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## PERFORMANCE EVALUATION OF PRIMARY DEALERS IN CZECH GOVERNMENT SECURITIES |June 2012|

The Ministry of Finance (hereinafter the Ministry) hereby presents its regular Performance Evaluation of Primary Dealers in Czech Government Securities. The Primary Dealers are evaluated for Q3 2011 to the end of Q2 2012. As from 1 October 2011, the evaluation methodology has changed significantly. This change is related to implementation of the pan-European MTS Czech Republic electronic platform for trading on the domestic secondary bond market from 1 July 2011 and to signature of the *Primary Dealer Agreement for Czech Government Securities* (hereinafter the Agreement) by the Ministry and the Primary Dealers on 1 October 2011. Conclusion of the Agreement established a new and more efficient trading structure, as is common in other advanced countries of the European Union and which brought standardisation and professionalism to the cooperation in financing and managing the state debt as well as its complete transparency. The modernisation of this framework was rounded off by publication of the new *Rules for the Primary Sale of Government Securities organized by the Czech National Bank*, which came into effect on 1 January 2012. Under this newly formalised framework, and on the basis of the consensually agreed rules, the Ministry became active on the secondary market after an almost two-year break, in particular by directly buying back government bonds before their maturities and by tap

### Q3 2011

The Performance Evaluation of Primary Dealers in Czech Government Securities for Q3 2011 was performed using the methodology **valid until 30 September 2011**. The formalisation of the evaluation was introduced on 15 December 2006 in the Ministry of Finance's Financial Newsletter No. 11-12 as part of Ministry of Finance Instruction No. SD called – 1 "Conduct of Cooperation and Performance Evaluation of the Activities of Primary Dealers in the Czech Government Bonds". Thirteen

sales of government bonds from the Ministry's own portfolio.

Due to the change in methodology, the performance evaluation of Primary Dealers in Czech government securities for Q3 2011 was performed in accordance with the old methodology. Subsequently, the performance evaluation of Primary Dealers for Q4 2011 to Q2 2012 was performed according to the new methodology, which is part of the Agreement. Finally, an overall evaluation of Primary Dealers for Q3 2011 to Q2 2012 was performed by aggregating the evaluation for Q3 and the evaluation for Q4 to Q2.

Starting with the Performance Evaluation of Primary Dealers in Czech Government Securities for 2011, the Ministry has been publishing the point scores obtained by individual primary dealers in the published evaluation groups. The Ministry expects to achieve greater transparency by this step. In accordance with the Amendment Agreement signed on 30 June 2012 also the first seven Primary Dealers are published (only five Primary Dealers were published in accordance with the old Agreement). Other Primary Dealers receive a notification with the outcome of their performance evaluation.

Primary Dealers were evaluated. Only the institutions meeting the information obligation in relation to the Ministry set out in the "Conduct of Cooperation and Performance Evaluation of the Activities of Primary Dealers in the Czech Government Bonds", Section II, paragraph 6, page 385, were evaluated. J.P. Morgan Securities Ltd. and Goldman Sachs International became Primary Dealers during Q3 2011.

## Overall Performance Evaluation for Q3 2011

Ranking	Primary Dealer	Points*
1st	<b>Erste Group Bank AG / Česká spořitelna, a.s.</b>	<b>67.2</b>
2nd	Citibank Europe plc	44.4
3rd	KBC Bank NV / Československá obchodní banka, a.s.	40.1
4th	Société Générale / Komerční banka, a.s.	34.4
5th	PPF banka a.s.	30.3
6th	ING Bank N.V.	29.1
7th	UniCredit Bank Czech Republic, a.s.	26.9

\* max. 100 points  
Source: Ministry of Finance

## Q4 2011 to Q2 2012

The performance evaluation of Primary Dealers in Czech government securities for Q4 2011 to Q2 2012 was performed according to the new evaluation methodology valid from 1 October 2011. The methodology is part of the Agreement. In order to attain an overall and objective evaluation of Primary Dealers' activities, the performance evaluation is based on three categories: criteria for the evaluation of Primary Dealers' activities on the primary market (Group A), criteria for the evaluation of Primary Dealers' activities on the secondary market (Group B), and criteria for the evaluation of the effectiveness of derivative operations, marketing and sovereign advisory (Group C).

