

## PRIMARY DEALER AGREEMENT FOR CZECH GOVERNMENT SECURITIES

THIS AGREEMENT is made on 5<sup>th</sup> January 2023 for the purpose of fulfilling the function of the Primary Dealer (herein subsequently referred to as the "Agreement")

### BY AND BETWEEN

- (1) **THE CZECH REPUBLIC acting through the Ministry of Finance,**  
with its seat at Letenská 525/15, 118 10 Praha 1

Identification Number: 00006947, Tax Identification Number: CZ00006947



(hereinafter referred to as the "Ministry of Finance")

and

- (2) **ING Bank Śląski. S.A.,**  
with its seat in Katowice, ul. Sokolska 34, 40-086 Katowice, registered in the Register of Entrepreneurs in the District Court in Katowice-Wschód in Katowice, the Eight Commercial Department for the National Court Register, under KRS no. 0000005459 (Identification number), with the share capital of PLN 130,100,000.00 and the paid-up capital of PLN 130,100,000.00, Tax Identification Number 634-013-54-75,



(hereinafter referred to as the "Primary Dealer 1")

and

- (3) **ING Bank N.V.,**  
a joint-stock company incorporated under the laws of The Netherlands, with its registered seat at Bijlmerdreef 106, 1102 CT Amsterdam, The Netherlands, registered in the Trade Register of the Chamber of Commerce and Industry for Amsterdam under the file No. 33031431, represented in the Czech Republic by ING Bank N.V., Prague branch, with its registered seat at Českomoravská 2420/15, Libeň, 190 00 Prague 9, Czech Republic, Business Identification No. (IČO): 492 79 866, registered in the Commercial Register maintained by the Municipal Court of Prague under the inserted file No. A 7930,



(hereinafter referred to as the "Primary Dealer 2")

(Each of **Primary Dealer 1** and **Primary Dealer 2** is hereinafter jointly or individually, as the case may be, referred to as "**Primary Dealer**")

**WHEREAS****(A)**

- 1) Based on the statutory regulations valid in the Czech Republic, the Czech Republic acting through the Ministry of Finance issues Czech Government Securities.
- 2) It is in the best interest of the Czech Republic that the primary market placing of the Czech Government Securities is diversely and adequately dispersed among end-investors, that its bonds are traded on secondary markets characterised by high liquidity and transparency and that the status of the Czech sovereign debt is maintained at the highest level of quality in the primary and secondary market.
- 3) With a view to support issuance, purchase, trading and promotion of Czech Government Securities and of its debt and cash management it is desirable that the Ministry of Finance has appointed certain institutions to become Primary Dealers in Czech Government Securities.

**(B)**

- 1) The institutions mentioned above as the parties to this Agreement have been assigned the status of the Primary Dealer in Czech Government Securities with a view to enhancing the placing of Czech Government Securities, to ensuring their liquidity on the secondary market, and to promoting the Czech sovereign debt on the international market and across investor community.

**THE PARTIES HAVE AGREED AS FOLLOWS****1. THE SCOPE OF THE AGREEMENT AND DEFINITIONS**

The scope of the Agreement is to regulate the relationship between the Ministry of Finance and the Primary Dealers regarding issuance, purchase, trading and promotion of Czech Government Securities and Ministry of Finance's debt and cash management process.

The Agreement determines the principles governing the activities of the Primary Dealers and the Ministry of Finance and it sets in particular:

- 1) Privileges and obligations of the Primary Dealers,
- 2) Privileges and obligations of the Ministry of Finance,
- 3) Selection criteria for the Primary Dealers,
- 4) Evaluation of the Primary Dealers' performance,
- 5) Organization of the Primary Dealer Committee.

The following terms in this Agreement shall mean:

“**APEI**”: Aggregate Performance Evaluation Index as defined in Annex I of the Agreement.

“**Auction**”: A public offering of Czech Government Securities executed in compliance with the Auction Rules.

“**Auction Rules**”: *Rules for the Primary Sale of Government Securities Organized by the Czech National Bank*, which came into effect on 28 June 2022, as amended or replaced from time to time by the Ministry of Finance in consent with the Primary Dealer Group and the Czech National Bank, as published on the website of the Czech National Bank and the Ministry of Finance.

**“Buy-Backs”**: Transactions in which the Ministry of Finance repurchases a particular Czech Government Security in the secondary market for cash by way of a buy-back auction or a fixed-price repurchase tender offer.

**“CDCP”**: The Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.), registered office at Prague 1, Rybná 14, Postal Code: 110 00, identification number: 25081489, entered into the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 4308.

**“Competitive Part”**: The Auction part in which each Primary Dealer, Recognized Dealer and the Ministry of Finance may submit bids at competitive prices in compliance with the Auction Rules.

**“Crisis Act”**: The Act No. 240/2000 Coll., on Crisis Management and on the Amendment of Certain Acts (Crisis Act).

**“Czech Government Bonds”**: Securities issued by the Czech Republic acting through the Ministry of Finance on domestic or foreign market with the original maturity longer than 1 year.

**“Czech Government Securities”**: All of the outstanding Czech Government Bonds and all of the short term government securities with the original maturity shorter than 1 year, which are in particular Treasury Bills, issued by the Czech Republic acting through the Ministry of Finance.

**“Designated Electronic Trading System”** or **“DETS”**, as the case may be: The electronic trading platform or the electronic trading platforms designated by the Ministry of Finance for trading of Czech Government Bonds based on the decision by the Primary Dealers on selection of electronic trading platform(s) from a list of electronic trading platforms fulfilling the selection criteria set jointly by the Ministry of Finance and the Primary Dealer Group as defined in Section 4 of the Agreement.

**“DETS Committee”**: The committee formed by the participants of the DETS as defined by relevant document issued in connection with DETS inception.

**“EMTN”**: The Czech Republic’s Euro Medium Term Note Programme originally established on 23 May 2008, as amended, replaced, or supplemented from time to time, or newly established during the year 2023 or later.

**“Evaluation Period”**: Each of calendar quarters.

**“Exchanges”**: Transactions in which the Ministry of Finance offers to exchange one or multiple different Czech Government Securities (generally repurchased at a fixed price) in a predetermined hedge ratio for another one or multiple different Czech Government Securities (issued or sold) in the secondary market by a way of a switch auction or a fixed-price tender offer.

**“Government Asset Funds”**: Portfolio assets actively managed and invested by the Debt and Financial Assets Management Department of the Ministry of Finance.

**“Lending Facility”**: Transactions in which the Ministry of Finance provides lending of Czech Government Securities and the borrower provides the Ministry of Finance with collateral in the form of cash or securities.

**“Market Competitive Spread”**: Maximum obligatory quoted bid/offer spread as defined in Annex VI of the Agreement.

**“Minimum Quoting Volume”**: The volume of Czech Government Bonds each member of the Primary Dealer Group shall quote in accord with Quoting Obligations.

**“Non-competitive Part”**: The Auction part in which each Primary Dealer, the Ministry of Finance and in the case of Czech Government Securities denominated in euro, also Recognized Dealer may submit

bids at an average price of the Competitive Part in compliance with this Agreement and the Auction Rules.

**“Performance Evaluation”**: Primary Dealers assessment made based on APEI calculated for four consecutive Evaluation Periods.

**“Primary Dealer Committee”**: The committee formed by the Primary Dealer Group, the Czech National Bank and the Ministry of Finance in accordance with Section 9 of the Agreement.

**“Primary Dealer Group”** or **“Primary Dealers”**, as the case may be: A group of institutions that have entered into a Primary Dealer Agreement for Czech Government Securities with the Czech Republic.

**“Private Placements”**: Transactions in the form of non-public offering of Czech Government Securities directly to a limited number of pre-selected investors and institutions.

**“Quoting Obligations”**: Commitment of the Primary Dealers to send quotes, i.e. post prices of the SQOB on the DETS as defined in this Agreement.

**“Recognized Dealer Group”** or **“Recognized Dealers”**, as the case may be: A group of institutions that have entered into a Recognized Dealer Agreement for Czech Government Securities with the Czech Republic, including institutions that have been recognized by the Ministry of Finance on the basis of specifically set conditions as dealers exclusively in Czech Government Securities denominated in euro.

**“Repurchase Agreement”**: Transactions in the form of collateralised loans, including a contractual arrangement between the Ministry of Finance and another counterparty, whereby one agrees to sell a security at a specified price with a commitment to buy the security back at a later date for another specified price.

**“Secondary Market Trading”**: Any intra-dealer or customer trading of Czech Government Bonds by the Primary Dealers, except for the intra-dealer trading on the DETSs.

**“SQOB”**: The Czech Government Bonds subject to Quoting Obligations on DETSs.

**“Tap Issuance”**: Transactions in which the Ministry of Finance sells a particular Czech Government Security in the secondary market for cash by way of an auction or a fixed-price tender offer.

**“Trading Day”**: A day on which contracts can be executed on the DETSs as defined by relevant DETS.

## 2. THE OBLIGATIONS OF THE PRIMARY DEALERS

- 2.1 The Primary Dealer is obliged to participate in the Auctions of Czech Government Bonds organized by the Czech National Bank on behalf of the Ministry of Finance and submit bids of investors except in case of force majeure.
- 2.2 The Primary Dealer is obliged to purchase (in aggregate) not less than 3% of the total adjusted face value of Czech Government Bonds sold in Auctions, including Non-competitive Parts, within four consecutive Evaluation Periods provided that the Primary Dealer acts as a member of the Primary Dealer Group during all four consecutive Evaluation Periods, otherwise such a rule shall be used accordingly. The total adjusted face value takes into account different weights for currencies in which Czech Government Bonds are denominated.
- 2.3 If the Primary Dealer does not act as a member of the Primary Dealer Group during all four consecutive Evaluation Periods, he is obliged to purchase not less than 3% of the total adjusted face value of Czech Government Bonds sold in Auctions, including Non-competitive Parts, within a period starting the day he was selected as a member of the Primary Dealer Group and ending 30 October. After that period ends, conditions pursuant to article 2.2 are applied.

