

FITCH REVISES OUTLOOK ON REGION OF MAZOWIECKIE TO STABLE; AFFIRMS AT 'BBB'

Link to Fitch Ratings' Report: Region of Mazowieckie - Rating Action Report
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866312

Fitch Ratings-Warsaw/London-22 May 2015: Fitch Ratings has revised the Outlook on the Polish Region of Mazowieckie (Mazowieckie) to Stable from Negative and affirmed the Long-term foreign currency IDR at 'BBB', Long-term local currency IDR at 'BBB+' and the National Long-term Rating at 'A+(pol)'. Fitch has also affirmed Mazowieckie's EUR50m and EUR32m bonds at Long-term foreign currency rating 'BBB'.

The revision of the Outlook is based on our expectation that the region will balance its budget and reduce direct debt. The precautionary programme and lower equalisation transfers from 2015 should support the region's efforts. The affirmation takes into account the uncertainty about an equalisation back-payment for 2014 and the high, albeit likely to decrease, indirect risk.

KEY RATING DRIVERS

The rating actions reflect the following key rating drivers and their relative weights:

HIGH

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' below). The transfers will no longer be the region's biggest expenditure item (35% of opex in 2013), providing it with higher budgetary flexibility.

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

In 2014, the region entered into a precautionary programme to be able to obtain a state budget loan and settle overdue equalisation payments for 2013-2014. The programme will support the region in maintaining a balanced budget by setting restrictions on spending and stopping new debt. The programme's performance is strictly monitored by the Finance Ministry until end-2039.

MEDIUM

Fitch expects the region's liquidity to remain satisfactory in 2015-2017. The month-end balance of the region's accounts was PLN192m on average in 1Q15 in contrast to PLN68m in 1Q14, providing the region 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 a court decision.

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

We project the indirect risk resulting from the regions shareholdings to remain high, driven by the ongoing need for financial support (capital injections, sureties and loans) for the financially weak health care sector. It will be despite the decrease of the regional companies' debt that dominates the indirect risk. The indirect debt we project to decrease to about PLN600m by 2016 from PLN720m at end-2014 due to the scheduled repayments.

RATING SENSITIVITIES

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

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

KEY ASSUMPTIONS

The region's precautionary programme will be maintained until end-2039.

Permanent equalisation mechanism from 2016 will reduce pressure on the region similar to 2015 where a transitional law is valid.

Contact:

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

Secondary Analyst
Magdalena Mikolajczak
Analyst
+48 22 338 62 85

Committee Chair
Vladimir Redkin
Senior Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 18 May 2015, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

International Local and Regional Governments Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865254
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

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