Region of Mazowieckie

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB
Senior unsecured	BBB

Local Currency

Long-Term IDR	BBB+

National

Long-Term Rating	A+(pol)

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

Financial Data

Region of Mazowieckie

	31 Dec 14	31 Dec 13
Operating revenue (PLNm)	2,046.3	1,909.3
Debt (PLNm)	1,570.3	1,338.7
Operating balance/ operating revenue (%)	17.13	3.84
Debt service/current revenue (%)	4.22	4.08
Debt/current balance (yrs)	5.2	95.6
Operating balance/ interest paid (x)	6.6	1.2
Capital expenditure/total expenditure (%)	24.71	19.48
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	5.46	-9.07
Current balance/capital expenditure (%)	51.22	3.02

Related Research

2015 Equalisation Payments for Polish Regions (February 2015)
Institutional Framework for Polish Subnationals (March 2014)
Interpreting the Financial Ratios in International Public Finance Reports (July 2010)
Koleje Mazowieckie – KM sp. z o.o. (September 2014)

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Key Rating Drivers

Stable Outlook: Fitch Ratings has changed the Polish Region of Mazowieckie's ratings Outlook to Stable from Negative as we expect the region to balance its budget and to reduce direct debt. The precautionary programme and lower equalisation transfers from 2015 should support the region's efforts. The ratings affirmation takes into account uncertainty over an equalisation backpayment for 2014 and indirect risk that is high but expected to fall.

Lower Transfers: Equalisation payments to be made by the region will decrease substantially from 2015 compared to 2012-2014 due to legal changes (see *2015 Equalisation Payments for Polish Regions* under *Related Research*). Transfers will no longer be the region's biggest expenditure item (35% of opex in 2013), providing it with higher budgetary flexibility.

Balanced Budget: Fitch expects a satisfactory budgetary performance in 2015-2017. The operating margin should stabilise around a satisfactory 13%, up from the 10% average reported in 2010-2014. We project an operating balance that fully covers debt service obligations (principal and interest) during the period. We assume Mazowieckie should maintain a balanced budget as result of the spending provisions imposed by the precautionary programme.

Spending and Debt Limits: In 2014, the region entered into a precautionary programme to enable it to obtain a state budget loan and to settle overdue equalisation payments for 2013-2014. The programme will support the region in maintaining a balanced budget by setting restrictions on spending and introducing a stop to new debt. The programme's performance will be strictly monitored by the Finance Ministry (MoF) throughout its term until end-2039.

Satisfactory Liquidity: Fitch expects the region's liquidity to remain satisfactory in 2015-2017. The month-end balance on its accounts was PLN192m on average in 1Q15, up from PLN68m in 1Q14, providing Mazowieckie with sufficient funds to settle financial liabilities. The region's liquidity may temporarily come under stress if it has to pay back PLN182m of equalisation payments due for 2014; however, this is subject to an as yet uncertain court decision.

Direct Debt Decrease: Fitch assumes that the region's debt will decline to about PLN1.24bn at end-2017 from PLN1.57bn at end-2014. Debt stock should fall to a moderate 60% of current revenue by end-2017 (end-2014: 77%). The debt/current balance ratio may stabilise at about five years in 2017, significantly below the region's average debt maturity of about 12 years.

High Indirect Risk: We project indirect risk resulting from the region's shareholdings to remain high, driven by the financially weak healthcare sector's ongoing need for financial support (capital injections, sureties and loans). This will be despite a decline in regional companies' debt, which dominates indirect risk. We project indirect debt to decrease to about PLN600m by end-2016 from PLN720m at end-2014 due to scheduled repayments.

Rating Sensitivities

Lower Overall Risk: The ratings could be upgraded if Mazowieckie's net overall (direct and indirect) risk falls below 90% of current revenue and if the region demonstrates a good operating performance on a sustainable basis, with the operating balance around 14% of operating revenue.

Weaker Performance: Mazowieckie's ratings could be downgraded if the region fails to post an operating balance that fully covers debt service obligations (principal and interest) or if net overall risk significantly exceeds Fitch's projections.

