MOODY'S
PUBLIC SECTOR EUROPE

Rating Action: Moody's changes outlooks on Polish sub-sovereigns to negative from stable; ratings affirmed

Global Credit Research - 16 May 2016

London, 16 May 2016 -- Moody's Public Sector Europe (MPSE) has today changed the outlooks on the ratings of four Polish sub-sovereign issuers to negative from stable. Warsaw's issuer rating of A2 and MTN program rating of (P)A2, Poznan's issuer rating of A3, Olsztyn's issuer rating of Baa1 and Starostwo Powiatowe w Zywcu's issuer rating of Baa2 have been affirmed.

The main driver of the rating actions is the strong correlation between Polish sovereign and sub-sovereign credit risk, reflected in their strong operational and financial linkages.

The changes in outlook and the affirmations thus follow similar actions on Poland's A2 government bond rating. For more details, please refer to the sovereign press release http://www.moodys.com/viewresearchdoc.aspx?docid=PR_348709 .

RATINGS RATIONALE

RATIONALE FOR THE CHANGES IN OUTLOOK TO NEGATIVE

The outlook change to negative on Poland's A2 government bond rating on 14 May 2016 prompted the outlook changes to negative from stable on the affected sub-sovereigns. The sovereign outlook change indicates heightened systemic risk for Polish sub-sovereign issuers, which have close operating and financial linkages with the central government.

RATIONALE FOR THE AFFIRMATIONS

--WARSAW, POZNAN, OLSZTYN and ZYWIEC--

The affirmations of the four sub-sovereigns reflect their satisfactory operating performance, improving financial results, declining debt levels and comfortable liquidity position. Warsaw, Poznan and Olsztyn have greater power to raise local taxes and non-tax income than the County of Zywiec thanks to their status as urban county (poviat), giving them greater revenue flexibility. Of the three cities, Warsaw has the greatest capacity to generate own-source revenues. Local taxes and other own-source revenues account for about 46% of Warsaw's operating revenues compared to 33% and 35% in Olsztyn and Poznan respectively.

The ratings of Warsaw, Poznan, Olsztyn and Zywiec take into account the fact that they receive the bulk of their operating revenues from the central government. These revenues take the form of national taxes which are collected and then redistributed to cities and counties. Growing proceeds from shared taxes have resulted in an increase in the cities' and county's budget volumes. These growing budget volumes combined with the cities' disciplined financial management and close oversight of municipal-related service companies enabled Warsaw and Poznan to demonstrate sound operating performances with operating surpluses at 12% and 14% of operating revenue in 2015, respectively. At the same time Olsztyn and Zywiec posted operating balances at 6% and 8% of operating revenue, respectively.

The cities of Warsaw and Poznan as well as the County of Zywiec have also been able to reduce their debt levels. Warsaw's debt-to-operating revenue ratio accounted for a relatively low 45% at year-end 2015, from 49% in 2014; for Poznan, this ratio fell to 55% from 63% during the same period and for Zywiec the debt levels should have slightly declined to 41% from 42%. In contrary, Olsztyn's debt increased to 42% of operating revenue in 2015 from 29% at year-end 2014 driven by high capital spending, but is projected to decline to below 40% in 2016.

Official budget projections indicate consistent budgetary results and decreases in debt levels for all cities and the county. Moody's expects the cities' and county's growing operating revenues and tightly-controlled operating expenditures to limit their borrowing needs, keeping debt levels of Warsaw, Olsztyn and Zywiec at around 40% of operating revenues in 2016, while Poznan's debt levels will stabilize at around 55% over the same time.

The larger and more affluent economies of Warsaw and Poznan give them a budgetary advantage over Olsztyn and Zywiec. Warsaw has by far the highest GDP per capita at around 300% of the national average, compared with 200% for Poznan, 108% for Zywiec and just 84% for Olsztyn.

Warsaw's large and dynamic economy underpins its rating and over time has translated into adequate budgetary resources available for financing public service operations and capital investments -- a lingering source of pressure for the municipal budget. Similarly, Poznan's ratings continue to reflect the city's dynamic economy, although it is smaller than that of Warsaw, as well as its solid budgetary performances and prudent financial management.

WHAT COULD CHANGE THE RATINGS UP/DOWN

A downgrade of Poland's sovereign rating would lead to a downgrade of the sub-sovereigns' ratings. In addition, downward ratings pressure may also arise from these entities' deterioration in their financial performances and increase in debt levels.

Conversely, a stabilisation of the outlook or an upgrade of Polish sub-sovereign ratings would follow a similar action on Poland's sovereign rating, given their close financial and operational linkages. A stable outlook would also result from these entities' ability to maintain adequate budgetary results and debt metrics.

The sovereign action required the publication of this credit rating action on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on www.moodys.com.

The specific economic indicators, as required by EU regulation, are not available for Olsztyn, City of; Poznan, City of; Warsaw, City of; Starostwo Powiatowe w Zywcu. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Poland, Government of

GDP per capita (PPP basis, US$): 25,997 (2015 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 3.6% (2015 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): -0.5% (2015 Actual)

Gen. Gov. Financial Balance/GDP: -2.6% (2015 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.2% (2015 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 13 May 2016, a rating committee was called to discuss the rating of the Olsztyn, City of; Warsaw, City of; Poznan, City of; Starostwo Powiatowe w Zywcu. The main points raised during the discussion were: The systemic risk in which the issuer operates has materially increased.

The principal methodology used in these ratings was Regional and Local Governments published in January 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from

the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The person who approved the City of Warsaw and the City of Olsztyn credit ratings is David Rubinoff, Managing Director, Sub-Sovereign Group, 44 20 7772 5456, 44 20 7772 5454. The person who approved the City of Poznan and Starostwo Powiatowe w Zywcu credit rating is Mauro Crisafulli, Associate Managing Director, Sub-Sovereign Group,

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The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

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