- 2.4 The Primary Dealer is obliged to be system participant and act as a market maker at least on one of the chosen DETS, act in accordance with its market rules and financial market regulations, comply with the Quoting Obligations, and to contribute on best effort basis to the liquidity of the Secondary Market Trading of the Czech Government Bonds.
- 2.5 If the Primary Dealer fails to comply with the obligation referred to in articles 2.2 (or 2.3 as the case may be) and 2.4 the Ministry of Finance shall bring that fact to the attention of the Primary Dealer. This warning is not subject of any publicity to other members of the Primary Dealer Group. If the Primary Dealer achieves particular obligation within next Evaluation Period, the warning is automatically cancelled. If not, the second warning is sent to the Primary Dealer. If the envisaged compliance is not realised within next Evaluation Period, the Ministry of Finance has the right to terminate this Agreement with immediate effect. The Ministry of Finance shall inform the Primary Dealer without delay.
- 2.6 The Primary Dealer is obliged to be an active counterparty to the Ministry of Finance's debt issuance activities.
- 2.7 The Primary Dealer is obliged to actively assist the Ministry of Finance in the Buy-Backs or Exchanges in line with the request of the Ministry of Finance sent to the Primary Dealer, especially by providing price guidance and information on the offered terms of the Buy-Backs or Exchanges to the bond holders.
- 2.8 The Primary Dealer is obliged to display a good code of conduct in the clearing and settlement of the trades with Czech Government Securities as well as in other operations concluded with the Ministry of Finance, with a view to minimising failed transactions.
- 2.9 The Primary Dealer is obliged to report to the Ministry of Finance as specified in the Section 7 of the Agreement.
- 2.10 The Primary Dealer is obliged to observe and follow all of the applicable laws, statutes and regulations imposing any and all of the selling restrictions for sale of the Czech Government Securities in any country where they are placed or sold by the Primary Dealer.
- 2.11 The Primary Dealer is not allowed to negatively comment on activities of the Ministry of Finance based on unsubstantiated information or speculation. The Primary Dealer is also obliged to actively promote the Czech Government Securities market by adequate analysis, research and publications and seek placement of Czech Government Securities with end investors.
- 2.12 The Primary Dealer is obliged to allocate and maintain sufficient resources in terms of human resources, financial situation and organisation of its syndicate desk, trading and sales forces to support efficient primary and secondary market for Czech Government Securities.
- 2.13 The Primary Dealer is obliged to maintain the highest standards in the financial business practice consistent with the Ministry of Finance's objective to achieve orderly, efficient and liquid Czech Government Securities market.
- 2.14 It should be understood by all Primary Dealers recognised by the Ministry of Finance, that they act and participate in the market at their own risk and that the Ministry of Finance shall not be responsible in any manner for the decisions of any participant in the market and in particular for any losses, direct or indirect, arising in relation to any transaction entered into by such participants.
- 2.15 The Primary Dealer shall treat all nonpublic information received from the Ministry of Finance and in particular information relating to transactions and outstanding positions confidentially. The Primary Dealer shall not share this confidential information with any third party unless required to do so by applicable law, a court order or by this document. The Primary Dealer may share confidential information within entities belonging to its capital group.
- 2.16 The Primary Dealer is obliged to actively participate in CZK and EUR Repurchase Agreements, including cross-currency Repurchase Agreements, and operate as an active counterparty to the Ministry of Finance.

### 3. THE PRIVILEGES OF THE PRIMARY DEALERS

- 3.1 The Primary Dealer has the exclusive right to carry and use the title of „*Primary Dealer in Czech Government Securities*“.
- 3.2 The Primary Dealer is entitled to submission of bids at the Auctions including participation in the Non-competitive Parts.
- 3.3 The Primary Dealer has the exclusive right to participate in the Non-competitive Parts for Czech Government Securities denominated in CZK in accordance with the rules defined in the Auction Rules.
- 3.4 The Primary Dealer has the exclusive<sup>1</sup> right to directly participate in the syndicated Czech Government Bond public offerings issued under the Czech law and right to participate in the syndicated Czech Government Bond public offerings issued under other law as long as it is selected by the Ministry of Finance based on the Performance Evaluation of Primary Dealers as defined in the Section 6 of the Agreement and other objective criteria affirming Primary Dealer's capacity and credentials on particular market including Primary Dealer's standing in league table on the relevant market based on data provided by Dealogic Limited, when applicable. The basic terms for any of such transaction are stipulated in the „*Terms for Ministry of Finance Syndicated Public Offerings*“ as defined in the Annex IV of the Agreement.
- 3.5 The Primary Dealer has the right to submit offers for private placement transactions as set out by the Ministry of Finance as stipulated in the „*Terms for Ministry of Finance Private Placements*“ as defined in the Annex V of the Agreement.
- 3.6 The Primary Dealer or an applicant to become a new member of the Primary Dealer Group has the right to participate in Tap Issuance, Buy-Backs or Exchanges as stipulated in the „*Terms for Ministry of Finance Tap Issuances, Buy-Backs and Exchanges*“ as defined in the Annex II of the Agreement.
- 3.7 The Primary Dealer with whom the Ministry of Finance may enter into an Global Master Repurchase Agreement<sup>2</sup>, Global Master Securities Lending Agreement<sup>3</sup> or Master Agreement for Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu*<sup>4</sup> has the right to participate in Repurchase Agreements, Lending Facilities, Buy-Backs, Tap Issuance or Exchanges and be counterparty in transactions related to the Government Asset Funds.
- 3.8 The Primary Dealer with whom the Ministry of Finance may enter into an ISDA Master Agreement<sup>5</sup> or Master Agreement for Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu* has the right to be asked for price indication in transactions with financial derivatives in the event that the Ministry of Finance would conduct derivative transactions. All derivative transactions will be documented under an ISDA Master Agreement or Master Agreement for Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu* with the Ministry of Finance.
- 3.9 The Primary Dealer has the right to use the Lending Facilities set up by the Ministry of Finance as stipulated in the „*Terms for Ministry of Finance Lending Facilities*“ as defined in the Annex III of the Agreement with a purpose to improve market efficiency.
- 3.10 The Primary Dealer is the preferred party along with Recognized Dealers for concluding other financial transactions defined by the Ministry of Finance.

<sup>1</sup> In case that an exceptional and unforeseen event occurs, especially when Crisis Act is applied, the Ministry of Finance reserves the right to mandate other financial institutions outside the Primary Dealer Group as well.

<sup>2</sup> According to International Capital Market Association and The Bond Market Association standard.

<sup>3</sup> According to International Securities Lending Association.

<sup>4</sup> According to Czech Banking Association standard.

<sup>5</sup> According to International Swaps and Derivatives Association, Inc. standard.

- 3.11 The Primary Dealer has the right to receive a commission for services supplied as agreed separately prior to the transaction between the Ministry of Finance and the Primary Dealer Group depending on the type of the transaction.
- 3.12 The Primary Dealer has the exclusive right to participate in the Primary Dealer Committee as described in the Section 9 of the Agreement.
- 3.13 The Primary Dealer has the exclusive right to have a representative in the DETS Committee as long as it is participant of the particular DETS.
- 3.14 The Primary Dealer has the right to advise and discuss with Debt and Financial Assets Management Department of the Ministry of Finance estimates of the Czech Republic borrowing needs and issuance planning, introduction of new financial instruments, selection of issuing and Buy-Backs or Exchanges methods, operating rules, choice of markets for primary market transactions and developments in government debt markets and issuance activities.
- 3.15 The Primary Dealer has the exclusive right to select by decision taken by the Primary Dealers in a Primary Dealer Committee meeting an electronic platform or electronic platforms as DETS from a list of electronic trading platforms fulfilling the selection criteria set jointly by the Ministry of Finance and Primary Dealer Group as defined in Section 4 of the Agreement. Primary Dealer 1 and Primary Dealer 2 act as one member of Primary Dealer Group and shall have one vote together.
- 3.16 The ranking achieved in the last Performance Evaluation might be taken into consideration within the exclusive rights or preferences for Primary Dealers.

#### **4. THE CHOICE OF THE DESIGNATED ELECTRONIC TRADING PLATFORM(S)**

- 4.1 The choice of DETS for trading with the Czech Government Bonds on which the Primary Dealer complies with Quoting Obligations is based on the decision made by the Primary Dealers in a Primary Dealer Committee meeting on selection of electronic platform(s) from a list of electronic trading platforms following selection criteria jointly set by the Ministry of Finance and Primary Dealers.
- 4.2 In order to be considered eligible, a DETS must:
  - a) be a regulated market,
  - b) offer equal and fair access to all Primary Dealers free of membership fee for market takers, and the transaction fees charged to market takers may not be prohibitively high,
  - c) communicate its fee schedule to the Ministry of Finance,
  - d) agree to follow the guidelines set by the Primary Dealer Committee in order to ensure that the platform technically enables Primary Dealers to comply with their Quoting Obligations,
  - e) make public current bid and offer prices and the depth of trading interests at those prices which are advertised through its system on a continuous basis during normal trading hours, on reasonable commercial terms to all market participants and free of charge to the Ministry of Finance,
  - f) provide the Ministry of Finance with market statistics on daily quoting performances and concluded trades, and other data required by the Ministry of Finance for the purpose of monitoring the market, as well as data suitable for monitoring Primary Dealers' compliance with Quoting Obligations as defined in the Section 5 of the Agreement and subsequent evaluation of Primary Dealers as defined in the Section 6 of the Agreement,
  - g) enable settlement of trades through CDCP and
  - h) be selected by a simple majority of Primary Dealers.
- 4.3 A selected DETS keeps its status for a period of two years and its status is reviewed every two years in accordance with the aforementioned procedure.

