



Fit for further growth.

Annual report 2017.



Basellandschaftliche
Kantonalbank

At a glance

	2017 CHF m	2016 CHF m	2015 CHF m	2014 CHF m
Balance sheet				
Balance sheet total	24,212.2	23,689.5	23,178.4	21,492.0
Mortgage loans	18,165.6	17,556.8	17,070.2	16,611.2
Due to customers in savings and deposits	16,689.7	15,729.8	15,442.8	15,256.6
Income statement				
Business income	366.9	368.3	371.7	354.0
Operating performance	172.1	183.4	191.2	175.7
Annual net profit	133.3	133.6	130.4	115.8
Dividends on certificate capital	20.0	20.0	20.0	19.4
Profit distribution to the canton (incl. interest on endowment capital)	56.0	56.0	56.0	45.5
Further details				
Personnel (average of full-time equivalents)	673	657	639	650
Number of branches	23	24	24	24
Assets under management	19,782	19,072	18,599	19,625
Average interest margin	1.322%	1.405%	1.396%	1.310%
Return on equity	8.99%	9.52%	11.04%	9.03%
Cost-income ratio I	48.10%	44.04%	42.38%	44.15%
Cost-income ratio II	53.10%	50.20%	48.56%	50.35%
Kantonalbank Certificate				
Year-end share price (in CHF)	904.50	900.00	889.00	895.50
Nominal value (in CHF)	100.00	100.00	100.00	100.00
Dividend per certificate (in CHF)	35.00	35.00	35.00	34.00
Market capitalisation ¹⁾	1,962.8	1,953.0	1,929.1	1,943.2

¹⁾ Certificate and endowment capital

Options for further growth.

Dear owners, customers, and employees

In the past year, the global economic situation stabilised largely and the political and economic prospects brightened up. The interest rate conditions, however, remained challenging which left its mark on the result of Basellandschaftliche Kantonalbank: the income from the fee and commission business was distinctly higher, but it could not quite compensate for the decline in the interest result. Owing to the continuing negative interest environment, the growth in volume in the mortgage business is not reflected in the interest income. However, in 2017, thanks to the intensified advisory activities, the bank achieved a gratifying result.

“In the future, we would like to consolidate our internal cooperation, concentrate on our strengths, and focus more intensely on our strategic customer segments”.

Profitability in the past year was again very good. This goes to prove once more that BLKB’s forward-looking, long-term business model makes the bank a reliable partner for customers, employees, and the owner alike. We want to keep it that way. Therefore, the last twelve months were dedicated to our creating options for further growth: we sharpened our vision and our values and advanced our corporate strategy. At the same time, we adapted our corporate culture to the changing banking environment. We plan to create a motivating work environment by promoting diversity, flexible working models, by the elimination of job titles and the introduction of first-name terms.

We also tuned our offer more effectively to the current environment and the demands of our clients. Due to the continuously

low interest rates, it is important to broadly support the income. With the range of services introduced at the beginning of 2017, and the expansion of the range of funds in autumn, BLKB will be able to organise its investment business in a profitable way, in the future, too. Furthermore, we enlarged our service range for digitally-savvy customers by introducing a new e-banking system. With Digifolio, we can also offer asset management online. Sticking to our motto of “Learning from our customers”, we made suitable adjustments to our branches according to the demands of our customers and the public in general. We want to be a reliable and loyal partner for our clients and we are trying to surprise them with innovative and simple services. Something that remains very important, whether on a digital or analogous basis, is the personal contact and the individual experience.

The remarkable aspects of BLKB are its excellent capital structure, its low risk profile, and its high profitability. These characteristics make BLKB a safe and predictable partner. The prerequisite for all our actions is the trust you put in us. This is our incentive and motivation.

We like to thank you very cordially for your valuable support in the past year.



Elisabeth Schirmer-Mosset
Chairwoman of the Board
of Directors



John Häfelfinger
CEO



John Häfelfinger, Elisabeth Schirmer-Mosset

Highlights 2017.

Business performance.

In 2017, we achieved a solid operating performance of CHF 172.1 m and, compared with the previous year, a nearly unchanged annual profit of CHF 133.3 m.



Cost-income ratio.

As in the past years, the cost-income ratio of 48.1 per cent represents a good value. It continues to lie within the targeted range of 40 to 50 per cent, although we continually invest in the future. The ratio allows for a more than average build-up of the reserves which, in turn, is essential for the bank's risk-bearing capacity and the high, financial stability.

Refinancing ratio.

BLKB is able to refinance 85.7 per cent of its loans by customer deposits. In 2017, our customers entrusted us with deposits of CHF 16,700 m.

Equity capital ratio.

The equity capital ratio lies at an excellent 220.5 per cent and the risk buffer has again increased. BLKB therefore, is among the most solidly financed banks in Switzerland.

Return on equity.

In spite of the very high equity capital ratio, return on equity of 9 per cent is distinctly higher than our target of the 10-year-swap plus 3%.

Dividend paid to the owners.

The ordinary dividend payment to the canton of Basel-Landschaft of CHF 60 m and the dividend payment on certificates of CHF 35 to the bearers of certificates remain unchanged.



Development of corporate strategy.

In the last few months, we created options for further growth: we sharpened our vision and developed our corporate strategy even further. BLKB concentrates on private and SME customers in the north-western part of Switzerland and invests systematically into emerging markets in the digital field on a national level.



Customer assets invested in funds of our own.

In September and October 2017, we launched two sustainable index funds and another two sustainable strategy funds "BLKB Next Generation". By the end of 2017, our customers invested a total of 626 m in BLKB funds.



Asset management online

In July 2017, we enlarged the offer to our digitally-minded customers and launched Digifolio, a system of managing assets online.



#BLKBCrowdfunding.

In November 2017, we enhanced our digital offer and launched wemakeit, a new solution for crowd-supporting. By this platform, we support projects in the areas of society, environment, and start-ups. Part of our sponsoring has thus been transferred to the digital era.



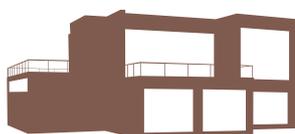
Investment into expert advice and customer proximity.

We are investing a double-digit amount in millions into our branches. Advisory services are being strengthened and the experience of space renewed. Direct, on-site contact with our customers and the personal touch are still very important.



Quality of credit portfolio.

The quality of our credit portfolio, particularly in terms of residential building, is very solid at a loan-to-value ratio of 55.1 per cent.



Strong risk awareness.

Thanks to our excellent risk culture and the sensible way of dealing with business processes, we were again able to keep losses in the operating business activities at a very low level.



Fit for further growth.

In 2017, the annual profit of Basellandschaftliche Kantonalbank (BLKB) at CHF 133.3 m remained almost unchanged in comparison with the previous year. The bank achieved a very good result with an operating performance of CHF 172.1 m (–6.2 per cent compared to 2016).

The ordinary dividend payment of CHF 60 m to the canton of Basel-Landschaft as well as the dividend payment of CHF 35 per certificate to the bearers of certificates remain the same. Business income suffered a slight decrease by 0.4 per cent to CHF 366.9 m. The driving forces were the lower net income from the interest-related business of CHF 272.7 m (–4.3%) which is the result of the interest rate policy of the SNB. The commission and fee business at CHF 65.3 m (+13.9%) and trading operations at CHF 18 m (+2.3%) exceeded by far the previous year's result. Operational expenses went up by 8.8 per cent to CHF 176.5 m. They were determined by investments in the future and special contributions to the Basellandschaftliche Pensionskasse BLPK (pension fund).

