Landkreditt Bank

Rating report

Issuer
A-

Outlook
Stable

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Summary and Outlook

Landkreditt Bank's issuer rating of A- reflects the following assessments:

- **Business model assessment: Focused (high)**. Landkreditt Bank is the main operating company of Landkreditt SA, a cooperative owned by Norwegian farmers. The group is a leading provider of financial services to Norway's agricultural sector. Management continues to pursue a growth strategy in the agricultural sector as well as with personal customers to achieve greater scale and to diversify the business. Ongoing efforts to develop the group's insurance, asset management and real estate brokerage businesses enables the group to meet the broad financial needs of its customers.
- **Operating environment assessment: Very supportive (low).** Norway is a relatively small open economy with one of the highest levels of per capita income in the world and low unemployment. A very strong government fiscal position provides ample capacity to support the economy when needed. The regulatory framework is well established and rigorous, and the central bank has a good track record of providing refinancing facilities to banks in times of stress. While competition is high, there is also a long history of cooperation among domestic banks.
- **Long-term sustainability assessment (ESG factor): Developing**. Building upon its origins as a digital bank, Landkreditt continues to invest in technology to support business growth and increase efficiency. Work is ongoing to continue incorporating ESG considerations into the credit process and to develop capabilities to meet evolving sustainability disclosure requirements. Landkreditt aims to encourage the sustainability efforts of Norwegian farmers.
- **Earnings and risk exposures assessment: Supportive**. Reflecting its cooperative business model and low risk culture, Landkreditt generates relatively stable but somewhat lower returns than domestic peers. Earnings, nevertheless, are more than sufficient to absorb credit costs. Asset quality has remained sound despite the elevated interest rate environment and a more uncertain economic backdrop. Most lending is secured by either residential or agricultural property or land.
- **Financial viability assessment: Comfortable**. Landkreditt maintains robust solvency metrics underpinned by material earnings retention. Cooperative members understand the need to safeguard the group's solidity and that retained earnings are important for future growth. Like with other Norwegian banks, Landkreditt relies to some extent on market funding, including covered bonds. Customer deposits, however, remain the primary funding source.

The Stable Outlook reflects Scope's view that the risks to the current rating are balanced.

The upside scenario for the rating and Outlook:

- Further diversification of the business while controlling risks and maintaining satisfactory returns

The downside scenarios for the rating and Outlook:

- A deterioration in earnings which impedes the group's business development and resilience
- Business expansion which materially increases the group's risk profile

Table 1: Rating drivers

	Rating drivers	Assessment					
STEP 1	Operating environment	Very constraining	Constraining	Moderately supportive	Supportive	Very supportive	
	Low/High	*Low*			*High*		
	Business model	Narrow	Focused	Consistent	Resilient	Very resilient	
	Low/High	*Low*			*High*		
	Initial mapping	**bbb**					
	Long-term sustainability	Lagging	Constrained	Developing	Advanced	Best in class	
	Adjusted anchor	**bbb**					
STEP 2	Earnings capacity & risk exposures	Very constraining	Constraining	Neutral	Supportive	Very supportive	
	Financial viability management	At risk	Stretched	Limited	Adequate	Comfortable	At risk
	Additional factors	Significant downside factor	Material downside factor	Neutral	Material upside factor	Significant upside factor	
	Standalone rating	**a-**					
STEP 3	External support	Not applicable					
Issuer rating		**A-**					

Table 2: Credit ratings

		Credit rating	Outlook
Issuer	Landkreditt Bank		
	Issuer rating	A-	Stable
	Senior unsecured preferred debt rating	A-	Stable
	Senior unsecured non-preferred debt rating	BBB+	Stable
Issuer	Landkreditt Boligkreditt	A-	Stable

