Financial Performance and Income Structure in Vietnam's Commercial Banks

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In this paper, the author uses the index analysis to explore relationships between financial performance and income structure in Vietnamese commercial banks during the years 2007-2011. The results show that financial performance of most commercial banks is mainly determined by lending service, which implies that their profits involve high degrees of risk. The paper, therefore, tries to suggest some measures to improve financial strength and adjust the income structure for commercial banks by controlling income from lending service and developing sources of income from non-lending services.

1. INTRODUCTION

Analysis of banking financial performance in general and income structure in commercial banks in particular plays an important role in supporting banking executives to make decisions on organizational issues and policy that may enhance financial strength, restructure banking operations, and affect every customer segment, thereby gaining optimal income and controlling risky income from lending service.

2. BANKING INCOME

Financial performance reflects structure and size of assets of a bank. Equity and profit (or loss) of the bank are presented in financial reports: sizes of assets and equity are presented in balance sheet, while profit or loss is presented in income statement. Financial performance of the bank is mainly recorded according to Accounting Standard 22, "Disclosures in financial statements of banks and similar financial institutions" and relevant accounting standards, principles and regulations.

Banking income is part of profit for a bank recorded according to Accounting Standard 14 (Turnover and other incomes) and Accounting Standard 1 with suitable accounting principles. Banking income is recorded according to economic benefits increased in an accounting period when the revenue recognition conditions are met.

Banking income comprises mainly incomes from lending services and non-lending operations such as payment service, trust service, advisory service, foreign exchange trade and others, etc.

Analyzing and estimating financial performance and structure of banking income employing index methods and financial indicators are regularly and periodically conducted by Vietnam's commercial banks to estimate implementation of their plans, their financial ability and the level of risks from operations included in the structure of banking income as well as the level of diversification of risks and of banking incomes in order to find measures to achieve planned aims and strategies.

3. METHOD AND DATA

Qualitative analytical methods, based on indices in tables and charts, are employed to conduct the research.

Data are collated from SBV, official websites of commercial banks, GSO, Ministry of Finance, IMF, World Bank, and ADB, etc. which were publicized in the period 2007 – 2011.

The paper aims to estimate financial performance and income of Vietnam's commercial banks in the period 2007 – 2011.

4. ANALYSING FINANCIAL PERFORMANCE AND INCOME STRUCTURE OF VIETNAM'S COMMERCIAL BANKS

a. Financial Performance of Vietnam's Commercial Banks:

Financial performance of commercial banks is reflected through various indicators, such as size of capital and assets, Capital Adequacy Ratio, profit, bad debt ratio, and provision for credit loss, etc. An analysis of financial performance of Vietnam's commercial banks shows the following facts.

**The size of chartered capital and asset of Vietnam's commercial banks:*

Vietnam's commercial banks could be divided into three groups in terms of their chartered capital and total assets:

- Group of major banks with chartered capital and total assets of VND100,000 billion or more includes Sacombank, ACB, Vietcombank, Vietinbank, Eximbank, Techcombank, MBBank, Maritime Bank, BIDV and Agribank.

- Group of medium banks with chartered capital and total assets that vary from VND50,000 to 100,000 billion comprises SHB, LienVietPostBank, SCB, Southern Bank, VPBank, OceanBank, VIB Bank, Đông Á Bank, and SeABank (Note: SHB, SCB have more than 100.000VND billion worth of chartered capital and total asset after joining in the group).

- Group of small banks with chartered capital and total assets of less than VND50,000 billion includes HDBank, OCB, SCB, ABBank, Kiên Long Bank, DaiABank, VietABank, NamABank, Bảo Việt, Vietinbank, PG Bank, BacABank, MDB, MHB, Tiên Phong Bank, VietCapital, TrustBank, and WesternBank.

Chartered capital of all Vietnam's commercial banks reached the required level. The size of their total assets and chartered capital is presented in Figure 1.

However, data in Table 1 and Figure 1 show that the average chartered capital of three major Vietnamese commercial banks is only over US$646 million, much lower than the regional average.