The cost-income ratio lies at 48.1 per cent which means an increase of 4.1 percentage points compared to the previous year. The ratio lies at the upper end of the targeted range of 40 – 50 per cent because of investments in the future viability of the bank. Return on equity at 9 per cent is distinctly higher than our target of the 10-year swap+3%. The equity capital ratio lies at an out-standing 220.5 per cent. The equity capital was therefore strengthened by CHF 115.6 m.

Strong trust in BLKB

The inflow of net new money amounted to a solid CHF 383.3 m and is broadly supported. This is ample proof of BLKB's competence and the high trust it enjoys by its clients. Liabilities from customer deposits increased to a total of CHF 16,700 m (+6.1%). Customer assets amount to CHF 19,800 m of which 3,100 m (+1.7%) under asset management contracts.

Another CHF 626 m (+54.7%) are invested in funds of our own. The asset management, geared towards sustainability, is highly appreciated by our customers. The lending business was largely refinanced by customer deposits. The refinancing ratio increased to 85.7 per cent (+2.5 percentage points).

Risk-awareness in growth of mortgages and loans to private and corporate customers

BLKB increased its mortgages to CHF 18,200 m (+3.5%), in spite of a continuing cautious risk policy. CHF 931 m thereof are attributed to e-mortgages (+7.9%). Their growth declined in comparison with the previous year.

Credit limits to corporate customers went slightly up to CHF 5 200 m (+4.1%). In 2017, BLKB contributed again considerably to the financing of the economy of the north-western region of Switzerland.

The quality of our mortgage portfolio, particularly in terms of residential building, is very solid at a very low loan-to-value ratio of 55.1 per cent. This is also reflected in the moderate building of value adjustments of CHF 3.5 m.

Slight decline in the interest-related business

At an amount of CHF 272.7 m, net income from the interest-related business is below the previous year's (–4.3%). The key factor for the decline is to be found in the interest structure and the negative margins of the liabilities side business.

Substantial growth in the commission business

Income from the commission business showed a considerable increase of 13.9 per cent to CHF 65.3 m which is the result of an income increase in the securities business. In the credit business too, commission income increased.



VISION

We are solving our customers' financial affairs in a surprisingly simple way. In the Baselbiet and in the whole of Switzerland. Today and tomorrow.

Reassuring increase in the trading business

The income of the trading business amounted to CHF 18 m (+2.3%) and thus stabilised at a reassuring level.

Increase in the other ordinary income

The other ordinary income went up to CHF 10.8 m (+28.7%). The increase is mainly due to the sale of financial investments and income from participations.

Very good risk culture

Due to the excellent risk culture and the sensible way of dealing with business processes, BLKB was again able to keep losses in its operational business activities at a very low level.

Mindful way of dealing with costs and investments in the future

In 2017 too, BLKB handled its costs cautiously, and at the same time invested in the future. The operating expenses amounted to a total of CHF 176.5 m (+8.8%). The other operating expenses increased to CHF 64.4 m (+7.8%). The reasons were notably investments in the realignment of our branches as well as the digital development. With the introduction of the new e-banking and the launch of Digifolio, the online asset management, we achieved important milestones in our digitisation strategy. Personnel expenses went up to CHF 112.2 m (+9.4%) the reason being mainly nonrecurring deposits in favour of BLPK (pension fund). This amount, debited to the corporate results 2017, amounts to CHF 8 m. The measures were triggered by the decrease of the technical interest rate of 3 per cent down to 1.75 per cent at BLPK.

Changes in the composition of the Executive Board and the Board of Directors

On 1 January 2017, John Häfelfinger took over the operational management of BLKB. Consequently, he is responsible

for the whole business year 2017. Beat Oberlin, former chairman of the Executive Board of BLKB, retired from work in 2017. Herbert Kumbartzki, head of Finance and Risk Management, and member of the Executive Board, was made deputy CEO in February 2017.

Daniel Brändlin, head of Corporate Customers & Loans, resigned from the Executive Board of BLKB, on 9 June 2017. His successor is Beat Röhliberger, formerly head of Customers & Loans, Binningen / Special financings. Beat Röhliberger was named member of the Executive Board and head of Corporate Customers, as per 1 July 2017.

In the context of the further development of its corporate strategy, BLKB carried out some organisational adjustments which took effect on 1 September 2017. It created a new business area called Strategy & Market Services headed by Manuel Kunzelmann. He too, was named member of the Executive Board as per 1 July.

In December 2017, Elisabeth Schirmer-Mosset, chairwoman of the Board of Directors announced the resignation from her office, as per 30 June 2018. Her successor will be elected in line with the modified Cantonal Law on Kantonbank, and will be made public by the Regierungsrat (executive body) of the canton in spring 2018.

Michel Degen, head of Risk Office, was made Chief Risk Officer by the Bankrat (Board of Directors) with effect of 1 January 2018.



GOAL

We remain market leader in the area of Private & Corporate Customers in our region and we gain additional market shares. Innovation will help us to gain new customer segments on a national scale.

He took over from Herbert Kumbartzki, deputy CEO and head of Finance & Risk Management who, until then, was responsible for both these functions. Michel Degen (CRO) will continue to be responsible towards Herbert Kumbartzki (CFO) and he will report directly to the Executive Board. In this way, BLKB attributed the roles of the CRO and the CFO to two persons, thus making its Corporate Governance even more professional.

Strengthened market position thanks to an enhanced corporate strategy

In the past year, BLKB enhanced its corporate strategy and sharpened its vision. We want to solve the financial matters of our customers in a surprisingly simple way – in our region and in the whole of Switzerland. The focus on our clients has been intensified, and we are concentrating on private and corporate customers in the region of north-western Switzerland. These are the segments where we want to expand above the market. At the same time, we are making targeted investments in markets and niches on a national level in order to attract customers with a penchant for digitisation. Selectively, we are doing business with highly moneyed private customers, large companies, and external asset management firms. In compliance with our adjustment of the corporate strategy we also completed or re-defined our corporate values.

Team bank and intelligent use of the bank's balance sheet

In the support of our customers, we would like to present ourselves proactively and impart our pooled competences. Therefore, BLKB employees join forces across business areas by building skilled teams of advisers in the area of private and corporate customers. Experts from Financial Planning, Trade, and Executives & Entrepreneurs join these teams as well. The in-

telligent use of the bank's balance sheet is closely tied to this bank team approach. In other words, we want to bring about the best for both our clients and our owners. We want to be the house bank for

our customers. If we know more about them, we will be able to advise them more comprehensively, and to appreciate the scope of their business in its entirety. In this way, we can reduce our risk and use the bank's balance sheet purposefully in favour of all people concerned.

Expansion of the digital offer

In the past year, BLKB continued its strategy of digitisation. In April 2017, we introduced a new e-banking system thus creating the prerequisites for the integration of further digital appliances on our e-banking platform. In July 2017, the offer of digital services was completed with Digifolio, an online asset management tool. The technology behind Digifolio is put at our disposal by True Wealth AG, we established a partnership with in August 2016.

BLKB was further able to strengthen its position in the area of digital solutions for companies. The online market place KMU-cash, launched in October 2016 together with the Fintech start-up Advanon, was able to win new users.

In November 2017, BLKB launched its crowd-supporting solution wemakeit which replaced the former crowd-funding market place "together successful". By using the BLKB-channel on wemakeit, we support sustainable projects in the areas of society, environment, and start-ups in the cantons of Basel-Landschaft, Basel-Stadt, Aargau, and Solothurn. So, by allocating funds via wemakeit, we transferred a part of our sponsoring right into the digital era.