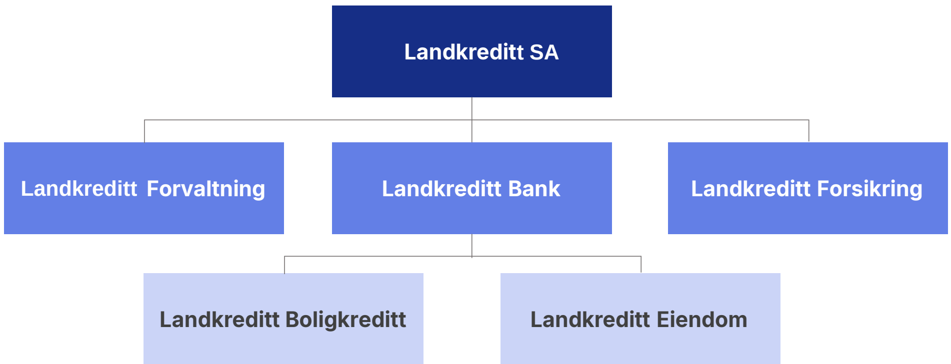
1. Business model

'Focused – high' business model assessment

Landkreditt is a leading provider of financial services to the Norwegian agricultural sector, with a market share of 20%. Banking activities account for over 90% of the group's net income. To complement the banking business, the group has in recent years acquired an insurer originally established to serve members of the agricultural cooperative and a real estate broker specialising in agricultural property. In addition, the group has established a fund management business.

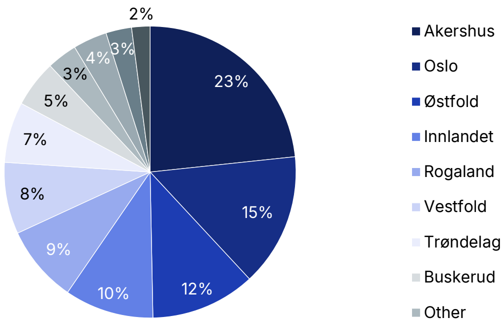
Integrating and increasing the cooperation amongst the various businesses is a management priority. Efforts are being supported by IT investments as well as a small number of district offices in key agricultural regions staffed with employees from the bank, the insurance company, and the real estate broker. The group's expanded service offering strengthens the business franchise and diversifies revenues.

Figure 1: Group structure



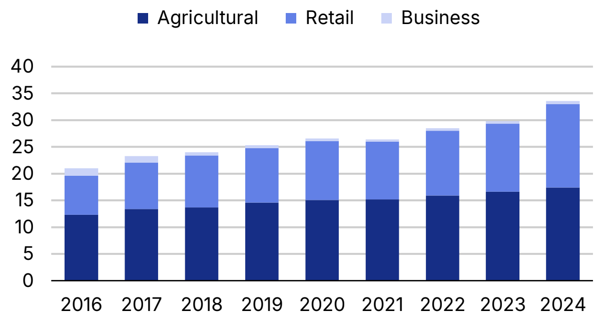
Source: Company data, Scope Ratings

Figure 2: Geographic split of loan book 2024YE (34.2bn NOK)



Source: Company data, Scope Ratings

Figure 3: Loan book by segment historical (NOK m)



Source: Company data, Scope Ratings

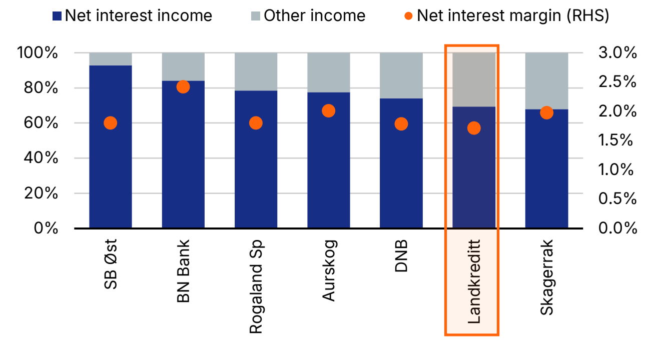
Alongside the focus on farmers, the group continues to grow in the retail mortgage market to achieve greater scale and a more diversified business. Personal customers account for about half of the loan book (Figure 3). In the retail market, the group aims to be an attractive and competitive alternative for customers. Landkreditt ranks highly in the annual EPSI bank satisfaction survey, with retail clients noting the good level of customer service, the ease of dealing with the bank, and attractive products. For 2024Y the bank ranked second across the Norwegian retail segment and had the largest improvement in score compared to all peers.