Table 1: Capital of Some Banks in Southeast Asia in 2010 (US$ million)

Country	Capital	Country	Capital
Indonesia		Malaysia	
Bank Mandiri	3,119	Maybank Islamic Berhad	982
Bank BNI	3,010	Public bank (PBB)	4,881
Bank central Asia	2,980	Bank Islam Malaysia	669
Vietnam		Thailand	
Vietinbank	778	Bangkok Bank	5.584
ACB	481	Siam Commercial Bank	4,068
Vietcombank	679	Kasikornbank	3,510
Philippines		Singapore	
Bank of Philippine Islands	1,550	DBS Bank	21,378
Metropolitan Bank Et Trust Company	1,541	United Overseas Bank	12,703
Equytable PCI Bank	464	Oversea - Chinese Banking Corp	13,310

Source: www.thebanker.com/top1000

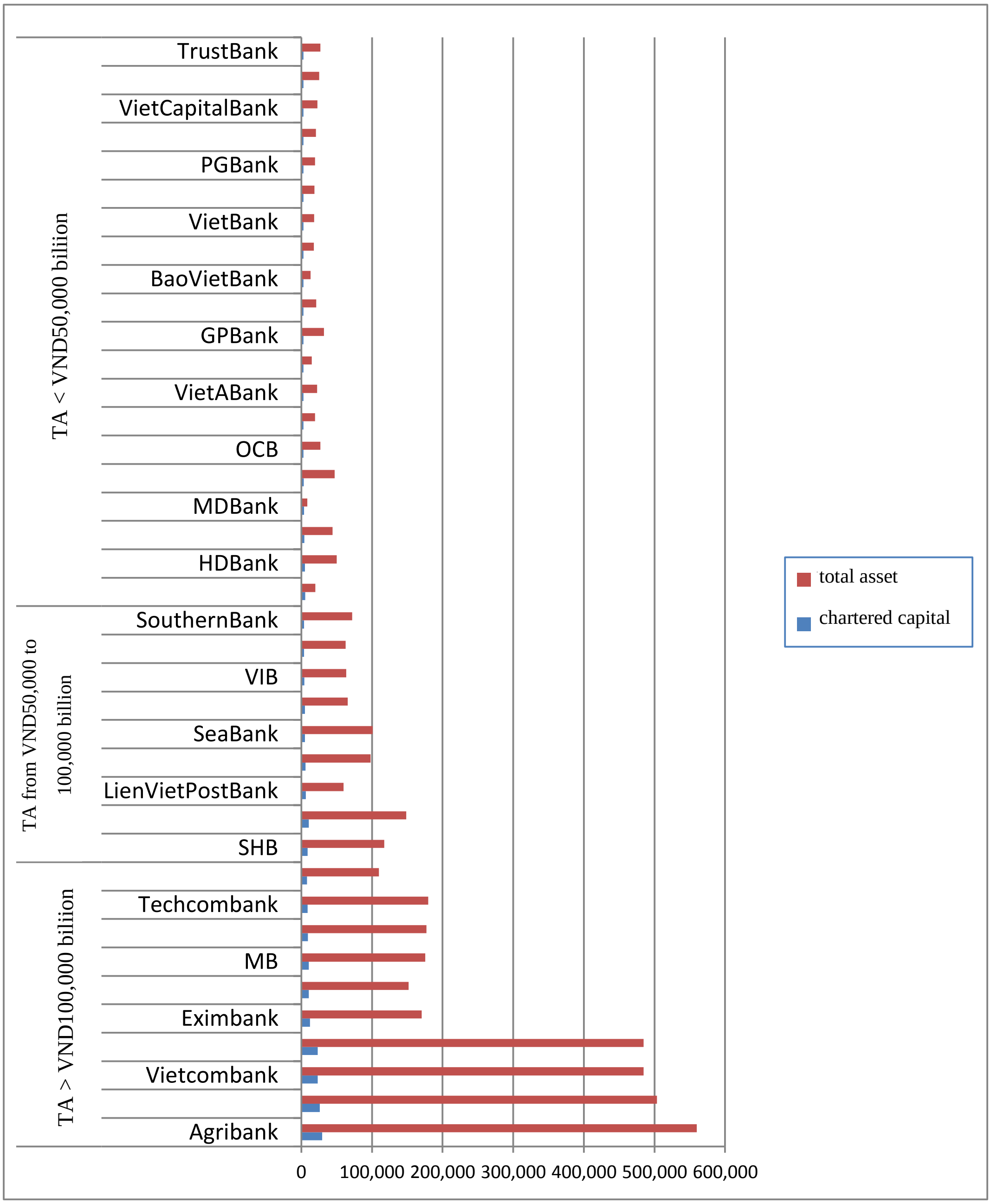

Figure 1: Chartered Capital and Total Asset of Vietnamese Commercial Banks in 2011

Source: Author's calculations based on the financial statements of commercial banks in 2011.

The average size of bank capital is over US$4.3 billion in Thailand, US$15.7 billion in Singapore, US$2.2 billion in Malaysia, US$1.1 billion in the Philippines and US$3 billion in Indonesia.

