MOODY'S
INVESTORS SERVICE

Announcement: Moody's Investors Service Assigns GB2 (Very Good) Green Bond Assessments to the Government of Poland's €1.75 billion of green notes

01 Jun 2018

Assessments assigned to Poland's maiden green bond from 2016 and second issuance from February 2018

London, 01 June 2018 -- Moody's Investors Service ("Moody's") has assigned Green Bond Assessments of GB2 (Very Good) to the Government of Poland's (A2 stable) senior unsecured fixed-rate green notes. The two assessments cover both of Poland's sovereign green bond issuances, including the €750 million of senior unsecured fixed-rate notes issued in December 2016 with a maturity of 2021, and a second issuance of €1 billion of senior unsecured fixed-rate notes issued in February 2018 with a maturity of eight and a half years. Both of the bonds are listed on the Luxembourg Stock Exchange.

In 2016, Poland became the world's first sovereign to issue a green bond, with proceeds aimed at financing government expenditures linked to the country's transition to a low-emission economy and climate-resilient growth. As a member of the EU, Poland is a signatory to the Paris Agreement on climate change, and is committed to the EU's nationally determined contribution that sets out a collective binding target of at least a 40% reduction in greenhouse gas emissions by 2030 compared to 1990 levels.

"By launching the world's first sovereign green bond and following up with a second offering in early 2018, the Government of Poland has provided a strong signal that it intends to build a green bond curve to meet is environmental expenditure objectives," says Rahul Ghosh, a Moody's Senior Vice President.

"The GB2 reflects the issuer's explicit guidelines on project eligibility and exclusion criteria, which enhances transparency on the use of proceeds, but disclosure practices lack the granularity to fully determine environmental benefits," adds Ghosh.

RATINGS RATIONALE

The GB2 (Very Good) grade on both green bonds is supported by exclusive allocation of net proceeds for the refinancing and financing of expenditures within six eligible sectors -- renewable energy, clean transportation, sustainable agricultural operations, afforestation, national parks and reclamation of heaps. Such expenditures are typically indirect or intangible (such as in the form of subsidies), and may relate to either new budgetary commitments or the refinancing of outlays from previous budget cycles.

Further supporting the GB2 grade is the issuer's transparent organisational approach that exhibits effective collaboration and engagement across ministries and departments. The adoption of a green bond framework that establishes clear project eligibility guidelines for use of proceeds that are aligned with the Green Bond Principles, as well as explicit exclusion criteria, further enhances the governance structure. Nevertheless, the lack of quantitative criteria for project evaluation constitutes a weakness, limiting the rigour of project selection.

Disclosures on the use of proceeds are reasonably limited. The documentation for both transactions contains illustrative examples of relevant metrics to evaluate the environmental (and, where possible, social) impacts resulting from the green bonds. For example, indicative metrics for renewable energy projects include total capacity of clean energy produced (MW/GW), the number of wind turbines or solar panels installed, and the location of production. However, there are no additional details on the methodologies, calculations and assumptions applied (or intended) to calculate quantitative benefits, which represents a weakness in the overall disclosure practices.

The authorities have implemented new processes in order to manage the segregation of green bond proceeds, which Moody's views as positive. Specifically, the Polish Public Finance Act was amended to enable the ring-fencing of proceeds to a separate "Green Cash Account" for disbursement to specific eligible projects over time. Any unallocated funds residing with the Green Cash Account will be held in accordance with the State Treasury's normal liquidity management policy. This is comprised of investments in cash, short-term deposits and other short-term liquidity instruments -- in line with typical market practices.

A post-issuance green bond report on the use of proceeds for the 2016 offering was published in December 2017, in accordance with the one-year timeframe stated within the issuer's green bond framework. Disclosure on the allocation of proceeds is reasonably robust. The report confirms that the entire bond proceeds from the December 2016 issuance had been allocated by October 17, 2017, with 80.6% of funds spent on refinancing projects initiated between 2014 and 2016, and the remaining 19.4% allocated towards new projects launched in the first quarter of 2017. Proceeds from the 2018 transaction have yet to be allocated.

Additional reporting over the life of the bonds will not be provided, however, and the large majority of performance metrics cited in the 2018 report reflect aggregate government expenditure for eligible project categories, rather than for projects financed by the green bond proceeds in insolation.

Poland is the ninth largest economy in the European Union (EU), with a nominal gross domestic product (GDP) of €465.6 billion in 2017 (or 3% of total EU GDP). The country is also one of Europe's most populous, with a total population of approximately 38 million (7.4% of the EU total).

The principal methodology used in this rating/analysis was Green Bonds Assessment (GBA) published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Rahul Ghosh
SVP-Env Social & Governance
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Jim Hempstead
MD - Utilities
Infrastructure Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE