to IFC’s investment, VPBank can enhance its reputation and brand value through IFC’s supervision and technical support in corporate governance, especially risk management.” - Mr. Nguyen Duc Vinh, CEO.

(from Vietnam Plus, “IFC seals convertible loan of 57 million USD to VP Bank”, July 19, 2017)

VIETNAM PROSPERITY JOINT-STOCK COMMERCIAL BANK (VPBANK),

headquartered in Hanoi, was founded in 1993 as the Vietnam Joint-Stock Commercial Bank for Private Enterprises. Since changing its name in 2010, the bank has amassed a nationwide footprint with 216 retail branches over 70 Small and Medium Enterprise (SME) centers. Further, it has more than 470 branded automated teller machines (ATMs) and 105 cash deposit machines (CDM).

VPBank provides commercial and retail banking products and services in Vietnam including deposit products, loans, insurance products, credit cards, international payment and remittance services, trade finance, foreign exchange, Internet and mobile banking, SMS banking, and e-commerce services. In 2017, the bank’s total assets exceeded \$12 billion. The bank was selected by the State Bank of Vietnam (SBV) to pilot the Basel II implementation roadmap in Vietnam. Moving forward, the goal is to become a leading retail bank in Vietnam, while expanding its lending activities to import and export businesses, and SMEs. In 2017, the bank ventured into the Micro SME segment, which yielded a tenfold increase in the SME unsecured loan balance from 2015, when VPBank started exploring this segment.

WHY CHANGE?

As VPBank aimed to become a top-tier bank in Vietnam, it recognized the need to improve its governance framework and go beyond the legislative minimum. The bank demonstrated a clear commitment to good CG, though internal policies and by-laws were compliance-driven and adopted to meet regulatory requirements. The bank’s owners and executives

proactively sought ways to implement international CG standards and establish itself as a well-governed financial institution. The bank’s leadership acknowledged that CG improvements would help the bank address challenges to a sustainable growth and improve internal controls, decision-making capabilities, and strategic planning processes.

WHAT DID THEY CHANGE?

IFC conducted a CG Assessment of VPBank in September 2012. The bank leadership, Board members, and shareholders were committed to making CG improvements. As an initial step, the bank revised its charter to include CG and information disclosure policies. It also adopted CG and ethics codes. An Annual Report was developed, which included financial and nonfinancial information as well as a section on governance, which outlined its dividend and whistleblower policies. Further, VPBank took a range of concrete measures over time, which instilled good CG in its corporate culture. For example, the BoD increased its director base from four to six, adding an element of independence and diversity of expertise to the Board. The Corporate Secretary function was strengthened and formalized. A Risk Management Committee was established, which helped to better assess and monitor risks across the bank. In addition, the delegation of the audit function to the Supervisory Board helped clearly define and separate the roles and duties of the Board versus the various existing management committees. The HR Committee developed an evaluation and remuneration policy, tailored for a long-term performance. These governance enhancements positioned the Board to provide stewardship, oversee risk management and internal control framework, and adjust policies in line with the bank’s annual strategic plans.

