

LGU CREDIT RATING

13.12.2019

RATING

Long-term international rating **BBB+**

Outlook **negative**

SELECTED BUDGETARY INDICATORS

	2018	2019 P
$\frac{\text{Operating funds*}}{\text{Total income}}$	6.10%	0.64%
$\frac{\text{Own income}}{\text{Total income}}$	65.01%	59.43%
$\frac{\text{Capital income}}{\text{Capital expenditures}}$	60.98 %	58.57%

*operational funds - operating surplus plus the amount of interest paid

BASIC DEBT INDICATORS

	2018	2019 P
$\frac{\text{Interest paid}}{\text{Net operating surplus*}}$	13.74%	17.52%
$\frac{\text{Total debt}}{\text{Current income}}$	41.51%	50.81%
$\frac{\text{Direct debt service}}{\text{Own income}}$	10.14%	10.02%

* net operating surplus - operating surplus plus the amount of interest paid, less financial income

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Gdynia, City of – rating **BBB+**, Outlook **negative**



The main factors affecting the rating

The rating reflects the operating results of the City of Gdynia, its ability to finance investments from its own resources, a properly liquidity position of the budget and a low level of debt service in relation to operational funds. The rating also takes into account the level of indebtedness of municipal companies.

The debt policy is implemented in a safe manner and guarantees its timely repayment in subsequent periods. The debt planned by the entity should not significantly affect its ability to settle long-term liabilities.

The current income of the unit in 2014-2019 increased from PLN 1.0 billion PLN in 2014 to PLN 1.5 billion PLN in 2019, which implies a cumulative annual growth rate (CAGR) of 7.66%. Part of this increase, however, is associated with grants related to the government program to support families bringing up children (the "Family 500+" program). The city's tax revenue ranged from 44.89% to 49.74% of current revenue. On average, 31.29% of tax revenues were local taxes.

The average cost of the city's debt is 2.25%, while the average debt repayment period - that is, the time period in which the city would repay its liabilities assuming that it would devote its entire operating surplus according to the plan for 2019 to 10.1 years. However, if we expand the analysis and take the average surplus from 2014-2019, then the value of this indicator will rise only to 11 years.

The main factors of the rating change

The city has a stable budget base. The level of operating surplus grew in the years 2014-2018. A relatively low surplus in 2019 may be related to prudent forecasting of income and expenses. An important factor that may lead to a change in the rating will, therefore, be an analysis of the actual execution of the planned revenue and budget expenditure plan in 4Q19. An analysis of the city's budgets in the last 11 years suggests that approximately 20% of the revenue item generates approximately 85% of the budget (similarly in the expenditure of 20% of the largest positions, it generates 70% of all expenditure). Despite the narrowing down of the source of these revenues, they are based on a significant extent (on average 75% in 2013-2018) on the city's own revenues.

Despite the completion of investment projects in the last 5 years exceeding PLN 836 million, the level of debt is higher than at the beginning of this period by PLN 17 million only. The debt planned by the entity in subsequent periods should not significantly affect its ability to settle long-term liabilities.

Factors determining the raise of the rating: stabilization of the operating surplus at the level exceeding 20% of current income and maintaining a decreasing share of expenditure on remuneration in current expenditure.

Factors determining the rating downgrade: actual budget implementation as planned on September 30 this year. The city usually performs its budget with a much better result and is planned for the third quarter. Repeating this trend for 2019 could lead the agency to withdraw its negative rating outlook.

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District Court Poznań - Nowe Miasto and Wilda, VIII Commercial Division of the National Court Register KRS 0000535140, NIP: 781-19-02-148, REGON: 302860944 Share capital: PLN 2.350.000, paid-up capital: PLN 2.350.000