POOLING OF BUSINESS ACTIVITIES IN THREE STRATEGIES

1 In the future, we will concentrate even more on our core business with private and corporate customers in the region of north-western Switzerland. This is where we develop our core competences and where we expand our strong competitive position. By systematically using our business potential, we can achieve the main income of our bank, in the future as well. We are investing in positive experiences for our customers in order to sustainably secure our market shares.

2 In addition to the approved business model, we generate substantial income by investing systematically in emerging markets and market niches on a national level. By teaming up internally and with external cooperation partners, we create innovative market services for our customers.

3 Complementary efforts aim at the use of existing core business resources in order to generate additional income by doing business with well-to-do customers, large companies, and external asset managers.

Strengthening the position as a sustainable asset manager

In the investment business, BLKB further strengthened its position. In January 2017, we launched four service offers for our customers with a securities portfolio, thereby sharpening the profile of our asset management. Moreover, since April 2017, we have only recommended sustainable investments which, apart from financial criteria, also take ecological and social aspects into account, and which are in line with criteria imposed by Corporate Governance.

At the same time when BLKB launched its service offers, the bank started an investment research of its own. The range of papers covered by our financial analysts comprises about 150 entirely sustainable shares from Switzerland, Europe and North America.

In autumn, BLKB enlarged its range of funds. In September 2017, we were one of the first banks in Switzerland to launch two index funds which respect criteria of sustainability. These are the funds "BLKB IQ Responsible Equity Switzerland" and "BLKB IQ Responsible Equity World ex Switzerland". They enable the investor to stay close to the index on the Swiss or on the global stock market. In October 2017, we launched another two sustainable strategy funds, the "BLKB Next Generation Fund Growth" and the "BLKB Next Generation Fund Equity". The first two "Next Generation Strategy" funds have already been launched in April 2016.

Expansion of our position as a mortgage provider

Being the market leader in the north-western region of Switzer-

land, BLKB was again able to advance its position in the mortgage market, thereby sticking to its risk-oriented lending policy. The lending process was simplified and made more customer-friendly. Mortgage applications may now be decided on directly and swiftly by our consultants in compliance with set guidelines. The bank also enlarged mortgage offers for elderly mortgage applicants. If necessary, retired persons have now the possibility to supplement their existing mortgages.

Strengthening the position as an SME bank

In the past year, BLKB expanded its services for companies. In autumn 2017, BLKB, as a refinancing bank, and in cooperation with Xport Finance AG, started to offer solutions in the area of export financing. The bank also invested in its capital market know-how thus strengthening its position in the Swiss-franc capital market. In January 2017, for example, we were able to successfully accompany EBM Netz AG's bond issue of CHF 100 m, in our capacity as a Joint Lead Manager.

Fit for the future thanks to a strong equity base

Thanks to good annual results in the past years, we were able to continuously strengthen our equity position. We want to do that in the future, too which complies with BLKB's and the owners' wish. One of our main tasks, according to the Cantonal Law on Kantonallbank, is "to contribute, within the framework of competition and our own financial means, to a balanced development of the canton and the region of north-western Switzerland". We supply the local companies with the necessary loans thus enabling them to successfully conduct their business. Homeowners in the canton also consider us the most important bank.

VALUES

Proximity

We meet on an equal footing.

Focus on performance

We thrive for top performance.

Integrity

We are reliable and we live our values.

Market orientation

We outperform our competition.

Each loan has to be backed by equity. It is therefore essential to have a strong capital base. The most important source of increasing equity for a cantonal bank is the retention of earnings. This is the only way we can keep supporting the local economy in the long run and in unpredictable times.

More customer proximity and strengthening of advice

While developing digital solutions, BLKB still counts on the personal touch and advice. This is why we are not only continuing to expand our digital channels but are also investing in our consulting skills. In March 2017, the bank announced that, in the course of the next four years, it would invest a double-digit amount of millions in their branches. Offers will be adapted to the changing customer behaviour. Advisory services and the experience of the space surrounding the customer will be ever more important. The traditional business at the counter will be continued at a reduced level.

The realignment of our branches was elaborated by exchanging ideas and impressions with customers and non-customers. We planned to equip 18 branches with consultants who give on-site advice. Another four branches will be equipped for self-service. The mobile bank will be renewed as well. The location of Reigoldswil, which operated at a reduced level before, was closed with effect of September 2017. Reactions from the general public, however, made BLKB rethink its decision. The bank agreed with the community on a pilot trial: ever since the close-down of the branch, the mobile bank has come to Reigoldswil twice a week. In autumn 2018, BLKB will decide on whether the offer is to be continued or not.

BLKB also enhanced its advisory competence in 2017. In the past year, all consultants of corporate customers plus all the front office employees were successfully certified. Certification of the consultants of private customers is following in 2018. It is our aim to be the first place to turn to for our customers

when they have financial questions. This is why we improved our processes of sales management and expert advice and added advisory elements concerning crucial events in the lives of customers. These crucial events were defined in close cooperation with our customers. We standardised coordination between marketing planning and those units with customer contact across all business areas and we realigned them in a more strategic way. This is how we can additionally strengthen internal cooperation, strategic marketing, and the focus on the clients.

Sustainable means geared for the future

In the area of sustainability, BLKB continued its commitment in the past year, too. Currently, we are defining more precisely our perception of sustainability and the way we position ourselves within the concept of orientation towards the future. You will find more ample information in the sustainability report starting from page 17 (German version only).

Security as the basis for our business model

At the meeting of 20 September 2017, the Bankrat carried out a comprehensive risk evaluation. Further information on risk management and on risk control is available in the notes on the financial statement under Notes on business activities.

VALUES

Security

We are protecting our excellent reputation.

Innovation

We are curious and safeguard our future.

Geared towards the future

We create values for a shared future.

Simplicity

We surprise you with simple solutions.

Position as a future-oriented employer

BLKB made it its goal to work in a more modern and innovative way. In 2017, we advanced a flat organisation, diversity and the system of first-name terms. In September 2017, BLKB decided to abolish existing ranks and to promote the staged model. By waiving ranks, the focus is put on the employees' competences and their function.

In order to address the changing job profiles and the mounting demands, BLKB developed different change-programmes. In the context of the bank's gender and diversity initiative, BLKB decided on different measures in order to intensify Work Smart. Work Smart is an initiative across companies with the aim of advancing flexible working models. Starting from 1 January 2018, we are offering a whole range of working models enabling our employees to organise their working time and place flexibly. In 2018, we will also introduce a mentoring programme for employees in leading or specialist's positions. Another goodie is the re-entry programme for women employees after a baby leave. The programme accompanies them in planning their further career at BLKB. In connection with the gender and diversity initiative, BLKB joined the organisation "Swiss Business Women". In 2018, we will join "Family-friendly Economic Region of Basel". These memberships push us to actively promote female potential and equality as well as the compatibility of occupation and family life.

In its effort to be an attractive employer, BLKB wants to offer its employees a secure pension fund. In November 2017, BLKB passed a range of measures in order to counter the reduction of the technical interest rate and the conversion rate by BLPK (pension fund). These measures include, among others, a new

conversion rate of 5.28 per cent, the raising of the pension age to 64 years, a deposit into the fluctuation reserve and the building of an employer contribution reserve. Thus, the bank achieved a solid and fair solution for the employees.

BLKB received recognition for its employer performance: in August 2017, the bank ranked third in the 250 – 999 employee category of the Swiss Employer Award. This distinction encourages BLKB to further boost its attractiveness as an employer.

The number of full-time equivalents went up by 16 to 673 (+2.4%) compared to the previous year.