The group operates on a national scale. Nevertheless, there is a focus on regions where agriculture is an important industry. Meanwhile, retail activities are concentrated in the broader Oslo area given the bank's greater expertise in these markets and the higher activity level. Around half of the group's credit exposure is in the greater Oslo region, with the remainder spread throughout the country (Figure 2).

Landkreditt's strategy for 2024-2026 entails further profitable growth in all of the group's businesses to increase economies of scale and efficiencies. Management sees opportunities in the retail market given the group's current market position and the structural changes happening in the Norwegian banking sector. Other key priorities include remaining an attractive employer and using technology and data to enable and grow the business.

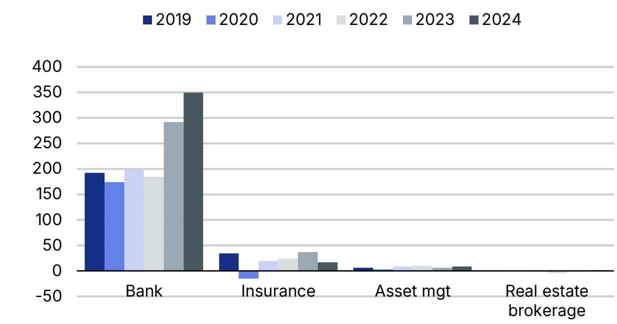
Box A: Overview of Landkreditt's non-banking businesses	
Landkreditt Forsikring (insurance)	The company was established in 2001 to provide personal insurance for members of the agricultural cooperative. The business has since expanded to offer both life and non-life insurance to farmers, individuals, and certain businesses, including cover for property, crops, vehicles, occupational injury, and loss of income. Gross premiums amounted to about NOK 1bn as of YE 2024. The company became a fully consolidated subsidiary in 2018.
Landkreditt Forvaltning (asset management)	The company manages three equity and three bond funds. Assets under management amounted to NOK 9bn as of YE 2024.
Landkreditt Eiendom (real estate brokerage)	The company specializes in real estate brokerage services for the agricultural segment but also serves personal customers. The company was acquired in March 2020 and is a wholly owned subsidiary of Landkreditt Bank.

Figure 4: Revenue profile – peer comparison



Note: Three-year averages based on 2022-2024
Source: SNL, Scope Ratings

Figure 5: Net profit by business lines (NOK m)



Source: Company data, Scope Ratings

2. Operating environment

Focus on Landkreditt's country of domicile: Norway (AAA/Stable)

Economic assessment:

- With a population of 5.4m and a nominal GDP of USD 490bn, Norway is a relatively small open economy with one of the world's highest levels of per capita income.
- Norway demonstrated significant economic resilience during the Covid-19 pandemic and the energy crisis following the escalation of the Russia-Ukraine war. Economic growth slowed in 2023 due to high inflation and as interest rates increased borrowing costs, dampening consumer spending and investment. Scope expects GDP growth to rise to 2.0% this year before converging towards Norway's growth potential of around 1.8%.
- A very strong government fiscal position provides ample capacity to support the economy as needed. Savings are accumulated through the world's largest sovereign wealth fund.
- The high home ownership rate of around 80% is a driver for high levels of household debt, both in historical terms and in comparison, to other countries. Macroprudential measures concerning mortgages and consumer debt are in place to manage these risks. Mortgage debt is primarily on floating rate terms.
- The country faces long-term transition risks to a non-commodity-dependent economy.

Soundness of the banking sector:

- The Norwegian banking system is dominated by DNB Bank, with a market share of around 25%. Nordea and other foreign banks account for about 20% of the retail market and 30% of the corporate market. There are also about 80 savings banks. Savings banks tend to operate locally or regionally and are part of alliances.
- Savings banks are consolidating due to increasing competitive and regulatory pressures.
- Residential mortgages account for more than half of total lending while the commercial real estate sector accounts for 15% of total lending (or nearly half of corporate lending).
- Exposure to commercial real estate firms is a longstanding vulnerability of the financial system.
- Digitalisation is high and the use of cash is amongst the lowest in the world.
- A rigorous regulatory framework is in place, with some of the highest solvency requirements amongst European banks.
- Norwegian banks are generally profitable, cost efficient and exhibit sound asset quality and solvency metrics.
- While customer deposits are the primary source of funding, the use of market funding is material, especially covered bonds.