- 4.4 The DETS representative must send an application to the Ministry of Finance stating that it fulfils the above criteria and the Ministry of Finance consecutively evaluates applications pursuant to above mentioned conditions.

## 5. QUOTING OBLIGATIONS

- 5.1 Primary Dealer is obliged to be an active market-maker of the secondary market for Czech Government Bonds and to fulfil Quoting Obligations as set by the Ministry of Finance after consultation with the Primary Dealer Group.
- 5.2 Primary Dealer is obliged to act as an active market-maker on one of the chosen DETS. The choice of DETS where the quoting is performed lies with each Primary Dealer.
- 5.3 Primary Dealer can quote a part of their allocated Czech Government Bonds on one DETS and another part(s) on one or more other DETS(s).
- 5.4 Primary Dealer will be considered to have complied with its daily Quoting Obligations regarding a specific Czech Government Bond only if it has complied with it on one or more DETS(s).
- 5.5 Primary Dealer commits to comply with the internal regulations of each and every selected DETS on which they quote prices.
- 5.6 Primary Dealer is encouraged to participate as market takers on all selected DETS(s).
- 5.7 Primary Dealer has fulfilled its Quoting Obligations for the Evaluation Period as long as its Monthly Compliance Ratio for each month of the Evaluation Period reaches at least 90% as defined in Annex VI of the Agreement.
- 5.8 Monthly Compliance Ratio is calculated as a simple average of the Daily Compliance Ratios.
- 5.9 Daily Compliance Ratio is calculated with regard to particular Czech Government Bond as long as a quoted spread is equal or lower than Market Competitive Spread during five hours of quotations with the lowest spread during a Trading Day as defined in the Annex VI of the Agreement.
- 5.10 Primary Dealer's compliance with its Quoting Obligations is monitored by the Ministry of Finance on the basis of reports submitted daily to the Ministry of Finance by the selected DETS(s).
- 5.11 Primary Dealer will be informed on its compliance with Quoting Obligations by the Ministry of Finance on demand on a daily or monthly basis.
- 5.12 In case of technical issues regarding the fulfillment of quoting obligations on selected DETS, the Primary Dealer is obliged to inform the Ministry of Finance on the given fact without any delay and the Ministry of Finance may take it into account in daily compliance ratio calculation.

## 6. EVALUATION OF MEMBERS OF PRIMARY DEALER GROUP

- 6.1 The Performance Evaluation of each member of Primary Dealer Group is based on APEI calculated for last four consecutive Evaluation Periods.
- 6.2 The composition and the calculation of the APEI is outlined in the Annex I of the Agreement. This methodology can be modified based on decision of the Ministry of Finance after the consultation with the Primary Dealer Group in the Primary Dealer Committee meetings.
- 6.3 If the Primary Dealer fails to comply with the obligation referred to in article 7.3 of the Agreement, he may be excluded from the Performance Evaluation defined in this Section of the Agreement in the respective Evaluation Period.
- 6.4 If during Evaluation Period the Primary Dealer demonstrates lowered credibility, i.e. any delay in settlement or payment, the APEI in respective Evaluation Period will be reduced in the range from 0 to 10 points; In case of major breach of payment discipline he may be excluded from the



Performance Evaluation defined in this Section of the Agreement in the respective Evaluation Period.

- 6.5 The Performance Evaluations are communicated to each member of Primary Dealer Group individually, including the value of APEI.
- 6.6 A list of five best-performing members of Primary Dealer Group is published within the regular Debt Portfolio Management Quarterly Report and The Czech Republic Government Debt Management Annual Report published in the month following the end of Evaluation Period and in February respectively on the website of the Ministry of Finance.

## **7. REPORTING OF TRANSACTIONS**

- 7.1 The Primary Dealer undertakes to provide information on completed transactions, transaction volumes, institutional as well as geographical structure and such other information with respect to primary and secondary market transactions with Czech Government Bonds requested by the Ministry of Finance and/or any competent market authority and/or binding regulation provided that the Primary Dealer is not prohibited to submit such information by law, other binding regulations or contractual agreement with investors.
- 7.2 The Primary Dealer shall submit quarterly to the Ministry of Finance a report on its activity structured according to the European harmonized reporting format, following the guidelines outlined on the website of the relevant Economic and Financial Committee (EFC) Sub-Committee on EU Sovereign Debt Markets in cooperation with the Association for Financial Markets in Europe.
- 7.3 The data referred to in the article 7.2 is to be transmitted electronically to the Ministry of Finance. The data is to be received no later than twenty calendar days after the last day of the quarter to which they relate.
- 7.4 On request by the Ministry of Finance, the Primary Dealer shall provide additional information, not included in the reporting format, defined in the article 7.2 and 7.3, such as specification of individual investors of the Czech Government Bonds in the primary market provided that the Primary Dealer has obtained such information in the course of participating in a primary market transaction and that the Primary Dealer is not prohibited to submit such information by law, other binding regulations and submitting such information is not against market practice. All information on individual investors obtained from Primary Dealers will be treated by Ministry of Finance as confidential information and will be used only for internal analysis.
- 7.5 If requested by the Ministry of Finance, Primary Dealer will co-operate in an audit of these reports and information mentioned in article 7.2, 7.3 and 7.4 provided that any such cooperation is not subject to any restrictions or limitations to its ability to cooperate that arise by virtue of the Primary Dealers internal policies regulatory, statutory or other requirements (as determined by the Primary Dealer in its sole discretion).
- 7.6 The Ministry of Finance equally informs the Primary Dealers of any topics or projects in respect of which it anticipates receiving from the Primary Dealers specific support in terms of research and advise.
- 7.7 The Ministry of Finance shall treat information provided by Primary Dealers confidentially. The Ministry of Finance shall only publish or make public information at the level of aggregated statistics. The Ministry of Finance has, however, the right to publish rankings of members of the Primary Dealer Group according to the APEI.

## **8. SELECTION OF THE PRIMARY DEALER GROUP**

- 8.1 An applicant to become a member of the Primary Dealer Group shall submit a written application.
- 8.2 The Ministry of Finance selects members of Primary Dealer Group for annual periods, starting 1 January and ending 31 December. All periods shall be annual periods. The selection is notified

to Primary Dealers on 30 November each year at the latest. The Ministry of Finance reserves the right to define the number of members of the Primary Dealer Group as well as the proportion between resident and non-resident members of Primary Dealer Group.

8.3 Only the following entities may become members of the Primary Dealer Group:

- a) a bank with a banking licence granted pursuant to Article 4 of Act No. 21/1992 Coll., Banking Act, as amended (hereinafter referred to as the “Banking Act”), which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of Act No. 256/2004 Coll., Capital Market Act (hereinafter referred to as the “Capital Market Act”),
- b) a branch of foreign bank with a banking licence granted pursuant to Article 5 of the Banking Act, which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act,
- c) a foreign entity having its registered office in another member state of the European Union, which on the basis of the single licence pursuant to Article 5c et seq. of the Banking Act is authorised to perform activities pursuant to Article 5d d) and g) of item 4 of the Banking Act on the territory of the Czech Republic,
- d) a securities dealer pursuant to Article 5 of the Capital Market Act which is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act,
- e) a foreign entity providing in accordance with Article 28 of the Capital Market Act investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act through its branch,
- f) a foreign entity having its registered office in another member state of the European Union, which is authorised on the basis of the single licence pursuant to Articles 24 and 25 of the Capital Market Act to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act on the territory of the Czech Republic,
- g) a foreign entity having its registered office in another member state of the European Union, which is a bank, bank’s branch, securities dealer or securities dealer’s branch, and which is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act on the territory of a member state of the European Union.
- h) an entity authorised by the United Kingdom Prudential Regulation Authority and regulated by the United Kingdom Financial Conduct Authority and the Prudential Regulation Authority (or any successor bodies) to perform regulated activities including at least: (i) dealing in investments as principal; (ii) dealing in investments as agent; (iii) arranging (bringing about) deals in investments; and (iv) advising on investments.

8.4 An applicant to become a member of the Primary Dealer Group is required to fulfil the following criteria at the time of submitting the application:

- a) to be a member of a group where entities act as primary or recognized dealer (or to have a similar function) for at least three other European Union member states at the same time (applicable to non-resident institutions),
- b) to have high level of management and depth and experience, dealing capability as well as proven geographic and institutional distribution capacity,
- c) in the 6 months period preceding to the submission of the application it has participated, through one or more members of Primary Dealer Group, in Auctions and has subscribed for at least 3% of the total adjusted face value of Czech Government Bonds allocated in this period by the Ministry of Finance,
- d) to be an active DETS participant, i.e. to comply with the Quoting Obligations, for a period of 6 months at least preceding to the submission of the application and to have a past record of active secondary trading of the Czech Government Bonds,

- e) to prove a record of support of the Czech Government Securities market and promotion of the Czech Government Securities by adequate analysis, research and publications,
  - f) in the opinion of the Ministry of Finance, shall maintain sufficient resources in terms of human resources, financial situation and such organization of its syndicate desk, trading and sales forces to support efficient primary and secondary market of Czech Government Securities,
  - g) in the opinion of the Ministry of Finance, shall maintain the highest standards in financial business practice, consistent with the Ministry of Finance's objective of achieving orderly, efficient and liquid Czech Government Securities market.
- 8.5 The Primary Dealers are selected by the Ministry of Finance from the present Primary Dealer Group and from other institutions the Ministry of Finance might decide to consider. The selection will be based on Performance Evaluation defined in the Section 6 of the Agreement, the criteria stipulated in this section and other criteria the Ministry of Finance might consider relevant.
- 8.6 The Ministry of Finance is also entitled to replace any of the existing Primary Dealers who might resign in accordance with Section 12 herein during the time of validity of the Agreement by a new member of the Primary Dealer Group selected based on criteria set in this section.