Selected budgetary indicators

INDICATOR	2014	2015	2016	2017	2018	2019 (plan)	AVERAGE
Net operating surplus/ Net current income	4.80%	7.33%	6.15%	4.83%	6.56%	0.65%	5.05%
Operating surplus / Current income	2.70%	6.28%	5.28%	4.03%	5.80%	-0.26%	3.97%
Surplus (deficit) / Total income	-0.76%	-0.84%	4.12%	-3.19%	-0.40%	-11.67%	-2.12%
Budget balance / Total income	3.15%	3.17%	6.24%	3.45%	3.09%	0.00%	3.18%
Operating funds / Total income	3.85%	6.87%	5.93%	4.80%	6.10%	0.64%	4.70%
Operating surplus (% yoy)	53.62%	150.97%	-4.27%	-19.57%	54.80%	-104.68%	21.81%
Own income (% yoy)	8.49%	8.54%	0.10%	5.78%	16.16%	3.22%	7.05%
Direct debt (% yoy)	6.32%	1.99%	-1.70%	1.45%	1.23%	27.01%	6.05%
Total debt (% yoy)	6.32%	1.99%	-1.70%	1.45%	1.23%	27.01%	6.01%
Interest / Net operating surplus	35.29%	16.50%	15.97%	19.68%	13.74%	158.05%	43.21%
Direct debt service/ Own income	6.23%	7.97%	10.94%	10.50%	10.14%	10.02%	9.30%
Direct debt service / Current income	4.63%	5.97%	7.19%	6.94%	7.23%	7.10%	6.51%
Direct debt service / Operating funds	105.28%	79.76%	114.99%	139.35%	107.97%	935.98%	247.22%
Direct debt / Current income	56.16%	53.12%	45.80%	44.12%	41.51%	50.76%	48.58%
Total debt / Current income	56.48%	53.59%	45.90%	44.13%	41.51%	50.76%	48.73%
Direct debt / Operating surplus (years)	20.81	8.45	8.68	10.95	7.16	-194.48	•
Total debt / Own income	75.88%	71.53%	69.78%	66.79%	58.18%	71.59%	68.96%
Direct debt / Own income	75.46%	70.90%	69.62%	66.77%	58.18%	71.59%	68.75%
Total net debt + indirect liabilities/ Current income	66.58%	59.83%	50.43%	44.67%	44.51%	47.57%	44.27%
Indicator from art. 243 of Public Finance Law	4.10%	5.31%	7.65%	8.34%	7.56%	7.28%	
Tax income / Current income	49.73%	49.67%	44.89%	47.05%	47.99%	49.07%	48.07%
Local taxes / Total tax income	32.33%	33.60%	31.42%	30.39%	29.84%	30.17%	31.29%
Grants and subsidies / Current income	32.52%	30.28%	36.33%	35.83%	36.06%	34.83%	34.31%
Current income / Total income	87.56%	91.67%	94.85%	96.49%	91.12%	83.82%	90.92%
Own income / Total income	65.16%	68.68%	62.39%	63.75%	65.01%	59.43%	64.07%
Salaries / (Current expenditure - Interest)	42.13%	42.01%	38.22%	37.95%	38.49%	34.41%	38.87%
Grants and subsidies / (Current expenditure - Interest)	34.02%	32.73%	38.76%	37.70%	38.64%	35.09%	36.16%
Capital expenditure / Total expenditure	15.45%	14.81%	6.29%	10.26%	14.50%	24.74%	14.34%
Interest / Average debt	3.12%	2.29%	2.12%	2.17%	2.18%	2.25%	2.35%
Operating surplus / Capital expenditure	15.18%	38.57%	82.91%	36.72%	36.29%	-0.79%	34.81%
Capital income / Capital expenditure	79.93%	55.79%	85.40%	33.19%	60.98%	58.57%	62.31%
Change of net debt / Capital expenditure	18.77%	6.35%	-12.47%	5.73%	3.14%	32.74%	9.04%
Surplus (deficit) / Capital expenditure	-4.89%	-5.64%	68.31%	-30.09%	-2.73%	-42.23%	-2.88%
(Operating surplus + Capital income) / Capital expenditure	95.11%	94.36%	168.31%	69.91%	97.27%	57.77%	97.12%
Total debt / Operating surplus (years)	20.92	8.53	8.70	10.95	7.16		
Total debt / Operating funds	1283.31%	715.58%	733.67%	886.49%	619.79%	6689.22%	1821.34%
Debt service / (Operating funds + Surpluses from previous years)	83.73%	55.17%	77.46%	61.67%	72.15%	179.95%	81.92%

Financial data (PLN million)

