



ANNUAL PERFORMANCE EVALUATION OF PRIMARY DEALERS IN CZECH GOVERNMENT SECURITIES IN 2011

The Ministry of Finance (hereinafter the “Ministry” or “MoF”) submits the Annual Performance Evaluation of Primary Dealers in Czech Government Securities in 2011. Since 1st October 2011 a new methodology of evaluation has been changed. This modification is connected to the implementation of MTS Czech Republic electronic trading platform for secondary bond market launched on 1st July 2011 and to the *Primary Dealer Agreement for Czech Government Securities* (hereinafter the “Agreement”) entered into force on 1st October 2011.

Similarly to other developed EU countries, new effective business relationship between the Ministry and the Primary Dealers has been set up bringing standardization and professionalization of co-operation in the area of funding and debt management as well as absolute transparency. Modernization of this framework was completed by publishing new *Rules for the Primary Sale of Medium-Term and Long-Term Government Bonds* organized by the Czech National Bank, effective

as of January 1, 2012. In this new framework and based on consensually agreed rules, in 2012 the Ministry following two-year intermission will again be active on the secondary market particularly by buying back Government Bonds before their maturities and directly selling Government Bonds from the Ministry’s own portfolio.

Performance Evaluation of Primary Dealers during the first three quarters of 2011 is based on old methodology. Performance Evaluation in the 4th Quarter of 2011 follows the new methodology set up in the Agreement. The annual evaluation is the result of aggregation of both evaluations.

Since this evaluation the Ministry has published points achieved by Primary Dealers in particular categories. According to the Agreement, ranking of top five Primary Dealers is released. Other Primary Dealers receive individual announcement with results of their performances.

1st Quarter – 3rd Quarter of 2011

The evaluation of Primary Dealers during first three quarters of 2011 is founded on evaluation methodology **valid until September 30, 2011**. Formalization of this evaluation was performed on 15th December 2006 in the Financial Bulletin No. 11-12 within the frame of the Ministry Instruction No. SD-1, in which „Conduct of Cooperation and Performance Evaluation of the Activities of Primary Dealers in the Czech Government Bonds” were published. Thirteen Primary Dealers have been evaluated, from which

only these institutions have been evaluated, which have complied with information obligation in relation to the Ministry protected by “Conduct of Cooperation and Performance Evaluation of the Activities of Primary Dealers in the Czech Government Bonds”, Section II, paragraph 6, page 385. And J.P. Morgan Securities Ltd. and Goldman Sachs International have become of Primary Dealers during the 3rd quarter of 2011.

**Top Five Primary Dealers
1st Quarter – 3rd Quarter of 2011**

Ranking	Primary Dealer	Points*
1.	Erste Group Bank AG / Česká spořitelna, a.s.	63.9
2.	KBC N.V. / Československá obchodní banka, a.s.	51.3
3.	Société Générale / Komerční banka, a.s.	44.0
4.	Citibank Europe plc	42.0
5.	PPF banka a.s.	37.9

* max 100 points
Source: MoF

4th Quarter of 2011

The evaluation of Primary Dealers of Czech government bonds in the 4th Quarter of 2011 has been performed in accordance with evaluation methodology **valid since October 1, 2011**. This methodology is the component of the Agreement. The new evaluation methodology is based on three categories for the purpose of achieving an overall and objective evaluation: criteria for evaluating Primary Dealers` activity on the primary market (group A), criteria for evaluating Primary Dealers` activity on the secondary market (group B) and criteria for evaluation of derivative operations efficiency and consulting and marketing (group C).

The application of weights for groups of criteria A and B takes into consideration the strengthening of the importance of the secondary market, which enables the evaluation of active market-makers in relation to their performance in primary auctions of government bonds. The maximum evaluation of each Primary Dealer can reach 100 points, and this score is calculated on a relative basis. The activities of Primary Dealers are therefore evaluated quarterly according to APEI (Aggregate Performance Evaluation Index as defined in Annex I of the Agreement) for the Evaluation (according to the Agreement the last four consecutive calendar quarters commencing on October 1, 2011).

As part of the evaluation of the activities on the primary market, the share of the particular Primary Dealer on the primary market of government bonds, meaning the share of accepted bids in auctions of government bonds for the evaluated period, is monitored in sub-criterion A.1.. In sub-criterion A.2. by using the ratio of the accepted bids to total nominal amount of total bids, the Ministry monitors the willingness of investors to hold Czech government bonds. The important aspects of the evaluation of participation on the primary market include the auction price strategy in sub-criterion A.3., where the Ministry evaluates the willingness of Primary Dealers to pay the highest nominal amount-weighted price in a competitive primary auction of government bonds. In sub-criterion A.4.,

the Primary Dealer is evaluated with more points if that dealer is a regular participant in auctions, regardless of the evaluation period. The maximum number of points in sub-criterion A.5. is received by the Primary Dealer who subscribes the largest share of T-bills sold by the Ministry during the particular period.

