Fitch Affirms European Union & Euratom at 'AAA'; Outlook Stable

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PARIS/LONDON, March 12 (Fitch) Fitch Ratings has affirmed the European Union's (EU) and the European Atomic Energy Community's (Euratom) Long-term Issuer Default Ratings (IDRs) at 'AAA' and their Short-term IDRs at 'F1+'. The Outlooks on the Long-term IDRs are Stable. The senior unsecured bond ratings have also been affirmed at 'AAA'. KEY RATING DRIVERS The affirmation and Stable Outlook reflect Fitch's assessment that contributions to the EU budget provided by member states (MS) rated 'AAA'/Stable, associated with multiple sources of protection to bondholders and limited debt service requirements in coming years, support EU's ability to repay its debt. The EU incurs debt solely to provide emergency loans to sovereigns, whether they are neighbouring states (the macro-financial assistance (MFA) programme), EU non-eurozone sovereigns (balance of payment (BoP) programme), or EU MS (European Financial Stabilisation Mechanism (EFSM)). Total EU loans outstanding were EUR55.8bn at end-2013, mostly comprising EFSM loans to Ireland and Portugal. The EU also guarantees European Investment Bank (AAA/Negative) loans to non-EU countries. Fitch expects debt outstanding to decline from 2015 as no new loans can be approved under EFSM. Euratom also incurs debt to make loans dedicated to nuclear power projects in MS or neighbouring countries (EUR386m at end-2013). Loans are made by the European Commission (EC) acting on behalf of Euratom, with access to EU budget to repay Euratom's debt. EU's credit risk is significant as it lends to sovereigns experiencing financial difficulties. Ireland and Portugal now account for 78% of total loans. As with other supranational institutions, Fitch, however, expects the EU and Euratom to benefit from preferred creditor status compared with private creditors in a default scenario. If a borrower defaults, the EC can prioritise debt service of both institutions over other expenses by tapping into the budget's available resources transferred every month by MS. Annual resources under the budget are expected to exceed EUR135bn under the new multiannual financial framework (MFF) covering 2014-2020, equivalent to an expected 0.99% of EU gross national income (GNI). Should this prove to be insufficient, MS are obliged by EU legislation to complement EU budget revenues to repay EU and Euratom debt, if necessary, beyond their initial share of contributions to the budget, up to a maximum of 1.23% of EU GNI. This potential extra contribution between the budget resources and the GNI ceiling (the free margin), amounts to around EUR30bn and fully covers EU's yearly debt service, which does not exceed EUR11bn. More particularly, annual debt service is currently covered by potential additional contributions by MS rated 'AAA'/Stable, assuming their contribution remains in line with their share in the budget. Fitch deems that political support for the EU remains strong despite the long negotiations around the approval of the MFF in 2013; the EU has not experienced material delays in budget contributions by MS since the start of the global financial crisis. Fitch currently does not factor in its rating assessment the risk of the UK exiting the EU. Additionally, the EU contributes to a guarantee fund covering losses on

MFA loans, Euratom loans and guarantees on EIB loans outside the EU. The fund covered around 10% of total liabilities at end-2013, and funds are managed conservatively. Fitch considers the benefits of this guarantee fund marginal to supporting the repayment of EU bonds under MFA loans compared with the budget resources. All loans made by the EU are funded by borrowings with equivalent financial terms, on a back-to-back basis. Under its funding operations, the EU does not incur interest rate, foreign exchange or counterparty risk. The potential lengthening of loans to Ireland and Portugal will result in refinancing by the EU of its current bonds, but Fitch does not expect market risks to rise materially. RATING SENSITIVITIES The negative ratings triggers that could, individually or collectively affect EU's and Euratom's ratings, are as follows: - A downgrade of 'AAA'-rated MS with Stable Outlook, and in particular if yearly debt service is no longer covered by the free margin provided for by these MS - A material downgrade of other highly-rated MS - Material evidence of weakening political support by MS to the EU - A large increase in bonds outstanding of the EU or Euratom resulting in rising annual debt service expectations - A significant weakening in risk management framework or practices KEY ASSUMPTIONS The ratings and Outlook are sensitive to a number of assumptions as follows: - Fitch assumes that the risk of fragmentation of the eurozone remains low - Fitch assumes that no large MS will choose to leave the EU and that MS will remain committed to paying their monthly contributions to the EU budget; therefore contributions to the EU budget are assumed to remain predictable and be provided by EU MS on a timely basis. Contact: Primary Analyst Amelie Roux Director +33 1 44 29 92 82 Fitch France SAS 60 rue de Monceau 75008 Paris Secondary Analyst Eric Paget-Blanc Senior Director +33 1 44 29 91 33 Committee Chairperson Tony Stringer Managing Director +44 20 3530 1219 Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com. Additional information is available at www.fitchratings.com. Applicable criteria, 'Rating Multilateral Development Banks', dated 23 May 2012, are available at www.fitchratings.com. Applicable Criteria andALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: here. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '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.

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