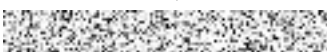
#### 9. PRIMARY DEALER COMMITTEE

- 9.1 The Primary Dealer Group, the Ministry of Finance and the Czech National Bank shall form a committee with the aim to ensure efficient and smooth transaction of the Czech Government Securities markets and to provide a forum for exchange of information, consultations on primary and secondary market organization, policies and resolving of issues that might arise with regard to implementation of provisions of the Agreement.
- 9.2 Each Primary Dealer shall appoint one its representative. Primary Dealer 1 and Primary Dealer 2 shall have one vote together.
- 9.3 The Ministry of Finance shall appoint two its representatives, one of them shall act as a chairperson of the committee and the other one shall act as a secretary of the committee.
- 9.4 The Czech National Bank shall appoint two representatives.
- 9.5 If any of the appointed representatives (committee members) is unable to attend the committee meeting he or she may be replaced by a deputy member for such specific meeting as specified by written notice of the respective entity sent to the Ministry of Finance well in advance.
- 9.6 Regular meetings of the committee shall be convened at least once a half, usually 14 calendar days preceding date of publishing issuance calendars for the forthcoming month and roughly a month before new Evaluation Period starts.
- 9.7 Meetings shall be called at the initiative of the chairperson or when a half of the committee members appointed by Primary Dealers requests a meeting to consider a specific matter.

#### 10. NOTICES

Each communication to be made hereunder shall, unless stated otherwise, be made in writing by letter, telefax or e-mail to the addresses and telefax number (s) as defined below.

Primary Dealer 1:



ING Bank Śląski S.A.

Puławska 2, 02-566 Warsaw, Poland



Primary Dealer 2:



ING Bank, N.V.

Českomoravská 2420/15, Praha 9, ČR



The Czech Republic – the Ministry of Finance

Debt and Financial Assets Management Department

Letenská 525/15, 118 10 Praha 1



## **11. GOVERNING LAW AND JURISDICTION**

- 11.1 The Agreement shall be governed by and construed in accordance with the Czech law. This rule applies to all and every dispute that may arise out of the Agreement and of the relation established by the Agreement.
- 11.2 If any dispute may arise between the parties hereto in connection with the Agreement, the parties will seek an agreement to resolve it between themselves first. In a case that the agreement to resolve such dispute cannot be reached, the parties hereby submit to the jurisdiction of the courts of the Czech Republic. The parties agree that the competent court to have exclusive jurisdiction to settle any such dispute shall be The Municipal Court in Prague.

## **12. ENTRY INTO FORCE AND TERMINATION OF THE AGREEMENT**

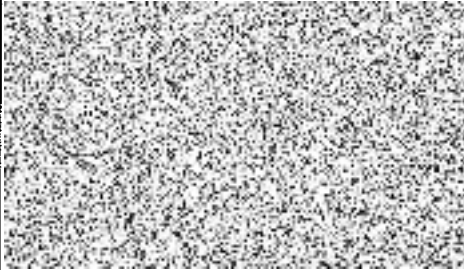
- 12.1 The Agreement enters into force on the date of its execution and expires on 31 December 2023.
- 12.2 The validity of the Agreement may be unilaterally and repeatedly extended by the Ministry of Finance for periods of one year, until 31 December of the following calendar year, based on the written notice from the Ministry of Finance sent to the Primary Dealer by no later than 31 December of respective year.
- 12.3 The Primary Dealer may terminate its participation in the Agreement by giving not less than 30-day written notice sent by registered letter to the Ministry of Finance. The 30-day notice period begins on the first day of the calendar month following the day of delivery of the notice. This Agreement will remain in place between the Ministry of Finance and the remaining Primary Dealer.
- 12.4 The Ministry of Finance may terminate the Agreement at any time by giving a not less than 30 days written notice of termination to the Primary Dealer. The 30-day notice period begins on the calendar day following the day of the delivery of the notice.
- 12.5 The Agreement has been executed in six counterparts, three in Czech and three in English language. Each of the counterparties of the Agreement shall receive two counterparts, one in Czech and one in English language. Each of the executed counterparts shall be deemed an original. In case of any discrepancy or inconsistency between the Czech and English language version, the English version shall prevail.

- 12.6 The Ministry of Finance pledges to keep the Auction Rules in accord with this Agreement. Where provisions of the Agreement are in conflict with the Auction Rules, provisions of Auction Rules shall prevail.
- 12.7 The Annexes attached hereto form unseparable part of the Agreement. The Agreement has following Annexes:
- a) Annex I: Performance Evaluation of Primary Dealers
  - b) Annex II: Terms for Ministry of Finance Tap Issuances, Buy-Backs and Exchanges
  - c) Annex III: Terms for Ministry of Finance Lending Facilities
  - d) Annex IV: Terms for Ministry of Finance Syndicated Public Offerings
  - e) Annex V: Terms for Ministry of Finance Private Placements
  - f) Annex VI: Evaluation of Quoting Obligations
  - g) Annex VII: Contact List
- 12.8 Changes and amendments to Annexes I-VI to the Agreement are subject to agreement between the Ministry of Finance and the Primary Dealer Group and do not require that this Agreement is amended by written amendment. Changes and amendments to Annex VII to the Agreement are made by written notice to the other counterparty.

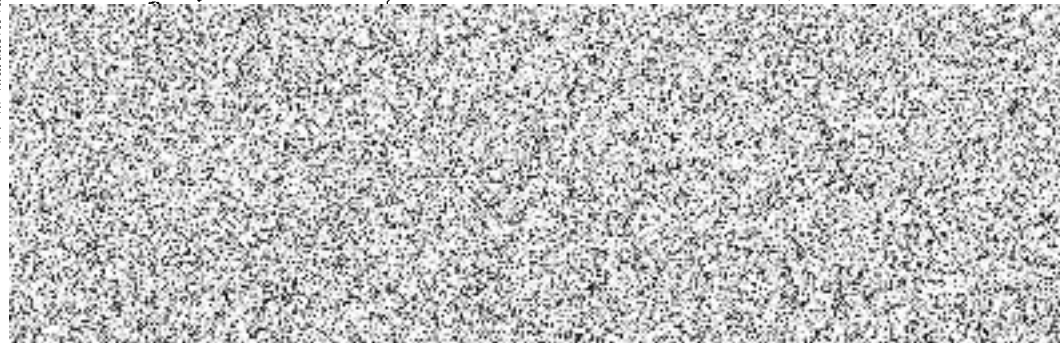
IN WITNESS whereof this Agreement has been concluded on the date stated at beginning.

**SIGNATURES**

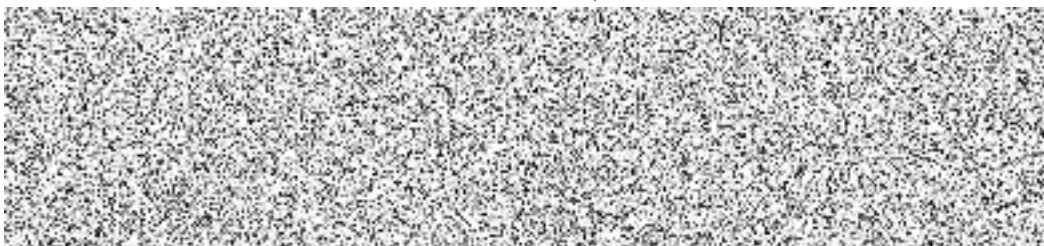
**Czech Republic – Ministry of Finance**



**ING Bank Śląski S.A.**



**ING Bank, N.V., Prague branch**



## Annex I: Performance Evaluation of Primary Dealers

### Evaluation Framework

The privilege of being a Primary Dealer in Czech Government Securities is granted to market participants subject to their compliance with the Primary Dealers' obligations. The Primary Dealers' performance is evaluated based on APEI on a quarterly basis. In order to provide global and objective assessment several criteria are considered. The structure of scoring process is outlined in the performance evaluation tree below. The performance of the Primary Dealer will be measured and calculated on an aggregate basis.

The composition and calculation of the criteria is discussed and disclosed to the Primary Dealers to avoid speculative statistical optimization on the side of Primary Dealers which may not be an optimal strategy for any participating party.

