FitchRatings

**Public Finance**
Local and Regional Governments
**Germany**

# State of Bremen

The affirmation of the State of Bremen's ratings reflects Fitch Ratings' unchanged approach for the German Laender, under which the ratings are equalised with those of Germany (Bund; AAA/Stable/F1+).

## Key Rating Drivers

**Rating Derivation Summary:** Bremen's Issuer Default Ratings (IDRs) are linked to the Bund's. We assess its Standalone Credit Profile (SCP) at 'a'. The SCP results from a 'Stronger' risk profile and a financial profile that Fitch assesses as 'bbb' under its rating-case scenario. No other factors affect the rating. The equalisation of the German Laender's ratings with the Bund's is driven by the stability of the solidarity system underpinning the creditworthiness of all the Laender, irrespective of the Key Risk Factors (KRFs) and financial profile assessment.

The solidarity system is enshrined in the German constitution and reflects the institutional framework of the Laender. Under the constitution, all member states of the federal republic are jointly responsible for supporting a Land in financial distress. If a Land experiences 'extreme budgetary hardship', it is entitled to financial assistance from all other Laender and the Bund. This principle has been reaffirmed by the constitutional courts on more than one occasion, most recently in 2006.

**Stronger' Risk Profile:** Fitch assesses all Bremen's KRFs as 'Stronger'. This risk profile also reflects the state's very good access to capital markets, corresponding strong refinancing capacity and appropriate treasury facilities preventing any temporary delays in the provision of liquidity and support.

**Financial Profile at 'bbb':** Bremen's economic liability burden (ELB) will improve to 86.9% in 2028 (2023: 94.4%) and its payback ratio will remain at 22.4x (2023: 22.4x) in Fitch's rating-case scenario. Debt service coverage (Fitch's synthetic calculation) will remain at 0.6x (0.6x), and the fiscal debt burden will decrease to 273.6% (287.4%). Our rating case is based on conservative GDP growth assumptions to test rating resilience through the economic cycle.

**Neutral Additional Rating Factors:** Bremen's Long-Term IDR is on a par with the sovereign, reflecting the specific approach Fitch applies for the German Laender. Its rating does not consider any other extraordinary support from the Bund. No additional risk factors have been identified.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | AAA |
| Short-Term IDR | F1+ |
| **Local Currency** | |
| Long-Term IDR | AAA |
| Short-Term IDR | F1+ |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Long-Term Local-Currency IDR | Stable |
| **Debt Ratings** | |
| Senior Unsecured Debt - Long-Term Rating | AAA |
| Senior Unsecured Debt - Short-Term Rating | F1+ |

## Issuer Profile Summary

Bremen is one of the three German city-states, located in the north of Germany and the smallest state by population and area. It has well-above-average wealth and its GDP per capita of EUR56,981 in 2023 is 17% above the German average.

## Financial Data Summary

| (EURm) | 2023 | 2028rc |
|---|---|---|
| Economic liability burden (%) | 94.4 | 86.9 |
| Payback ratio (x) | 22.4 | 22.4 |
| Synthetic coverage (x) | 0.6 | 0.6 |
| Actual coverage (x) | 0.5 | 0.4 |
| Fiscal debt burden (%) | 287.4 | 273.6 |
| Net adjusted debt | 20,590 | 21,914 |
| Operating balance | 921 | 980 |
| Operating revenue | 7,164 | 8,009 |
| Debt service | 1,787 | 2,522 |
| Mortgage-style debt annuity | 1,640 | 1,744 |

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, State of Bremen

## Applicable Criteria

International Local and Regional Governments Rating Criteria (August 2024)

## Related Research

Fitch Affirms State of Bremen at 'AAA'; Outlook Stable (August 2024)

German Laender – Peer Review 2023 (October 2023)