The small size of capital is a big disadvantage to the growth of assets as required by regulations on the capital adequacy ratio and competition for more market share against foreign banks in integration tendency. Thus, most Vietnam's commercial banks, especially the small ones, are under the pressure for increases in chartered capital not only in 2011 but in many years to come.

Moreover, the total assets of Vietnam's leading joint-stock commercial banks are much smaller than those held by foreign commercial banks, typically Thailand's ones.

Table 2: The Total Asset Size of Five Thailand's Biggest Banks until Dec. 31, 2010

No.	Bank	Total Asset	
		Baht Billion	US$ Billion
1	Bangkok Bank	1,950	48.7
2	Krungthai Banks	1,756	43.9
3	Siam Commercial Bank	1,477	36.9
4	Kasikorn Bank	1,552	38.8
5	TMB Bank	590	14.7

Source: Merged financial statement of banks in 2011

As Table 2 indicates, the average total assets of Vietnam's commercial banks reach around US$6 billion, which is nearly 4.6 times lower than the figure of US$36.6 billion found in Thailand's banks.

* Capital adequacy ratio of Vietnam's commercial banks

Table 3: Capital Adequacy Ratio of Vietnam's Commercial Banks

No	Banks	2009	2010	2011	No.	Banks	2009	2010	2011
1	ACB	9.73	10.60	9.25	18	NamABank	19.24	18.04	20.24
2	Agribank	-	6.14	8.0	19	NVB	-	19.47	17.18
3	ABBank	-	-	14.0	20	PGBank	12.90	20.60	16.70

4	BaoViet Bank	35.20	21.60	22.0	21	OCB	29.71	20.59	24.80
5	BIDV	9.53	9.32	11.07	22	Southernbank	-	-	11.70
6	LPB	-	-	-	23	Westernbank	-	-	-
7	DaiA Bank	-	-	-	24	MB	12.0	12.90	9.59
8	OCeanBank	9.59	9.45	11.74	25	Sacombank	11.41	9.97	11.66
9	DongABank	10.64	10.84	10.01	26	Sài Gòn	11.54	10.32	-
10	EIB	26.87	17.79	12.94	27	SaigonBank	15.87	16.26	22.83
11	Habubank	15.00	12.29	16.46	28	SHB	12.0	13.81	13.37
12	MSB	-	9.12	-	29	Đại Tín	-	-	-
13	HDBank	-	12.71	15.0	30	Quốc Tế	8.60	-	14.48
14	Kiên Long	-	-	-	31	VietAbank	-	-	-
15	TCB	9.60	13.11	11.43	32	VCB	8.11	8.37	11.04
16	MDB	44.40	37.30	55.90	33	VIB	8.06	9.4	10.57
17	MHB	-	-	-	34	VPBank	-	-	-

Source: Author's calculations based on financial statements from Vietnam's commercial banks in 2009-2011

Table 3 shows that Vietnam's commercial banks surpass the CAR threshold of 9% as required by Circular 13/2010/TT-NHNN concerning the Basel II-based regulations on capital adequacy ratios for banking institutions). According to Basel III Accord, however, CAR threshold is raised to 13% to weather economic fluctuations. Some Vietnam's commercial banks can reach it, but it may be a very difficult task for the small-sized ones. Moreover, main operation of Vietnamese banks is lending service; and their high bad debt ratios (see Figure 1), reduce CAR remarkably because they have to establish provision for credit loss, which decreases banking profit as well as their equity capital. Therefore, the international integration forces the Vietnamese banks to keep increasing their CAR.

*Profit and profitability:

Table 4: Profit of Vietnam's Commercial Banks (VND billion)

No.	Indicator	2007	2008	2009	2010	2011
1	Earnings form lending service	46,838	53,564	56,531	86,987	134,819
2	Net profit from non-lending operations	13,504	17,282	22,842	24,548	16,425
3	Cost of provision for credit loss	28,016	26,488	14,650	23,237	37,296
4	Profit from business operations before credit risk cost	43,326	49,805	49,529	67,590	93,318
5	Pre-tax profit	15,310	23,317	34,879	44,353	56,022

Source: Author's calculations based on annual reports from Vietnam's commercial banks in 2007-2011

It is worth noting that all Vietnam's commercial banks are making profit (see Table 4). Their returns on assets and on equity are on the upward trend, that is, above 1% for ROA and 10% for ROE.

ROA and ROE - two important indicators of business performance and the return rate - of Vietnamese commercial banks in 2011 were lower than those in 2010, falling from 1.29% and 14.56% in 2010 to 1.09% and 11.86% in 2011 respectively. Compared to ROA and ROE of listed companies in ten first-level industries (according to Vietnamese statistical industry classification), the ROE of banking system is at a medium position (6th among ten) and ROA is at the lowest level.