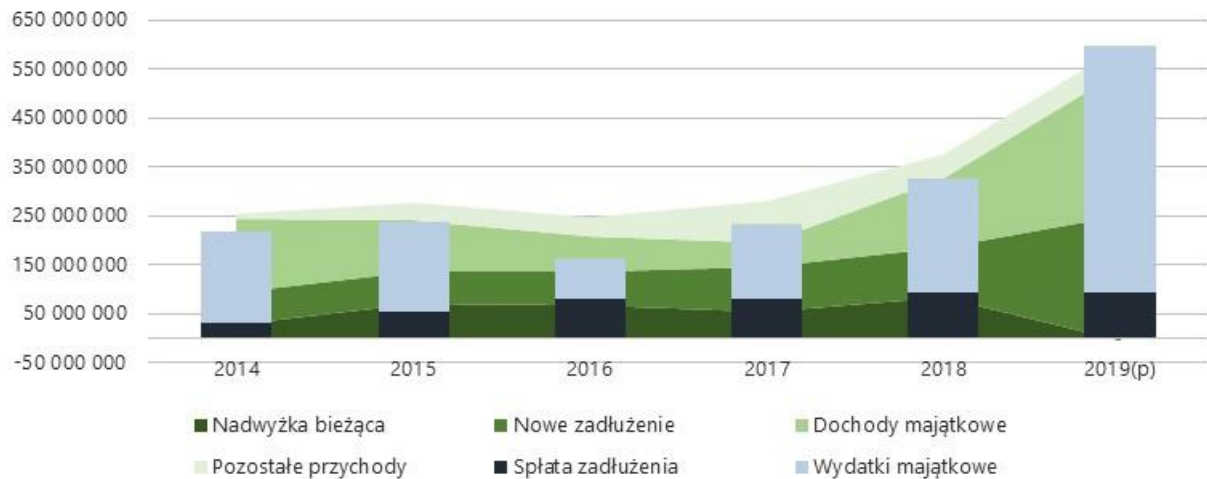
	2014	2015	2016	2017	2018	2019(plan)	AVERAGE
Total income (1+4a)	1200.00	1235.87	1361.87	1409.72	1605.98	1813.38	1437.80
Total expenditure (2+4b)	1209.13	1246.28	1305.73	1454.64	1612.37	2024.93	1475.51
1. Current income (1a+1b+1c+1d)	1050.67	1132.92	1291.68	1360.18	1463.43	1519.97	1303.14
a. Tax income:	522.46	562.77	579.89	639.98	702.36	745.90	625.56
- PIT	328.14	349.49	371.50	414.92	459.04	478.84	400.32
- CIT	25.41	24.18	26.20	30.54	33.76	42.00	30.35
- Local taxes	168.91	189.10	182.18	194.51	209.56	225.06	194.89
b. Grants and subsidies	341.70	343.07	469.28	487.31	527.66	529.34	449.73
c. Fees and other operating income	190.94	225.09	241.00	230.77	231.22	243.00	227.01
d. Financial income	-4.43	1.99	1.51	2.12	2.18	1.73	0.85
2. Current expenditure (2a+2b+2c+2d)	1022.31	1061.74	1223.54	1305.37	1378.59	1523.94	1252.58
a. Salaries	423.16	440.30	462.85	490.55	525.57	519.03	476.91
b. Guarantees	0.00	0.00	0.00	0.00	0.00	0.00	0.00
c. Interest	17.88	13.67	12.66	12.91	13.17	15.50	14.30
d. Other	581.27	607.78	748.03	801.91	839.86	989.41	761.37
3. Operating surplus (1-2)	28.36	71.18	68.14	54.80	84.84	-3.97	50.56
4. Capital balance (4a-4b)	-37.49	-81.58	-12.00	-99.73	-91.23	-207.58	-88.27
a. Capital income:	149.33	102.95	70.18	49.54	142.55	293.41	134.66
- subsidies for investments	76.35	44.02	42.98	23.68	34.33	206.41	71.30
b. Capital expenditure	186.82	184.53	82.18	149.26	233.78	500.99	222.93
5. Surplus / deficit (3+4)	-9.13	-10.41	56.14	-44.92	-6.39	-211.55	-37.71
6. Net debt change (6a-6b)	35.06	11.72	-10.25	8.55	7.35	164.04	36.08
a. New debt	65.86	65.73	70.00	90.00	100.00	256.49	108.01
b. Principal payments	30.80	54.01	80.25	81.45	92.65	92.45	71.93
6.1. Other revenues	11.90	37.83	39.15	85.28	48.67	48.51	45.22
6.2. Other expenditures	0.00	0.00	0.00	0.25	0.00	1.00	0.21
7. Budget result (5+6+6.1-6.2)	37.83	39.15	85.04	48.67	49.62	0.00	43.38

Debt (PLN million)

	2014	2015	2016	2017	2018	2019(plan)	AVERAGE
DEBT							
Direct debt	590,06	601,78	591,53	600,08	607,44	771,48	627,06
+ Other liabilities	590,06	601,78	591,53	600,08	607,44	771,48	627,06
Total debt	3,32	5,36	1,29	0,21	0,00	0,00	1,70
- Surpluses from previous years	593,38	607,14	592,82	600,29	607,44	771,48	628,76
Total net debt	11,90	37,83	39,15	85,28	48,67	48,46	56,84
+ Guarantees (paid)	581,48	569,30	553,68	515,01	558,77	723,02	571,92
Total net debt and indirect liabilities	118,06	108,52	97,66	92,63	92,63	723,02	571,92

Financial flows in the budget of the City

The graph below illustrates the financial situation of the City in an aggregated way. Budget receipts are shown in the form of a cumulative layered chart, while expenditures and expenses are presented in the form of a cumulated bar chart.



Operating surplus

Operating surplus is the difference between current income and current expenditures. Pursuant to the Act on Public Finances, the current expenditure of the city must be financed entirely from current income, free funds and budget surplus from previous years. As the value of flows performed during the year is often different from the plan, local government units are thus obliged to maintain a positive operating surplus, acting as a security buffer. Operating surplus is the least rigorous category of budget funds in terms of spending, as there is no predetermined purpose for which it must be allocated.