SUMMARY OF KEY CHANGES

	KEY CHALLENGES in 2012	KEY CHANGES
Commitment to Corporate Governance	<p>Even though there were internal policies and by-laws in place to meet regulatory requirements, the Bank's corporate governance was primarily compliance-driven and did not go beyond the legislative minimum. In its desire to become one of the top banks in Vietnam, key shareholders and executives recognized the need for improvement and alignment with international CG standards.</p>	<p>CG Commitment: Committed to implementing best CG practices and proactive in implementing recommendations to strengthen its CG. Established principles beyond legislative mandates. Adopted a CG improvement plan at the Board level and conducted regular assessments regarding the implementation of the plan. The Bank revised its charter to include CG and information disclosure policies along with a CG Code and Code of Ethics.</p>
Board Effectiveness	<p>Composition: The Board's three non-executive directors were very involved in the operational management of the bank. There was only one independent director whose independence was questionable as he did operational work in the bank. The Board lacked directors who had legal, risk management, and internal audit expertise. The chairman was not independent or non-executive, which was contradictory to best practices.</p> <p>Structure: Inappropriate balance between Board and management as Board controlled decision-making through regular participation in management level committees. The bank had no Board-level committees and the composition, status, and functioning of these committees needed to be addressed as they were staffed by both directors and management. There was no Audit, Risk Management or Remuneration/Nomination Committees.</p> <p>Roles & Responsibilities: The division between Board and management was blurred, given the large number of executives on the Board. The Board stepped into the realm and authorities of the CEO, and the rest of the management team. The Board had tight control over decision making of key operational issues through regular participation in several committees (Ex-co, ALCO, Credit, ITSC, Product), which are usually established and operated at the management level.</p> <p>Corporate Secretary: The bank did not have a dedicated Corporate Secretary. Instead, there was a BoD Office, which covered basic Corporate Secretary</p>	<p>Composition: Added one independent director with legal/internal audit experience. Chairman delegated more authority to other Board members and management to reinforce his independence.</p> <p>Structure: The Board segregated the duties of directors and management, delegated operational issues and removed itself from participation in committees at the management level. Restructured composition of committees to ensure they operated under the mandate of the Board and were staffed by suitable experts. Established functional Risk Management Committee and designated Audit Committee duties to the Supervisory Board.</p> <p>Roles: Developed formal CG guidelines and a Board charter to clarify and formalize roles of the Board and management, and emphasized the important duty of the Board in setting the bank's strategy as well as oversight. The Board also progressively transferred its operational roles to management. It further stepped back from intense participation in management-level committees and provided the CEO with full autonomy over operation.</p> <p>Corporate Secretary: Enhanced function of the BoD Office and provided specialized training in legal and CG topics. Amended the by-laws in order to enhance the scope of services of the BoD Office and separate the Corporate Secretary function from that of an administrative assistant. Revamped the BoD's scope to ensure adequate CG principles were being followed, periodic updates were provided to the Board on regulatory issues, and new director</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES in 2012	KEY CHANGES
	<p>functions. The BoD Office's scope of work was limited.</p> <p>Procedures: The Board lacked formalized orientation, evaluation, and remuneration policies. Typically, there was no advance notice for agendas or distribution of Board papers. Also, there was no CG Code or Code of Ethics.</p> <p>Succession Planning: The bank had not adopted a formal succession plan at the Board or management level to minimize key-person risk.</p>	<p>orientation was in place.</p> <p>Procedures: Introduced formal, transparent policies on orientation and remuneration. Clearly defined annual Board evaluation process. Required Board evaluation process. Required invitations, agendas and Board papers to be distributed with a five-day advance notice. Revised the charter and by-laws to include CG practices. Developed a CG and Code of Ethics.</p> <p>Succession Planning: Developed a formal succession plan at the management level and considered plans for the chairman and CEO.</p>