Key economic indicators	2021	2022	2023	2024	2025F
Real GDP growth, %	4.0	4.0	0.7	1.2	2.0
Inflation, % change	3.5	3.5	5.5	3.4	2.6
Unemployment rate, %	4.4	4.4	3.6	4.1	4.2
Policy rate, %	0.5	2.75	4.5	4.5	3.75
Public debt, % of GDP	41	41	42	39	36
General government balance, % of GDP	10.3	10.3	16.3	14.4	13.3

Source: Scope Ratings

Banking system indicators	2020	2021	2022	2023	2024
ROAA, %	0.8	1.0	1.0	1.1	1.3
ROAE, %	8.4	10.1	10.9	12.4	13.6
Net interest margin, %	1.7	1.6	1.7	2.0	2.0
CET1 ratio, %	18.2	18.4	18.1	18.1	18.8
Problem loans/gross customer loans, %	1.6	1.4	1.1	1.1	1.0
Loan-to-deposit ratio, %	152.5	144.0	143.3	144.1	149.3

Source: SNL, Scope Ratings

3. Long-term sustainability (ESG-D)

'Developing' long-term sustainability assessment

Since its founding in 2002, Landkreditt has been a digital bank and is therefore not burdened by a legacy branch network. Management, however, sees advantages to having a local presence in key agricultural regions and has established a small number of district offices to offer a combination of banking, insurance, and agricultural real estate brokerage services.

Digitalisation

In 2022 and 2023, the group made significant technology investments, including upgrades to several central IT systems, the migration of analytical and reporting systems to the cloud and a new cloud-based core system for the insurance business. Across 2024 and 2025, the group is investing NOK 50m in new technology.

A key part of the group's strategy entails further digitalisation to support business growth and increase efficiency. To drive these efforts, a data and insight team has been established, drawing on resources and competence from both the bank and the insurance business. With insights gained from investments in digital platforms, the group aims to further strengthen its relationships with customers. In 2024 the group continued working on increasing levels of digitalisation as well as self-service customer processes.

Environmental

Environmental factors are a part of Landkreditt's risk assessment and credit processes. Various physical risks such as floods and landslides are considered. The group also collects data from agricultural customers to understand their emissions. As well, farmers are assessed on whether they adopt and follow national ESG initiatives. Further, the group continues to develop its stress testing and climate reporting capabilities. Landkreditt has begun preparing for CSRD.

As a signatory to the UN Principles for Responsible Banking, Landkreditt conducted materiality and impact assessments in 2023. The group seeks to contribute to more sustainable food production and assist the agricultural sector in achieving its commitment to reduce CO2 emissions by five million tons by 2030. Three key performance indicators have been set: (i) the proportion of agricultural customers with green agricultural loans, (ii) the proportion of agricultural customers who have engaged a climate advisor and/or use a carbon calculator, and (iii) the proportion of agricultural customers who have received funds for more sustainable production. The group is also working on strengthening the ability of its advisors to guide customers on investing in sustainable activities.

Landkreditt first offered green agricultural loans in 2021 and provides favourable terms for investments that contribute to more sustainable food production. The group has also offered green mortgage loans to retail customers since 2020.

Landkreditt's green bond framework has been independently assessed as being aligned with the 2021 version of the Green Bond Principles published by the International Capital Markets Association.

Governance

Landkreditt's governance structure is based on elected representatives drawn from the cooperative's approximately 8,300 members. The representatives come from 16 electoral districts around the country, with elections being held electronically to ensure wide participation. The representatives are responsible for electing the board of directors. In line with national corporate governance practices, two employee representatives also sit on the board. As well, the board has audit, risk, and remuneration committees.

Social

Landkreditt's cooperative business model inherently incorporates social objectives. In particular, the group advocates for better funding for the agricultural sector, given the increasingly challenging operating conditions for farmers. Further, the group's close ties to the agricultural industry means it plays an important role in maintaining the high quality and self-sufficiency of food production in Norway.

