Bulgarian National Bank

TO

THE EXECUTIVE DIRECTORS OF

BANKS

DEAR EXECUTIVE DIRECTORS,

Our assessment of the condition of credit institutions and the system, based on data as of 2011 year end, confirms the need for further actions for strengthening the existing capital and liquidity buffers. Regarding the stability of banks and the way their financial condition will be perceived and evaluated by the "Banking Supervision" of BNB and by investors and external analysts, of particular importance is the way in which institutions will approach their financial result for 2011. We consider that there are still not sufficient prerequisites for the decisions in respect of dividend policy to be based primarily on the shareholders’ assessment of the stability of the given institution. The market condition and the pressures on the banking and financial system requires such decisions to continue to be linked to the overall state of the processes (domestic and international) affecting the banking intermediation in the country.

Consequently, even though the banks maintained their capital indicators above the regulatory minimum during their activities in 2011, to preserve sufficiently high capital buffers needed to strengthen the banking system in times of unstable economic and market environment, and in order to support the economic growth in the country in 2012, we hereby advise your institutions not to distribute a dividend for 2011, unless they meet at least one of the following conditions:

1 *Total capital ratio should be higher than 15%.*

2 *Tier-one capital adequacy should be higher than 13%.*

3 *The complex CAMELOS rating assigned by Banking Supervision Department of BNB for the bank's activities in 2011 should be not less than 2.*

4 *For subsidiary of credit institutions, the Tier-one capital of the parent bank should be higher than 9%, i.e. the parent bank should not be subject to*

recapitalization as recommended by the European Banking Authority in December 2011.

If the credit institution meets all the above criteria, we recommend that before making a decision on dividend distribution of profit for 2011, the general meeting of shareholders of each institution should make a thorough and rigorous assessment of the need for capital for adequate management the risks in the activities of the institution in 2012,

We hereby specify the following additional minimum levels for some indicators, measuring the financial condition, which your banks should maintain at all times in the current fiscal 2012:

1 Tier-one capital should at all times be not less than 10%.

2 The ratio, which measures the coverage of the deposits from institutions, individuals and households with liquid assets, should be not less than 25%.

For actions to be taken in response to this letter, Banking Supervision Department should be notified no later than **March 30, 2012**.

RESPECTFULLY YOURS,

BNB Deputy Governor
"Banking Supervision Department"