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
21 Nov 14	BBB	BBB+
23 May 14	BBB	BBB+
18 Dec 13	BBB	BBB+
13 Dec 13	BBB+	A−
29 May 13	BBB+	A–
31 Oct 12	BBB+	A–
5 Apr 12	BBB+	A–
12 Apr 11	BBB+	A–
2 Jun 10	A–	A
15 Dec 09	A–	A
7 Nov 08	A–	A
21 Nov 07	A–	A
19 Jan 07	A–	A
5 Dec 06	BBB+	A

Related Criteria

Tax-Supported Rating Criteria (August 2012)
International Local and Regional Governments Rating Criteria – Outside the United States (May 2015)

Principal Rating Factors

Summary: Strengths and Weaknesses

	Institutional framework	Debt and other liabilities	Economy	Finances	Management and admin.
Status	Neutral	Neutral	Strength	Neutral	Neutral
Trend	Stable	Positive	Stable	Stable	Stable

Overall Strengths

- The wealthy economy and diversified tax base result in higher income tax revenue than in other Polish regions.
- Direct debt is decreasing and liquidity is satisfactory.

Overall Weaknesses

- Unpaid equalisation payments for 2014 result in a disputed liability for the region that may put liquidity under pressure.
- Mazowieckie has high indirect risk, driven by the ongoing need among healthcare entities for its financial support (capital injections, sureties and loans).

Institutional Framework

The regulatory regime for Polish regions is relatively stable. Their activities are closely monitored and reviewed by the central administration. There is good disclosure of their accounts. Regions are obliged to publish their budgets and budget execution reports, and long-term financial projections on their websites. The regions can (but are not obliged to) consolidate public-sector entities into their accounts. All reports are based on cash accounting.

The Polish regions' most costly responsibility is to maintain regional road and railway transport. The regions spend 20%-30% on average of their operating expenditure on this purpose, and a large share of capital expenditure has been designated to this responsibility to date. To fund their responsibilities, the regions receive a share of income taxes (mainly corporate income tax; CIT) from the state budget, accounting for 45%-60% of operating revenue. In Mazowieckie's case, the income taxes received are the largest contributor to its operating revenue, at more than 70%, which is due to the region's location and economic structure (see *Economy – Strong* below). However, this makes the region more vulnerable than others to economic cycles.

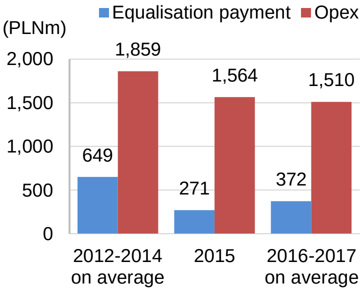
This dependence on the economic cycle was one of the main reasons why the revenue equalisation schemes for regions corrupted and forced the MoF to work on a new law (see *Equalisation Law in Transition* below). The equalisation payments have negatively affected Mazowieckie's financial situation in the last few years as they have further reduced its already low financial flexibility and turned out to be a strain on the region's liquidity.

Regions may place outstanding cash in deposits with banks established on Polish territory and invest it in treasury bonds or bonds issued by other local and regional governments (LRGs). They can incur short-term debt to cover their liquidity shortages during a year, but this has to be repaid by year-end.

Regions have to comply with an individually calculated debt limit. The debt service/total revenue planned in a region's budget must not exceed the last three years' average current balance plus revenue from asset sales/total revenue.

Regions cannot go bankrupt. In case of financial distress, a region can be granted loans from the state budget when launching precautionary programmes or reparatory procedure, as Mazowieckie did in 2014 (see *Precautionary Programme From 2014* below). However, this may not prevent a region from defaulting on its financial obligations.

Figure 1
Equalisation Payments in 2012-2017



Source: Fitch calculation based on Region's budgets and financial rpgnosis

Figure 2
Status Quo of Equalisation Payments

Year	Amount (PLNm)	Status
2013	173	Region claims return from the MoF of the overpaid amount
2014	182	Disputed amount – MoF claims the amount to be paid by the region – court decision uncertain
2015	271	All instalments due until the date of the report serviced on time

Source: Fitch based on region's data

Equalisation Law In Transition

The equalisation mechanism was designed to equalise regions' revenues horizontally. Regions with above-average wealth indicators made transfers to the state budget, which were then distributed to beneficiaries that could use them for any purpose. The formula for calculating regional equalisation payments did not factor in sharp changes in the economy and was based on income tax proceeds from two years earlier. This was especially harmful to donors in years of economic contraction, when the equalisation amounts to be paid were calculated on the base of higher tax revenues received during years of economic expansion.