Look ahead

In 2018, BLKB expects the result to be lower than in the previous year because of the lasting unfavourable interest rate structure. A possible rise of interest rates is not expected before the end of 2018 or rather the beginning of 2019. We will continue to invest in the future, particularly in modernising the infrastructure, in digitisation and in professionals and specialists. For a short time, the cost-income ratio will exceed the 50 per cent threshold, but will go back to the targeted range of 40 to 50 per cent, in the medium term.

BLKB counts on a stable environment in Switzerland. Tensions in the euro zone continue to be postponed instead of being eliminated. They may bring about volatility any time. Progress in the United States is difficult to predict and may generate additional volatility in the financial markets. In such an environment, security and predictability are of the essence and BLKB continues to stand up for these values.

Responsible and transparent.

Basellandschaftliche Kantonalbank (BLKB) is a company under public law, independent of state administration.

The legal basis is formed by the following cantonal laws:

- Cantonal Law on Kantonalbank of 24 June 2004, in force since 1 January 2005 (Systematische Gesetzessammlung des Kantons Basel-Landschaft SGS 371).
- Decree on the determination of certificate and endowment capital of Basellandschaftliche Kantonalbank of 23 June 2005, in force since 1 September 2005 (SGS 371.1).
- Ordinance on the Cantonal Law on Kantonalbank of 14 December 2004, in force since 1 January 2005 (SGS 371.11).

On the basis of the Cantonal Law on Kantonalbank of 24 June 2004, the Board of Directors (Bankrat) of Basellandschaftliche Kantonalbank passed several rules. The enactments mentioned below are posted on the Internet (blkb.ch/rechtsgrundlagen).

- Rules of procedure and organisation of 1 July 2011, in force since 1 July 2011.
- Rules on the issuance of Kantonalbank certificates of 20 May 2015, in force since 1 November 2015.
- Rules on the Executive Committee of 1 July 2015, in force since 1 July 2015.
- Rules on the Audit and Risk Committee of 31 August 2009, in force since 1 January 2010.
- Rules on the Human Resources and Organization Committee of 19 December 2011, in force since 19 December 2011.
- Rules on Controlling of 31 August 2009, in force since 1 January 2010.
- Rules on Risk Control of 31 August 2009, in force since 1 January 2010.
- Rules on Compliance Function of 1 Mai 2015, in force since 1 July 2015.
- Rules on the Compensation Scheme of 18 May 2016,

in force since 1 June 2016.

- Rules on the Areas of Responsibility of BLKB from 21 November 2011 in force since 1 January 2012.

Purpose, legal form, and state guarantee are governed by the Cantonal Law on Kantonalbank of 24 June 2004:

Art. 1 Company and Head Office

¹ "Basellandschaftliche Kantonalbank" in the following called the "bank" is a bank with its head office in Liestal.

² The bank may set up branches or establish subsidiaries or participate in other companies.

Art. 2 Purpose

¹ The bank offers all the services of a universal bank.

² The bank serves the purpose of contributing, within the framework of competition and its own financial means, to a balanced development of the canton and the region of north-western Switzerland.

Art. 3 Legal Form

The bank is an independent public law company with its own legal personality.

Art. 4 State Guarantee

¹ The canton guarantees for the liabilities of the bank, in the case of the bank's own means not being sufficient

² The bank compensates the canton for the state guarantee. Payment is calculated according to the risk amount and the probability of non-payment. Details are set down in the ordinance.

With effect of 1 July 2017, FINMA implemented the circular 2017/1 "Corporate Governance – Banks" (granting a transitional period as per 1 July 2018). Furthermore, in June 2017, the Landrat (legislative body) passed the new law on participations

(Public Corporate Governance, PCGG) for controlling and monitoring of participations of the canton, and an amendment of the Kantonalbankgesetz. Both laws entered into force on 1 January 2018. On the basis of these new laws, the Bankrat (Board of Directors) carried out a comprehensive review of the above mentioned rules and revised them in some parts. They are to be implemented as per mid-2018.

The following notes are structured along the "Directive on Information Relating to Corporate Governance" (DCG), issued by the SIX Swiss Exchange in the version being valid on 13 December 2016. For reasons of clarity, subtitles may be combined with a relevant remark. In cases of facts not being applicable or relevant for Basellandschaftliche Kantonalbank, this will be indicated explicitly.

In comparison with the previous year, there have not been any material changes.

1 STRUCTURE AND SHAREHOLDERS

1.1 Structure

1.1.1 Description of the operational structure

Basellandschaftliche Kantonalbank restricts its market presence on the region of Basel focusing thereby on the canton of Basel-Landschaft where it operates, at a total of 22 locations, retail banking, private banking (at four locations) credit and investment business for private customers as well as financing solutions for corporate customers. Additional locations are being served by a mobile bank. Bank authorities of the Basellandschaftliche Kantonalbank are the Bankrat (Board of Directors) of the Basellandschaftliche Kantonalbank, the chairperson of the Board of Directors, the three bank committees "Executive Committee", "Audit and Risk Committee", "Human Resources and Organization Committee", and the Executive Board. Responsibilities and competencies of the different bodies are detailed below, in items 3 (Bankrat) and 4 (Executive Board).

1.1.2 Listing

Company: Basellandschaftliche Kantonalbank (BLKB).

Registered office: Liestal.

Listed in: Zurich, SIX Swiss Exchange AG.

Market capitalisation:

- Market capitalisation of Kantonalbank certificates (570,000 at a nominal value of CHF 100.–) at the year-end rate of CHF 904.5: CHF 515.6 m.
- Market capitalisation of the endowment capital of CHF 160m assuming an analogous valuation: CHF 1,447.2 m.
- Total market capitalisation (Kantonalbank certificates and endowment capital):
- CHF 1,962.8 m.

Percentage of participations of group companies: none

Securities identification number: 147355

ISIN number: CH0001473559

1.2 Significant shareholders

Due to its legal form, BLKB has non-voting share capital only, and consequently shareholders have no voting rights. All voting rights are exclusively held by the canton of Basel-Landschaft.

1.3 Cross-shareholdings

There are no cross-shareholdings.

Board of Directors

Internal auditing
Francesco Lava

Chairwoman of the Board of Directors
Elisabeth Schirmer-Mosset

Human Resources
Daniel Kern

CEO
John Häfelfinger
Dep. CEO Herbert Kumbartzki

Process Management
Tobias Klein

Private Customers & Direct Banking
Kaspar Schweizer

Private Banking & Investment Services
Jean-Daniel Neuenschwander

Corporate Customers
Beat Röhli

Market Area Arlesheim
Urs Hofmann

Executives & Entrepreneurs
Ivan Krattiger

Corporate Customers Arlesheim
Jürg Zumbrunn

Market Area Binningen
Dieter Halbeisen

Private Banking
Hermann Wermuth

Corporate Customers Binningen
Olivier Erni

Market Area Liestal
Andreas Röhli

Investment Centre
Patrik Janovjak

Corporate Customers Liestal
Patrick Scheuber

Direct Marketing
Fredy Werder

Trade
Jörg Salzmann

Structured Financing & Key Account Management
Daniel Gröli

Sales Management & Support
Stefan Brunner

Financial Planning
Martin Voléry

Sales Management & Support
Roman Hügli

Sales Management & Support
Claudia Späne

External auditing

Ernst & Young

Secretariat of the Bankrat

Barbara Imwinkelried

Marketing

Communication & Branding

Monika Dunant

Strategy & Market Services

Manuel Kunzelmann

Strategy, Innovation & Sustainability

Manuel Kunzelmann

Project Portfolio & Project Management

Thomas Friedli

Product Management

Matthias Kottmann

Marketing & Channel Management

Pascal Jaberg

Finance & Risk Management

Herbert Kumbartzki

Risk Office

Michel Degen

Credit Risk Management

Thomas Oehler a.i.