Figure 6: Long-term sustainability overview table[1] - [2]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇				◇			◇	
S Factor	◇				◇					◇
G Factor			◇		◇				◇	
D Factor			◇			◇			◇	

Source: Scope Ratings

[2] The overview table illustrates how each factor informs our overall assessment. Materiality refers to our assessment of the credit relevance of each factor for the banking industry. Exposure refers to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. Management refers to how we view the bank's navigation through transitions.

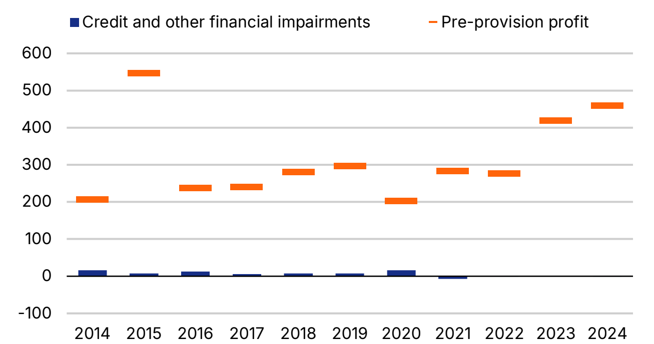
4. Earnings capacity and risk exposures

'Supportive earnings capacity and risks exposures' assessment

Reflecting its cooperative business model and low risk culture, Landkreditt generates relatively stable but somewhat lower returns than domestic peers. Earnings, nevertheless, are more than sufficient to absorb credit costs (Figure 7). Management's focus is on providing attractive and competitive financial services for members and customers, with earnings being used to ensure the group's financial solidity. For 2024Y the group reported a record year with net profits of NOK 352m driven by growth across all business lines.

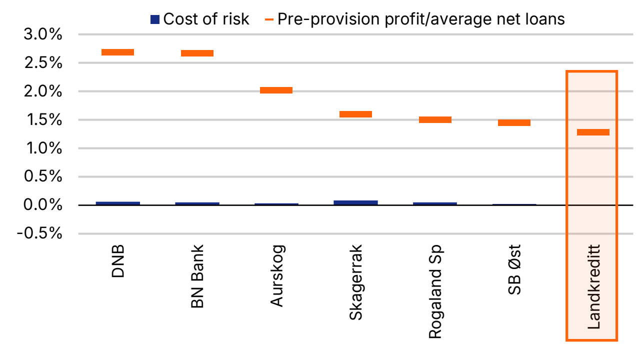
Landkreditt has demonstrated the ability to grow the business while maintaining low credit losses. Credit decisions involving agricultural customers benefit from the group's in-depth knowledge and expertise in the sector. Agricultural production in Norway is diverse, with the bank's customers producing around 20 different products in about 300 various combinations. Farmers typically also have income sources which are not solely related to agricultural production, with less than 20% of them relying on agriculture for more than 75% of their income. Further, the agricultural sector continues to benefit from strong government support.

Figure 7: Pre-provision income and provisions (NOK m)