As Poland's wealthiest and most populous region, Mazowieckie was obliged to pay a sum each year to the state budget, equalling 35% of its operating expenditure in 2013. The law did not foresee any maximum cap on the donor's expenditure; as a result, equalisation payments were the region's largest operating expenditure item in 2012-2014. This negatively affected Mazowieckie's capability to fund its responsibilities and caused severe liquidity stress in 2013-2014. Following a Supreme court complaint from the region, the equalisation law was ruled unconstitutional at the beginning of 2014.

In November 2014, the Polish government adopted a transitional law that regulates the 2015 equalisation payments for Polish regions as the permanent equalisation law due for 2016 and beyond is still being worked on. The transitional regulation leads to a significant unburdening of Mazowieckie's budget (see Figure 1), and Fitch expects similar effects for the equalisation payments starting from 2016 (see *2015 Equalisation Payments for Polish Regions* under *Related Research*).

Precautionary Programme From 2014

In September 2014, Mazowieckie obtained a state budget loan to enable it to settle overdue equalisation payments for 2013-2014 totalling PLN285m (see *Debt and Other Long-Term Liabilities* below). A major precondition of the state budget loan was the introduction of a precautionary programme, which the region's parliament adopted in April 2014, with amendments made in February 2015. The precautionary programme foresees for 2014-2039:

- a cap on opex that can be financed from the region's own sources;
- limitations on the capex to be spent – the region can mainly continue with current investments, and new investments can be made only if the financing of them is debt-free; and
- a stop to new debt (except for pre-financing for EU grants).

A breach of the above-mentioned provisions could result in early repayment of the state budget loan. The region reports the programme's performance to the MoF on a quarterly basis.

Status Quo of Equalisation Payments

The region has settled all overdue equalisation payments for 2013 and all payments due until end-September 2014. In addition, transfers to the state budget calculated for 2015 are serviced timely and in full.

However, Mazowieckie refrained from paying PLN182m to the equalisation system due for October-December 2014. Management based its decision on the regional administrative court's verdict that the region's contribution to the system should not exceed a proportion of its revenue. The verdict has been contested by the MoF with the outcome not yet known but expected for 2015/2016.

We treat this liability as a disputed (contingent) liability for the region and show it under "Guarantees and other contingent liabilities" in *Appendix A*. We have included PLN182m plus the penalty interest calculated for 2014 (PLN9m) in this position. Our projections for 2015-2017 anticipate repayment of the contingent liability as there was an obligation to contribute, although the equalisation mechanism is subject to revision. The repayment may adversely affect the region's liquidity if it has to be made at once.

However, the region is claiming back from the MoF PLN173m of equalisation payments overpaid for 2013, according to management's interpretation of the above-mentioned court verdict. The outcome of the dispute is uncertain, so we do not include potential revenue for the region in our projections.

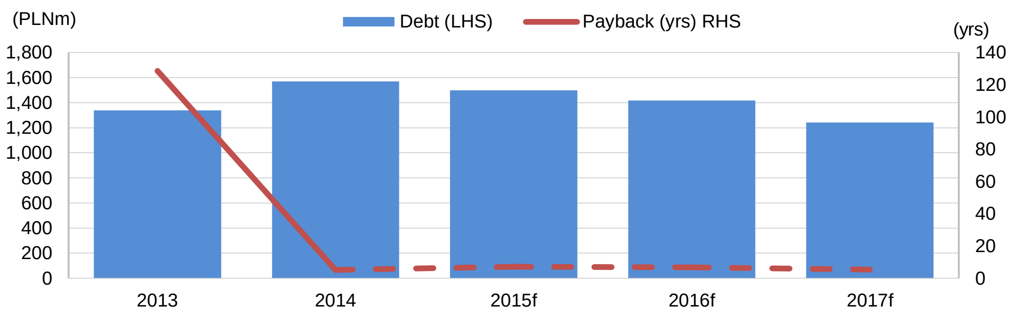
Debt and Other Long-Term Liabilities

Direct Debt to Decline

Fitch projects that Mazowieckie's debt will decline to about PLN1.24bn at end-2017 from PLN1.57bn at end-2014. This is in line with the new debt brake imposed by the precautionary programme and results from the scheduled debt repayment. The debt stock should be moderate, falling below 60% of current revenue by end-2017 from 77% at end-2014.

Debt service may increase to about PLN240m in 2017 from PLN87m in 2014, with the start of redemption of the bonds of PLN350m in total maturing in 2019. It will then account for 80% of the operating balance in 2017, up from the very low 25% reported for 2014. The debt coverage ratio (debt/current balance) may stabilise at about five years in 2017, the same level as in 2014, which would be significantly below the region's average debt maturity of about 12 years.