The profit differs over banks in 2011. Increases in profit for the banking system resulted from the growth of several banks that had huge total assets and owners' equity, good risk management, and safe and effective operations. Meanwhile, many small-sized banking institutions with poor management and competitiveness had to offer high borrowing rates to attract deposits while their bad debt rose strongly. As a result, their financial performance was much lower than the target set for 2011.

Table 5: ROA and ROE of Some Banks in 2011

Indicator	Group 3					Group 1		Group 2
	VietA Bank	OCB	Southern Bank	Trust Bank	NaVi Bank	Exim Bank	MB	LVB
After-tax profit	248	303	226	164	166	3,039	1,915	977
Average total assets	22,513	25,424	69,991	27,130	22,496	157,339	124,227	45,559
Average total equity	3,576	3,752	4,017	3,219	3,216	14,907	9,262	5,350
ROA	1.06%	1.34%	0.35%	0.70%	0.78%	1.93%	1.54%	2.14%
ROE	7.12%	8.82%	5.96%	5.07%	6.35%	20.39%	20.68%	18.26%

Source: Author's calculations based on financial statements from commercial banks in 2011

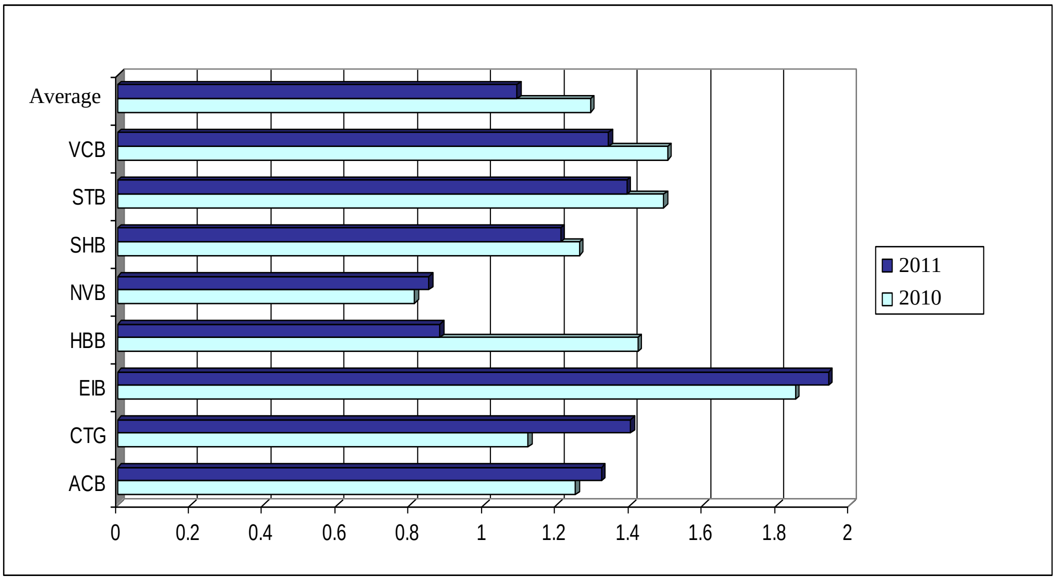

Figure 2: ROA of Listed Banks

Source: Author's calculations based on financial statements from eight banks in 2010 and 2011

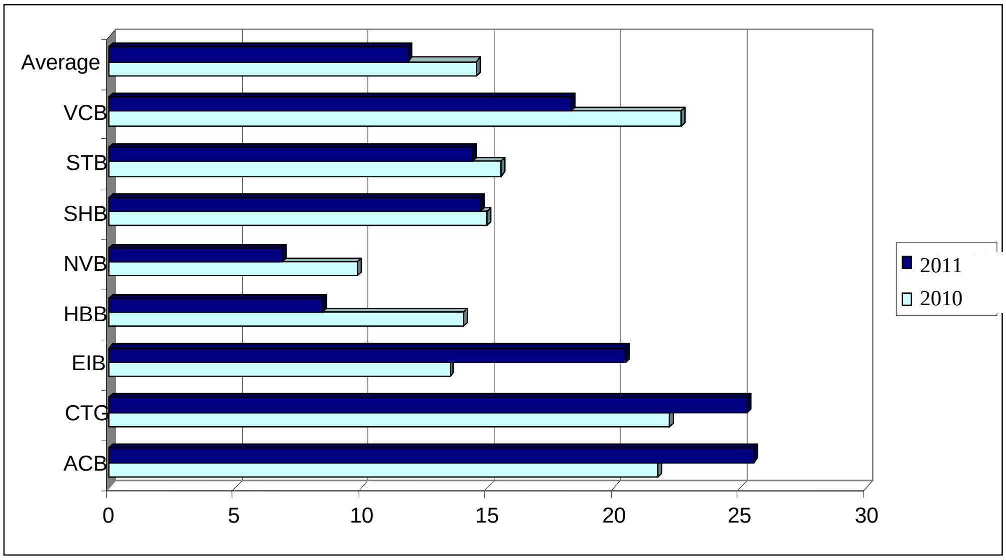

Figure 3: ROE of Listed Banks

Source: Author's calculations based on financial statements from eight listed banks in 2010 and 2011