Capital income

The second category regarding revenues to the budget of local government unit is capital income, and therefore all income related to subsidies not related to the current expenditure, and income related to the property owned by the local government unit.

New debt

The third category of budget inflows presented is the new debt. According to the article 89 of the Public Finance Act, units of the public finance sector can take out loans and borrowings, and also issue securities for the following purposes:

1. Covering the budget deficit of the local government unit that occurs during the year;
2. Financing the planned budget deficit of a local government unit;
3. Repayment of previously contracted obligations arising from the issue of securities and loans taken;
4. Prefinancing of activities financed with the funds from the European Union.

Other revenues

The last category of inflows is other revenues, which include, for example, surplus from previous years or revenues related to the privatization of LGU assets.

Capital expenditure, principal payments

The chart presents budget categories, covered by the City from its funds. The largest is definitely capital expenditures (most often these are investments). The second category presented on the chart is funds allocated for repayment of the unit's debt.

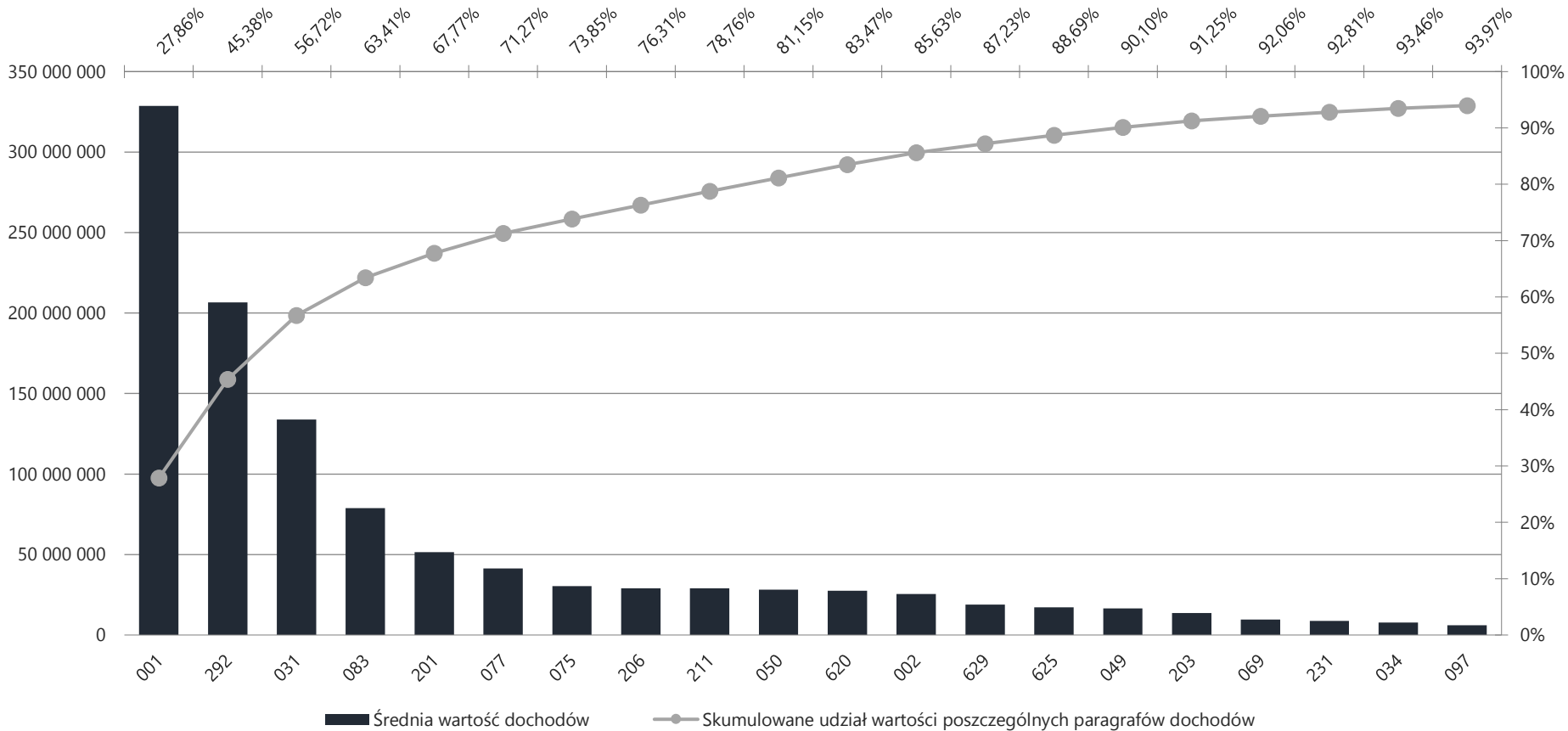
Analysis of income in 2009-2019 (PLN million)