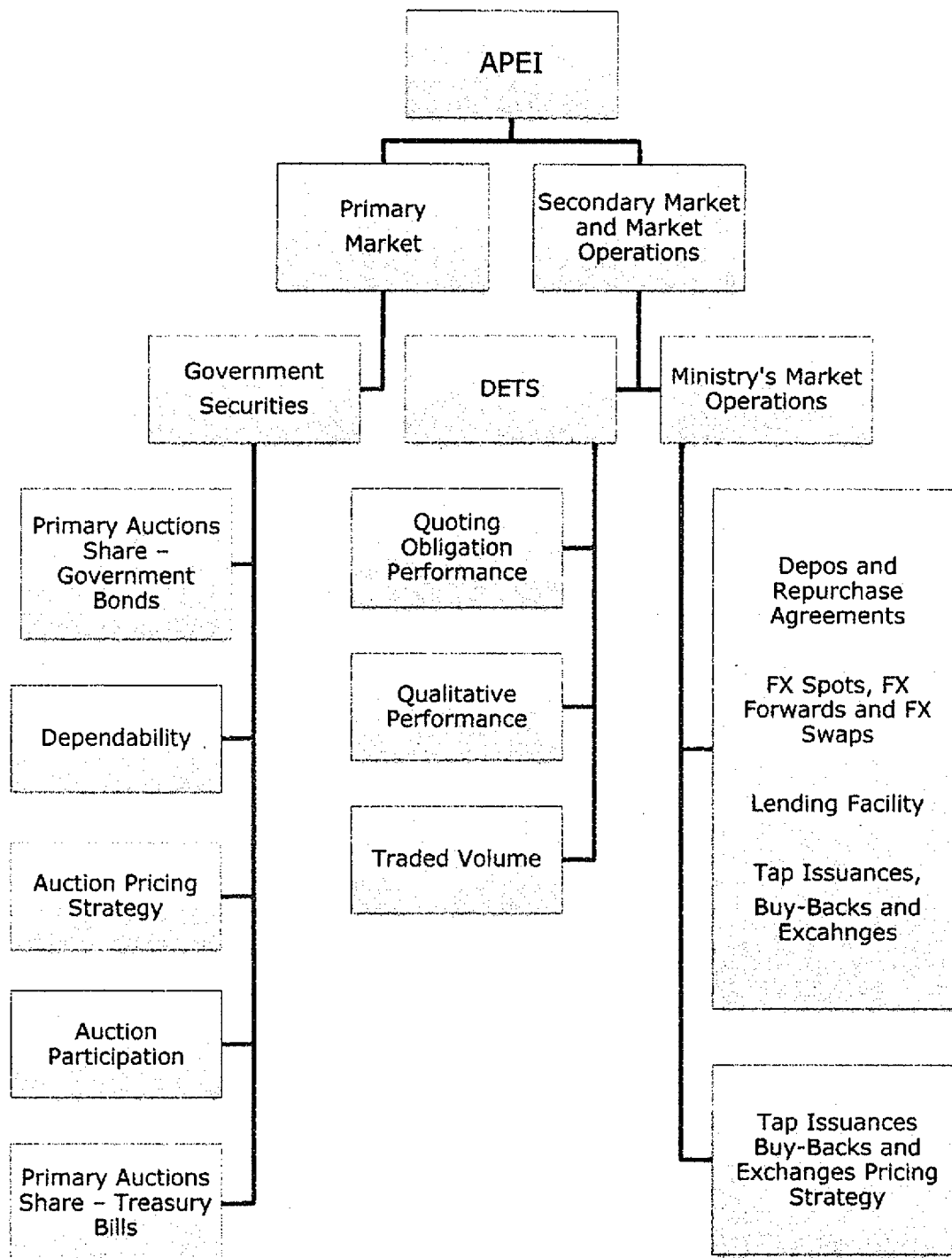
The maximum score Primary Dealer can achieve is 100 points. The score is calculated based on relative performance. The most successful Primary Dealer in a particular sub-criterion is assigned the maximum number of points. The others Primary Dealers are allocated points proportionally to the performance of the winner. Score is then aggregated over the grid of sub-criteria and Primary Dealers are ranked in the descending order based on the number of points:

$$APEI_i = \sum_{c=1}^N x_c \left[ h \left( \frac{PD_i}{f(PD)} \right) \right]$$

where  $N$  is number of sub-criteria,  $APEI_i$  stands for the total score of  $i$ -th Primary Dealer ( $PD_i$ ) in the Evaluation Period, function  $f$  takes maximum or minimum value from the set of Primary Dealer's results in each sub-criterion depending on the ranking order. Function  $h$  makes the inverse of the fraction if the ranking order is ascending. In case of the descending order the function makes the fraction power to one for the set of all results different from zero. The sum is over all sub-criteria of evaluated criteria and  $x_c$  is maximum score in  $c$ -th sub-criterion.

Weights within the performance evaluation tree are assigned in a two-step process. First, the total number of points is distributed to reflect the relative importance of criterion. Following the current practice in other developed markets, Ministry of Finance gives increasing weight to the secondary market criterion. Second, the number of points for each criterion is allocated among related sub-criteria in the way matching the importance for evaluation process.

Figure 1: Performance Evaluation Tree





## A. Primary Market Participation

Auctions are the main source of funding and Ministry of Finance evaluates the quantity and quality of Primary Dealers' contribution to satisfy financing needs on the basis of five sub-criteria. The maximum score for primary market participation is 55 points.

### A.1 Primary Auctions Share – Government Bonds (PAS)

The maximum number of points in this sub-criterion is assigned to the Primary Dealer underwriting the largest share of successful bids in Auctions of Czech Government Bonds in the Evaluation Period. To ensure comparable figures among different Auctions in the Evaluation Period, market share is duration weighted<sup>6</sup>. The Ministry of Finance may also use different weights for Czech Government Bonds denominated in local currency and Czech Government Bonds denominated in foreign currencies to support Primary Dealers' participation in foreign currency financing operations on Czech Government Bond primary market.

$$PAS_i = \frac{\sum_{j=1}^K w_j D_j GB_{i,j}}{\sum_{j=1}^K w_j D_j \sum_{i=1}^{PD} GB_{i,j}}$$

where  $K$  denotes number of Auctions of Czech Government Bonds in the Evaluation Period,  $PD$  is number of Primary Dealers,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th Auction,  $D_j$  is duration of Czech Government Bonds in  $j$ -th Auction and  $GB_{i,j}$  is CZK equivalent of the nominal amount of Czech Government Bond subscribed by  $i$ -th Primary Dealer in  $j$ -th Auction. The maximum score for this sub-criterion is 30 points.

### A.2 Dependability (DEP)

The ratio of successful bids to total bids submitted shows whether the Primary Dealer is committed to acquire the Czech Government Bonds or just seeking the opportunity for short-term profit. Thus, Primary Dealer with the highest ratio scores maximum in this sub-criterion.

$$DEP_i = \frac{\sum_{j=1}^K w_j bid_{S,i,j}}{\sum_{j=1}^K w_j (bid_{S,i,j} + bid_{N,i,j})}$$

where  $K$  denotes number of Auctions of Czech Government Bonds in the Evaluation Period,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th Auction,  $bid_{S,i,j}$  is CZK equivalent of the total nominal amount of successful bids submitted by  $i$ -th Primary Dealer at the competitive part of the  $j$ -th Auction and  $bid_{N,i,j}$  is CZK equivalent of the total nominal amount of bids submitted by  $i$ -th Primary Dealer at the competitive part of the  $j$ -th Auction which were not accepted by the Ministry of Finance. The maximum score for this sub-criterion is 5 points.

### A.3 Auction Pricing Strategy (APS)

This sub-criterion evaluates pricing strategy of Primary Dealers. Ministry of Finance appreciates Primary Dealers willing to pay highest nominal amount, duration and currency weighted price in the Auction of Czech Government Bonds. Primary Dealer with the highest nominal amount, duration and currency weighted price scores maximum.

<sup>6</sup> Duration of security or book-entry security in all calculations is considered as a time to maturity of the security or book-entry security relevant to the trade settlement date.

$$APS_i = \sum_{j=1}^K w_j D_j \sum_{l=1}^{L_{i,j}} q_{l,i,j} \max\{P_{l,i,j} - \bar{P}_j; 0\}$$

where  $K$  denotes number of Auctions of Czech Government Bonds in the Evaluation Period,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th Auction,  $D_j$  is duration of Czech Government Bond in  $j$ -th Auction,  $L_{i,j}$  is number of all bids submitted by  $i$ -th Primary Dealer at the competitive part of the  $j$ -th Auction,  $q_{l,i,j}$  is the ratio of  $l$ -th bid nominal amount submitted by  $i$ -th Primary Dealer in  $j$ -th Auction to total nominal amount sold at the competitive part in  $j$ -th Auction,  $P_{l,i,j}$  is price of  $l$ -th bid submitted by  $i$ -th Primary Dealer at the competitive part of  $j$ -th Auction and  $\bar{P}_j$  is the average price in  $j$ -th Auction. The maximum score for this sub-criterion is 5 points.

#### A.4 Auction Participation (PAR)

Regular participation in Auctions of Czech Government Bonds is one of the key qualities of Primary Dealers. A Primary Dealer performs better when he can be relied upon. Primary Dealer with the highest regular participation figure scores maximum:

$$PAR_i = \frac{\sum_{j=1}^K w_j n_{i,j}}{\sum_{j=1}^K w_j}$$

where  $K$  denotes number of Auctions of Czech Government Bonds in the Evaluation Period,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th Auction,  $n_{i,j}$  equals 1 if  $i$ -th Primary Dealer bought more than 1 % of the total nominal amount sold at the competitive part of  $j$ -th Auction, otherwise  $n_{i,j}$  equals 0. The maximum score for this sub-criterion is 5 points.

#### A.5 Primary Auctions Share – Treasury Bills (TBS)

The maximum number of points in this sub-criterion is assigned to the Primary Dealer underwriting the largest share of Treasury Bills during the Evaluation Period:

$$TBS_i = \frac{TB_i}{\sum_{i=1}^{PD} TB_i}$$

where  $PD$  is number of Primary Dealers and  $TB_i$  is the total nominal amount of Czech Treasury Bills subscribed by  $i$ -th Primary Dealer in Auctions of Treasury Bills during the Evaluation Period. The maximum score for this sub-criterion is 10 points.

## B. Secondary Market Participation and Market Transactions

Market-making and secondary market trading is performed on DETSs. The aim of the Ministry of Finance is to build as transparent, liquid and deep secondary market for Czech Government Bonds as possible. In order to achieve this goal, high quality of market-making is essential. Ministry of Finance evaluates separately Primary Dealers activity on DETSs, the overall quality and structure of secondary market activity and performance in Ministry of Finance direct transactions on secondary market. Ministry of Finance encourages Primary Dealers' activity on the secondary market leading to balanced geographic and institutional distribution of Czech Government Bonds. The maximum score for secondary market participation is 45 points.

### B.1 Quoting Obligations Performance on DETSs (MMO)

Each Primary Dealer is obliged to perform market-making on one of the chosen DETSs. Compliance with the Quoting Obligations is monitored by the Ministry of Finance on a monthly basis. Performance Evaluation of Primary Dealers compliance is calculated as simple sum of monthly compliance ratios:

$$MMO_i = \sum_{m=1}^M MCR_{m,i}$$

where  $M$  is number of months during the Evaluation Period,  $MCR_{m,i}$  is Monthly Compliance Ratio of  $i$ -th Primary Dealer in  $m$ -th month as defined in Annex VI of the Agreement. When  $MCR_{m,i}$  falls below a minimum level, i.e.  $i$ -th Primary Dealer is thus not compliant for  $m$ -th month,  $MCR_{m,i}$  equals 0. The maximum score for this sub-criterion is 10 points.