Legal & Compliance

Alexandra Lau

Financial Accounting

Michael Obrecht

Controlling

Thomas Börlin

Integral Security

Jörg Seeholzer

IT & Services

Simon Leumann

IIT-Planning & IT-Architecture

Manuel Ballmer

IT-Projects & Optimising

Alban Wyss

IT-Operations

Patrick Sulzer

Processing Centre

Chantal Schmidt

Infrastructure

Tanja Kalt

2 CAPITAL STRUCTURE

2.1 Capital

The original capital of the bank consists of the endowment capital of the canton and the certificate capital. The term “certificate” corresponds to participation certificate and the term “certificate capital” to non-voting share capital in other companies. According to art. 5, para. 2 of the Cantonal Law on Kantonbank, the Landrat is responsible for changes of the endowment capital, whereas responsibility for the issuance of certificates, lies with the bank, according to para. 3 of the said law.

The endowment capital of the canton is CHF 160m. The certificate capital is CHF 57m and is broken down into 570,000 bearer certificates of CHF 100.– nominal value, each. Free float is 100 per cent.

According to art. 5, para. 3 of the Cantonal Law on Kantonbank, the certificate capital must not exceed 50 per cent of the amount of the endowment capital.

2.2 Conditional and authorised capital in particular

The legislative body (Landrat) may create authorised capital upon request by the executive body (Regierungsrat). Within this framework, the Bankrat may raise the certificate capital and the Regierungsrat may raise the endowment capital. As per 31 December 2017, there is neither conditional nor authorised capital.

2.3 Changes in capital

The certificate capital of CHF 57m and the endowment capital of CHF 160m were not changed in the past three years.

2.4 Shares and participation certificates

The certificate capital amounts to CHF 57m and is broken down into 570,000 bearer certificates of CHF 100.– nominal

value (see item 2.1 above). Certificates entitle the holder to dividend payments, subscription rights and to a proportional share of potential liquidation proceeds. Certificates do not entitle the holder to exercise any participation rights such as the right to vote, object or challenge. The Board of Directors and the Executive Board may invite bearers of certificates to meetings in order to inform them of the course of the bank’s business. These meetings are purely informative; resolutions cannot be passed (Cantonal Law on Kantonbank art. 5, para. 3; Rules on the issuance of Kantonbank certificates arts. 8 and 9); (blkb.ch/rechtsgrundlagen).

2.5 Dividend-right certificates

There are no dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

There is non-voting share capital only (see item 2.4); consequently nominee registrations are not possible. There are no limitations as to transferability of certificates. Due to this particular legal form the following rules of DCG are not applicable:

2.6.1 Limitations on transferability for each share category, along with an indication of statutory group clauses, if any, and on rules for granting exceptions.

2.6.2 Reasons for granting exceptions in the year under review.

2.6.3 Admissibility of nominee registrations along with an indication of per cent clauses, if any, and registration conditions.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability.

2.7 Convertible bonds and options

There are no outstanding convertible bonds and options.

3 BANKRAT (BOARD OF DIRECTORS)

The Cantonal Law on Kantonbank (blkb.ch/rechtsgrundlagen) uses the term “Bankrat”. The following explanations on item 3 “Board of Directors” of the Directive on Information Relating to Corporate Governance (DCG) refer to the Bankrat of Basellandschaftliche Kantonbank.

3.1 and 3.2 combine: personal data (3.1) as well as other activities and vested interests (3.2): All members of the Bankrat are Swiss citizens. All members of the Bankrat are non-executive; they do not exercise any operational management tasks at BLKB. No Bankrat member was a member of the Executive Board during the three years preceding the period under review. No member of the Bankrat has any relevant business connections with BLKB.

In line with the FINMA circular 2017/1 “Corporate Governance – Banks”, at least one third of the Bankrat members should meet the requirements of independence as stated by margin no. 17-25 of the said FINMA circular. With the exception of Anton Lauber who, as a member of the Regierungsrat of the canton of Basel-Landschaft, does not meet the criteria (margin no. 24 et seq., FINMA circular), all the other members of the Bankrat are considered independent in accordance with the principles of the said circular. The following overview of Bankrat members also contains information on their first election and the remaining term of office which is again listed in a table in item 3.4.2.

01

Elisabeth Schirmer-Mosset, born in 1958. Chairwoman of the Board of Directors (Bankrat) and member of the Executive Committee, and the Human Resources and Organization Committee. First election: 2000; current term of office 1-7-2015 to 30-6-2019. Lic. rer. pol. (university degree in economics); co-owner of Ronda AG, Lausen; chairwoman of the Board of Directors; chairwoman of Personalvorsorgestiftung Ronda, Lausen; chairwoman of Stiftung Oase, Liestal. Business connections with BLKB.

On 5 December 2017, Elisabeth Schirmer-Mosset announced that she would resign from her office as per 30 June 2018, one year before her current term expires. The Regierungsrat entrusted a selection committee with the evaluation of suitable candidates and with the proposal of a candidate for consideration. According to the amended Cantonal Law on Kantonbank, the formal election will be performed by the Regierungsrat (see item 3.4.1).

02

Anton Lauber, born in 1961. Vice chairman of the Board of Directors. First election: 2013; current term of office: 1-7-2015 to 30-6-2019. Dr. jur., solicitor. Independent lawyer from 1997 to 2013. Member of the Regierungsrat of the canton of Basel-Landschaft since 1-7-2013, head of the cantonal department of Finance and Churches. Board member of: Verwaltungskommission Basellandschaftliche Gebäudeversicherung (house insurance, chm); ARA Rhein, Pratteln; Kraftwerk Birsfelden; supervisory commission of Sozialversicherungsanstalt BL (social insurance, chm); member of the Diocesan Conference of the Roman Catholic Diocese of Basel; chairman of the commission of Handschin-Stiftung.





03

Erica-Dubach Spiegler, born in 1969. Member of the Executive Committee. First election: 2015; current term of office: 1-7-2015 to 30-6-2019. Dr. sc ETH, independent management consultant for digital strategy with particular regard to the retail and consumer goods industry. Board member of Goldbach Group AG and Biella-Neher Holding. Member of the advisory group on digitisation of Metall Zug AG.

04

Doris Greiner, born in 1977. Deputy chairwoman of the Audit and Risk Committee. First election: 2002; current term of office 1-7-2015 to 30-6-2019. Swiss certified public accountant. Lic. phil. (university degree in psychology, subsidiary subjects: economics/business administration and state/private law). BA in Business and Economics. Head of Risk Management & Reinsurance specialty Lines CH & International with Helvetia Insurance Switzerland.

05

Nadine Jermann, born in 1972. Member of the Executive Committee. First election: 2015; current term of office 1-7-2015 to 30-6-2019. Lic.oec. HSG, independent advisor in the area of Marketing. Business connections with BLKB.

06

Frank Mutschlechner, born in 1969. Member of the Audit and Risk Committee. First election: 2011; current term of office: 1-7-2015 to 30-6-2019. Lic. rer. pol. (university degree in economics). Executive MBA. Managing partner at CFM partners AG, Zurich. Business connections with BLKB.