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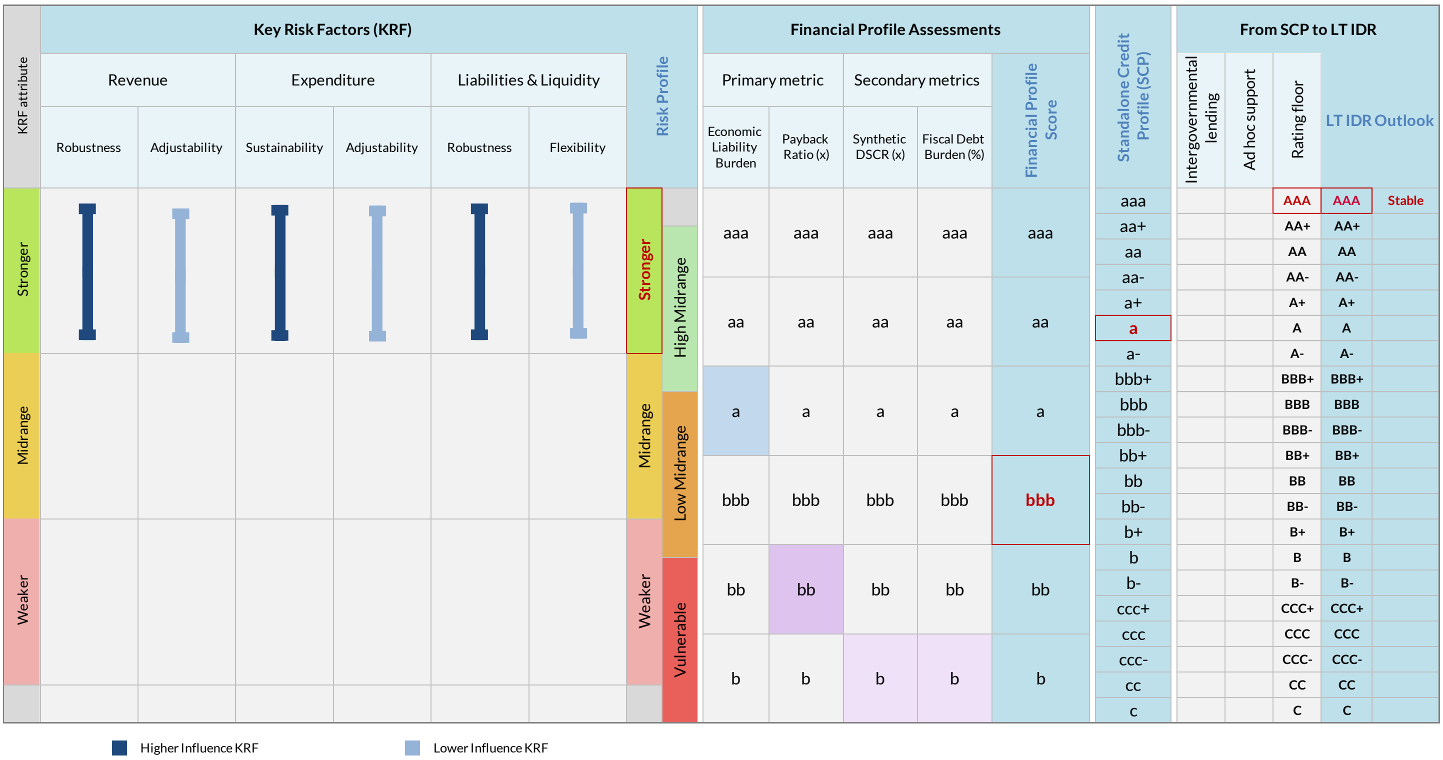
## Rating Synopsis

**Bremen, State of LT IDR Derivation Summary**




Source: Fitch Ratings

The six KRFs, combined according to their relative importance, collectively represent the Risk Profile of a of a local and regional government (LRG). Risk Profile and Financial Profile assessments, which measure the LRG's debt burden and debt service requirements in a reasonable economic or financial downturn over the rating horizon, are combined in a Standalone Credit Profile (SCP). Bremen's 'AAA' IDRs are linked to the rating of the Bund.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The ratings are at the highest level on Fitch's rating scale and therefore cannot be upgraded.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign ratings would lead to the same for Bremen. An adverse change to the most important institutional feature, the solidarity principle, which Fitch views as unlikely, could lead to a downgrade of Bremen.

## Issuer Profile

Bremen is in north-western Germany and is the smallest of all the Laender by population and area (419.4 sq km). It comprises two cities, Bremen and Bremerhaven.

At end-2023, the state had a total population of about 691,700. Bremen's population has increased by 1.7% since 2020, mainly driven by migration. Bremen attracts jobseekers that often stay while applying for unemployment benefits or social aid, given its status as a city-state. This partly explains why Bremen's unemployment rate (10.6% in 2023) is the highest among the states, and much higher than Germany's average (5.7%).

The development of Bremen's GDP is relatively volatile and strongly influenced by exports. In 2022 it had increased by 5.1% in real terms, well above Germany's growth rate of 1.8%. However, it declined by about 0.6% in 2023 in real terms to EUR39.3 billion in 2023, below Germany's real GDP decline of 0.3% in 2023.

Fitch anticipates 0.1% real GDP growth for Germany for 2024, 1.1% for 2025 and 1.4% for 2026 (no data are available for the state).

Bremen's GDP per capita of EUR56,981 in 2023 is the third-highest among the German states and is well above the national average of EUR48,750, partly due to its city-state status making it an attractive destination for business.

Bremen's economy is dominated by a broad services sector (trade, traffic, real estate and public services) but also has a fairly high share of production (in the automotive and steel segment, among others). It is the second-most important export location after Hamburg due to its harbours. Most of its imports/exports are food (fish, meat, dairy, tobacco and coffee) and Bremen is the most important reloading point for the automotive sector. The state also focuses on developing renewable energies.

### Socioeconomic Indicators

| | Issuer | Sovereign |
|---|---|---|
| Population, 2023 (m) | 0.7 | 84.7 |
| GDP per capita, 2023 (EUR) | 56,981 | 48,750 |
| GRP growth, 2023 (%) | -0.6 | -0.3 |
| Inflation, 2023 (%) | 6.0 | 6.0 |
| Unemployment rate, 2023 (%) | 10.6 | 5.7 |

Source: Fitch Ratings, national statistics, State of Bremen

# Risk Profile Assessment

## Risk Profile: Stronger

Fitch assesses Bremen's risk profile at 'Stronger', reflecting the combination of assessments:

### Risk Profile Assessment

| Revenue Robustness | Revenue Adjustability | Expenditure Sustainability | Expenditure Adjustability | Liabilities & Liquidity Robustness | Liabilities & Liquidity Flexibility | Implied operating environment score | Risk Profile |
|---|---|---|---|---|---|---|---|
| Stronger | Stronger | Stronger | Stronger | Stronger | Stronger | aa | Stronger |

Source: Fitch Ratings

The assessment reflects Fitch's view of a low risk relative to international peers that Bremen's ability to cover debt service with the operating balance may weaken unexpectedly over the forecast horizon (2024-2028) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt or debt-service requirements.