### B.2 Qualitative Performance on DETS (QF)

The Ministry of Finance evaluates Primary Dealers qualitative performance on DETSs with a goal of achieving as liquid and deep secondary market as possible. Evaluated structure of qualitative performance includes quoted bid/offer spread, quoted size and quoting time given a following formula for Quotation Factor ( $QF$ ):

$$QF_i = \alpha \sum_{o=1}^{SQOB} \sum_{n=1}^{SQ_{o,i}} \frac{D_{o,n}}{S_{o,n,i}} V_{o,n,i} (t'_{o,n,i} - t_{o,n,i}) + (1 - \alpha) \sum_{f=1}^{SNQOB} \sum_{n=1}^{SNQ_{f,i}} \frac{D_{f,n}}{S_{f,n,i}} V_{f,n,i} (t'_{f,n,i} - t_{f,n,i})$$

where  $\alpha$  is the weight of Czech Government Bonds subjected to Quoting Obligations on the calculation of  $QF$ ,  $SQOB$  is number of Czech Government Bonds subjected to Quoting Obligations on DETSs,  $SNQOB$  is number of Czech Government Bonds not subjected to Quoting Obligations on DETSs,  $SQ_{o,i}$  is number of quotations of  $o$ -th Czech Government Bond subjected to Quoting Obligations on DETSs submitted by  $i$ -th Primary Dealer during best five hours in particular Trading Day,  $SNQ_{f,i}$  is number of quotations of  $f$ -th Czech Government Bond not subjected to Quoting Obligations on DETSs submitted by  $i$ -th Primary Dealer during best five hours in particular Trading Day,  $D_{o,n}$  is duration of the particular Czech Government Bond in the  $n$ -th quotation,  $S_{o,n,i}$  is bid/offer spread (in ticks) quoted by  $i$ -th Primary Dealer for the particular Czech Government Bond beginning at the time  $t_{o,n,i}$  and ending at the time  $t'_{o,n,i}$  of  $n$ -th quotation of given Czech Government Bond and  $V_{o,n,i}$  is CZK equivalent of the nominal amount of the particular Czech Government Bond quoted by  $i$ -th Primary Dealer beginning at the time  $t_{o,n,i}$  and ending at the time  $t'_{o,n,i}$  of  $n$ -th quotation of given Czech Government Bond. The Ministry of Finance deems weighting of Czech Government Bonds subjected to Quoting Obligations should differ from the weighting of the other Czech Government Bonds quoted on DETS. The maximum score for this sub-criterion is 10 points.

### B.3 Traded Volume on DETS (TVF)

It is in the interest of the Ministry of Finance that the secondary market is as liquid and deep as possible not only in terms of transacted volume but also with regard to number of transactions executed. The Ministry of Finance evaluates contribution of Primary Dealers to the liquidity of the domestic secondary market for Czech Government Bonds traded on DETSs using Traded Volume Factor ( $TVF$ ):

$$TVF_i = \gamma T_{P,i} \sum_{j=1}^K w_j D_j V_{P,i,j} + (1 - \gamma) T_{A,i} \sum_{j=1}^K w_j D_j V_{A,i,j}$$

where  $\gamma$  is the weight for trades with Czech Government Bonds when the Primary Dealer was a provider of the executed quotation and its value is set at 70%,  $T_{P,i}$  is number of executed transactions on DETS by  $i$ -th Primary Dealer when the Primary Dealer was a provider of the executed quotation during the Evaluation Period,  $T_{A,i}$  is number of executed transactions on DETS by  $i$ -th Primary Dealer when the Primary Dealer was a aggressor of the executed quotation during the Evaluation Period,  $K$  is number of transaction of the traded Czech Government Bonds,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th transaction,  $D_j$  is duration of Czech Government Bond on Trading day in  $j$ -th transaction,  $V_{P,i,j}$  is traded CZK equivalent of the nominal amount on Czech Government Bond in  $j$ -th transaction by  $i$ -th Primary Dealer when the Primary Dealer was a provider of the executed quotation and  $V_{A,i,j}$  is traded CZK equivalent of the nominal amount on Czech Government Bond in  $j$ -th transaction by  $i$ -th Primary Dealer when the Primary Dealer was an aggressor of the executed quotation. The maximum score for this sub-criterion is 10 points.

#### B.4 Ministry of Finance Market Transactions (DMO)

Ministry of Finance evaluates its counterparty offers and realized trades on secondary market transactions, i.e. depos, Repurchase Agreements, FX spots, FX forwards and FX swaps, Lending Facilities, Tap Issuances, Buy-Backs or Exchanges. Primary Dealer is evaluated based on the duration and currency weighted share of its traded nominal amount on the total weighted nominal amount traded during the Evaluation Period having Ministry of Finance as a counterparty in particular type of instrument, for the purpose of this assessment, the durations of FX spots and FX forwards equal one. The traded types of instruments are divided into four groups and each group has a weight assigned which enters into calculation of total evaluation of concluded trades within the Evaluation Period of a particular Primary Dealer.

The groups and assigned weights are:

1. Depos and Repurchase Agreements (50%),
2. FX spots, FX forwards and FX swap (30%),
3. Lending Facilities (10%),
4. Tap Issuances, Buy-Backs and Exchanges of Czech Government Securities (10%).

Formula for evaluation of sub-criterion:

$$DMO_i = \sum_{h=1}^N \omega_h \frac{V_{h,i}}{\sum_{i=1}^{PD} V_{h,i}}$$

where  $N$  denotes number of groups of instrument types,  $\omega_h$  denotes weight of  $h$ -th group of instrument types,  $PD$  is number of Primary Dealers and  $V_{h,i}$  is the  $i$ -th Primary Dealer's traded duration and currency weighted CZK equivalent of the total nominal amount for  $h$ -th group of instrument types in the Evaluation Period. The maximum score for this sub-criterion is 10 points.

#### B.5 Tap Issuances, Buy-Backs and Exchanges Pricing Strategy (TPS)

This sub-criterion evaluates pricing strategy of Primary Dealers. Ministry of Finance appreciates Primary Dealers willing to pay highest nominal amount, duration and currency weighted price in the Tap Issuances and Buy-Backs of Czech Government Securities. When evaluating the Exchanges, one underlying leg of the transaction is evaluated as the Tap Issuance and the other as a Buy-Back. Primary Dealer with the highest nominal amount, duration and currency weighted price scores maximum:

$$TPS_i = \beta \sum_{j=1}^{K_T} w_j D_{T,j} \sum_{l=1}^{L_{T,i,j}} (P_{T,l,i,j} - \min_{l,i} (P_{T,l,i,j})) \frac{V_{T,l,i,j}}{\sum_{l=1}^{PD_{T,j}} \sum_{i=1}^{L_{T,i,j}} V_{T,l,i,j}} + (1 - \beta) \sum_{j=1}^{K_B} w_j D_{B,j} \sum_{l=1}^{L_{B,i,j}} (\max_{l,i} (P_{B,l,i,j}) - P_{B,l,i,j}) \frac{V_{B,l,i,j}}{\sum_{l=1}^{PD_{B,j}} \sum_{i=1}^{L_{B,i,j}} V_{B,l,i,j}}$$

where  $\beta$  denotes weight of Tap Issuances,  $K$  denotes number of transactions,  $w_j$  denotes the weight based on currency of Czech Government Bond offered in  $j$ -th transaction,  $D_{.,j}$  denotes duration of Czech Government Bond in  $j$ -th transaction,  $L_{.,i,j}$  denotes number of bids submitted by  $i$ -th Primary Dealer in  $j$ -th transaction,  $PD_{.,j}$  denotes number of Primary Dealers participating in  $j$ -th transaction,  $P_{.,l,i,j}$  denotes  $l$ -th bid price submitted by  $i$ -th Primary Dealer in  $j$ -th transaction and  $V_{.,l,i,j}$  denotes CZK equivalent of total nominal amount of  $l$ -th bid submitted by  $i$ -th Primary Dealer in  $j$ -th transaction. Subscript  $T$  refers to Tap Issuances,  $B$  refers to Buy-Backs. The weight of Tap Issuances is set at 30% and the weight of Buy-Backs is set at 70%. In case the Buy-Backs are not executed in the form of reverse auction, but the Ministry of Finance is the provider of the price of Buy-Backs in Exchanges, the second addend of the formula equals to zero. The maximum score for this sub-criterion is 5 points.