07

Stefan Naef, born in 1962. Deputy chairman of the Human Resources and Organization Committee. First election: 2015; current term of office 1-7-2015 to 30-6-2019. Lic. oec. publ., CFO EBM Elektra Birseck Münchenstein. Board member of: EBM Wärme Holding AG, Münchenstein; Aare Versorgungs AG, Olten (AVAG); Ruchfeld AG, Münchenstein; Erdgas AG Laufental-Thierstein (GASAG), Laufen; Pensionskasse EBM, Münchenstein, member of the Foundation Board; Silo und Umschlag AG, Buchs SG; Turicerstamm AG, Zürich. Business connections with BLKB.

08

Marco Primavesi, born in 1959. Chairman of the Executive Committee. First election: 2015; current term of office 1-7-2015 to 30-6-2019. Swiss-certified expert in organisation management. Board member of: COCUS Schweiz AG, Basel; Tecalto AG, Zürich (chm); Scope Solutions AG, Basel (chm). Business connections with BLKB.

09

Kurt Strecker, born in 1963. Chairman of the Human Resources and Organization Committee. First election 2015; current term of office 1-7-2015 to 30-6-2019. Swiss-certified banking specialist, entrepreneur, founder, and co-owner of FIBA Group, Formex AG. Board member of: SK Invest AG, Hergiswil; FIBA Consulting AG, Aesch; FIBA Immobilien AG, Dornach; FIBA Invest AG, Aesch; FIBA Real Estate AG, Aesch; Palmhome Holding AG, Hergiswil; Formex AG, Bubendorf; Formex Immobilien AG, Bubendorf; Joya Immobilien AG, Hergiswil; Midwest Holding AG, Hergiswil; Midwest Real Estate AG, Aesch; Reval Investissement SA, Hergiswil; Suhre Park AG, Aesch; MSM Finanz AG, Aesch; MSM Holding AG, Aesch; MSM Immobilien AG, Aesch; Madison Investment AG, Hergiswil; MIGOMI Invest AG, Hergiswil; Felmos Invest AG, Hergiswil. Business connections with BLKB.

10

Dieter Völlmin, born 1956. Chairman of the Audit and Risk Committee. First election: 2007; current term of office: 1-7-2015 to 30-6-2019. Dr. jur., solicitor. Independent lawyer in Muttenz since 1988. Board member of: Herrenknecht Schweiz Holding AG, Altdorf; Herrenknecht (Schweiz) AG, Amsteg; Psychiatrie Baselland, Liestal. Chairman of the cantonal commission for taxation and enactments. Business connections with BLKB.

3.3 Due to BLKB's legal form, the Ordinance Against Excessive Compensation with Respect to Listed Stock Corporations (OaEC) does not apply. Therefore, there are no statutory rules regarding the number of permitted activities in line with Art. 12, para. 1. lit.1 of OaEC.

3.4 Election and term of office

3.4.1 Principles of the electoral procedure

The Cantonal Law on Kantonallbank stipulates the following on the election of the members of Bankrat:

Art. 10 Cantonal Law on Kantonallbank

"The Bankrat consists of nine to eleven members. One member of the Regierungsrat is also a member of the Bankrat. The Board of Directors (Bankrat) is elected by the Landrat upon proposal by the Regierungsrat. The Landrat is bound to the election proposals". Based on these provisions, the members of the Board of Directors are elected in globo. Furthermore, the law lays down material criteria for the election into the Bankrat which were detailed by the executive body in the ordinance on the Cantonal Law on Kantonallbank (blkb.ch/rechtsgrundlagen). The Bankrat is self-constituting. Membership ends at age 70. The current term of office will end on 30 June 2019.

Outlook

According to Art. 10, para. 1 of the amended Cantonal Law on Kantonallbank which entered into force on 1 January 2018, the Bankrat will consist of seven to nine members only, chairperson included. In line with a transitional provision, the present members will stay on the board until the end of the current term of office. The chair and the other members will, from then on, be elected by the Regierungsrat. The Bankrat is self-constituting (Art. 10, para. 1 et seq.).

3.4.2 First election and remaining term of office of each member (see item 3.1/3.2)

Elisabeth Schirmer-Mosset */***		
Chairwoman	2000	to 30-6-2019 ¹
Anton Lauber		
Vice chairman	2013	to 30-6-2019
Erica Dubach Spiegler *		
	2015	to 30-6-2019
Doris Greiner **		
	2002	to 30-6-2019
Nadine Jermann *		
	2015	to 30-6-2019
Frenk Mutschlechner **		
	2011	to 30-6-2019
Stephan Naef ***		
	2015	to 30-6-2019
Marco Primavesi *		
	2015	to 30-6-2019
Kurt Strecker ***		
	2015	to 30-6-2019
Dieter Völlmin **		
	2007	to 30-6-2019

* Member of the Executive Committee

** Member of the Audit and Risk Committee

*** Member of the Human Resources and Organization Committee

¹ The chairwoman of the Board of Directors resigns with effect of 30-6-2018.

3.5 Internal organisation

3.5.1 Allocation of tasks within the Board of Directors (Bankrat)

Chairwoman: Elisabeth Schirmer-Mosset

Vice chairman: Anton Lauber

3.5.2 Members list of Bankrat committees, tasks and areas of responsibility

Executive Committee (ExC)

Members of the Executive Committee are: Marco Primavesi (chairman), Erica Dubach Spiegler, Nadine Jermann, and Elisabeth Schirmer-Mosset (deputy chairwoman). Organisation, responsibilities and tasks of the Executive Committee are detailed in the Rules on the Executive Committee.

Members of the Executive Committee possess the knowledge and experience as well as the time necessary for the fulfilment of their duties. Knowledge and experience preferably extend to the areas of leadership, strategy, corporate development, and the capability to defend opinions in a knowledgeable and sustainable way, even against the current opinion of the Executive Board or any other operational authority. Members of the Executive Committee keep up, in theory and practice, with the developments of the banking environment. Once a year at least, the Executive Committee checks, if its composition, organisation, and working methods still comply with regulatory requirements, if they meet the internal guidelines, and if they follow their own objectives.

The Executive Committee examines developments in the banking environment on a regular basis and assesses business policy and strategic alignment of the bank. The committee proposes adjustments for the attention of the Bankrat concerning the normative disposition of the bank. In cooperation with the Audit and Risk Committee it analyses annual or multi-year planning, budgeting, reporting on the course of affairs, as well as the economic and financial situation of the bank. The Executive Committee prepares the requests made by the Executive Board to the Bankrat and formulates a recommendation, for example in the assessment of cooperation and alliances, the evaluation of acquisitions and participations, activities in new fields of business, expansion into

new market areas and the choice of the IT platform.

The Executive Committee does not take any operational decisions with the exception of loans and exposures to members of the bank's governing bodies and lending activities relevant to the bank's reputation. The Rules on the Executive Committee are posted on the Internet (blkb.ch/executivecommittee).

Audit and Risk Committee (ARC)

Members of the Audit and Risk Committee are: Dieter Völlmin (chairman), Doris Greiner (deputy chairwoman), and Frenk Mutschlechner.

Similarly to the Executive Committee, the members of the Audit and Risk Committee possess the required knowledge and experience whereby Bankrat specifically expects expertise in finance and accounting, knowledge of internal and external auditing and the basic principles of an internal control system. Members of the Audit and Risk Committee, therefore, regularly take part in trainings in order to keep up in theory and practice with the latest requirements of accounting and financial reporting.

Among other things, the Audit and Risk Committee evaluates the effectiveness of the auditing company, the internal auditing, and the bank's internal control. It regularly checks if the implementation of the regulatory framework is adequate with respect to the complexity of the bank and its risk profile. If necessary, it sees to the implementation of relevant measures. The Audit and Risk Committee decides whether acceptance of the annual financial statements is to be recommended to the Bankrat for adoption.