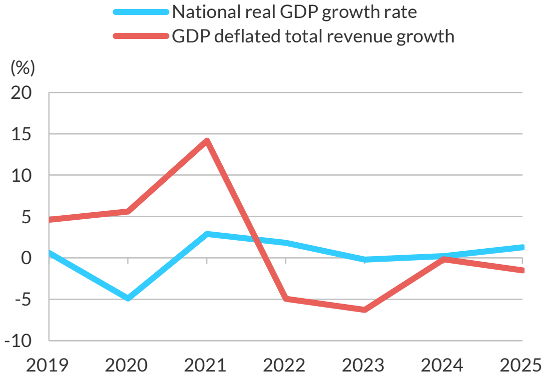
## Revenue Robustness: Stronger

This assessment is driven by the high share of stable revenue sources due to the strong and diversified tax base and stable transfers from the Bund. We view the Laender as resilient to any potential shocks, mitigating the risk of a shrinking revenue base.

The Laender's main revenue sources consist of common tax revenues (corporate income tax (CIT), VAT and personal income tax (PIT) between the Bund, the Laender, and to a lesser extent, the municipalities. By law, the Laender receive 50% of CIT and 42.5% of PIT. The shares of VAT have a more complex allocation process and vary marginally. In 2023, the share was 49.7% for the Laender, 47.5% for the Bund and 2.8% for the municipalities.

In 2023, tax revenue was 68.9% of Bremen's total revenue, with PIT and VAT the largest contributors, at 12.4% and 27.3%, respectively. These taxes have had stable growth in the past.

### Real Total Revenue and GDP Growth




Source: Fitch Ratings, State of Bremen

### Revenue Breakdown, 2023

| | Operating revenue (%) | Total revenue (%) |
|---|---|---|
| PIT | 12.7 | 12.4 |
| VAT | 28.1 | 27.3 |
| Other taxes | 30.0 | 29.2 |
| Transfers | 25.0 | 24.3 |
| Other operating revenue | 4.2 | 4.1 |
| **Operating revenue** | **100.0** | **97.2** |
| Interest revenue | - | 0.7 |
| Capital revenue | - | 2.1 |
| **Total revenue** | **-** | **100.0** |

Source: Fitch Ratings, Fitch Solutions, State of Bremen

## Revenue Adjustability: Stronger

This assessment is supported by a strong record of revenue equalisation, an essential part of Fitch's rating approach, which links the Laender's ratings to the Bund's. An extensive equalisation system and a broad solidarity pact compensate for financial disparity. This equalisation framework requires financially stronger Laender to transfer part of their above-average tax proceeds to financially weaker members. The framework partly offsets the differences among Laender's tax revenue base and their financial strength.

The most recent reform of the financial equalisation system confirms the stability of revenue equalisation. This is likely to increase transfers from the Bund to the financially weaker Laender and to lower the burden of net donor states. Fitch views this as credit positive, for Bremen in particular, as this agreement grants an additional EUR400 million to the state annually given its specific structural weaknesses.

Bremen is also a net receiver within the financial equalisation system and received EUR0.8 billion in 2023 (EUR0.9 billion in 2022) based on preliminary figures, or about 11% of its total revenue.

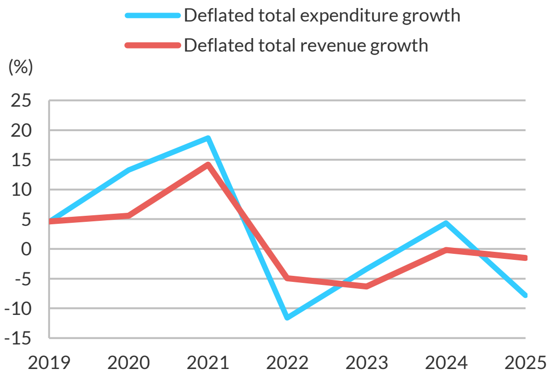
## Expenditure Sustainability: Stronger

The Laender have a prudent record of control of operating expenditure (opex). The main spending items are related to education, science, security and infrastructure, and are counter-cyclical. In times of economic stress, anti-cyclical measures are taken by the Bund.

The Laender have been applying cost-consolidation measures since 2010 to comply with the debt-brake rule starting in 2020. They have shown strong spending restraint since 2010 to keep opex growth below that of operating revenue. Cost-consolidation measures are subject to the supervision of the German Stability Board.

Bremen, like all Laender, is in a close contact with the Bund in times of crisis, most recently during the pandemic and the refugee crisis. The additional burden stemming from the refugee crisis has been largely covered by specific grants from the Bund to the Laender. This means that even if expenditure rises due to a sudden need, the additional burden is usually met by an adequate revenue stream.

### Real Total Expenditure and Revenue Growth




Source: Fitch Ratings, State of Bremen

### Expenditure Breakdown, 2023

| | Operating expenditure (%) | Total expenditure (%) |
|---|---|---|
| Staff costs | 34.5 | 28.0 |
| Goods and services | 22.2 | 18.0 |
| Operating subsidies | 43.3 | 35.1 |
| **Operating expenditure** | **100.0** | **81.0** |
| Interest expenditure | - | 6.8 |
| Capital expenditure | - | 12.1 |
| **Total expenditure** | **-** | **100.0** |

Source: Fitch Ratings, Fitch Solutions, State of Bremen

## Expenditure Adjustability: Stronger

The Laender are legally obliged to run their budgets without taking on new net debt from 2020, which Fitch views positively for expenditure adjustability. However, as the pandemic was declared as an extraordinary emergency situation (außergewöhnliche Notsituation) beyond the government's control, the additional debt the Laender took on in 2020 and 2021 was not a breach of the debt brake rules.