**Annex II: Terms for Ministry of Finance Tap Issuances, Buy-Backs and Exchanges**

- 1 The Ministry of Finance may consider Tap Issuances, Buy-Backs and Exchanges via direct participation on the secondary market via DETS as long as technical solution of DETS allows for such transactions or via another suitable platform (e.g. Refinitiv FX Trading or Bloomberg Terminal). Execution of these transactions via DETS is a preferred solution. These transactions are executed both to manage the refinancing risk and to support liquidity and efficiency of secondary market. As an example, in cases where a bond is extraordinarily squeezed a special reopening is an extremely powerful tool that can be utilized to restore normal trading conditions and support secondary market liquidity.
- 2 The Ministry of Finance may execute Tap Issuances, Buy-Backs or Exchanges any Trading Day 10:00 a. m. – 12:00 p. m. and 2:00 p. m. – 4:00 p. m. (CET) on Trading Days when there is no Auction executed. If the Ministry of Finance decides to execute these transactions on other Trading Days or during different hours, it is obliged to inform Primary Dealers about its intention to execute such transactions no later than at 4:00 p. m. (CET) on Trading Day one day before such transactions are intended to be executed.
- 3 The Ministry of Finance may execute transactions of a particular Czech Government Securities pursuant to Article 2. of the Annex II usually during a week when Auction of the respective Czech Government Bonds is not executed.
- 4 The Ministry of Finance may consider Tap Issuances and Exchanges only with respect to Czech Government Bonds that it holds in its own asset account. Furthermore, the Ministry of Finance is obliged to make holdings of its asset account public on its web site.
- 5 The Ministry of Finance reserves the right to cancel the Tap Issuances, Buy-Backs or Exchanges within 15 minutes after the execution of transaction on DETS or another suitable platform in the event of evident mistake, transaction is not matched with declared intention of the Ministry of Finance or is considered as inadequate.
- 6 Primary Dealers are not allowed to submit bids or offers in relation to Tap Issuances, Buy-Backs or Exchanges directly to the Ministry of Finance unless they are asked to do so by the Ministry of Finance.
- 7 The Ministry of Finance is not obliged to ask Primary Dealers to submit any bids or offers in relation to Tap Issuances, Buy-Backs or Exchanges. The decision to ask Primary Dealers to submit any bids or offers in relation to Tap Issuances, Buy-Backs or Exchanges is solely upon the Ministry of Finance.
- 8 Maximum volume of Tap Issuances' transactions is CZK 2,000 million per each Trading Day for all these transactions executed on that Trading Day. With regard to Tap Issuances of Czech Government Bond with residual maturity longer than 15 years, a higher amount based on discretion of the Ministry of Finance may be applied.
- 9 Maximum volume of Buy-Backs' transactions is CZK 2,000 million per each Czech Government Bond and CZK 6,000 million per each Trading Day for all these transactions executed on that Trading Day.
- 10 Maximum volume of Exchanges' transactions is CZK 2,000 million per each Trading Day for issued bond via Exchanges executed on that Trading Day.
- 11 Primary dealers may submit maximally three bids or offers per issuance that is included in the Tap Issuances, Buy-Backs or Exchanges.
- 12 The Ministry of Finance reserves the right to change the terms for Tap Issuances, Buy-Backs, or Exchanges flexibly if an exceptional and unforeseen event occurs, especially when the Crisis Act is applied.

**Annex III: Terms for Ministry of Finance Lending Facilities**

- 1 The Ministry of Finance may execute Lending Facilities via Refinitiv FX Trading, Bloomberg Terminal or DETSs as long as technical solution of DETS allows for such transactions.
- 2 The Lending Facility applies to the Czech Government Bonds. The Ministry of Finance may also provide short-term government bonds if it holds them on its own asset account or investment portfolio.
- 3 The Lending Facility is available to Primary Dealers in Czech Government Securities, who comply with the obligation referred to in article 3.7.
- 4 In normal market conditions the maximum face amount lending in Czech Government Bond per transaction is CZK 1.5 billion. However, this limit may be raised in the event of abnormal price formation on the Czech Government Bond market, if significant difference between supply and demand of the particular Czech Government Bond persists or if an exceptional and unforeseen event occurs, especially when the Crisis Act is applied.
- 5 The Lending Facility is available as repo transactions and as loans of securities. Primary Dealers borrow the Czech Government Bonds and the Ministry of Finance borrows CZK liquidity, Czech Government Bonds, Treasury Bills or Czech National Bank Bills in exchange. The Ministry of Finance has reserved the right to not apply collateral in loans of securities in the event of overall shortage of the Czech Government Bonds on the market. The rate at which the Ministry of Finance borrows liquidity and lends Czech Government bonds shall be subject to agreement between a particular Primary Dealer and the Ministry of Finance and shall be lower than rate of reverse repo transactions in the same maturity and amount executed by the Ministry of Finance with the same or another Primary Dealer at the same moment. The fee at which the Ministry of Finance lends Czech Government Bonds shall be subject to agreement between a particular Primary Dealer and the Ministry of Finance.
- 6 The Czech Government Bonds may be borrowed for a period up to 90 days, the demand for lending facility mainly arises from the Primary Dealer's side
- 7 Transactions may be made on Prague Trading Days between 8:00 a. m. and 4:00 p. m. (CET) usually with agreed settlement one or two trading days later.
- 8 The Ministry of Finance has reserved the right to make discretionary allocations if deemed appropriate.
- 9 Usually no haircut is applied to the Ministry of Finances' Lending Facilities.
- 10 Settlement takes place as agreed between the particular member of the Primary Dealer Group and the transactions are settled through the CDCP, Clearstream/Euroclear or another central depository of which the Ministry of Finance is member.
- 11 If the Primary Dealer fails in delivery of Government Bond borrowed within the Lending Facilities, the Ministry of Finance reserves the right for the cost compensation.
- 12 In case the Ministry of Finance does not possess Czech Government Bonds required by Primary Dealer to borrow, the Lending Facility will not be used for that particular security.
- 13 The Ministry of Finance reserves the right not to enter into any such transaction if it finds it not suitable.

**Annex IV: Terms for Ministry of Finance Syndicated Public Offerings**

- 1 The Ministry of Finance may consider Syndicated Public Offering of Czech Government Bonds. The Ministry of Finance has set out the below terms, subject to which it will enter into such Syndicated Public Offering. For the avoidance of doubt, the Ministry of Finance reserves the right not to enter into a transaction at its sole discretion and will not be responsible for any losses that any dealer may incur as a result thereof.
- 2 These bonds will be sold to investors by the group of Lead Managers, which will be selected for this purpose by the Ministry of Finance based on the Performance Evaluation of Primary Dealers as defined in the Section 6 of the Agreement and other objective criteria affirming Primary Dealer's capacity and credentials on particular market including Primary Dealer's standing in league table on the relevant market based on data provided by Dealogic Limited, when applicable.
- 3 The legal documentation for Syndicated Public Offering under the Czech law will consist of Subscription Agreement only.
- 4 The Subscription Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and shall be construed in accordance with, Czech law. All disputes arising out of or in connection with the Subscription Agreement shall be resolved by the Czech courts.
- 5 The Lead Managers will cover all reasonable expenses associated with the offering, including the legal counsels' fees, any Prague Stock Exchange listing fees and the expenses associated with the marketing of the offering. By the Lead Managers to act as the lead managers in relation to the issue of the bonds and to subscribe and pay for, or to procure subscriptions and payment for, the bonds as provided above, the Ministry of Finance may pay to the Lead Managers a combined commission (comprising selling concession (if any) and management and underwriting commission; the Commission) set as a percentage of the par value of the bonds.
- 6 The Ministry of Finance may sell and place the bonds issued subsequently during the issue period or the additional issue period by any means as the Ministry of Finance may deem fit in its sole discretion, including by means of a direct sale to a specified Lead Manager or Lead Managers in accordance with the Subscription Agreement on the subscription and purchase of the bonds, or by way of Auction of such bonds in accordance with the Auction Rules.
- 7 Each Lead Manager severally undertakes to indemnify the Ministry of Finance, against any liability, damages, cost, loss or expense (including, without limitation, legal fees, costs and expenses) which it will incur, or which will be made against it, as a result of or in relation to any failure by that Lead Manager, acting wilfully or grossly negligent.



**Annex V: Terms for Ministry of Finance Private Placements**

- 1 The Ministry of Finance may, from time to time, issue and sell bonds to investors in privately placed transactions. These bonds will be sold to a single investor, or a very limited number of investors, originated on the basis of 'reverse inquiry' from the investor community rather than being actively marketed by a broker dealer. The Ministry of Finance has set out the below terms, subject to which it will enter into such Private Placement transactions. For the avoidance of doubt, the Ministry of Finance reserves the right not to enter into a transaction at its sole discretion and will not be responsible for any losses that any dealer may incur as a result thereof.
- 2 The Ministry of Finance will enter into Private Placement transactions only with Primary Dealers in good standing. The Ministry of Finance reserves the right to enter into Private Placement transactions on other markets than the CZK, EUR and USD markets with a broker dealer outside the Primary Dealer Group. With respect to the issuance on the CZK market, the Ministry of Finance will consider only tenor of 15 years or more.
- 3 If the same or similar Private Placement's idea is presented by more than one broker dealer and the Ministry of Finance decides to enter into this transaction, the broker dealer who is able to provide the most favourable conditions to the Ministry of Finance will be selected as a counterparty of the Ministry of Finance. In case of the same conditions, the broker dealer who presented the idea to the Ministry of Finance first (i. e. before the others) will be selected as a counterparty of the Ministry of Finance. The Ministry of Finance shall also prefer the broker dealer who is able to reveal a name of the investor(s).
- 4 Ministry of Finance may publish annually, as a part of its Funding and Debt Management Strategy, a maximum amount or proportion of its international funding target for the year which can be raised via Private Placements. This target may be updated on a quarterly basis. Private placement transactions will be executed in minimum size of CZK 1 billion equivalent, with no stated maximum, for CZK, EUR and USD, and no stated minimum for other currencies, and in maturity longer than 1 year.
- 5 The Ministry of Finance will be open to executing Private Placement transactions in any currency. Irrespective of the currency of issue, the Ministry of Finance will only consider transactions in which the relevant dealer is ready to enter into an associated swap which will result in the Ministry of Finance's cashflows being fully hedged into CZK or EUR for at least first 10 years of life of the privately placed bond. The Ministry of Finance reserves the right not to enter into such swap at its discretion. The Ministry of Finance will consider only swaps that do not require the counterparties to enter into CSA or do not require collateralization of the position of either counterparty, unless the Ministry of Finance rules require otherwise.
- 6 The Ministry of Finance will be open to executing Private Placement transactions with any coupon type. Irrespective of the structure of the coupon, the Ministry of Finance will only consider transactions in which an associated swap is executed with the relevant dealer which will result in the Ministry of Finance's cashflows being fully hedged into vanilla fixed or floating interest rate.
- 7 The Ministry of Finance will consider all-in pricing as the key criterion for the execution of Private Placement transactions. While the Ministry of Finance may execute transactions in various structures, all-in pricing will be assessed for the entire package, i. e. note plus the associated swap which fully hedges the Ministry of Finance into vanilla fixed or floating interest rate CZK or EUR funding.
- 8 All-in pricing will be the effective spread that the Ministry of Finance will pay, including all fees and expenses related to the transaction, expressed in basis points over the mid-swap rate for the relevant maturity, converted into CZK or EUR. The Ministry of Finance will consider, as a 'soft target', any transactions which will, on an after-swap basis, provide funding at or inside the offer side of Czech Government Bonds or its Eurobond secondary trading levels (interpolated or extrapolated, as required).