The Rules on the Audit and Risk Committee are posted on the Internet (blkb.ch/audit-risk-committee).

Human Resources and Organization Committee (HROC)

Members of the Human Resources and Organization Committee

are: Kurt Strecker (chairman), Stephan Naef (deputy chairman), and Elisabeth Schirmer-Mosset.

Members of the Human Resources and Organization Committee possess the knowledge and experience necessary for the fulfilment of their duties as well as the required amount of time. Knowledge and experience preferably extend to the areas of leadership, strategy, corporate development, and the capability to defend an opinion in a knowledgeable and sustainable way, even against the current opinion of the Executive Board or any other operational authority. Members of the Human Resources and Organization Committee keep up, in theory and practice, with the development of the banking environment, and personnel and pension fund matters.

Once a year at least, the Human Resources and Organization Committee checks, if its composition, organisation, and working methods still comply with regulatory requirements, and if they follow their own objectives.

Among other duties, the members of the Human Resources and Organization Committee prepare personnel matters the Board of Directors (Bankrat) has to deal with, check the usefulness and compliance of personnel policy and personnel planning with the corporate policy and strategic alignment of the bank. They treat all personnel and organisational issues of the Bankrat in cooperation with the Executive Board and internal or external experts. On behalf of the Bankrat, the members of the Human Resources and Organization Committee also formulate principles and practice for the selection of the members of the Bankrat and its committees.

In accordance with the CEO, the Human Resources and Organization Committee evaluates the personnel policy of the bank, adopts the rules and procedures on salaries and pensions for the attention of the Bankrat, elects the members of any necessary

group panels, evaluates and proposes suitable candidates for the election into the Executive Board. It regularly checks on the effectiveness of the bank's internal organisational structures. The Human Resources and Organization Committee is responsible for the compensation policy, compensation practice, personnel pension plans, and the compensation guidelines for Bankrat members and Bankrat committees. It is also responsible for the compensation policy concerning the CEO and the members of the Executive Board, the evaluation of participation plans or certificates for employees and the bank's overall compensation policy. It applies to the Board of Directors (Bankrat) for the latter's compensation.

The Rules on the Human Resources and Organization Committee are posted on the Internet (blkb.ch/human-resources-and-organization-committee).

3.5.3 Work methods of the Board of Directors and its committees
The Bankrat (Board of Directors) is the governing and controlling body of the bank. It convenes upon invitation by the chairwoman of the Board of Directors as often as is required by the course of business. Bankrat meetings may be requested by three members of the Bankrat, the Executive Board or the auditors. In the period under review, the Board of Directors held thirteen meetings of which a two-day meeting behind closed doors. Meetings lasted for an average of four hours.

Bankrat meetings are usually attended by the CEO. The other members take part, if their presence is required to discuss matters concerning their area of responsibility. Meetings dealing with the balance of accounts and the report of the external auditing are always attended by the head of the internal auditing and the auditor in charge of the external auditors. For specific topics, further internal and external experts are invited to the meetings.

In general, the Bankrat makes its decisions on the basis of a

written presentment prepared and preliminarily discussed by the Executive Board and/or the Executive Committee, the Audit and Risk Committee, or the Human Resources and Organization Committee.

The Bankrat constitutes a quorum, if at least two thirds of the members are present. Votes are decided by a simple majority. The chairwoman has a casting vote which decides the issue in the event of a tied vote. Election is usually open; in the first ballot the absolute majority decides, in the second ballot a relative majority is required, in a tied vote lots are drawn.

In the reporting year, the Executive Committee held ten meetings, the Audit and Risk Committee nine, and the Human Resources and Organization Committee held twelve meetings.

Rules stipulate a minimum of one quarterly meeting for each of the three committees. On average, meetings of the above mentioned committees lasted four hours.

Valid decisions require the presence of a majority of members. Votes are decided by a simple majority. The chairperson has a casting vote which decides the issue in the event of a tied vote. Reporting relations are defined in the relevant rules, so is interaction of all three committees with each other, with the Bankrat, the Executive Board, and further panels. The relevant rules are posted on the Internet (blkb.ch/rechtsgrundlagen).

3.6 Definition of areas of responsibility

Responsibilities between the Bankrat and the Executive Board are laid down in the Rules of procedure and organisation (OGR) of 1 July 2011, and in the Rules on the Areas of Responsibility of 1 January 2012. Under the provisions of the Cantonal Law on Kantonbank of 24 June 2004, Art. 11, para. 2, and Art. 5, para. 1d of the OGR, the Bankrat is obliged to pass these rules. In Art. 5, the OGR details the non-transferable and inalienable

duties the Bankrat has to fulfil. The Rules on the Areas of Responsibility appoint in a matrix to the Bankrat, the committees, and the Executive Board their respective duties (decision, taking note, proposal).

3.7 Information and control instruments vis-à-vis the Executive Board

Internal auditing: the internal auditing acts independently of the Executive Board and follows the instructions of the chairwoman of the Board of Directors and the Audit and Risk Committee. On the professional basis, the internal auditing reports to the Audit and Risk Committee and assumes the controlling and monitoring duties the Audit and Risk Committee and the Bankrat have charged them with. Internal auditing is conducted in accordance with recognised auditing standards. The head of the internal auditing and his/her collaborators are qualified accordingly. Auditing reports are discussed in detail by the Audit and Risk Committee.

Calls by Bankrat delegations: every year, on instructions by the chairwoman of the Board of Directors, a schedule for calls on the branches and the central departments is set up. The findings of these calls are forwarded for the attention of the Bankrat.

Reporting: the Executive Board regularly informs the Board of Directors of the course of business, the income situation, risk exposure, and the advancement of projects with respect to strategy and yearly planning.

A monthly report by the Executive Board with the financial results (monthly balance and monthly income statement with comparisons of the previous year and the budget), is forwarded to the Board of Directors. A comprehensive report evaluating all the relevant risks for the bank is submitted to the Bankrat on a biannual basis.

External auditing: the representative of the statutory auditor attends Bankrat meetings dealing with the annual financial statements, the annual report and the auditing report. S/he is also present at the yearly meeting with the Financial Commission of the Landrat (executive body) dealing with the financial statement. The auditor communicates regularly with the chairwoman of the Board of Directors, the head of the Audit and Risk Committee, the head of internal auditing, and the Chief Finance Officer / Chief Risk Officer. External auditing takes note of the reporting of the internal auditing and, if necessary, comments on it.

4 EXECUTIVE BOARD

4.1 and 4.2 combine: personal data (4.1) and other activities and vested interests (4.2).

With effect of 1 September 2017, BLKB adjusted its organisational model. In that context, the bank created a new business area called "Strategy & Market Services". The Executive Board of Basellandschaftliche Kantonalbank now consists of seven members. They are all Swiss citizens.

4.3 Due to BLKB's legal form, the Ordinance Against Excessive Compensation with Respect to Listed Stock Corporations (OaEC) does not apply. Therefore, there are no statutory rules regarding the number of permitted activities in line with Art. 12, para. 1, lit. 1. of OaEC.

4.4 Management contracts

There are no management contracts with third parties.

01

John Häfelfinger, born in 1971. CEO since 2017. Advanced Federal Diploma of Higher Education in Business Administration HFW, Swiss Banking School certified. Experience in all front office jobs of banking. Last position head of Corporate & Specialty Lending, deputy head of Corporate & Institutional Clients, member of the executive board of Swiss Corporate Clients and member of the regional management team of northern Switzerland with Credit Suisse. Board member of: Handelskammer beider Basel (chamber of commerce of Basel-Stadt and Basel-Landschaft).