*The bad debt ratio of Vietnam's commercial banks:

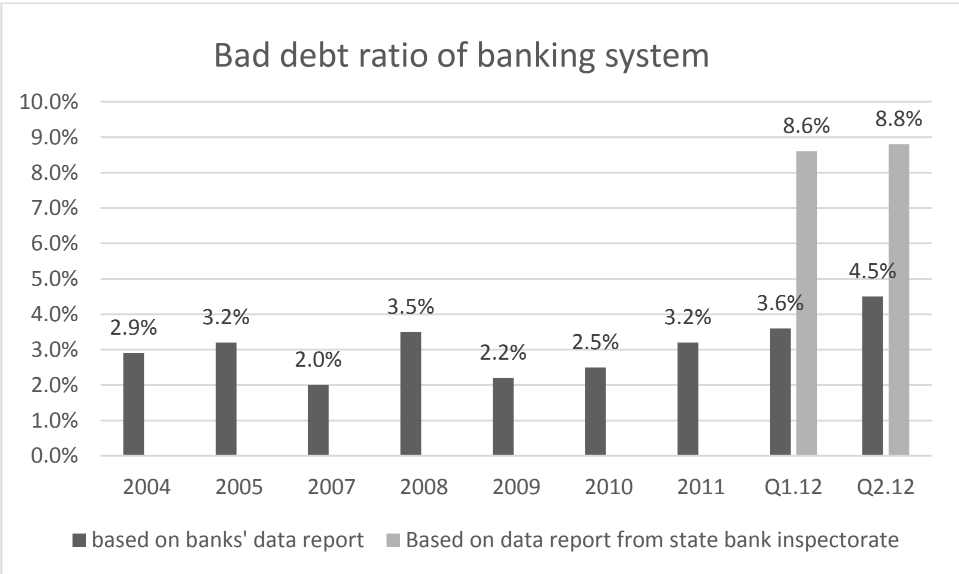

Figure 4: Bad Debt Ratio of Vietnam's Banking System

Source: vcbs.com.vn (2012)

The rise in the asset size of Vietnam's commercial banks mainly results from lending service. Although they earn some profit, they still face high degrees of risk caused by increases in overdue debt and bad debt, which leads to high costs of provision for credit loss See Table 4).

b. Analyzing Income Structure of Vietnam's Commercial Banks:

Table 6: Structure of Income from Lending and Non-lending Services of Vietnam's Commercial Banks

No.	Indicator	2007	2008	2009	2010	2011
1	Income from lending service	77.6	75.6	71.2	77.9	89.1
2	Net profit from non-lending services	22.4	24.4	28.8	22.1	10.9
3	Banking Income	100	100	100	100	100

Source: Author's calculations based on financial statements from Vietnam's commercial banks in 2007-2011

As Table 6 indicates, income from lending service for Vietnam's commercial banks accounts for the biggest share in the total income and increases over the years while net profit from non-lending services fell strongly in 2011 and accounts for only 10.9% of gross banking income.

Table 7: NIM of Vietnam's Commercial Banks in 2011

	GROUP 3					GROUP 1		GROUP 2	
	VietA Bank	OCB	Southern Bank	Trust Bank	NaVi Bank	Exim bank	MB	VIB	LVB
NIM	2.93%	4.05%	0.35%	2.34%	4.12%	3.75%	4.06%	4.10%	4.20%

Source: Author's calculations based on financial statements from commercial banks in 2011

NIM (Net Interest Margin) is a measure of the difference between the interest income generated by banks and interest expenses. This ratio measures how the financial institution earns on loans, based on its average interest-earning assets. A high NIM reflects high interest incomes from interest-earning assets. Huge income earned by the difference between lending and borrowing services can be found in OCB and NaviBank. This income, however, is risky for the small-sized commercial banks when they supply too many loans to the real estate market. Due to capital mobilization with low expenses, NIM of the big-sized banks is often higher than that of the small-sized ones.