Laender have effective budget rules and have demonstrated strong ability to limit expenditure growth ahead of the debt brake. They have a moderate share of inflexible spending items. Despite the limited flexibility in adjusting capex, Bremen has a good record of cost consolidation.

Personnel costs and transfers accounted for 77.8% of Bremen's opex in 2023, while capex accounted for 12.1% of total spending. Operating revenue growth usually outpaces opex growth. For 2019-2023, Bremen's operating revenue grew by 10.0% on average, while opex growth was 7.4% on average.

Capital expenditure (capex) has usually accounted for about 10% of the state's total spending and was 12.1% in 2023. Bremen has invested in new kindergarten and schools, to cope with the ongoing refugee influx, and in the transition towards green energy.

## Liabilities and Liquidity Robustness: Stronger

German Laender operate in a solid national framework for debt and liquidity management, and show strict market discipline, which Fitch views as credit positive. As one of the largest subnational and most frequent issuers, the Laender have strong access to international capital markets, which allows the issuance of bonds in benchmark size.

However, due to the ECB's still-high interest rates, the Laender's interest burden is likely to rise following a long period of reductions. This risk has been mitigated by the Laender extending their maturity profiles in most recent years.

In general, the German Laender also face large contingent liabilities in the form of debt guarantees on behalf of their development banks, as well as their largely unfunded pension liabilities. The risk stemming from their commitments provided to banks is mitigated by adequate assets and the conservative business profiles of their development banks.

Bremen has prudent debt management, predominantly funding its maturing debt with bond issues in 2023; its average lifetime of capital market debt was 7.3 years at end-2023.

For 2024, Bremen reported gross (net) funding requirements of EUR3.92 billion (EUR1.34 million), but Fitch views the state's capital market access as established and secure and considers Bremen's refinancing risk as minimal.

Bremen's senate has approved an additional debt allowance for a special fund of about EUR0.5 billion to be invested in 2024. The state has companies with high energy needs, especially in the production/ steel sector. Companies in the transition towards green energy can apply for funds to support their high investment needs.

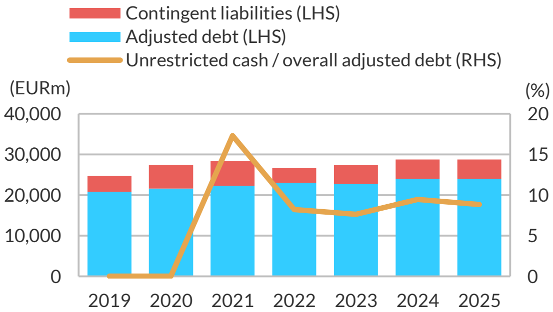
Bremen invests equity into its shareholdings to finance other investments (eg schools, kindergartens and other strategic properties). Bremen plans to increase its debt in total by about 1.3 billion in 2024. To comply with the debt brake, the senate has declared an "extraordinary emergency" (Notlage) for 2024 due to the Ukraine war, the energy crisis and the need to decarbonise its economy.

Bremen is a German city-state, along with Berlin and Hamburg. City-states have a higher spending burden than regional states, as they need to undertake the functions belonging to both a city and a state. Bremen has the highest debt per capita of the German states and its direct debt of EUR22,680 million end-2023 corresponds to a debt per capita of EUR34,012. The average debt per capita of the German states is EUR7,033.

Bremen generally issues bonds to refinance its debt and is an opportunistic issuer of loans, in line with other Fitch-rated states. Together with a group of four to six other German states, Bremen is part of the joint bond Laender issue, a joint issue made by a group of Laender two to three times a year with a minimum amount of EUR1 billion. This is a well established capital market instrument, further diversifying the state's funding sources. The last joint jumbo issue was the 65th bond issued in October 2024.

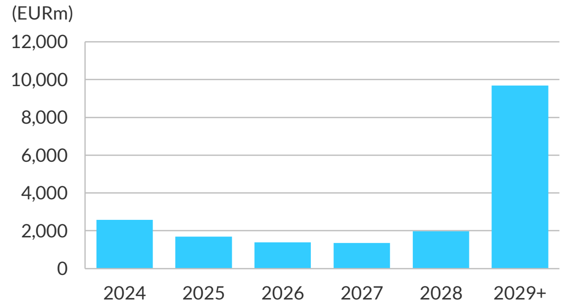
Overall, Bremen has very good access to the capital markets. Floating-rate debt issues are all hedged and there is no foreign-currency debt. Bremen is therefore not exposed to market volatility.

### Overall Adjusted Debt Structure




Source: Fitch Ratings, State of Bremen

### Debt Maturity Profile




Source: Fitch Ratings, State of Bremen

### Liabilities and Liquidity Flexibility: Stronger

The German Laender operate in a strong framework for emergency liquidity support provided by the national government with a counterparty risk of 'AAA'. This established and active liquidity management system, together with the Laender's strong access to capital markets and corresponding strong refinancing capacity and appropriate treasury facilities, should prevent delays in the provision of liquidity and support.