Management Control	<p>Structure: The Board's oversight of the control environment needed to be clarified and improved. The bank's framework of internal control was concentrated around front office operations and authorization limits for credit approvals.</p> <p>Audit/Internal Audit: There was no Audit Committee functioning under the Board's purview. The Supervisory Board assumed the role of the Audit Committee. However, technically it was accountable to the General Meetings of Shareholders (GMS) rather than the BoD, and needed enhancement to oversee Internal Audit and risk mitigation functions.</p> <p>Risk Management: The risk management framework was decentralized and managed at the transactional level without a systematic approach to formalizing risk mitigation and monitoring procedures. The bank lacked expertise to adequately oversee risk management.</p> <p>Human Resources: Senior management performance evaluation was informal and there was lack of a transparent annual bonus system.</p> <p>Compliance: The bank did not have a whistleblowing policy.</p> <p>Financial Reporting: The bank's BoD – not the GMS – selected the external auditor. Financial statements were based on Vietnamese Accounting Standards (VAS).</p>	<p>Structure: Established C-level positions to strengthen the control culture and environment, and to ensure that controls were built-in and exercised by senior management.</p> <p>Audit/Internal Audit: Revised and updated role and practices of the Supervisory Board to comply with local regulations, provide financial oversight to the Board, and perform similar duties typical of an Internal Audit Department.</p> <p>Risk Management: Established a Risk Management Committee. Hired a Chief Risk Officer, who directly reports to the CEO, and is also a member of the Risk Management Committee. Developed systematic, centralized approach for identifying, prioritizing, mitigating, reporting, and monitoring material risks across the bank.</p> <p>Human Resources: Developed and approved senior management evaluation policies and performance-based remuneration plans.</p> <p>Compliance: Created a whistleblower policy to enable confidential reporting of breaches of conduct or violations to the Head of Compliance department and the Head of Supervisory Board.</p> <p>Financial Reporting: Modified policy on selecting the external auditor to enable the GMS to assume that role. While following the Vietnamese Accounting Standards to comply with local regulations, the bank also adopted the International Financial Reporting Standards (IFRS).</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES in 2012	KEY CHANGES
Disclosure and Transparency	<p>Public Disclosures: Disclosure of CG related materials on the website was limited. Annual Reports and reports in the "Investor" section of the website were only available in Vietnamese. No quarterly financial information about the bank was published online.</p> <p>Disclosures: The bank did not have formalized disclosure policies that regulated information sharing with shareholders, stakeholders, investors, or other interested parties.</p> <p>Conflicts of Interest/RPTs: The bank had not adopted by-laws on RPTs. Associated rules were fragmented and referred to in the charter and BoD regulations by repeating the wording of the current legislation.</p>	<p>Public Disclosures: Disclosed more comprehensive information online about the Board, committees, Supervisory Board, remuneration policies, and financial statements. Included a CG section in the Annual Report and published it on the website in English. Restructured "Investor" section of the website to provide relevant CG-related content in English.</p> <p>Disclosures: Developed internal by-laws on information disclosures. Disclosed a CG section in the Annual Report and published it online in English.</p> <p>Conflicts of Interest/RPTs: Adopted internal by-laws on RPTs to increase clarity regarding associated policies.</p>
Shareholder and Stakeholder Relations	<p>Shareholder Policy: Rights were not clearly described in the bank's Charter. There was no dividend policy.</p> <p>Minority Shareholder Protection: Minority shareholders were permitted to attend general meetings and receive information, but their impact on the business was insignificant and their activism was low.</p>	<p>Shareholder Policy: Amended the bank's charter with a clear list of rights, including provisions declaring equitable treatment of all shareholders. A dividend policy was created and published online.</p> <p>Minority Shareholder Protection: Provided a detailed explanation of the cumulative voting procedure in the charter and notes to shareholders. Ensured shareholders were given an opportunity to exercise their right to elect a BoD member. The bank recently introduced a formal Investor Relation Department to effectively facilitate all investor communication in a professional manner.</p>