The fact that the weights for criteria groups A and B are similar reflects the increased importance of the secondary market, which enables the evaluation of active market makers in relation to performance in primary auctions of government bonds. The performance evaluation of each Primary Dealer can reach a maximum of 100 points, and this score is calculated on a relative basis. Primary Dealers' activities are thus evaluated quarterly on the basis of the APEI (Aggregate Performance Evaluation Index defined in Attachment I of the Agreement), and always for four consecutive evaluated periods. According to Article I of the Agreement, each calendar quarter is an evaluated period, starting from 1 October 2011.

Within evaluated activities on the primary market, a given Primary Dealer's primary auctions share (i.e. the share of accepted bids in government bond auctions for the evaluated period) is monitored under the sub-criterion A.1. Using the ratio of accepted bids to the total nominal value of bids submitted, under the sub-criterion A.2. the Ministry monitors investors' willingness to hold Czech government bonds. Another important aspect of evaluation of participation on the primary market is the auction pricing strategy under the sub-criterion A.3., through which the Ministry evaluates Primary Dealers' willingness to pay the highest price weighted by the nominal value of securities sold in the competitive part of the government bonds auction. Under the sub-

criterion A.4., the Primary Dealer is rated better if it is a regular auction participant, regardless of the evaluated period. The maximum number of points under the sub-criterion A.5. is given to the Primary Dealer that subscribes the largest share of government treasury bills sold by the Ministry in the given period.

The Group B quantitative criteria are based particularly on statistical and monitoring instruments available on the MTS Czech Republic platform and focus on quotation activities, their quality, traded nominal values of benchmark issues and trades with the Ministry. The most important indicator is the sub-criterion B.1., the Compliance Ratio, which evaluates the quotation activities based on the average quoted spread weighted by time and nominal value and which also takes into account the time until maturity of a given bond. If a Primary Dealer does not fulfil this criterion by at least 90.0% on a monthly basis (the value unanimously approved at the first MTS Czech Republic Committee meeting on 20 September 2011), it obtains 0.0 points for the given month. The quality of the quotation activities as indicated by the width of quoted spreads is evaluated under the sub-criterion B.2., while the sub-criterion B.3. evaluates traded nominal values weighted by bonds' time to maturity. Under the sub-criterion B.4., a Primary Dealer is evaluated based on the ratio of the nominal value of trades it executed (repo operations, buy/sell back operations, depo, tap sales and buy-backs of government bonds on the secondary market) to the total nominal value of trades executed during the evaluated period.

The qualitative criteria of Group C focus on derivative operations, marketing and sovereign advisory. Primary Dealers are evaluated in ascending order according to the prices of various derivative instruments they provided and their long-term contribution to the effectiveness of the state debt management. The Ministry also evaluates the quality of advisory services, ability to cooperate and share information, technical and human resources in relation to risk management, and optimization of the debt portfolio.

**Criteria and their weights for evaluating primary dealers valid as of 1 October 2011**

<b>A. Primary market</b>	<b>45.0</b>	<b>B. Secondary market</b>	<b>40.0</b>	<b>C. Qualitative criteria</b>	<b>15.0</b>
A.1. Primary Auctions Share - Government Bonds	25.0	B.1. Market-making Obligations on DETS (Compliance Ratio)	10.0	C.1. Derivative Pricing and Credibility	5.0
A.2. Dependability	5.0	B.2. Qualitative Performance on DETS	10.0	C.2. Marketing & Sovereign Advisory	10.0
A.3. Auction Pricing strategy	5.0	B.3. Traded Volume on DETS	10.0		
A.4. Auction participation	2.5	B.4. Debt Management Market Operations	10.0		
A.5. Primary Auctions Share - Treasury Bills	7.5				

Source: Ministry of Finance

Given the varying performance levels of individual Primary Dealers on the primary and secondary markets, the Ministry decided to publish both the overall ranking of Primary Dealers as well as the rankings of Primary

Dealers on the individual markets. With respect to the validity of the new framework, their activities are evaluated for Q4 2011 to Q2 2012. All 13 Primary Dealers were evaluated.