c. Analyzing Structure of Net Profit from Non-Lending Services:

Table 8: Structure of Net Profit from Non-Lending Services of Commercial Banks (%)

No.	Indicator	2007	2008	2009	2010	2011
1	Net profit from payment service	15.7	24.2	36.8	46.67	62.36
2	Net profit from cash service	1.8	2.4	3.4	6.2	8.8
3	Net profit from trust service	0.3	0.5	1	3.2	3
4	Net profit from advisory service	0.2	0.1	1.4	0.9	0.2
5	Net profit from foreign exchange trade	58.5	49.8	31.9	15.4	2.1
6	Net profit from others services	23.5	23	25.5	27.63	23.54
7	Net profit from non-lending services	100	100	100	100	100

Source: Author's calculation based on financial statements from Vietnam's commercial banks in 2007-2011

Table 8 indicates that net profit from non-lending operations comes from a wide range of services such as payment, cash, trust, advisory, foreign exchange and others services. Share of net profit from payment service is large and on the rise while profit from trust and advisory is very small and profit from foreign exchange trade is falling.

In recent years, Vietnam's commercial banks have focused on the retail market by expanding their networks and increasing the supply of banking services to individuals, families and companies, promoting application of banking technology and developing many new services such as online banking services (Internet banking, Home banking, SMS banking and Mobile banking), ATM services, cash transfer, payment service by POS, credit card, and foreign exchange service, etc. This effort has made the income from payment service at the banks represent a big share in total income from non-lending services.

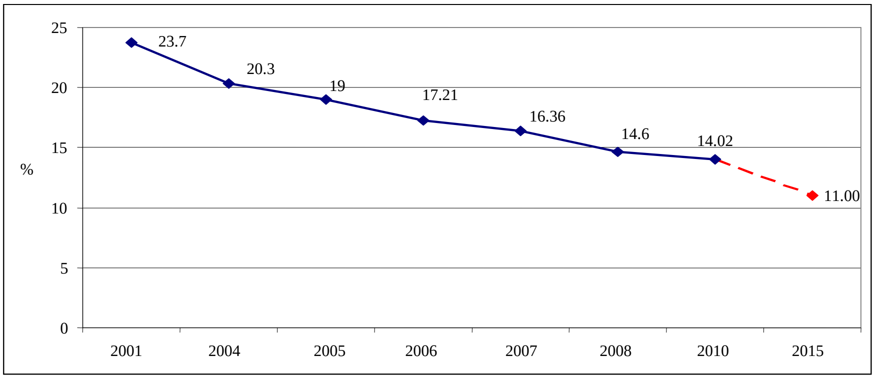

Figure 5: The Ratio of Cash to Total Liquidity

Source: Author's calculations based on the annual report from state-owned bank in 2011

As Figure 5 indicates, the ratio of cash to total liquidity during the past 10 years in Vietnam sharply decreased, from 23.7% in 2001 to 14.6% in 2008 (reduced by about 50%) and this positive trend was maintained in 2009 and 2010. However, this volume of cash is still at a high level compared to that in other countries, such as 0.7% in Sweden, 1% in Norway and 10% in China. Apparently, cash is still the principal mean of payment in Vietnam in both public and private sectors and among individuals as well.

In order to limit cash payment, government approved the Project on Non-Cash Payment in Vietnam in the 2006-2010 period and orientation up to 2020 according to Decision 291/2006/QĐ-TTg dated Dec. 29, 2006. The specific objective is to reduce the ratio of cash to total liquidity to under 11% and raise proportion of individuals who can approach payment services or have bank accounts up to 35-40% of the population by late 2015.

5. DISCUSSION

The above analyses of financial performance and income of Vietnam's commercial banks show that the size of asset and capital increased and the capital adequacy ratio was ensured. All these banks made profits, diversified their income structure and increased their income from payment services. ROA and ROE of the commercial banks in group 1 and group 2 (see Table 7) are higher than those of the banks in group 3. In addition, NIM ratios of the banks in group 2 is higher than those of the banks in group 1.

However, the performance of Vietnamese banks still has several limitations. Increases in the asset size, for example, are mainly due to lending operations, but the rather high ratio of bad debt may strongly decrease the profit that depends on lending service with high degrees of risk decrease because of high costs of provision for credit loss, which also badly affects the capital adequacy ratio. Moreover, capital resource of Vietnam's banks is still at the low level, which affects their ability to deal with risks. In addition, low income from non-lending services implies that these services are not well exploited to increase safer sources of incomes for banks.