FIVE YEARS AFTER THE CHANGES, VPBANK REPORTED THE FOLLOWING RESULTS:

Access to Capital

Investors, customers, and financial institutions recognized VPBank's CG enhancements, which improved the bank's ability to substantially increase deposits from the domestic market as well as its access to nearly \$1 billion in both offshore and international debt financing since 2016. In addition, in 2017, VPBank raised 22 percent capital from offshore and international fund managements.

Profitability

Profitability increased by 900 percent since 2012. CG has been a contributing factor in VPBank's growth and surge in net profits.

Reputation

The commitment and implementation of best CG practices have inspired confidence and improved trust among VPBank's customers and partners. CG has certainly had a significant impact on the bank's reputation in both the local and international markets.

Organizational Efficiency

By clarifying roles, responsibilities, and authorities of Board members, its committees and management, VPBank runs more efficiently and the Board is more functional as a whole.

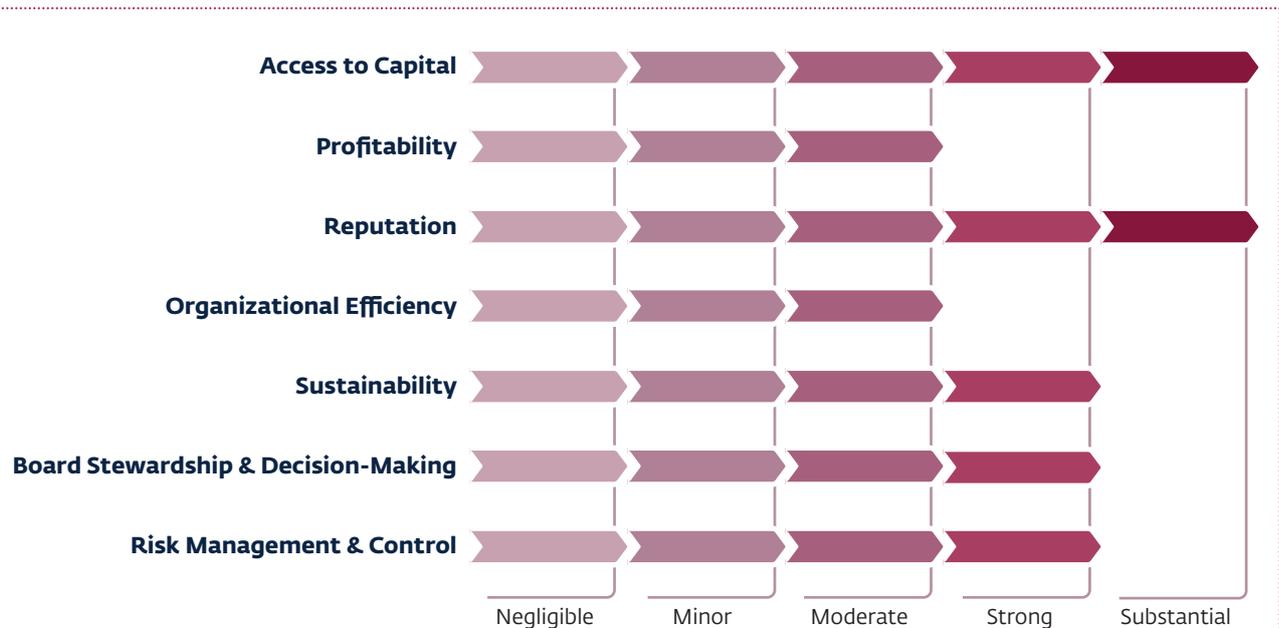
Sustainability

By actively focusing on mitigating risks and applying international standards for risk management, VPBank is confident of achieving its short to long-term objectives in a sustainable and realistic manner.

Board Oversight

The Board has been setting the vision, direction, risk appetite, and culture of the bank more effectively. Following improvements in the bank's corporate governance, the Board is able to provide better strategic guidance and play a stronger leadership role in terms of operation.

IMPACT SCORECARD



Value of financing facilitated:

US\$ 158 million in syndicated loans from IFC and **US\$ 604 million** from other funding sources (World Bank, JICA, and commercial bank financing).

On August 11, 2017, VPBank officially announced its listing on the Ho Chi Minh City Stock Exchange (HoSE) under the ticker VPB. VPBank was valued at nearly VND 52 trillion (US\$ 2.3 billion), making it one of the top 10 listed firms by market capitalization. With more demanding requirements for corporate governance and customer service quality, the listing presents the bank with both opportunities, and makes it one of the most professional, transparent, and efficient financial institution in Vietnam.



BUSINESS	Manufactures and distributes milk-based dairy products in Vietnam and abroad.
LOCATION	Vietnam
SECTOR	Food and Beverage (Dairy)
2017 PROFIT (Yr. Growth)	US\$ 456 million (9.8%) (Source: 2017 Annual Report)
TYPE	Publicly listed
# EMPLOYEES	7,845 (Source: 2017 Annual Report)
# BRANCHES	16 (Source: 2017 Annual Report)
IFC ASSESSMENT DATE	January 2011

Vietnam Dairy Products Joint Stock Company (Vinamilk) provides milk and dairy products in Vietnam and internationally. Established in 1976 as a state-owned company, it officially went public on the Ho Chi Minh City Stock Exchange (HoSE) in 2006. Subsequently, it became the country's largest dairy company as well as the largest public company in terms of market capitalization listed on HoSE (ticker symbol VMN). Vinamilk was further chosen as the first ever Vietnamese representative for Forbes's 50 Best Listed Firms in the Asia Pacific 2016.