Figure 3
Debt and Payback



Source: Region's budget (actuals) and Fitch forecast (f)

Mazowieckie's direct debt rose in 2014 due to the drawdown of the state budget loan of PLN246.5m, and accounted for 16% of debt stock at end-2014. The debt stock is dominated by European Investment Bank loans (EIB; 41%) maturing between 2024 and 2028 (see Figure 4). The region has no material refinancing needs until 2017-2019 when bonds become due. Other than the bonds that have to be redeemed in high amounts of about PLN110m annually, the remaining debt is long-term and has a smooth amortisation schedule.

Figure 4
Direct Debt Structure

			2014	
Maturity	**Lender**	**Instrument**	**Amount (PLNm)**	**Share (%)**
2024-2028	EIB	Loan	647	41
2027-2029	Council of Europe Development Bank	Loan	328	21
2019	Deutsche Bank	Bond	350	22
2034	State budget	Loan	247	16
	Total		**1,570**	**100**

Source: Region of Mazowieckie

As for most Polish LRGs, all debt is at floating rates. A marked rise in interest costs is unlikely as we largely expect the low-interest-rate environment to continue throughout 2015 and 2016.

More than 40% of Mazowieckie's debt was still in euros at end-2014, despite a decline from about 50% in 2011-2013. With the redemption of bonds, the proportion of euro debt will fall further, lowering FX risk for the region. Mazowieckie is legally obliged to include an FX cushion of 15% on top of the MoF's euro/Polish zloty exchange rate forecast when projecting debt levels. This buffers the region against strong FX rate fluctuation, and may protect its liquidity.

Other Fitch-Classified Debt

At end-2014, other Fitch-classified debt contained PLN75m debt taken over by the region when restructuring the Brodnowski hospital in Warsaw. The region is repaying the loan by about PLN5m per year, which is a small amount relative to its budget.

Satisfactory Liquidity

Fitch expects Mazowieckie's liquidity to remain satisfactory in 2015-2017. The account balance was over PLN100m at end-2014 compared with a lack of free funds reported at end-2013. In 2015, liquidity has improved further due to higher income tax revenues than in 2014. The month-end balance on the region's accounts in 1Q15 was PLN192m on average, up from PLN68m in 1Q14, providing the region with sufficient funds to settle financial liabilities.

If the outstanding court decision regarding the unpaid PLN182m equalisation payments turns out to be negative for the region, and assuming the full amount has to be paid at once, liquidity may be temporarily under stress. However, Mazowieckie has a committed and currently unused external liquidity line of PLN300m with PKO BP S.A., which exceeds the disputed equalisation payment. The line expires in 2017.

Indirect Risk – High

Indirect risk consists of the debt of regional companies as well as sureties granted as collateral for the debt of healthcare units. In addition, we take into consideration capital injections and loans granted by Mazowieckie as they may put pressure on its budget.

We project that indirect risk (here: the debt of companies plus sureties granted) will gradually decrease to about PLN700m by end-2017. At end-2014, it was PLN804m (end-2013: PLN745m), close to our projections.

The main borrowers are the two regional railway companies (see Figure 5), whose debt amounted to PLN547m at end-2014 and which have already secured financing for their investment programmes (rolling stock purchases mainly). Mazowieckie supports these companies through long-term service agreements that require payments of about PLN290m annually, accounting for close to 20% of the region's opex. The payments from the region allow

Figure 5

Key Financial Figures on Main Corporate Exposure

	Share in capital (%)	Equity (PLNm)		Assets (PLNm)		Net Income (PLNm)		Long-Term Debt (PLNm)	
	2014	2013	2014	2013	2014	2013	2014	31 Dec 13	31 Dec 14
Koleje Mazowieckie (railway company)	100	482	482	1,598	1,647	10	6	452	460
Mazowiecki Regionalny Fundusz Pożyczkowy (guarantee fund)	100	30	20	82	74	1	1	39	41
Agencja Rozwoju Mazowsza (regional development company)	100	20	20	25	26	0	0	0	0
Instytucja Filmowa Max-Film (cinemas)	100	31	31	70	63	1	-2	11	7
Centrum PRAHA (administrator of region's buildings)	100	8	8	44	42	1	0	34	31
Mazowiecka Spółka Taborowa (rolling stock rental)	98	2	2	2	2	0	0	0	0
Warszawska Kolej Dojazdowa (railway company)	95	58	58	296	279	1	1	99	87
Health care entities and hospitals (limited liabilities companies) aggregated	100	247	428	513	716	-20	-18	61	94
Total								**696**	**720**

Source: Region of Mazowieckie

the companies to service debt by themselves. The remaining borrowers, whose share of companies' debt is expected to grow over the medium term, are hospitals and healthcare entities requiring funding of their investments or for restructuring of due liabilities.

