



Fitch Affirms Polish Region of Mazowieckie at 'BBB+'; Outlook Stable

Fitch Ratings-Warsaw/London/Moscow-18 November 2016: Fitch Ratings has affirmed the Polish Region of Mazowieckie's Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BBB+', Long-Term Local Currency IDR at 'A-' and Long-Term National Rating at 'AA+(pol)'. The Outlooks are Stable. Fitch has also affirmed Mazowieckie's EUR50m and EUR32m bonds' long-term foreign currency ratings at 'BBB+'.

The affirmation reflects our expectations that the region's budgetary performance and liquidity will remain solid and that direct debt will reduce over the medium term. The ratings also reflect the region's high indirect risk, driven by significant financing requirements of the health care sector.

KEY RATING DRIVERS

In our unchanged medium-term projections we expect the region to post a strong operating performance with operating margins stabilising at around 25%. This will be driven by operating cost constraints and expected strong growth of corporate income tax revenue (CIT), which accounts for over 60% of the region's operating revenue.

We forecast revenue from CIT in 2016 to increase 7% yoy, supported by expected national GDP growth of 3%. The region's equalisation payments will amount to PLN318m in 2016 and account for about 20% of operating expenditure, compared with 37% on average in 2012-2014. Additionally in 2016, the region has fully settled the equalisation back-payment for 2014 (PLN182.1m) and has no further equalisation payment liabilities. As the settlement was funded by the region's large cash surplus it has not adversely affected the region's financial profile. However, the operating margin of 2016 will be significantly lower than in 2015 as will be the projected margins over the medium term.

Fitch projects the region's operating balance in 2016-2018 to exceed annual debt service by at least 2x, even though the latter is expected to increase to on average about PLN250m annually in 2017-2018 (PLN140m in 2016) due to redemption of EUR82m bonds from 2017.

We project that Mazowieckie's debt will decline to about PLN1bn or 40%-45% of current revenue at end-2018 from an expected PLN1.48bn or 67% at end-2016 (2015: PLN1.5bn). This is in line with the new debt brake imposed by the precautionary programme implemented in 2014, under which Mazowieckie can only debt-finance new investments provided they fulfil certain conditions (eg. obtaining EU grants).

Indirect risk stemming from the region's public service entities (PSEs including healthcare units in the form of sp zoz) remains high, driven by ongoing substantial financial support (capital injections, guarantees and loans) for the financially weak healthcare sector. We project that in the medium term the region's financial support for these entities could amount to PLN100m-PLN150m annually. In contrast, the strong financial health of the region's railway companies, whose debt is the highest among the region's PSEs (close to 80% of PLN735m PSE debt at end-2015) allows them to service their own debt. This is due to the long-term service contracts signed with the region for the provision of regional passenger railway.

The region's wealth indicators are above national average. Gross regional product per capita (the region has over five million inhabitants) was 161% of the national average in 2013 (the latest available data), mainly driven by the dominant service sector. The sector accounted for 73% of gross value added (Poland: 63%) and 67% of employment (Poland: 57%) in 2013. The unemployment rate was 7.4% at end-September 2016, below Poland's average of 8.3%.

RATING SENSITIVITIES

The ratings could be upgraded if the region's net overall risk falls below 70% of current revenue and if the region sustains strong operating performance with an operating margin above 20%.

Mazowieckie's ratings could be downgraded if net overall risk exceeds 130% of current revenue on a sustained basis along with material deterioration in operating performance.

KEY ASSUMPTIONS

The region's administrative borders remain unchanged.

Contact:

Primary Analyst
Dorota Dziedzic
Director
+48 22 338 62 96
Fitch Polska S.A.
16 Krolewska Street
Warsaw 00-103

Secondary Analyst
Renata Dobrzynska
Director
+48 22 338 62 82

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com; Malgorzata Socharska, Warsaw, Tel: +48 22 338 62 81, Email: malgorzata.socharska@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub, 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1015035)

Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1015035)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings) (<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED

ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.