The liquidity risk of a single Land is avoided through bilateral and mutual agreements linking all Laender as well as the Bund, ensuring their ability to assist one another. Liquidity would only fail to be forthcoming for any given Land in the event of a complete federal breakdown, in which neither the Laender nor the Bund itself could provide liquidity.

All the liquidity provision facilities underline the strong financial support mechanism that is anchored in the German financial constitution, which requires the Bund and the Laender to support any single state in financial distress. This sub-factor is core to Fitch's rating approach for the German Laender.

### Debt Analysis

| | 2023 |
|---|---|
| Fixed rate (% of direct debt) | 100 |
| Debt in foreign currency (% of direct debt) | 0 |
| Apparent cost of debt (%) | 2.35 |
| Weighted average life of debt (years) | 7.3 |

Source: Fitch Ratings, State of Bremen

### Liquidity

| (EURm) | 2023 |
|---|---|
| Total cash, liquid deposits and sinking funds | 2,090 |
| Restricted cash | 0 |
| Cash available for debt service | 2,090 |
| Undrawn committed credit lines | 0 |

Source: Fitch Ratings, State of Bremen

## Financial Profile Assessment

### Financial Profile: bbb category

### Financial Profile Score Summary

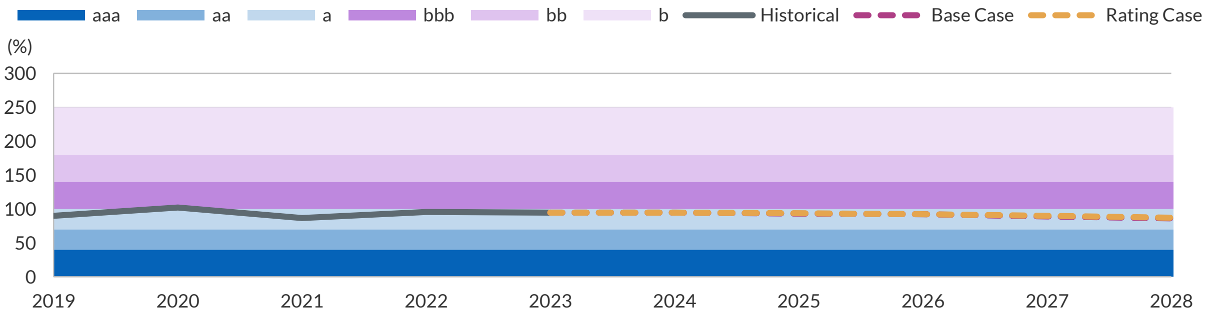
| | Primary Metric | | Secondary Metrics | |
|---|---|---|---|---|
| | Economic Liability Burden (%) | Payback Ratio (x) | Coverage (x) | Fiscal Debt Burden (%) |
| aaa | X ≤ 40 | X ≤ 5 | X >= 4 | X ≤ 50 |
| aa | 40 < X ≤ 70 | 5 < X ≤ 9 | 2 ≤ X < 4 | 50 < X ≤ 100 |
| a | 70 < X ≤ 100 | 9 < X ≤ 13 | 1.5 ≤ X < 2 | 100 < X ≤ 150 |
| bbb | 100 < X ≤ 140 | 13 < X ≤ 18 | 1.2 ≤ X < 1.5 | 150 < X ≤ 200 |
| bb | 140 < X ≤ 180 | 18 < X ≤ 25 | 1 ≤ X < 1.2 | 200 < X ≤ 250 |
| b | X > 180 | X > 25 | X < 1 | X > 250 |

Note: Yellow highlights show metric ranges applicable to Issuer
Source: Fitch Ratings

Fitch classifies German Laender as 'Type A' LRG's as the state has the ability to incur structural deficits and as the German Laender share some key attributes of sovereignty with the central government.

We assess Bremen's economic liability burden (primary metric) at 86.9% according to our rating case for 2028 (2023: 94.4%), corresponding to the 'a' category. However, on the basis of a weaker assessment of the secondary metrics – the payback ratio is assessed at 22.4x (bb category), the synthetic debt service coverage ratio at 0.6x (b) and the fiscal debt burden at 273.6x (b) – we assess Bremen's overall financial profile in the 'bbb' category.

### Economic Liability Burden - Fitch's Base and Rating Case Scenarios




Source: Fitch Ratings, State of Bremen

Fitch's base-case scenario considers the assumptions that are primarily derived from economic data, including its Global Economic Outlook and the Germany sovereign report, as well as the issuer's forecast. Our assumptions for cash flow in years 2024 to 2028 are primarily based on economic data, in particular national nominal GDP growth and inflation forecasts.

Our rating case is a "through-the cycle" scenario, which incorporates a combination of revenue and cost stresses. It is based on 2019-2023 actual figures and 2024-2028 projected ratios. The rating case ends in 2028 and relies on the assumptions in the table below.