The income of local government units is divided into two types - current income and property income. Property income includes subsidies and funds allocated for investments, income from the sale of assets and income from transformation of the right of perpetual usufruct into ownership, while current income is all other income obtained by the local government. Current income entries were analysed in detail, their size shapes the budget structure of the LGU, so their analysis allows to capture the trend of individual budget items. This is the basis for forecasting the evolution of individual items of local government units' revenues in the future, which is performed by local government units in the document: Multi-Year Financial Forecast (Wieloletnia Prognoza Finansowa, WPF), and INC Rating Analysts decide on the rating outlook based on their independent analysis based on it.

No.	§	DESCRIPTION	Average value of income	Share in the income	Accumulated share	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ^(plan)
1	001	Personal Income Tax	328.68	27.87%	27.87%	263.69	287.31	281.44	278.17	282.32	288.47	304.55	328.14	349.49	371.50	414.92
2	292	General subsidies from the state budget	206.66	17.52%	45.39%	146.59	167.34	182.32	191.85	204.62	217.59	221.51	218.83	224.88	237.65	238.59
3	031	Property tax	133.89	11.35%	56.75%	92.69	99.06	112.65	120.70	160.63	139.62	138.84	137.45	152.14	149.82	152.03
4	083	Proceeds from services	78.82	6.68%	63.43%	67.82	67.45	64.54	67.71	86.39	88.79	87.38	82.76	83.47	78.91	77.48
5	201	Targeted subsidies received from the state budget for the implementation of current tasks in the field of government administration and other tasks commissioned to the municipality (associations of municipalities) by other acts	51.54	4.37%	67.80%	42.72	40.78	40.61	42.18	43.56	45.04	46.49	49.70	54.51	61.60	66.21
6	077	Payments for the acquisition of the right of ownership and the right of perpetual usufruct of the real estate	41.26	3.50%	71.30%	42.20	19.10	11.35	94.87	12.12	34.52	35.13	63.10	54.05	25.53	25.16
7	75	Income from lease of property components of the Treasury, local government units or other units included in the public finance sector and other agreements of a similar nature	30.41	2.58%	73.88%	22.43	23.90	25.11	24.06	15.43	16.03	17.10	19.71	46.44	56.59	55.64
8	211	Targeted subsidies received from the state budget for current tasks in the field of government administration and other tasks commissioned by laws implemented by the county	28.97	2.46%	76.33%	12.67	14.62	16.40	53.24	24.37	32.36	40.74	33.69	23.29	46.56	28.74
9	206	Targeted subsidies received from the state budget for current tasks in the field of government administration and other tasks commissioned by laws related to the	28.57	2.42%	78.76%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	79.33	108.97

No.	§	DESCRIPTION	Average value of income	Share in the income	Accumulated share	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ^(plan)
		implementation of parental benefit for children														
10	050	Tax on civil law transactions	28.11	2.38%	81.14%	32.62	30.06	21.95	26.41	25.06	34.91	21.82	17.94	24.28	19.77	30.61
11	620	Specific subsidies under programs financed with the participation of European funds and funds referred to in art. 5 par. 1 point 3 and par. 3 points 5 and 6 of the Act, or payments under the budget of European funds	27.43	2.33%	83.46%	0.00	0.00	3.28	31.36	42.54	115.85	40.76	73.87	41.61	33.32	1.01
12	002	Corporate income tax	25.50	2.16%	85.63%	27.52	25.19	21.77	18.96	19.39	20.34	21.76	25.41	24.18	26.20	30.54
13	629	Specific subsidies for own investments programs financed from other sources	18.85	1.60%	87.22%	152.21	57.42	25.92	0.02	0.01	0.00	0.00	0.92	0.03	0.01	0.02
14	625	Specific subsidies under programs financed with the participation of European funds and funds referred to in art. 5 par. 3 point 5 par a and b, as payments under the budget of European funds	17.23	1.46%	88.69%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.40	19.84
15	049	Proceeds from other local fees collected by local government units pursuant to separate laws	16.59	1.41%	90.09%	0.00	0.09	0.68	0.21	0.07	0.07	17.28	36.26	36.25	35.10	35.40
16	203	Targeted subsidies received from the state budget for the implementation of own tasks of current municipalities (municipal associations)	13.62	1.16%	91.25%	4.47	4.51	5.81	9.18	8.53	10.86	14.69	21.89	21.40	22.43	21.11
17	069	Receipts from various fees	9.54	0.81%	92.06%	1.81	2.45	4.79	9.48	9.95	13.99	13.09	14.89	13.64	13.11	11.43
18	231	Earmarked subsidies received from the commune for current tasks implemented on the basis of agreements between local government units	8.81	0.75%	92.80%	4.74	5.64	7.09	8.43	9.14	9.79	10.02	10.15	9.94	10.20	10.25
19	034	Transportation tax	7.77	0.66%	93.46%	7.46	8.04	7.69	7.60	7.64	8.31	8.53	8.32	8.33	7.78	7.53
20	097	Other interest	5.99	0.51%	93.97%	1.19	2.96	4.46	8.28	10.45	4.91	12.45	4.05	10.76	16.56	2.71