Mazowieckie's indirect risk also relates to loans and sureties granted by the region to its healthcare units (sp zoz), some of the loans being written off (PLN7m out of PLN122m granted as at end-2014) and some of sureties to be serviced by the region directly (about PLN11m out of PLN128m issued as at end-2014). The risk for the region's budget may remain high as the loans and sureties relate to healthcare units that are not in good financial shape. The region is legally obliged to cover the healthcare units' annual losses, although an important contributory factor in the units' weak financial situation is the underfunding of services, for which the state's national healthcare fund is responsible. Fitch does not expect a significant change to the healthcare units' financial situation as neither the national sector nor the regional units are expected to be restructured any time soon.

Fitch projects that the region will make equity injections of about PLN50m to its companies in 2015, which is not high relative to its budget.

Economy – Strong

Mazowieckie is located in the centre of Poland. With over five million inhabitants, it accounts for 14% of the national population. In 2012, the region's gross regional product accounted for 22% of Poland's GDP. Per capita, it was 160% of the national average, placing Mazowieckie first among the 16 Polish regions. The unemployment rate was 9.9% at end-March 2015, below Poland's 11.7%. However, the region has huge disparities in the economic wealth of its sub-regions, which Mazowieckie's management aims to overcome in the long term by introducing infrastructure investments and social projects. The unemployment rate within the region's borders varies from 4.3% (City of Warsaw) to 21.9% (City of Radom sub-region).

Mazowieckie is an important service, trade and financial centre as well as a centre for culture and education. However, these activities are mainly concentrated around the City of Warsaw (AAA(pol)/Stable), which is the regional and national capital. Another industry centre is City of Plock (BBB/Stable), location of Poland's biggest refinery, Polski Konzern Naftowy Orlen S.A. (BBB−/Stable). The main sector in the region is services, accounting for about 73% of gross value added and 67% of employment in 2012. Both indicators are well above the average for Poland (63% and 56%, respectively).

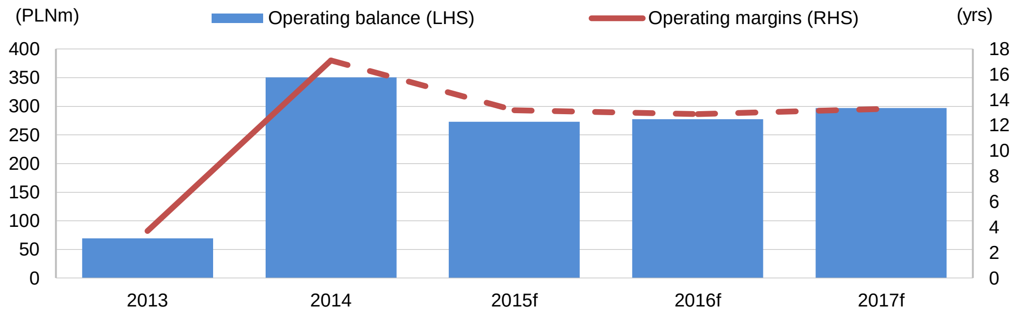
Finances – Stabilising

Fitch expects a stabilisation in the budgetary performance in 2015-2017, assuming the region will keep the provisions of the precautionary programme. The operating margin may hover around 13% in 2015-2017 (2010-2014: 10% on average). The operating balance should comfortably cover annual debt servicing by at least 1.2 times over the period.

Fitch expects the region to report a budgetary surplus in 2016-2017 after a balanced budget projected for 2015. The balance will be used for debt repayment. Any surplus achieved may be used for investments. Mazowieckie is allowed to start new investment projects provided they do not need debt finance. The region aims to make up for the backlog in infrastructure investments (mainly roads) caused by the financial limitations of 2012-2014.

We project operating revenue to increase by about 4% annually, driven mainly by CIT growth of about 5% annually. Mazowieckie is the most income tax-dependent of all Poland's regions, with tax revenue accounting for more than 70% of operating revenue (other regions: 45%-60%). The growth should be fuelled by an improvement in the national economy and expected GDP growth of 3%-4% annually in the medium term.