Source: Company data, Scope Ratings

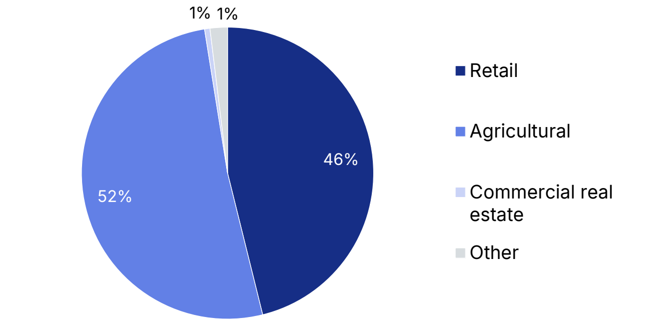
Figure 8: Peer comparison



Note: Three-year averages based on 2022-2024.
Source: SNL, Scope Ratings

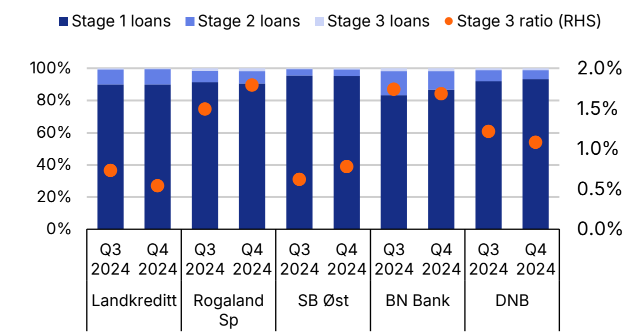
Nearly all credit exposure is secured by either residential or agricultural buildings or land. As farms are often used as primary residences, this further supports the credit quality of the loan book. Nearly 90% of agricultural loans have an LTV below 80%. At the same time, over 95% of residential mortgages have an LTV below 80%, with the average LTV being 55%. Close to 90% of the loan portfolio is considered to be in the low and low-to-medium risk categories as of YE 2024. Asset quality has remained resilient and compares well to peers despite more challenging economic conditions. There has not been a material deterioration in credit quality, nor a material increase in customers seeking payment deferrals. At YE 2024, the proportion of Stage 3 loans amounted to 0.5%, down from 0.7% at YE 2023.

Figure 9: Credit exposures



Note: NOK 34.2bn as of YE 2024.
Source: Company data, Scope Ratings

Figure 10: Asset quality - peer comparison



Source: Company data, Scope Ratings

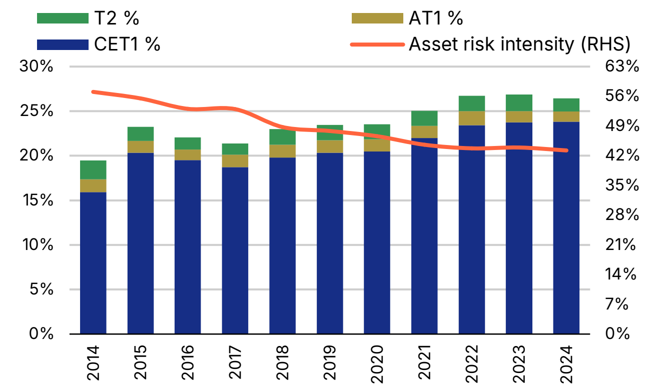
5. Financial viability management

'Comfortable' financial viability management assessment

Landkreditt manages growth to ensure a balance between profitability and maintaining a solid solvency position. The group's current capital position is expected to support planned business growth over the next few years. Further, cooperative members understand the need to maintain the group's financial solidity and do not expect earnings distributions. Instead, members and customers benefit from the reinvestment of resources into the group.

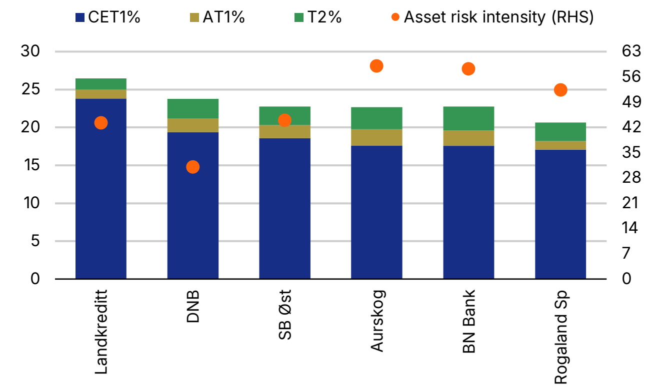
The group's solvency metrics continue to be robust and stand well above requirements. As of YE 2024, the CET1 ratio stood at 23.8% and the leverage ratio was at 10.7% above the respective requirements of 15.2% and 3%. The bank is subject to a pillar 2 requirement of 2.2% and also aims to maintain a buffer of at least 1% above its requirements.