The most important item among the city's income is income from personal income tax (001), while the second is the general subvention from the state budget (292). These two categories of income corresponded on average to 45.55% of all city revenues in the analysed period. The next largest items of income are real estate tax (031), proceeds from services (083) and earmarked subsidies received from the state budget (201). These five items correspond to an average of 68% of the city budget. It is worth to focus the most attention on them when analysing the city budget revenues because they have the greatest impact on its financial situation.

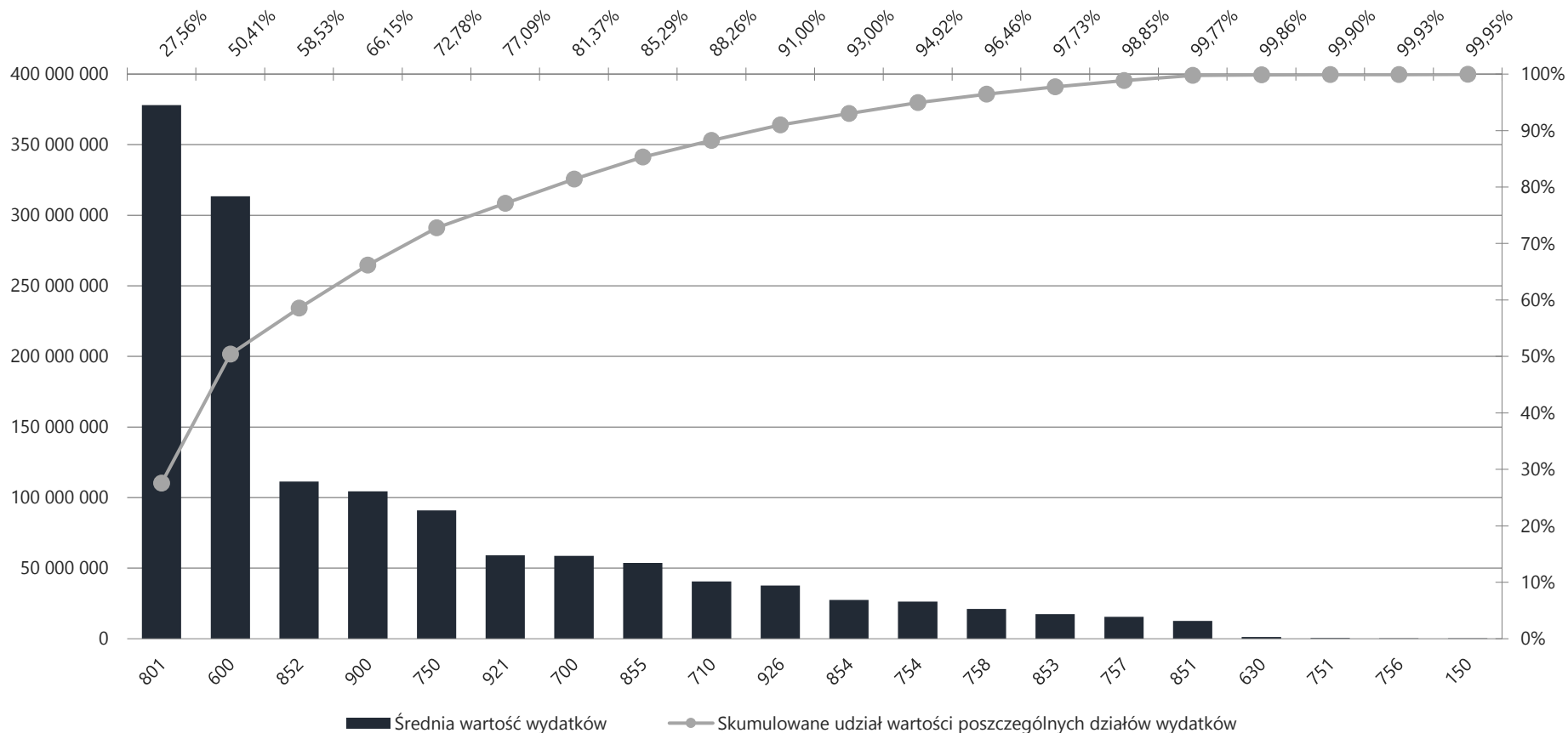


Expenditure analysis in 2009-2019 (PLN million)

The expenditures of the local government units can be divided into current and capital. Current expenditure includes various types of costs related to the functioning of the local government, including remuneration and emoluments of persons employed in self-government budgetary units and contributions calculated on these remuneration and emoluments, purchases of goods and services or maintenance costs of budgetary units.

