

Factors Affecting Vietnamese Banks' Profitability

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Abstract: This paper analyzes the relationship among income diversification and other factors affecting profitability of commercial banks in Vietnam. The data is collected from financial statements of 25 commercial banks in Vietnam over the period 2005-2013. The empirical results obtained from SGMM estimator (System generalized method of moments) indicate that income diversification, deposit to total liabilities ratio have positive impact on bank profitability (measured by return on asset - ROA and return on equity - ROE). The results also show that non-performing loan to total loan ratio, total equity to total asset ratio have negative impact on bank profitability. The research finds no strong evidence of macroeconomic factors such as economic growth and inflation affecting profitability of Vietnamese commercial banks. What is more, the research finds out that large size banks with more diversified incomes gain more profits over other banks.

Keywords: Income diversification, Profitability, Vietnamese commercial banks.

JEL classification: G21.

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