**Overall evaluation for Q4 2011 to Q2 2012**

<b>Ranking</b>	<b>Primary Dealer</b>	<b>Points*</b>
<b>1st</b>	<b>KBC Bank NV / Československá obchodní banka, a.s.</b>	<b>74.5</b>
2nd	PPF banka a.s.	71.6
3rd	Erste Group Bank AG / Česká spořitelna, a.s.	69.0
4th	Société Générale / Komerční banka, a.s.	66.8
5th	UniCredit Bank Czech Republic, a.s.	57.2
6th	Citibank Europe plc	54.9
7th	Goldman Sachs International	39.7

\* max. 100 points  
Source: Ministry of Finance

**Primary market for Q4 2011 to Q2 2012**

<b>Ranking</b>	<b>Primary Dealer</b>	<b>Points*</b>
<b>1st</b>	<b>PPF banka a.s.</b>	<b>34.0</b>
2nd	Erste Group Bank AG / Česká spořitelna, a.s.	31.8
3rd	UniCredit Bank Czech Republic, a.s.	28.2
4th	KBC Bank NV / Československá obchodní banka, a.s.	26.3
5th	Société Générale / Komerční banka, a.s.	25.4
6th	Deutsche Bank AG	15.1
7th	Citibank Europe plc	14.4

\* max. 45 points  
Source: Ministry of Finance

**Secondary market for Q4 2011 to Q2 2012**

<b>Ranking</b>	<b>Primary Dealer</b>	<b>Points*</b>
<b>1st</b>	<b>KBC Bank NV / Československá obchodní banka, a.s.</b>	<b>33.1</b>
2nd	Société Générale / Komerční banka, a.s.	30.1
3rd	Citibank Europe plc	27.1
4th	PPF banka a.s.	25.5
5th	Erste Group Bank AG / Česká spořitelna, a.s.	22.3
6th	UniCredit Bank Czech Republic, a.s.	18.6
7th	Goldman Sachs International	16.2

\* max. 40 points  
Source: Ministry of Finance

## Overall evaluation for Q3 2011 to Q2 2012

The performance evaluation of Primary Dealers in Czech government bonds for Q3 2011 to Q2 2012 was carried out by aggregating the evaluation for Q3 2011 and that for Q4 2011 to Q2 2012. This aggregation was performed based on a weighted arithmetic average, for which the nominal values of medium- and long-

term bonds sold in primary auctions in the respective period were used as weights. The Ministry evaluated 13 Primary Dealers. J.P. Morgan Securities Ltd. and Goldman Sachs International became Primary Dealers during Q3 2011.

### Overall evaluation for Q3 2011 to Q2 2012

Ranking	Primary Dealer	Points*
1st	Erste Group Bank AG / Česká spořitelna, a.s.	68.7
2nd	KBC Bank NV / Československá obchodní banka, a.s.	67.7
3rd	PPF banka a.s.	63.5
4th	Société Générale / Komerční banka, a.s.	60.4
5th	Citibank Europe plc	52.8
6th	UniCredit Bank Czech Republic, a.s.	51.2
7th	Goldman Sachs International	37.0

\* max. 100 points  
Source: Ministry of Finance

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This publication is available on the internet at:

[www.mfcr.cz/statedebt](http://www.mfcr.cz/statedebt)

The next Performance Evaluation of Primary Dealers in Czech Government Securities will be published  
on 31 October 2012 at 14:00

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