With a nationwide presence across Vietnam, Vinamilk mainly produces and distributes condensed milk, powdered milk, fresh milk, soya milk, yogurt, ice-cream, cheese, fruit juice and beverage, and other milk-based products. Vinamilk also exports its products to 35 countries with a focus on new markets in Africa and South East Asia besides traditional markets in the Middle East¹. In 2017, the company's total production volume was over 250 SKUs with a total export volume of nearly 17,000 tons of milk powder.

The company's vision is to become a global brand in the food and beverage industry, inspiring consumers' trust in its range of nutrient and health products.

WHY CHANGE?

As Vinamilk aimed to establish itself as a leading sustainable brand, its leadership realized the need to significantly improve its corporate governance framework to emerge as groundbreakers. With the growth of business in Vietnam and abroad, the Board and senior management recognized that adopting best CG practices would help diversify the experience of directors, align risk and internal control functions, be more transparent, and improve brand recognition, thus inspiring consumer confidence. Meanwhile, with no clearly defined roles and responsibilities for its directors and functional committees or a CG manual to guide the company, Vinamilk was in want of change. A top listed company on HoSE, Vinamilk was ready to go beyond compliance and improve its CG framework for a distinctive edge in the sector.

WHAT DID THEY CHANGE?

In 2012, Vinamilk joined the Asia Corporate Governance Association (ACGA). Subsequently, it committed to implementing best corporate governance practices as outlined in IFC's 2010 manual for Vietnamese public companies², and made exemplary efforts to establish the highest standards of governance among its peers. CG was still relatively new in the country and the region. To start with, Vinamilk strengthened the functional effectiveness of its Board and appointed a Corporate Secretary to support CG implementation across the company. A more rigid definition of Board independence was adopted, and in April 2017, Vinamilk officially achieved the one third independent director requirement. The terms of reference, director authorities, and Board procedures were clearly documented and reinforced. In a few years, the company's overall commitment to good corporate governance resulted in the development of a detailed Code of CG and committee charters for its Audit, Strategy, Remuneration, and Nomination Committees. In an effort to streamline risk mitigation and internal audit activities, Vinamilk emerged as a regional role model yet again by replacing its Supervisory Board with an Audit Committee. The company was one among the top listed firms to receive a high ranking in the annual ASEAN CG Scorecard Assessments as well as the Annual Report Awards — organized by the Stock Exchanges and the Vietnam Investment Review — in terms of public disclosure of both financial and nonfinancial information online.

Ms. Le Thi Bang Tam, Chairwoman

"Corporate governance is key to our long-term strategy for sustainability and growth as a regional dairy producer in Southeast Asia. Over the years, we have established a robust corporate governance framework, which continues to serve as the regional role model for corporate governance in ASEAN. This, consequently, strengthens our Board and management accountability, inspires trust among stakeholders in the market, and promotes long-term interest of our shareowners."

¹ According to the 2017 Annual Report of Vinamilk.

² The Corporate Governance Manual was published by IFC in collaboration with the State Securities Commission of Vietnam in 2010.