### Scenario Assumptions Summary

| Assumptions | 5-Year Historical Average | 2024 - 2028 Average Base Case | 2024 - 2028 Average Rating Case |
|---|---|---|---|
| Operating revenue growth (%) | 10.0 | 2.4 | 2.3 |
| Tax revenue growth (%) | 8.7 | 3.3 | 3.1 |
| Current transfers received growth (%) | -0.9 | -1.1 | -1.1 |
| Operating expenditure growth (%) | 7.4 | 2.4 | 2.4 |
| Net capital expenditure (average per year; m) | -586 | -697 | -697 |
| Apparent cost of debt (%) | 2.7 | 2.0 | 2.0 |

| Outcomes | 2023 | 2028 Base Case | 2028 Rating Case |
|---|---|---|---|
| Economic liability burden (%) | 94.4 | 86.3 | 86.9 |
| Payback ratio (x) | 22.4 | 20.8 | 22.4 |
| Overall payback ratio (x) | 27.4 | 25.3 | 27.1 |
| Actual coverage ratio (x) | 0.5 | 0.4 | 0.4 |
| Synthetic coverage ratio (x) | 0.6 | 0.6 | 0.6 |
| Fiscal debt burden (%) | 287.4 | 268.2 | 273.6 |

Source: Fitch Ratings, State of Bremen

Fitch's net adjusted debt at end-2023 of EUR20,590 million reflects Bremen's direct debt (2023: EUR22,680 million) less unrestricted cash (2023: EUR2,090 million). Direct debt consists of long-and short-term debt of EUR22,613 million and Intergovernmental debt of EUR67 million end-2023.

Direct debt is likely to increase by about EUR1.3 billion during 2024. This is based on the state's decision to incur additional debt mainly to cope with the ongoing needs stemming from the refugee crisis and to support the transition of Bremen's economy towards green energy.

Bremen's net overall debt of EUR25,280 million also includes the state's guarantees (2023: EUR1,478 million) and the debt of its majority-owned government-related entities and other contingent liabilities (2022, latest available information: EUR3,212 million). Fitch views Bremen's contingent liabilities as low risk.

## SCP Positioning and Peer Comparison

### Analytical Outcome Guidance

| Risk Profile | Financial Profile | | | | | |
|---|---|---|---|---|---|---|
| Stronger | aaa or aa | a | bbb | bb | b | |
| High Midrange | aaa | aa | a | bbb | bb | b |
| Midrange | | aaa | aa | a | bbb | bb or below |
| Low Midrange | | | aaa | aa | a | bbb or below |
| Weaker | | | | aaa | aa | a or below |
| Vulnerable | | | | | aaa | aa or below |
| **Suggested analytical outcome (SCP)** | **aaa** | **aa** | **a** | **bbb** | **bb** | **b** |

Source: Fitch Ratings

Fitch publicly rates 11 German states, of which one has an SCP at 'aaa', five have SCPs at 'aa+', three at 'aa', one at 'aa-' and one at 'a'.

Bremen's ELB in 2028 is the highest of all Fitch publicly rated Laender at 86.9%, corresponding to a Financial Profile of 'bbb' and an SCP of 'a'. Saarland has the second-highest ELB at 78.8%, resulting in a Financial Profile of 'a' and an SCP of 'aa-'.

Hamburg has the lowest ELB of all Fitch-rated Laender at 45.7%, corresponding to a Financial Profile of 'aa' and an SCP of 'aaa'.

| | Risk Profile | Financial Profile Score | SCP | Rating floor | LT IDR |
|---|---|---|---|---|---|
| Bremen, State of | Stronger | bbb | a | AAA | AAA/Stable |
| Saarland, State of | Stronger | a | aa- | AAA | AAA/Stable |
| Berlin, State of | Stronger | a | aa | AAA | AAA/Stable |
| Saxony-Anhalt, State of | Stronger | a | aa | AAA | AAA/Stable |
| North Rhine-Westphalia, State of | Stronger | a | aa+ | AAA | AAA/Stable |
| Mecklenburg-Western Pomerania, State of | Stronger | a | aa+ | AAA | AAA/Stable |
| Hamburg, State of | Stronger | aa | aaa | AAA | AAA/Stable |

Source: Fitch Ratings

## Long Term Rating Derivation

### From SCP to LT IDR : Factors Beyond the SCP

| | | Support | | | | | |
|---|---|---|---|---|---|---|---|
| SCP | Sovereign LT FC IDR | Intergovern. Financing | Ad hoc Support | Floor | Rating Cap | Leeway above Sovereign (notches) | LT FC IDR |
| a | AAA | - | - | AAA | - | - | AAA |

Source: Fitch Ratings, State of Bremen

Bremen's IDRs are linked to the Bund's. We assess Bremen's Standalone Credit Profile (SCP) at 'a', which reflects a 'Stronger' risk profile and a financial profile that Fitch assesses at 'bbb' under its rating-case scenario. No other factors affect the rating.

Bremen's IDRs are driven by the stability of the solidarity system that underpins the state's creditworthiness, irrespective of the key risk factors and financial profile assessment.

The solidarity system is enshrined in the German constitution and reflects the institutional framework of the Laender. According to the German constitution, all member states of the federal republic are jointly responsible for supporting a Land in financial distress. If a Land experiences "extreme budgetary hardship", it is entitled to financial assistance from all other Laender and the Bund. This principle has been reaffirmed by the constitutional courts on more than one occasion, most recently in 2006.

## Short Term Rating Derivation

Bremen's Short-Term IDRs of 'F1+' are consistent with its Long-Term IDRs of 'AAA'.

## National Ratings

Not applicable.

## Transaction and Securities

Bremen's senior unsecured debt ratings are in line with its Long- and Short-Term IDRs.