- 9 Private placement transactions will be documented under the Ministry of Finance's EMTN programme or, as the case may be, under other type of standard documentation used in the relevant Private Placement market.
- 10 Private Placement transaction related costs have to be fully born by the dealer, including Ministry of Finance's legal and other adviser's costs.
- 11 The Ministry of Finance's objective with respect to Private Placement transaction is to place the bonds with buy-and-hold investors. The Ministry of Finance reserves the right to require the dealer to disclose, prior the execution of the transaction, the identity of investor, including name, type, country, and contact details, provided that the dealer is not prohibited to submit such information by law, other binding regulations or contractual agreement with investors.

### Annex VI: Evaluation of Quoting Obligations

Each Primary Dealer is obliged to quote Czech Government Bonds as selected by the Ministry of Finance after consultation with Primary Dealers on the DETS. The Primary Dealer is compliant with the Quoting Obligations with regard to a particular Czech Government Security subject to quoting obligations (SQOB) as long as a quoted bid/offer spread on that security is equal to or lower than Market Competitive Spread during 5 hours of quotations with lowest quoted bid/offer spread during a Trading Day provided that Minimum Trading Volume condition is met as well. Then the Compliance Ratio is equal to 1 (100%). As long as the quotations during a Trading Day only meet the compliance criteria for a lower period of time than 5 hours, then the Compliance Ratio is reduced pro rata. A certain degree of deviation from the compliance is allowed on a monthly basis as specified below in Monthly Compliance Ratio calculation.

In case of any technical issues preventing Primary Dealer to provide Czech Government Bonds quotation, it is obliged to send a notice to the Ministry of Finance on the email address: [det@mfcr.cz](mailto:det@mfcr.cz). If the Ministry of Finance finds these technical issues justified and occasional, it may exclude affected Primary Dealer's data for these particular days from Compliance Ratio calculation, so the technical issues would not affect Monthly Compliance Ratio calculations.

#### Maturity Buckets (remaining time to maturity)

Only market making with quantity higher than or equal to Minimum Trading Volume will be included in the compliance calculations. The Minimum Trading Volume decreases with the maturity in accordance with the fact that long-term funding is more risky than short-term funding. The DETS Committee will determine a fixed minimum amount for each bond bucket as specified in the table below:

Bucket A	1.25-3.5 years	CZK 50 million
Bucket B	3.5-6.5 years	CZK 50 million
Bucket C	6.5-13.5 years	CZK 40 million
Bucket D	Exceeding 13.5 years	CZK 30 million

In case of inclusion of Czech Government Bond with significantly longer residual time to maturity, it is possible to the Ministry of Finance and the Primary Dealer Group to agree on exception in term of the Minimum Trading Volume.

#### Calculation of Market Average Spread

The Market Average Spread (MAS) for  $o$ -th SQOB is calculated as a scaling of the average of  $i$ -th Primary Dealer time-weighted bid/offer spread during the best five hours for  $d$ -th Trading Day.

$$MAS_{o,d} = \frac{\sum_{i=1}^{PD} \sum_{n=1}^{SQ_{o,d,i}} S_{o,d,i} (t'_{n,o,d,i} - t_{n,o,d,i})}{\sum_{i=1}^{PD} \sum_{n=1}^{SQ_{o,d,i}} (t'_{n,o,d,i} - t_{n,o,d,i})}$$

where  $PD$  is number of Primary Dealers (excl. Primary Dealers that are suspended from trading on a Trading Day),  $SQ_{o,d,i}$  is number of quotations of  $o$ -th SQOB submitted by  $i$ -th Primary Dealer during best five hours in  $d$ -th Trading Day,  $S_{o,d,i}$  is bid/offer spread quoted for  $o$ -th SQOB for at least Minimum Trading Volume (in ticks) by  $i$ -th Primary Dealer during the best five hours for  $d$ -th Trading Day,  $t'_{n,o,d,i}$  is End of  $n$ -th proposal for spot contract quotation with regard to  $o$ -th SQOB during  $d$ -th Trading Day by  $i$ -th Primary Dealer (as a fraction of a 24 hour day) and  $t_{n,o,d,i}$  is Start of  $n$ -th proposal for spot contract quotation with regard to  $o$ -th SQOB during  $d$ -th Trading Day by  $i$ -th Primary Dealer (as a fraction of a 24 hour day).

### Calculation of Market Competitive Spread

The Market Competitive Spread (MCS) in  $o$ -th SQOB in  $d$ -th Trading Day is calculated as multiplied by the Market Average Spread. The multiplier factor will be selected based on the assessment that it is important to ensure that the system is neither restrictive nor too benevolent. The multiplier factor  $k$  will be evaluated on an ongoing basis in cooperation with the Primary Dealers.

$$MCS_{o,d} = kMAS_{o,d}$$

### Calculation of Compliance Ratio

For  $o$ -th SQOB, Compliance Ratio (CR) will be in the interval between 0 and 1 (or 0 % and 100 %), depending on the number of hours during  $d$ -th Trading day which  $i$ -th Primary Dealer quotes prices in  $o$ -th SQOB within the  $o$ -th SQOB Market Competitive Spread and for Minimum Trading Volume:

$$CR_{o,d,i} = \sum_{n=1}^{SQ_{o,d,i}} IF \left( S_{o,d,i} \leq MCS_{o,d}; \frac{t'_{n,o,d,i} - t_{n,o,d,i}}{\frac{5}{24}}; 0 \right)$$

where  $SQ_{o,d,i}$  is number of quotations of  $o$ -th SQOB submitted by  $i$ -th Primary Dealer during best five hours in  $d$ -th Trading Day,  $S_{o,d,i}$  is bid/offer spread for a  $o$ -th SQOB on at least Minimum Trading Volume quoted by  $i$ -th Primary Dealer during the best five hours for  $d$ -th Trading Day,  $t'_{n,o,d,i}$  is End of  $n$ -th proposal for spot contract quotation with regard to  $o$ -th SQOB during  $d$ -th Trading Day by  $i$ -th Primary Dealer and  $t_{n,o,d,i}$  is Start of  $n$ -th proposal for spot contract quotation with regard to  $o$ -th SQOB during  $d$ -th Trading Day by  $i$ -th Primary Dealer.

### Calculation of Daily Compliance Ratio

Based on Compliance Ratio for  $i$ -th Primary Dealer in all SQOB Daily Compliance Ratio (DCR) is calculated for  $d$ -th Trading Day:

$$DCR_{d,i} = \frac{\sum_{o=1}^{SQOB} CR_{o,d,i}}{SQOB}$$

where  $SQOB$  is number of Czech Government Bonds subjected to Quoting Obligations on DETSs

### Calculation of Monthly Compliance Ratio

Monthly Compliance Ratio (MCR) of  $m$ -th month is calculated as simple average Daily Compliance Ratio for  $i$ -th Primary Dealer:

$$MCR_{m,i} = \frac{\sum_{d=1}^{D_m} DCR_{d,i}}{D_m}$$

where  $D_m$  is number of Trading Days during  $m$ -th month.

Each Primary Dealer is compliant with the Quoting Obligations as long as following condition is fulfilled:

$$MCR_{m,i} \geq 0.90.$$

**Annex VII: Contact List**

Primary Dealer for Czech Government Securities provides list of contact persons, their email adresses and telephone numbers of persons who will be acting on behalf of the institution in accordance with privileges and obligations defined by the Agreement. In case of any change and amendment to the list of contact persons, Primary Dealer shall communicate the change or amendment to the Ministry of Finance in accordance with article 12.8 of the Agreement.

Appointed representatives:

**ING Bank Śląski S.A.**

**Primary Dealer Committee:** 

**DETS Committee:** 

**Regulation Specialist:** 

**Balance Sheet Specialist:** 

**Front Office**

Refinitiv FX Trading codes: INGW

Bloomberg dealing codes: INGW

Primary auction:

Secondary market – DETS:

Lending Facility and Repurchase Agreements:

Depos and Loans:

EUR Depos or Repurchase Agreements:

Derivatives:



**Back Office**



Primary auction

Secondary market – DETS

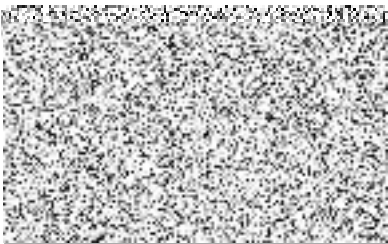
Lending Facility and Repurchase Agreements

Depos and Loans

EUR Depos or Repurchase Agreements

Derivatives

Reporting



**ING Bank, N.V.**

**Primary Dealer Committee:** 

**DETS Committee**

**Front Office**



Refinitiv FX Trading codes: INCZ

Bloomberg dealing codes: INCZ

Primary auction

Secondary market – DETS

Lending Facility and Repurchase Agreements:

Depos and Loans:

EUR Depos or Repurchase Agreements:

Derivatives:



Back Office

Primary auction

Secondary market – DETS

Lending Facility and Repurchase Agreements:

Depos and Loans:

EUR Depos or Repurchase Agreements:

Derivatives:

Reporting:

**The Ministry of Finance – Debt and Financial Assets Management Department**

Chairman of the Primary Dealer Committee:

Secretary of the Primary Dealer Committee:

Chairman of the DETS Committee:

Secretary of the DETS Committee:

**Front Office**

Refinitiv FX Trading code: MFCR

Bloomberg dealing code: MFCZ



**Back Office**