Figure 11: Capital profile



Source: Company data, Scope Ratings

Figure 12: Capital profile – peer comparison (2024 Q4)

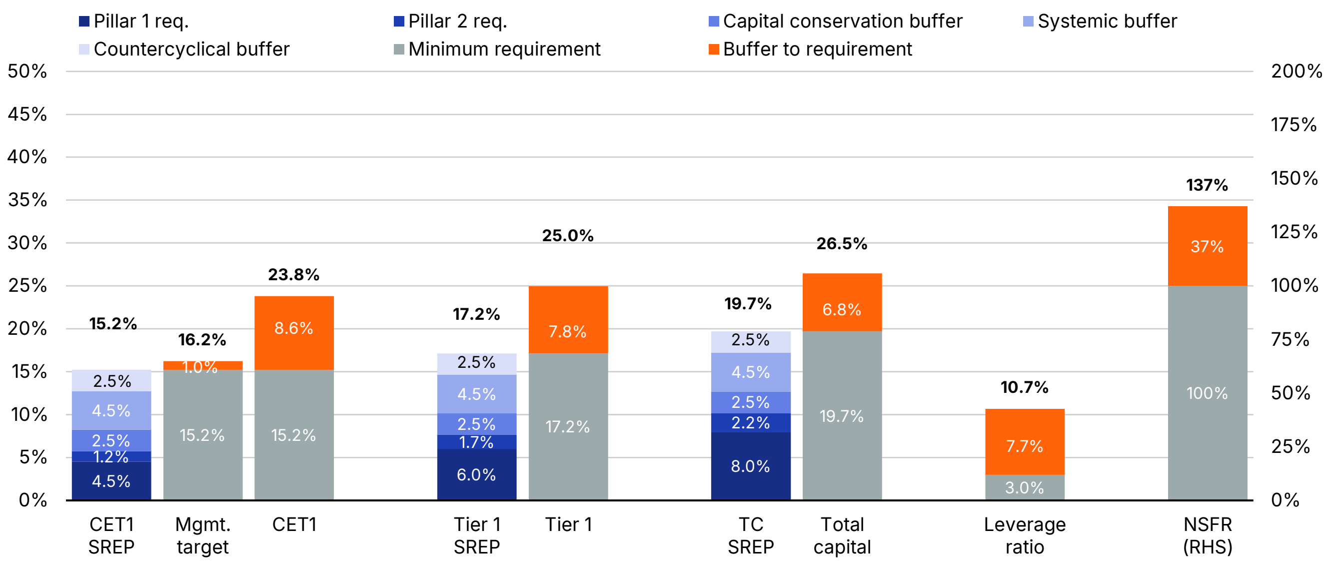


Source: SNL, Scope Ratings

Customer deposits remain the primary source of funding for the group. As with other Norwegian banks, however, they are insufficient to fully fund lending activity. Recognising the importance of maintaining a sound liquidity profile, management targets a minimum deposit-to-loan ratio of 70%, above the level of many domestic peers. In addition, the group focuses on smaller more granular deposits rather than larger deposits. Landkreditt continued to grow its deposit base in 2024, with deposits increasing 8% year-over-year.

To diversify funding sources, a fully owned covered bond issuer, Landkreditt Boligkreditt, was established in 2010. Approximately 20% of residential mortgage loans were transferred to the covered bond company in 2024. Landkreditt is a regular issuer in the domestic bond market, issuing secured, senior unsecured, and subordinated debt.

