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Quick Assessment of Circular 14/2025 on Capital Adequacy Ratios in the Banking Sector:

Circular 14/2025/TT-NHNN Marks a Strategic Step Toward Capital Adequacy and Systemic Stability in the Banking Sector.

Circular 14/2025/TT-NHNN reflects the State Bank of Vietnam (SBV)'s strategic direction in shaping and stabilizing monetary policy while ensuring systemic safety within the banking sector. Effective from September 15, 2025, the circular provides a roadmap and specific guidance for commercial banks in applying capital adequacy ratio calculations and related regulatory requirements.

Starting from January 1, 2030, this circular will replace prior relevant regulations, including Circular 41/2016/TT-NHNN, Circular 16/2022/TT-NHNN, and Circular 22/2023/TT-NHNN.

Circular 14/2025 introduces a more detailed legal framework regarding the capital adequacy requirements for credit institutions. Key highlights include:

1. More specific guidance on capital adequacy ratios, including the Capital Conservation Buffer (CCB) and the Countercyclical Capital Buffer (CCyB), aligning more closely with international standards under Basel III.
2. Revised risk weights for receivable assets, with changes in the risk weights for sectors such as social housing, small and medium-sized enterprises (SMEs), and real estate business activities—intended to improve capital flows into key areas of the economy.
3. New requirements for credit institutions to maintain capital adequacy ratios when distributing cash dividends, aiming to strengthen financial resilience and responsible capital management.

KEY HIGHLIGHTS OF THE CIRCULAR:

1/ More specific guidance on capital adequacy ratios

	Circular 41/2016	Circular 14/2025
Formula	$CAR = \frac{C}{RWA + 12{,}5(K_{OR} + K_{MR})} \times 100\%$ Where: - C: Owners' capital; - **RWA:** Risk-weighted asset; - **K_{OR}:** Regulatory capital for operational risk; - **K_{MR}:** Regulatory capital for market risk.	Article 5. Capital Adequacy Ratios 1. The capital adequacy ratios are determined as follows: a) Formula for calculating the Common Equity Tier 1 (CET1) ratio: $\text{CET1 Ratio} = \frac{\text{Common Equity Tier 1 Capital}}{\text{RWA} + 12.5 \times (\text{KOR} + \text{KMR})}$ b) Formula for calculating the Tier 1 Capital Ratio: $\text{Tier 1 Capital Ratio} = \frac{\text{Tier 1 Capital}}{\text{RWA} + 12.5 \times (\text{KOR} + \text{KMR})}$ c) Formula for calculating the Capital Adequacy Ratio (CAR): $\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital}}{\text{RWA} + 12.5 \times (\text{KOR} + \text{KMR})}$ - RWA: Risk weighted assets; - K_{OR}: Operational risk capital requirements; - K_{MR}: Market risk capital requirements.
Min CAR	8%	a) The minimum Common Equity Tier 1 (CET1) ratio is 4.5%; b) The minimum Tier 1 capital ratio is 6%; c) The minimum Capital Adequacy Ratio (CAR) is 8%.

2/ Risk weights for receivable assets:

Receivables assets engage in	RW Cir.41/2016	RW Cir.14/2025	Note
Cash, gold	0%	0%	
Vietnam Government, SBV, State Treasury	0%	0%	
VAMC, DATC	20%	20%	
International financial institutions	0%	0%	
Foreign Government, Central banks	0-150%	No change	Classified by credit rating
SME	90%	85%	
Mortgage	30%-100%	25%-100%	Classified by LTV
Real estate business	200%	Up to 200% following rules	Classified by rules
Retail	75%	75%	
Securities investment	150%	150%	
Social housing	None	20- 50%	Classified by LTV
Agriculture	100%	50%	

Sources: Cir.41/2016, Cir.14/2025, GTJAVN RS

Comment: There are preferential policies for loans used to purchase social housing (SH), support agricultural and rural development, and a reduction in risk weighting for SME lending.

3/ Credit institutions are required to meet capital adequacy ratio requirement before distributing cash dividends. Specifically, they are only allowed to pay cash dividends if the following conditions are met:

Clause 5.b, Article 5:

"5. In addition to the minimum ratios specified in Clauses 3 and 4 of this Article, banks must implement the Capital Conservation Buffer (CCB) as follows:

a) The CCB is the portion of Common Equity Tier 1 (CET1) capital remaining after the bank fully meets all capital adequacy requirements (including CET1, Tier 1 capital, and Total Capital Adequacy Ratio - CAR).

b) Banks are only allowed to distribute the remaining profit in cash—at their own discretion and in accordance with financial regime regulations—if they maintain compliance with all required ratios in the following schedule:

Implementation year / ***Ratio***	***Year 1***	***Year 2***	***Year 3***	***Year 4 onward***
CCB	*0,625%*	*1,25%*	*1,875%*	*2,5%*
CET1 (incl. CCB)	*5,125%*	*5,75%*	*6,375%*	*7%*
Tier 1 Capital (incl. CCB)	*6,625%*	*7,25%*	*7,875%*	*8,5%*
CAR (incl. CCB)	*8,625%*	*9,25%*	*9,875%*	*10,5%*

In which "Year 1" is defined as:

(i) The year the bank begins applying the standardized approach as registered under Point b, Clause 2, Article 7 of this Circular;

(ii) The year the bank is approved by the State Bank of Vietnam to apply the internal ratings-based (IRB) approach as specified in Point c, Clause 3, Article 7;

(iii) The year 2030 for all other cases."

Comment: This term is likely to place greater constraints on state-owned banks (SoBs) such as BIDV and VietinBank in terms of paying cash dividends, as their capital adequacy ratios (CAR) are typically not at high levels.

COMPANY RATING DEFINITION

Benchmark: VN – Index. Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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