The quantitative criteria of group B, which is based particularly on available statistics and monitored tools of the MTS Czech Republic platform, is focused on quotation activity, its quality, traded nominal amounts of benchmark issues and transactions with the Ministry. The most important indicator is sub-criterion B.1., i.e. Compliance Ratio, which evaluates quotation activity in accordance with average quoted spread weighed by time and nominal amount, and the time to maturity of the particular bond is also taken into consideration. If Primary Dealer does not fulfil this criterion at least 90 per cent on monthly basis, i.e. value unanimously agreed at the first MTS Czech Republic Committee on September 20, 2011, he gets 0 pts. for this month. By sub-criterion B.2. the quality of quotation activity based on width of quoted spreads is evaluated and criterion B.3. evaluates traded nominal amounts weighted by the time to maturity of the bond. For sub-criterion B.4., the Primary Dealer is evaluated based on the ratio of the nominal amount of conducted transactions (type of repo operation, buy/sell back operation, depo, direct sale and buy-backs of government bonds on the secondary market) to the overall nominal amounts of conducted transactions for the evaluated period.

The qualitative criteria of group C are focused on derivative operations, marketing and consulting. The Primary Dealers are evaluated gradually depending on their provided prices of various derivative instruments and their long-term benefit for efficiency of state debt management. The Ministry of Finance further evaluates the quality of consulting activities, cooperation and sharing of information, human and technical resources related to risk management and optimization of the debt portfolio.

Criteria for evaluation of Primary Dealers and weights as of 1st October 2011

A. Primary Market Participation	45.0	B. Secondary Market	40.0	C. Quantitative Criteria	15.0
A.1. Primary Auctions Share	25.0	B.1. Market-making Obligations on DETS	10.0	C.1. Derivatives 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. Treasury Operations	10.0		
A.5. Primary Auctions Share - T-Bills	7.5				

Source: MoF

Due to different performance of particular Primary Dealers on the primary and secondary market the Ministry has decided to publish except for the total ranking of Primary Dealers but ranking of Primary Dealers on the particular markets. Activity of Primary

Dealers has been evaluated only in the 4th Quarter of 2011, because validity of new methodology does not enable to take account of longer valuation horizon. Thirteen Primary Dealers have been evaluated.

Top Five Primary Dealers 4th Quarter of 2011

Ranking	Primary Dealer	Points*
1.	Société Générale / Komerční banka, a.s.	80.9
2.	UniCredit Bank Czech Republic, a.s.	70.1
3.	KBC N.V. / Československá obchodní banka, a.s.	69.7
4.	PPF banka a.s.	64.6
5.	Erste Group Bank AG / Česká spořitelna, a.s.	62.7

* max 100 points
Source: MoF

Top Five Primary Dealers based on primary market, 4th Quarter of 2011

Ranking	Primary Dealer	Points*
1.	UniCredit Bank Czech Republic, a.s.	37.5
2.	Société Générale / Komerční banka, a.s.	35.8
3.	KBC N.V. / Československá obchodní banka, a.s.	32.0
4.	PPF banka a.s.	30.4
5.	Erste Group Bank AG / Česká spořitelna, a.s.	28.4

* max 45 points
Source: MoF

Top Five Primary Dealers based on secondary market, 4th Quarter of 2011

Ranking	Primary Dealer	Points*
1.	Société Générale / Komerční banka, a.s.	32.2
2.	PPF banka a.s.	24.1
3.	KBC N.V. / Československá obchodní banka, a.s.	23.4
4.	UniCredit Bank Czech Republic, a.s.	19.4
5.	Erste Group Bank AG / Česká spořitelna, a.s.	19.3

* max 40 points
Source: MoF

Total evaluation in the year 2011

The evaluation of Primary Dealers of Czech government bonds for all year 2011 has been performed by aggregation of evaluation in the 1st up to the 3rd Quarter and evaluation in the 4th Quarter. This aggregation has been made in accordance with weighted arithmetic average, where as weights the

nominal amounts of sold mid-term and long-term government bonds in primary auctions in evaluated period have been used. Thirteen Primary Dealers have been evaluated where J.P. Morgan Securities Ltd. and Goldman Sachs International have become of Primary Dealers during the 3rd Quarter of 2011.

Top Five Primary Dealers in 2011

Ranking	Primary Dealer	Points*
1.	Erste Group Bank AG / Česká spořitelna, a.s.	63.6
2.	KBC N.V. / Československá obchodní banka, a.s.	56.0
3.	Société Générale / Komerční banka, a.s.	53.5
4.	PPF banka a.s.	44.8
5.	UniCredit Bank Czech Republic, a.s.	43.7

* max 100 points
Source: MoF

This publication is available also on the website:

www.mfcr.cz/statedebt

The next Evaluation of the Primary Dealers of Czech government bonds will be published on April 30, 2012, at 2:00 p.m.

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