Figure 13: Overview of distance to requirements as of Q4 2024



Source: Company data, Scope Ratings

Appendix 1. Selected financial information – Landkreditt SA

	2020	2021	2022	2023	2024
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	1,246	1,306	1,169	1,463	1,321
Total securities	3,338	4,322	3,094	3,728	3,451
of which, derivatives	0	0	0	0	0
Net loans to customers	26,635	26,841	28,849	30,154	34,170
Other assets	742	782	736	627	631
Total assets	**31,961**	**33,251**	**33,848**	**35,972**	**39,573**
Liabilities					
Interbank liabilities	0	0	0	0	0
Senior debt	8,665	7,456	7,485	5,871	6,968
Derivatives	0	0	0	0	0
Deposits from customers	18,405	20,608	20,941	24,349	26,293
Subordinated debt	331	331	332	375	333
Other liabilities	1,195	1,273	1,263	1,292	1,561
Total liabilities	**28,596**	**29,668**	**30,021**	**31,887**	**35,154**
Ordinary equity	3,145	3,360	3,566	3,855	4,187
Equity hybrids	199	199	233	199	199
Minority interests	20	23	29	32	33
Total liabilities and equity	**31,961**	**33,251**	**33,848**	**35,972**	**39,573**
Core tier 1/ common equity tier 1 capital	*3,052*	*3,262*	*3,470*	*3,751*	*4,076*
Income statement summary (NOK m)					
Net interest income	410	430	476	610	718
Net fee & commission income	117	139	136	99	84
Net trading income	-30	5	-34	41	51
Other income	48	91	112	151	153
Operating income	**545**	**665**	**690**	**902**	**1,005**
Operating expenses	343	381	413	482	546
Pre-provision income	**202**	**284**	**277**	**420**	**459**
Credit and other financial impairments	16	-7	-1	1	-1
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	0	0	0
Non-recurring expense	NA	NA	0	0	0
Pre-tax profit	**186**	**291**	**278**	**419**	**460**
Income from discontinued operations	0	0	0	0	0
Income tax expense	47	66	70	101	108
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	-1	1	2	3	1
Net profit attributable to parent	**141**	**223**	**206**	**315**	**351**

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

Appendix 2. Selected financial information – Landkreditt SA

	2020	2021	2022	2023	2024
Funding and liquidity					
Net loans/ deposits (%)	145%	130%	138%	124%	130%
Liquidity coverage ratio (%)	NA	NA	NA	NA	NA
Net stable funding ratio (%)	NA	NA	144%	150%	137%
Asset mix, quality and growth					
Net loans/ assets (%)	83.3%	80.7%	85.2%	83.8%	86.3%
Problem loans/ gross customer loans (%)	1.1%	1.1%	1.0%	0.7%	0.5%
Loan loss reserves/ problem loans (%)	26.7%	28.3%	27.3%	29.9%	29.1%
Net loan growth (%)	4.8%	0.8%	7.5%	4.5%	13.3%
Problem loans/ tangible equity & reserves (%)	9.2%	8.1%	7.7%	5.6%	4.3%
Asset growth (%)	6.0%	4.0%	1.8%	6.3%	10.0%
Earnings and profitability					
Net interest margin (%)	1.3%	1.3%	1.4%	1.8%	1.9%
Net interest income/ average RWAs (%)	2.7%	2.9%	3.2%	4.0%	4.3%
Net interest income/ operating income (%)	75.2%	64.6%	69.0%	67.7%	71.4%
Net fees & commissions/ operating income (%)	21.4%	20.9%	19.7%	11.0%	8.3%
Cost/ income ratio (%)	62.9%	57.3%	59.9%	53.4%	54.3%
Operating expenses/ average RWAs (%)	2.3%	2.6%	2.8%	3.2%	3.3%
Pre-impairment operating profit/ average RWAs (%)	1.3%	1.9%	1.9%	2.8%	2.8%
Impairment on financial assets / pre-impairment income (%)	7.8%	-2.4%	-0.5%	0.2%	-0.2%
Loan loss provision/ average gross loans (%)	0.1%	0.0%	0.0%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	1.2%	2.0%	1.9%	2.8%	2.8%
Return on average assets (%)	0.4%	0.7%	0.6%	0.9%	0.9%
Return on average RWAs (%)	0.9%	1.5%	1.4%	2.1%	2.1%
Return on average equity (%)	4.3%	6.5%	5.7%	8.1%	8.3%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	20.5%	22.0%	23.4%	23.7%	23.8%
Tier 1 capital ratio (%, transitional)	21.8%	23.3%	25.0%	25.0%	25.0%
Total capital ratio (%, transitional)	23.5%	25.0%	26.7%	26.9%	26.5%
Leverage ratio (%)	10.1%	10.3%	10.8%	10.8%	10.7%
Asset risk intensity (RWAs/ total assets, %)	46.6%	44.6%	43.7%	43.9%	43.2%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

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Related research

Norwegian Bank M&A, December 2024

Bank Outlook 2025: Sound fundamentals in less benign rate environment amid geopolitical uncertainty, January 2025

European Bank Capital Quarterly: Capital positions remain sound, requirements manageable, January 2025

Applied methodologies

Financial Institutions Rating Methodology, January 2025

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