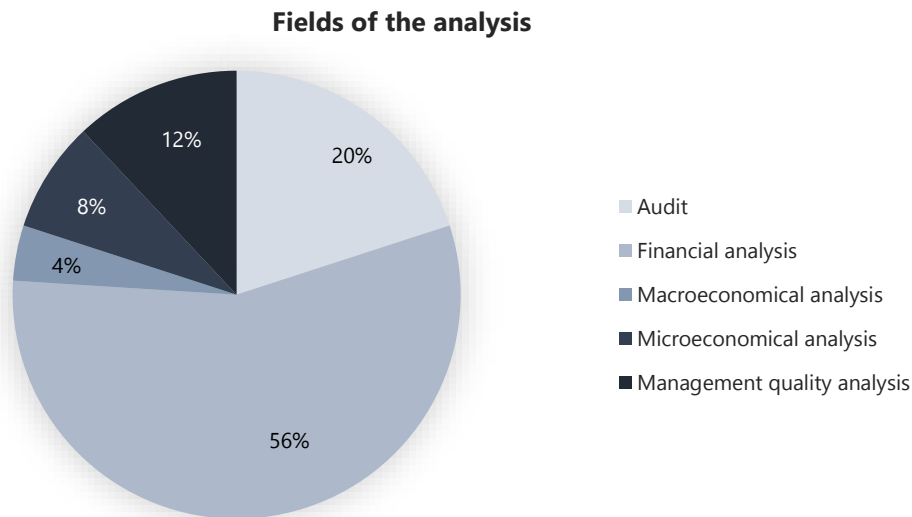
No.	§	DESCRIPTION	Average expenditure value	Share in expenditures	Accumulated share	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ^(plan)
1	801	Education and upbringing	378.09	27.56%	27.56%	216.83	252.54	267.79	296.60	314.12	344.37	356.93	353.97	372.31	374.34	398.59
2	600	Transport and communication	313.40	22.85%	50.41%	372.08	257.39	275.17	271.59	278.45	250.23	296.33	264.11	228.50	216.07	241.92
3	852	Social policy	111.32	8.12%	58.53%	80.51	87.16	96.17	94.83	102.16	109.02	113.07	119.92	125.62	216.53	74.04
4	900	Municipal economy and environmental protection	104.50	7.62%	66.15%	41.26	49.86	53.83	65.06	69.35	82.13	89.72	100.58	105.02	99.91	135.84
5	750	Public administration	90.93	6.63%	72.78%	53.51	61.01	73.11	75.63	78.41	80.26	82.40	86.70	87.27	91.74	97.22
6	700	Housing economy	59.18	4.31%	77.09%	21.45	30.37	39.00	38.23	38.53	42.27	55.08	66.86	81.65	55.36	61.70
7	921	Culture and protection of national heritage	58.73	4.28%	81.37%	28.51	67.83	41.81	80.35	40.11	35.38	45.39	30.89	60.12	84.30	67.64
8	710	Services activities	53.78	3.92%	85.29%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	189.14
9	926	Sport	40.68	2.97%	88.26%	9.34	24.35	11.63	26.82	48.33	114.80	70.83	44.95	49.34	25.31	33.42
10	855	Family program	37.62	2.74%	91.00%	26.29	56.03	42.87	82.13	26.96	19.13	21.02	28.34	24.48	24.03	32.73
11	754	Public safety and fire protection	27.41	2.00%	93.00%	19.41	16.09	16.68	19.41	22.22	24.52	25.46	27.31	28.58	30.35	29.90
12	854	Pre school	26.31	1.92%	94.92%	15.65	20.55	23.09	34.40	23.09	23.68	23.58	23.34	23.35	23.75	27.81
13	758	Various settlements	21.10	1.54%	96.46%	12.65	15.33	19.12	19.19	20.31	19.62	16.49	15.98	17.37	19.00	18.58
14	757	Debt interests	17.43	1.27%	97.73%	5.96	7.58	11.13	14.90	14.74	15.67	17.18	12.87	14.15	18.69	19.97
15	853	Other tasks in the field of social policy	15.45	1.13%	98.85%	9.68	9.81	5.95	11.10	17.79	23.84	20.99	18.15	13.73	12.80	12.96
16	851	Health	12.56	0.92%	99.77%	8.10	9.21	10.93	12.76	11.87	11.91	16.34	12.46	11.81	11.37	11.11
17	630	Turism	1.31	0.10%	99.86%	0.87	1.41	1.52	1.65	1.37	1.33	1.21	1.24	1.29	1.25	1.23
18	751	Offices of supreme organs of state authority, control and protection of law and the judiciary	0.54	0.04%	99.90%	0.30	0.04	0.29	0.87	0.36	0.04	0.04	1.01	1.23	0.14	0.05
19	756	Revenue from legal persons, natural persons and other entities without legal personality as well as expenses related to their collection	0.36	0.03%	99.93%	0.77	0.82	0.98	0.81	0.83	0.00	0.00	0.00	0.00	0.00	0.00
20	150	Industrial processing	0.31	0.02%	99.95%	0.00	0.00	0.00	1.99	0.39	1.63	0.27	0.00	0.00	0.00	0.00