Figure 7
Budgetary Performance



Source: Region's budget (actuals) and Fitch forecast (f)

Figure 6
Operating Revenue

(PLNm)	2013	2014	2015b
PIT	228	245	262
CIT	1,145	1,238	1,280
Current transfers	443	442	330
Other	93	121	122
Total	**1,909**	**2,046**	**1,994**

b – Budget (as at March 2015)
Source: Fitch own calculations based on region's budgets

Figure 8
Operating Expenditure

(PLNm)	2013	2014	2015b
Equalisation payment	661	474	271
Public transport	454	465	495
Public administration	170	204	204
Education	148	178	133
Culture	129	127	141
Other	278	248	320
Total	**1,840**	**1,696**	**1,564**

b – Budget (as at March 2015)
Source: Fitch own calculations based on region's budgets

Figure 9
Sejmik's Composition Since November 2014

Grouping	Seats
1. Civic Platform Party (PO)	15
2. Law and Justice Party (PiS)	18
3. Polish Farmers' Party (PSL)	16
4. Independent	2
Total	**51**

Source: Region of Mazowieckie

We expect opex to grow in line with the operating revenue increase, taking into account the limitations imposed by the precautionary programme. Opex for 2015 contains equalisation payments, which have decreased substantially to PLN271m from PLN647m set for 2014 – although only PLN474m was paid – as consequence of the introduction of the transitional law regulation for 2015 (see *2015 Equalisation Payments for Polish Regions* under *Related Research*).

The equalisation payments for 2016-2017 have been capped at PLN372m annually by the region in its forecasts, although the exact amounts can only be determined once the law has been changed permanently, which we expect to be from 2016. Unburdening from the high transfers should provide Mazowieckie with higher budgetary flexibility as the equalisation payments will stop being the region's biggest expenditure item, overtaken by spending on transport.

Opex on transport mainly consists of the maintenance and repair of roads, and the financing of regional railway transport. The payments for transport servicing of about PLN290m in 2015 will grow further to compensate for the depreciation of new rolling stock. This is in line with Mazowieckie's policy to improve the quality and security of public transport in the region. It plans to spend about PLN200m annually on road maintenance in 2015-2017 as roads will continue to require maintenance to ensure traffic safety.

Capex for Infrastructure and Roads

Capital investments may drop from the planned 29% of total expenditure in 2015 to about 10% of total expenditure in 2017. The reduced level results from the restrictions of the precautionary programme according to which entering new projects depends on the region's full self-financing capacity. In 2015, Mazowieckie will finish current investments (including the building of a broadband internet network worth PLN525m) but afterwards capex will depend on the current balance and EU grants received. Total grants may constitute on average 60% of capital revenue in 2015-2017. The main investments in 2015-2017 include road construction.

Management and Administration

The region's governing body is the 51-seat sejmik (regional parliament) elected by direct vote every four years (see Figure 9), most recently in November 2014. The parliament controls the region's executive board headed by the marshal, Adam Struzik (PSL), who has been in this position since 2001. He is supported by a 31-seat coalition of PO and PSL, which gives him a comfortable 60% majority.

Management has to ensure compliance with the precautionary programme introduced in 2014, limiting opex growth, capex spending and including a new debt brake. Besides this, the biggest challenge facing management is the healthcare sector, which is still reporting weak financial performance and requires financial assistance from the region. If unsolved, the sector may put high pressure on Mazowieckie's budget and consequently negatively affect its ratings. The region's management aims also to make up for the backlog in infrastructure investments (mainly roads) caused by the financial limitations of the region in 2012-2014. These investments should help to smooth out wealth disparities within the region's borders.