## Criteria Variation

Not applicable.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

## Appendix A: Financial Data

### State of Bremen

| (EURm) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024rc | 2025rc | 2026rc | 2027rc | 2028rc |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Performance** | | | | | | | | | | |
| Taxes | 3,372 | 3,846 | 4,511 | 4,676 | 5,074 | 5,110 | 5,325 | 5,527 | 5,713 | 5,919 |
| Transfers received | 2,092 | 1,867 | 2,176 | 2,042 | 1,788 | 1,768 | 1,748 | 1,728 | 1,708 | 1,688 |
| Fees, fines and other operating revenues | 284 | 300 | 362 | 392 | 302 | 322 | 342 | 362 | 382 | 402 |
| Operating revenue | 5,748 | 6,013 | 7,048 | 7,111 | 7,164 | 7,200 | 7,415 | 7,617 | 7,803 | 8,009 |
| Operating expenditure | -4,659 | -5,305 | -6,591 | -5,984 | -6,243 | -6,462 | -6,604 | -6,742 | -6,884 | -7,029 |
| Operating balance | 1,089 | 708 | 457 | 1,127 | 921 | 739 | 811 | 875 | 919 | 980 |
| Interest revenue | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Interest expenditure | -601 | -612 | -595 | -572 | -527 | -420 | -432 | -480 | -528 | -552 |
| Current balance | 538 | 146 | -88 | 605 | 444 | 368 | 429 | 445 | 441 | 478 |
| Capital revenue | 199 | 225 | 240 | 206 | 153 | 359 | 202 | 200 | 200 | 200 |
| Capital expenditure | -607 | -681 | -817 | -916 | -933 | -1,437 | -809 | -800 | -800 | -800 |
| Capital balance | -408 | -456 | -577 | -710 | -780 | -1,078 | -607 | -600 | -600 | -600 |
| Total revenue | 5,997 | 6,288 | 7,338 | 7,367 | 7,367 | 7,609 | 7,667 | 7,867 | 8,053 | 8,259 |
| Total expenditure | -5,867 | -6,598 | -8,003 | -7,472 | -7,703 | -8,319 | -7,845 | -8,023 | -8,212 | -8,381 |
| Surplus (deficit) before net financing | 130 | -310 | -665 | -105 | -336 | -709 | -178 | -156 | -159 | -122 |
| New direct debt borrowing | 2,321 | 3,169 | 2,129 | 1,622 | 1,720 | 3,918 | 1,688 | 1,388 | 1,358 | 1,968 |
| Direct debt repayment | -2,321 | -2,696 | -1,601 | -1,342 | -1,260 | -2,580 | -1,690 | -1,390 | -1,360 | -1,970 |
| Net direct debt movement | 0 | 473 | 529 | 280 | 460 | 1,338 | -2 | -2 | -2 | -2 |
| Overall results | 130 | 163 | -137 | 175 | 124 | 629 | -180 | -158 | -161 | -124 |
| **Debt and Liquidity** | | | | | | | | | | |
| Short-term debt | 0 | 0 | 0 | 732 | 200 | 1,690 | 1,390 | 1,360 | 1,970 | 1,310 |
| Long-term debt | 20,777 | 21,505 | 22,220 | 22,160 | 22,413 | 22,263 | 22,563 | 22,593 | 21,983 | 22,643 |
| Intergovernmental debt | 76 | 74 | 71 | 69 | 67 | 65 | 63 | 61 | 59 | 57 |
| Direct debt | 20,853 | 21,579 | 22,291 | 22,960 | 22,680 | 24,018 | 24,016 | 24,014 | 24,012 | 24,010 |
| Other fitch-classified debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjusted debt | 20,853 | 21,579 | 22,291 | 22,960 | 22,680 | 24,018 | 24,016 | 24,014 | 24,012 | 24,010 |
| Guarantees issued (excluding adjusted debt portion) | 1,252 | 1,294 | 1,546 | 1,262 | 1,478 | 1,478 | 1,478 | 1,478 | 1,478 | 1,478 |
| Majority-owned GRE debt and other contingent liabilities | 2,567 | 4,532 | 4,532 | 2,404 | 3,212 | 3,212 | 3,212 | 3,212 | 3,212 | 3,212 |
| Overall adjusted debt | 24,672 | 27,404 | 28,368 | 26,626 | 27,370 | 28,708 | 28,706 | 28,704 | 28,702 | 28,700 |
| Total cash, liquid deposits, and sinking funds | 0 | 0 | 4,909 | 2,190 | 2,090 | 2,719 | 2,539 | 2,381 | 2,220 | 2,096 |
| Restricted cash | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unrestricted cash | 0 | 0 | 4,909 | 2,190 | 2,090 | 2,719 | 2,539 | 2,381 | 2,220 | 2,096 |
| Net adjusted debt | 20,853 | 21,579 | 17,382 | 20,770 | 20,590 | 21,299 | 21,477 | 21,633 | 21,792 | 21,914 |
| Net overall debt | 24,672 | 27,404 | 23,459 | 24,436 | 25,280 | 25,989 | 26,167 | 26,323 | 26,482 | 26,604 |
| Enhanced net adjusted debt | 20,777 | 21,505 | 17,311 | 20,701 | 20,523 | 21,234 | 21,414 | 21,572 | 21,733 | 21,857 |
| Enhanced net overall debt | 24,596 | 27,330 | 23,388 | 24,367 | 25,213 | 25,924 | 26,104 | 26,262 | 26,423 | 26,547 |