6. MEASURES TO IMPROVE FINANCIAL PERFORMANCE AND INCOME OF VIETNAM'S COMMERCIAL BANKS

The above analyses allow us to suggest the following measures to improve financial performance and income structure of Vietnam's commercial banks by monitoring incomes from lending service and increasing non-lending income:

a. Equity Capital:

The Vietnam's banking system includes too many banks of small size that prevents them from meeting Basel standards of capital size and capital adequacy ratio. Thus, boosting capital needs to be concerned and compulsorily implemented by Vietnam's commercial banks. Therefore, the following are some solutions to the growth of equity capital:

- Increase in equity capital from accumulated profit:

If retained profit can be used for increasing the equity capital for banks, it will be the best source of capital. According to international practices, the increases in asset corresponding to increases in equity capital provided by retained profit are considered as a sustainable growth rate for banks. Most commercial banks neglect this method of increasing their equity capital because their profits are not large. To raise the equity capital, commercial banks should enhance the asset quality, increase income from services, and control expenses, especially the ones on human resources, because many banks pay huge salaries and bonuses to managers while their business performance is not high.

- More stocks for existing shareholders

At present, when channels of investment do not operate smoothly, selling more shares to existing shareholders is an easy and sustainable way for commercial banks to raise their equity capital. To attract this source of capital, however, commercial banks need to ensure their income. Because buying stocks involved higher degrees of risk than depositing money with banks, dividends should ensure both principal and some profit for investors. In fact, dividend paid by several banks in the past few years was even lower than interest on one-month saving accounts. To raise capital by this way, commercial banks should improve business performance effectively in order to make the rate of dividend at least equal to the lending rate.

- More stocks for foreign strategic shareholders

Foreign strategic shareholders with their powerful financial strength, experience of risk management, modern banking technology and management models can help Vietnam's commercial banks develop strongly. For that reason, this solution is worth considering and promoting.

- Merger of banks

In order to restructure the banking system and improve management and financial capacity for better competitiveness in integration trend, merger is a popular solution in many countries. For example, Germany Deutsche Bank acquired American Banker Trust, or Japanese SMFG Bank signed a cooperation agreement with Bank of China and Korea Exchange Bank.

This is also the focal solution adopted by the project of restructuring banking system that the government cares and many commercial banks want to implement. Commercial banks have right to petition the government for direction and support of merger on a voluntary basis. Up to the present, besides the merger of LienViet Bank and Postal Savings Service Company in 2011 into LienVietPost Bank, the merger of three banks - Saigon Commercial Bank (SCB), Ficombank and TinNghiaBank - and the merger of two banks – Saigon-Hanoi Building Joint Stock Bank (SHB) and Hanoi Building Bank (Habubank) may help promote this trend in the coming years.

- Issuing capital-increasing bonds of level 2

Most commercial banks now employ short-term capital to make long-term investment, which may cause liquidity risks for banks. Long-term bonds can be issued to increase capital of banks. In order to succeed in issuing capital-increasing bonds in both domestic and international markets, commercial banks need to employ a consultant from an international bank that has good prestige and experience in issuing debt tools, prepare prospectus according to regulations of State Security Commission of Vietnam and international standards. Additionally, the banks need to advertise the issue of capital-increasing bonds and decide exactly the bond face value as well as suitable time for issuing.

- Increasing the provisioning ratio for reserve fund for additional charter capital and financial provision

Forming reserve funds is also a measure to increase capital for banks. In order to acquire this source of capital, commercial banks should enhance business performance, reduce risks, and increase profitability thereby increasing the provisioning ratios.

To make equity capital a real tool for ensuring safety for business operations and enhancing the financial strength, commercial banks should make plans to use capital effectively, such as making investment only in profitable companies or well-managed joint-ventures, thereby increasing the equity capital.

In sum, if the aforementioned solutions are carried out, the size of equity capital and CAR will be improved and meet international standards. Joint-stock commercial banks, unlike state-owned ones whose charter capital is provided for by the government, should seek for new sources of capital and restructure their managerial machinery and operations in order to gain financial balance and ensure the capital adequacy ratio.

b. Improving the Asset Quality:

- Restructuring of the asset portfolio:

The asset portfolio of Vietnam's commercial banks mainly depends on credit, so it is necessary to diversify the profitable asset portfolio.

With such three main "pillars" of the banking system as banking-finance, insurance, and stock investment, Vietnam's commercial banks need to focus on improving investment portfolio by making investment in joint-ventures and profitable or promising enterprises, especially in such high profitable fields as real estate and mineral resources. Such investments may help banks use capital more effectively, diversify structure of assets and improve the balance sheet.

In order to keep a close watch on the lending service, assignment of business plans will be based on the details of lending lists at the beginning of the year. Thus, credit control must be executed specifically in every field of business, territory and line of product.