Appendix A

Figure 10

Region of Mazowieckie

(PLNm)	2010	2011	2012	2013 adjusted	2014 adjusted
Taxes	1,488.8	1,580.8	1,566.5	1,373.3	1,488.6
Transfers received	491.5	396.3	442.6	442.6	441.6
Fees, fines and other operating revenue	115.6	91.6	144.9	93.4	116.1
Operating revenue	**2,095.9**	**2,068.7**	**2,154.0**	**1,909.3**	**2,046.3**
Operating expenditure	-1,986.3	-1,868.1	-1,858.7	-1,836.0	-1,695.8
Operating balance	**109.6**	**200.6**	**295.3**	**73.3**	**350.5**
Financial revenue	8.7	15.9	11.6	2.7	2.0
Interest paid	-49.4	-60.6	-69.4	-62.0	-52.9
Current balance	**68.9**	**155.9**	**237.5**	**14.0**	**299.6**
Capital revenue	348.3	373.1	323.7	252.7	420.0
Capital expenditure	-472.5	-666.7	-534.7	-463.1	-584.9
Capital balance	-124.2	-293.6	-211.0	-210.4	-164.9
Surplus (deficit) before debt variation	**-55.3**	**-137.7**	**26.5**	**-196.4**	**134.7**
New borrowing	260.0	100.0	0.0	0.0	246.5
Debt repayment	-100.0	-175.2	0.0	-16.1	-33.6
Net debt movement	**160.0**	**-75.2**	**0.0**	**-16.1**	**212.9**
Overall results	**104.7**	**-212.9**	**26.5**	**-212.5**	**347.6**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	1,398.6	1,398.8	1,344.5	1,338.7	1,570.3
Direct debt	**1,398.6**	**1,398.8**	**1,344.5**	**1,338.7**	**1,570.3**
+ Other Fitch-classified debt – pre-financing	0.0	0.0	83.8	79.2	74.7
Direct risk	**1,398.6**	**1,398.8**	**1,428.3**	**1,417.9**	**1,645.0**
- Cash, liquid deposits, sinking fund	210.3	17.7	42.1	0.0	114.4
Net direct risk	**1,188.3**	**1,381.1**	**1,386.2**	**1,417.9**	**1,530.6**
Guarantees and other contingent liabilities	216.4	233.4	84.4	122.9	319.8
Net indirect debt (public sector entities exc. gteed amount)	168.7	367.7	577.0	634.0	675.6
Net overall risk	**1,573.4**	**1,982.2**	**2,047.6**	**2,174.8**	**2,526.0**
Memo for direct debt (%)					
In foreign currency	46.7	52.1	50.2	50.4	43.1
Issued debt	23.2	25.9	24.9	25.4	22.3
Fixed interest rate debt	0.0	0.0	0.0	0.0	0.0

Source: Issuer and Fitch calculations
Adjusted by Fitch so that the equalisation payment of PLN173m for 2013 made in 2014 was added back to the operating expenditure of the region in 2013 and subtracted from 2014

Appendix B

Figure 11

Region of Mazowieckie

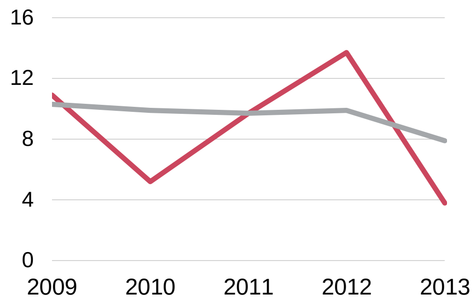
	2010	2011	2012	2013 adjusted	2014 adjusted
Fiscal performance ratios					
Operating balance/operating revenue (%)	5.23	9.7	13.71	3.84	17.13
Current balance/current revenue[a] (%)	3.27	7.48	10.97	0.73	14.63
Surplus (deficit) before debt variation/total revenue[b] (%)	-2.25	-5.6	1.06	-9.07	5.46
Overall results/total revenue (%)	4.27	-8.66	1.06	-9.82	14.08
Operating revenue growth (annual % change)	n.a.	-1.3	4.12	-11.36	7.18
Operating expenditure growth (annual % change)	n.a.	-5.95	-0.5	-1.22	-7.64
Current balance growth (annual % change)	n.a.	126.27	52.34	-94.11	2,040
Debt ratios					
Direct debt growth (annual % change)	n.a.	0.01	-3.88	-0.43	17.3
Interest paid/operating revenue (%)	2.36	2.93	3.22	3.25	2.59
Operating balance/interest paid (x)	2.2	3.3	4.3	1.2	6.6
Direct debt servicing/current revenue (%)	7.1	11.31	3.2	4.08	4.22
Direct debt servicing/operating balance (%)	136.31	117.55	23.5	106.55	24.68
Direct debt/current revenue (%)	66.45	67.1	62.08	70.02	76.66
Direct risk/current revenue (%)	66.45	67.1	65.95	74.16	80.31
Direct debt/current balance (yrs)	20.3	9	5.7	95.6	5.2
Net overall risk/current revenue (%)	74.76	95.09	94.55	113.74	123.32
Direct risk/current balance (yrs)	20.3	9	6	101.3	5.5
Direct debt/GDP (%)	0.44	0.41	0.37	0.37	-
Direct debt per capita (PLN)	267	267	256	252	296
Revenue ratios					
Operating revenue/budget operating revenue (%)	92.15	101.31	83.75	82.36	100.28
Tax revenue/operating revenue (%)	71.03	76.42	72.73	71.93	72.75
Modifiable tax revenue/total tax revenue (%)	-	-	-	-	-
Current transfers received/operating revenue (%)	23.45	19.16	20.55	23.18	21.58
Operating revenue/total revenue[b] (%)	85.45	84.17	86.53	88.2	82.9
Total revenue[b] per capita (PLN)	468	469	475	408	466
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	91.97	93.57	76.95	94.42	87.78
Staff expenditure/operating expenditure (%)	14.51	17.95	17.11	17.35	19.5
Current transfer made/operating expenditure (%)	25.05	29.59	24.76	30.37	33.08
Capital expenditure/budget capital expenditure (%)	49.59	58.45	118.98	57.21	66.64
Capital expenditure/total expenditure (%)	18.12	24.06	21.71	19.48	24.71
Capital expenditure/local GDP (%)	0.15	0.2	0.15	0.13	-
Total expenditure per capita (PLN)	498	528	470	448	447
Capital expenditure financing					
Current balance/capital expenditure (%)	14.58	23.38	44.42	3.02	51.22
Capital revenue/capital expenditure (%)	73.71	55.96	60.54	54.57	71.81
Net debt movement/capital expenditure (%)	33.86	-11.28	0	-3.48	36.4