The most important entry in the city's expenditure list is the education and upbringing (801), significantly exceeding the co-financing that the city receives from the state budget in order to achieve this task. The second largest category in terms of total value is transport and communication expenses (600) - these two entries corresponded on average to 56.03% of all budget expenditure in the analysed period. It is worth to focus the most attention on these entries when analysing spending in the city because it has the biggest impact on its budgetary situation. The next expenditure entries are social policy (852), Municipal economy and environmental protection (900) and public administration (750). Together with the previous two entries, it constitutes to 76.34% of the city's expenditure and it is on them that the greatest attention should be focused on when looking for potential savings.



The methodology used by INC Rating

The methodology used by INC Rating focuses mainly on five areas or five perspectives, from which the analysts of the agency, by means of expert analysis, evaluate the analyzed entity. These areas are presented in a concise manner below:



1. The audit of the local government unit is one of the first steps in the credit rating process. It involves meeting employees of the analytical department with representatives of the Unit - thanks to the information obtained during such a meeting, it is possible to reliably assess the state in which the municipality's economy is actually located. The results of this meeting are presented in the further part of the report..

2. The analysis from the macroeconomic perspective is another step in the rating process. There are two levels of macroeconomic impact on subregions and communes - regional (voivodships) and national. In the case of voivodships, we take into account only one level of macroeconomic impact - the national level.

3. The analysis from the microeconomic perspective consists in making an accurate, multidimensional review of the situation of the selected entity based on data from its immediate environment.

4. The analysis of the quality of management consists of making an unbiased assessment of the efficiency and effectiveness of the entity being evaluated based on the adopted indicators.

5. The financial analysis of the rated entity is the most important element in the rating process. It is the result of an assessment of both the macro and micro economic potential of the entity based on his administrative decisions (Management analysis). Hence, the awarded rating depends largely on the results of the financial analysis of the local government budget.

The rating scale

The rating scale implemented by INC Rating includes two levels of credit quality:

I. Investment grade credit rating – is a credit rating that falls within the range from AAA to BBB- and it is characterized by a relatively low risk associated with investing in instruments issued by the entity being evaluated. The probability of default or debt restructuring of such entity is minimal, and the risk concerns primarily the timely payment of liabilities.

II. Speculative grade credit rating – is a credit rating that falls within the range from BB+ to D and it is characterized by a relatively higher risk associated with investing in instruments issued by the entity being evaluated.

The methodology presented above is a description of the main components of the rating. The final rating is the result of the analysis of nearly two hundred different ratios, areas and trends observed in the budgets and the general situation of the entities assessed.

Rating	Risk description	
AAA	The lowest risk	Investment grade
AA+		
AA		
AA-		
A+	Very low risk	
A		
A-		
BBB+	Low risk	
BBB		
BBB-		
BB+	Moderate risk	Speculative grade
BB		
BB-		
B+	Speculative level	
B		
B-		
CCC	Highly speculative level	
CC		
C		
D	Significant risk	
	Very high risk	
	In default with low improvement chance	
	Defaulted	

CREDIT RATINGS PUBLISHED BY INC RATING SP. Z O.O. REPRESENT ONLY THE AGENCY'S OPINION ON THE CREDIT RISK ASSESSMENT OF THE ENTITY. ALL CREDIT RATINGS ISSUED BY INC RATING SP. Z O.O. ARE SUBJECT TO CERTAIN CONSTRAINTS WHICH ARE DESCRIBED IN DETAIL ON THE WEBSITE OF THE AGENCY (WWW.INCRATING.PL). PRESENTED RATING IS AN ORDERED RATING BASED ON HISTORICAL DATA AND LGU BUDGETARY REPORTS FOR THE YEARS 2009 - 2018 (EXECUTION) FINANCIAL DATA FOR YEAR 2019 (PLAN DATED FOR 30/09/2019) WITH A FORECAST FOR THE FUTURE (LONG-YEAR FINANCIAL FORECAST PUBLISHED ON 3Q2019) AND MACROECONOMIC DATA UPDATED ON 30.09.2019.