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Commitment to Corporate Governance	<p>Vinamilk recognized the importance of good CG, and the Board was committed to formalized processes and procedures, and established better CG practices. Yet, the company needed to take action to make real changes in the governance of the business.</p>	<p>CG Commitment: Developed and executed CG policies and codes, and established a part-time Corporate Secretary to drive CG implementation within Vinamilk.</p>
Board Effectiveness	<p>Composition: The Board needed to diversify the experience of its membership, provide greater stewardship and oversight, and recruit independent and diverse directors.</p> <p>Committees: There was no Audit Committee, which led to issues of overseeing risk governance and internal controls.</p> <p>Roles: The Board needed to better define roles and responsibilities for the general leadership of the company as well as direction of its management. Members were not proactively involved in the risk management or audit function.</p> <p>Procedures: Meetings were held frequently, but there was no regular schedule and they were initiated by management. Preparations for Board meetings were decentralized and administered by various individuals, primarily from management. Also, there were no adequate policies for remuneration of Board members.</p> <p>Succession Planning: No formal succession plan was adopted at the Board or management level.</p>	<p>Composition: The Board made substantial changes to its composition by increasing directors and adding independent members to meet the local regulatory requirements.</p> <p>Committees: Established a fully functional Audit Committee, which led to revising and expanding Board membership, including sourcing insightful members with relevant industry expertise to serve on the Audit, Strategy, Nomination, and Remuneration Committees.</p> <p>Roles: Responsibilities and authorities were clearly defined in a CG manual and charters, which enabled directors and management to make informed decisions. Duties, scope of work, and accountability were clarified in the by-laws and the chairman's responsibilities were documented.</p> <p>Procedures: The Board established clearer procedures for meetings and shared board papers in advance to give directors sufficient time to plan. Board meeting policies were well documented in the CG manual, which more effectively managed expectations and enabled Board members to engage in more tactical and effective debate.</p> <p>Succession Planning: Developed a succession plan with respect to the replacement of key management personnel. The aim was to ensure business continuity and establish a formal process of authority delegation in the normal course of business or during emergency situations.</p>
Management Control	<p>Risk Management and Audit: The Risk Management function was not aligned with the Internal Audit function. Control policies were responsive, but only when issues cropped up, and not in line with international standards.</p>	<p>Risk Management and Audit: Evaluated the regulations over the company's risk governance and internal controls in order to set up a more formal system to mitigate risks and enable management to take corrective action. The Risk Management Committee was combined with the Audit Committee and chaired by an</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Management Control		independent director. By-laws were formally established and members with audit and risk experience were recruited to develop and implement a structured annual audit plan.
Disclosure and Transparency	Disclosure of Information: No prior information disclosure policies were established, and financial statements were not prepared in accordance with IFRS.	Disclosure of Information: Documented a disclosure of information policy in its CG code including principles on transparency, confidential information, insider information, information security, related party transactions, and disclosure of information to shareholders.
Shareholder and Stakeholder Relations	Shareholder Protection and Dividend Policy: There were policies on shareholder rights and dividends, but they were not extensively documented in a CG Code.	Shareholder Protection and Dividend Policy: Developed formal provisions in its CG Code on rights of shareholders of the company, equitable treatment of shareholders, and GMS resolutions. Adopted clearer and consistent principles in the by-laws on the Dividend Policy, which ensured the payout ratio was transparent.

EIGHT YEARS AFTER THE CHANGES, VINAMILK REPORTED THE FOLLOWING IMPACTS:

Access to Capital

IFC's investors recognized the improved access to quality financial and nonfinancial information, resulting in better access to low-cost capital sources. Vinamilk received more favorable interest rates from both domestic and international financial institutions, and saved approximately \$4.8 million in terms of the total borrowing interests from 2015 to 2017. In addition, Vinamilk has always attracted foreign investors and it reached the maximum cap of the foreign ownership limit (FOL) of 49 percent between the end of 2011 and 2016. The FOL was then progressively increased to 59.8 percent at the end of 2017, after the FOL was removed to allow foreign shareholders to buy the shares divested by the State Capital Investment Corporation, a major local (State) shareholder of Vinamilk.

Profitability

The average compound annual growth rates (CAGR) of net profit after tax and total assets from 2011 to 2017 are 16 percent and 14.3 percent respectively. This sound financial outcome was catalyzed by governance enhancements, a key factor that improved the company's overall effectiveness.

Reputation

Vinamilk's reputation has meaningfully improved due to increased consumer and investor confidence in the company, given enhancements in management, disclosures, and the overall stewardship in business.

Organizational Efficiency

Organizational efficiency improved as a result of a centralized management model and a strong distribution system, which streamlined and automated operations.

Sustainability

The company has taken concrete steps to develop and implement a personnel succession plan and talent management program with specific career pathways geared to create future leaders at Vinamilk, thus contributing to long-term sustainability and loyalty.

Board Oversight

Vinamilk's Board and management make more informed, insightful resolutions on corporate-wide issues and hold more effective discussions that foster strategic decision-making.

Risk

Risk mitigation and internal control systems have improved considerably, resulting in more proactive measures and assessment of potential risks, thus enabling the company to take corrective action in a timely manner.

IMPACT SCORECARD



Value of financing facilitated:

Increase of foreign ownership from 49 percent at the end of 2016 to 59.8 percent at the end of 2017

About IFC Corporate Governance Group

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

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