The commercial banks should observe business process, handle strictly violations of discipline, comply absolutely assigned credit structure and limits, enhance the quality of information and report on governance, give priority to customers of class A* or A and promising projects, avoid supplying more loans to customers of class B or lower, increase the proportion of secured loans, invest in fields with low degrees of risk, and reduce loans supplied to realty projects.

Through the aforementioned measures to handle bad debts, control credit growth, and diversify investment portfolio, commercial banks can improve their asset quality in the future and develop into banking-financial groups in Vietnam.

- Taking modern views on management of credit risks

Risk management becomes more important when the economy witnesses unpredictable upheavals. According to many experts, four main risks that commercial banks usually face are credit risk, market risk, operational risk and liquidity risk.

Liquidity risk does not only refer to failure to repay due debts or meet depositors' demand for cash, it also includes lack of capital for credit supply. The banks are forced to mobilize capital at any price, which increases the expenses and reduce profit. If capital cannot be mobilized, the banks will lose opportunities to supply credits, especially to good clients.

Operational risk, according to Basel II Committee, is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. At present, it gradually becomes widespread. The risk, for example, may be occurred by credit officers who directly solve lending problems and can hardly avoid negative practices that lead to risks. This practice results in risky loans, and even credit officers can become scammers. It is really a big trouble for the banks, and the media has also reported many credit officers who directly commit frauds or connive with clients to withdraw hundreds of billions of đồng from banks.

Market risks include exchange risk, interest rate risk, stock and derivative risks. The continuous fluctuation in interest rate last year was a warning sign to the banks about market risks. Many medium- and long-term loans are supported by short-term capital. Such events as increases in the borrowing rate (even up to 40-50% on the inter-bank market) or sale of mortgaged shares in large quantities also lead to great market risks for commercial banks.

Credit risk refers to possibility that a borrower cannot pay the debt. In fact, it is also known as a portfolio risk that occurs when the banks focus on only one type of credit instead of diversifying their loans. Many banks now face this problem because they supplied huge loans to investors in the realty market that is in the doldrums now.

In sum, risk management does not deal only with the credit risks but also other risks for commercial banks. Hence, risk management needs to adopt policies and solutions to prevent and limit various kinds of risks for the banks.

c. Improving the Profitability:

- Adjusting the income structure:

In order to reduce the share of income from lending service, the possible solution is to develop and promote profit from other products and services, such as:

+ Bancassurance: This is a risk-free and profitable product that many foreign banks have implemented and achieved a lot of success.

+ Current account and wage account: They are not new products, but they provide banks with many benefits by making the best use of idle money in current accounts. Appreciating such benefits, many foreign banks offer high interest rates on these accounts, up to 6% per annum, or 5% rebate program by debit card, etc. Additionally, wage accounts allow the banks to have opportunities to approach customers and introduce other involved products to them such as bancassurance, fiduciary loans for employees, and mortgage, etc.

+ Other services, such as providing proof of financial support for overseas study or payment intermediary service for real estate market, are also risk-free and profitable sources.

+ Lessons from advisory services supplied by insurance companies can help banks supply such services to various market segments appropriate to different banking products. Benefits for customers, in turn, will bring in more income for banks from this advisory service.

Finally, the commercial banks should do research and develop new services and product lines (besides lending service) in order to adjust the income structure.

- Cost control:

Besides the aforementioned solutions to asset quality, lending service, and unproductive debts, a strict cost control is also a measure to increase the profitability and lower the cost-income ratio.

Banking expenses comprise two types: direct expenses on business operations such as deposit interest payment, interest expense, operational fees, etc. and expenses on managerial operations like wages of employees, assets, tax and fee, etc.

+ Of expenses for business operations, interest expense represents the biggest share in total expense; thus, it is necessary to attract idle money from enterprises and individuals because these are cheap and stable sources of capital. To mobilize these sources, the banks should diversify and improve their services. To ensure sources of capital in an environment of keen competition, the banks should introduce attractive types of deposits and interest rate appropriate to specific periods.

+ Expenses on managerial operations: In the past, overhead has increased in parallel with rises in revenue but at a slower rate (23% compared with 30%) and in a stable manner. The banks should keep controlling strictly these expenses to maximize the profit in the future.

Our research uses index analyses to estimate financial performance and income of Vietnam's commercial banks up to 2011 and suggests measures to improve the situation and does not employ quantitative models to estimate influential factors, and so our estimates have their own limitations. This paper can serve as the preliminary step for future researchers to estimate financial performance and income of Vietnam's banks up to 2012 and the upcoming years■

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