n.a.: Not available
[a] Includes financial revenue
[b] Excluding new borrowing
Source: Issuer and Fitch calculations

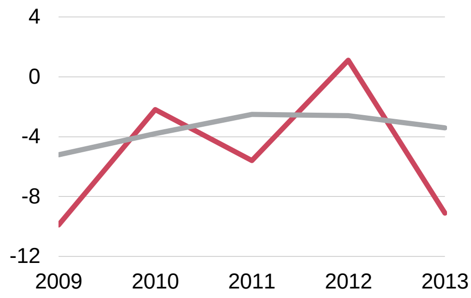
Appendix C
Region of Mazowieckie

Peer Comparison

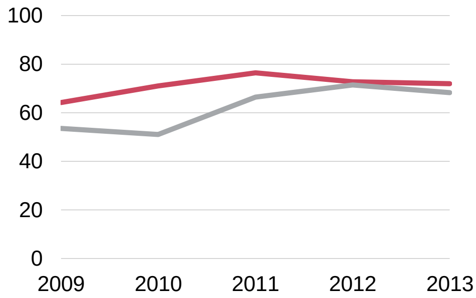
Operating Balance
% Operating Revenue



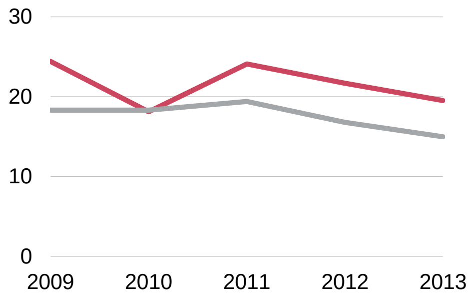
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue

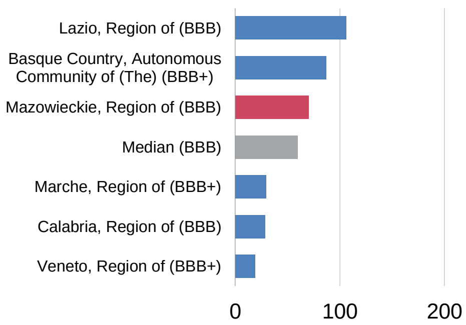


Capital Expenditure
% Total Expenditure

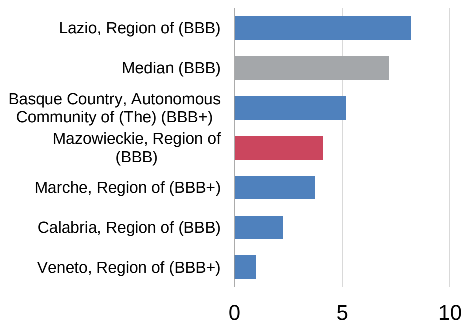


Mazowieckie, Region of   BBB Peer Group Median

Debt
To Current Revenue (%) 2013



Debt Servicing
To Curent Revenue (%) 2013



The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.