rc - rating case
Source: Fitch Ratings, State of Bremen

## Appendix B: Financial Ratios

### State of Bremen

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024rc | 2025rc | 2026rc | 2027rc | 2028rc |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Performance Ratios** | | | | | | | | | | |
| Operating balance/operating revenue (%) | 19.0 | 11.8 | 6.5 | 15.9 | 12.9 | 10.3 | 10.9 | 11.5 | 11.8 | 12.2 |
| Current balance/current revenue (%) | 9.3 | 2.4 | -1.3 | 8.5 | 6.2 | 5.1 | 5.7 | 5.8 | 5.6 | 5.9 |
| Operating revenue annual growth (%) | 4.5 | 4.6 | 17.2 | 0.9 | 0.8 | 0.5 | 3.0 | 2.7 | 2.4 | 2.6 |
| Operating expenditure annual growth (%) | 6.5 | 13.9 | 24.3 | -9.2 | 4.3 | 3.5 | 2.2 | 2.1 | 2.1 | 2.1 |
| Surplus (deficit) before net financing/total revenue (%) | 2.2 | -4.9 | -9.1 | -1.4 | -4.6 | -9.3 | -2.3 | -2.0 | -2.0 | -1.5 |
| Surplus (deficit) before net financing/GDP (%) | 0.4 | -1.0 | -1.9 | -0.3 | -0.9 | -1.7 | -0.4 | -0.4 | -0.4 | -0.3 |
| Total revenue annual growth (%) | 4.6 | 4.9 | 16.7 | 0.4 | 0.0 | 3.3 | 0.8 | 2.6 | 2.4 | 2.6 |
| Total expenditure annual growth (%) | 4.6 | 12.5 | 21.3 | -6.6 | 3.1 | 8.0 | -5.7 | 2.3 | 2.4 | 2.1 |
| **Debt Ratios** | | | | | | | | | | |
| **Primary Metrics** | | | | | | | | | | |
| Economic liability burden (%) | 90.1 | 102.2 | 86.7 | 95.4 | 94.4 | 94.6 | 93.5 | 92.3 | 89.7 | 86.9 |
| Enhanced economic liability burden (%) | 89.8 | 101.9 | 86.5 | 95.2 | 94.2 | 94.4 | 93.4 | 92.2 | 89.6 | 86.8 |
| Payback ratio (x) (Net adjusted debt to operating balance) | 19.1 | 30.5 | 38.0 | 18.4 | 22.4 | 28.8 | 26.5 | 24.7 | 23.7 | 22.4 |
| **Secondary Metrics** | | | | | | | | | | |
| Fiscal debt burden (%) (Net debt-to-operating revenue) | 362.8 | 358.9 | 246.6 | 292.1 | 287.4 | 295.8 | 289.7 | 284.0 | 279.3 | 273.6 |
| Synthetic debt service coverage ratio (x) | 0.6 | 0.4 | 0.3 | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 |
| Actual debt service coverage ratio (x) | 0.4 | 0.2 | 0.2 | 0.6 | 0.5 | 0.2 | 0.4 | 0.5 | 0.5 | 0.4 |
| **Other Debt Ratios** | | | | | | | | | | |
| Liquidity coverage ratio (x) | 0.4 | 0.2 | 0.2 | 3.2 | 1.7 | 0.9 | 1.7 | 1.8 | 1.8 | 1.3 |
| Direct debt maturing in one year/total direct debt (%) | 0.0 | 7.8 | 6.1 | 8.2 | 11.4 | 7.0 | 5.8 | 5.7 | 8.2 | 5.5 |
| Direct debt (annual % change) | 1.0 | 3.5 | 3.3 | 3.0 | -1.2 | 5.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Apparent cost of direct debt (interest paid/direct debt) (%) | 2.9 | 2.9 | 2.7 | 2.5 | 2.3 | 1.8 | 1.8 | 2.0 | 2.2 | 2.3 |
| **Revenue Ratios** | | | | | | | | | | |
| Tax revenue/total revenue (%) | 56.2 | 61.2 | 61.5 | 63.5 | 68.9 | 67.2 | 69.5 | 70.3 | 70.9 | 71.7 |
| Current transfers received/total revenue (%) | 34.9 | 29.7 | 29.7 | 27.7 | 24.3 | 23.2 | 22.8 | 22.0 | 21.2 | 20.4 |
| Interest revenue/total revenue (%) | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Capital revenue/total revenue (%) | 3.3 | 3.6 | 3.3 | 2.8 | 2.1 | 4.7 | 2.6 | 2.5 | 2.5 | 2.4 |
| **Expenditure Ratios** | | | | | | | | | | |
| Staff expenditure/total expenditure (%) | 31.2 | 29.2 | 25.0 | 27.8 | 28.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current transfers made/total expenditure (%) | 40.9 | 43.7 | 41.6 | 34.7 | 35.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest expenditure/total expenditure (%) | 10.2 | 9.3 | 7.4 | 7.7 | 6.8 | 5.1 | 5.5 | 6.0 | 6.4 | 6.6 |
| Capital expenditure/total expenditure (%) | 10.4 | 10.3 | 10.2 | 12.3 | 12.1 | 17.3 | 10.3 | 10.0 | 9.7 | 9.6 |

rc - rating case
Source: Fitch Ratings, State of Bremen

## Appendix C: Data Adjustments

### Net Adjusted Debt Calculations

Bremen's net adjusted debt considers its short- and long-term debt, its intergovernmental debt as well as its unrestricted cash available.

### Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using cost of debt. This synthetic calculation is used to assess the German LRGs' debt sustainability.

### Specific Adjustments

None.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.