02

Herbert Kumbartzki, born in 1962. Member of the Executive Board since 2010; head of Finance & Risk Management. University degree in theology and philosophy (lic.theol.), Basel; university degree in economy (lic.rer.pol.), Basel; financial analyst CFA; Executive Master in HR management FHNW (University of Applied Sciences Northwestern Switzerland) Olten; head of HR and Chief Investment Officer with CIC Bank, Switzerland; Chief Investment Officer with Bank Ehinger (UBS), financial analyst and portfolio manager SBG (later UBS). Board member of: True Wealth AG, Zurich and ErfindungsVerwertung AG, Basel (since June 2017).

03

Manuel Kunzelmann, born in 1974. Member of the Executive Board since 1-7-2017. Head of Strategy & Market Services. Graduate of business economics FH, executive MBA UZH, Master of Advanced Studies FHO in Business Information Management. Many years of professional and leadership experience in the area of strategy, project management as well as segment and product management with UBS AG. With BLKB since 2009: head of the Competence Centre Market Services, head of Product Management, and head of the Strategy Office.





04

Simon Leumann, born in 1976. Member of the Executive Board since 1 October 2013; head of IT & Services. Lic.rer.pol. (university degree in economics), certified auditor. With BLKB since 2004: deputy head of Credit Management, head of Institutional Customers, head of Strategic Projects.

05

Jean-Daniel Neuenschwander, born in 1962. Member of the Executive Board since 2007; head of Private Banking & Investment Services. Swiss Banking School Diploma, Trust & Investment Banking; Swiss Certified Financial Analyst and Portfolio Manager CEFA. Head of Portfolio Management Switzerland with UBS, Basel. Chief Investment Officer with Bank Ehinger und Cie AG, Basel. Head of Private Banking Bank Cial (Schweiz), Basel. Joined BLKB as chief of staff on 1 January 2005. Board member of: Zum Löwenzorn AG, Basel; Stiftung FIAS, Basel.

06

Beat Röthlisberger, born in 1964. Member of the Executive Board since 1-7-2017. Head of Corporate Customers (formerly Corporate Customers & Loans). Graduate of business economics FH. Deputy regional head of Corporate Customers UBS, Basel, before that deputy head of Credit Risk Management, UBS, Basel. Joined BLKB in 2015 as head of Companies & Loans Binningen / Special financings. He is the successor of Daniel Brändlin who was responsible for this area of business until June 2017.

07

Kaspar Schweizer, born in 1964. Member of the Executive Board since 2001; head of Private Customers & Direct Banking. Lic.oec. (university degree from HSG); Executive MBA in Business Engineering HSG. Joined BLKB in 1992: assistant to the senior management; head of IT-project "Migration" (changeover of bank IT to RTC); head of Strategy, Planning, Bank Logistics; head of Corporate Services.



5 COMPENSATION, SHAREHOLDINGS AND LOANS

5.1 Content and method of determining compensation and shareholding programmes

The bank pursues a modern, transparent and performance-based compensation policy.

The “Rules on the compensation scheme” of 18 May 2016 and the Rules on the Areas of Responsibility of 1 January 2012 detail the bank’s characteristic design and competencies regarding the compensation by the bank. (blkb.ch/rechtsgrundlagen). The Board of Directors (Bankrat) decides on the compensation policy, the total amount of fixed and variable compensation, the compensation to Bankrat members, and on the fixed and variable compensation to the members of the Executive Board.

Compensation to the employees (levels of function 1–7) and to the members of the Executive Board consists of a fixed amount based on the level of function, and a variable amount based on the overall result of the function, and the individual performance.

The variable compensation is based on the relevant net operating profit. A percentage of 6.05 thereof is deducted as variable compensation and funnelled into a pool. If the bank doesn’t post any positive relevant net operating profit, all variable compensation is cancelled.

Each level of function is allocated a percentage of the variable compensation total. The percentage of the variable compensation with respect to the compensation total increases with each level of function. The highest percentage of variable compensation is paid to the CEO. Allocation to the levels of function 1–7 is decided by the Human Resources and Organization Committee whereas the allocation to the Executive Board and its individual members is decided by the Bankrat upon application by the Human Resources and Organization Committee.

The following principles apply to the allocation of variable compensation: top performers and employees with extraordinary performances (daily work, assignments outside their usual scope of activity, bank as a whole) should be considered. Managers have to hold a thorough appraisal and promotion interview with each employee at least once a year. The interview is conducted according to established appraisal procedures, and serves as the basis for the performance appraisal.

In 2017, the ratio of highest and lowest total compensation was 12.21:1.

5.2 Due to BLKB’s legal form, the Ordinance Against Excessive Compensation with Respect to Listed Stock Corporations (OaEC) does not apply. Statutory rules on principles regarding performance-based compensation and other means of compensation, loans, credits, and pension benefits to members of the Board of Directors and the Executive Board or concerning the vote by the general meeting on the compensation are therefore not required.

5.3 Amount of compensation to the Executive Board and the Bankrat

Compensation to the Executive Board

The fixed compensation to the members of the Executive Board is determined at the Bankrat’s discretion upon application by the Human Resources and Organization Committee. The fixed compensation takes into account the market environment, the position, responsibilities, experience, and the capabilities of the individual members of the Executive Board. In order to determine the fixed compensation, a comparison with other cantonal banks of similar proportions in terms of balance sheet total and market area is taken as a criterion. Within the portion of total variable compensation set aside for the Executive Board, achieving the target is an essential criterion for the determination of the individual variable compensation.

Compensation to the CEO and to the members of the Executive Board depends on the qualitative and quantitative targets defined beforehand and based on the bank's strategic objectives. In the framework of determining the bank's strategic targets, the Bankrat established several Key Performance Indicators (KPI). Variable compensation is determined on the basis of these KPIs. In 2011, the Bankrat defined the relevant criteria for the different KPIs which are submitted to a review on a regular basis. Said KPIs build the basis for the evaluation of the CEO and consequently also for the assessment of the latter's variable compensation. For the determination of the variable compensation, weighting of the achievement of targets is a discretionary decision.

The individual performance targets of the individual members of the Executive Board are based on specific indicators within that particular area of business, the individual member of the Executive Board can effectively influence. Among these count for example the achievement of volume targets, compliance with the defined risk framework, compliance with the budget, timely project handling, compliance with defined quality standards or service level agreements, employee satisfaction, and internal service quality. The individual achievement targets of the members of the Executive Board are defined by the CEO. These targets are a substantial contribution to the achievement of the bank's strategic targets. For the determination of the variable compensation, weighting of the achievement of targets is a discretionary decision.

In addition to the variable compensation, the members of the Executive Board receive Kantonalbank certificates at a reduced subscription price. The CEO draws 50 KB certificates per year, the remaining members of the Executive Board 30 KB certificates per year. All certificates are subject to a lock-up period of five years starting from the date of acquisition. Acquisition is done at a reduction of 25.27 per cent on the price ex-dividend.

In 2017, the variable compensation total to the Executive Board was CHF 1 520,000. The benefits granted to the Executive Board for the acquisition of Kantonalbank certificates amount to a total of CHF 45,999. The scope of the ratio between fixed and variable compensation to the Executive Board is between 0 per cent and 94.10 per cent with the share of the CEO being the highest.

The bank pays those non-wage benefits which are customary in the banking business (price reduction on REKA cheques, lunch allowance, company cars). In the year under review, the bank did not make any severance payments.

Fees resulting from board memberships paid to members of the Executive Board are remitted to BLKB in their entirety and are entered in "Other ordinary income".

Compensation to the Bankrat

Bankrat members are paid a fixed compensation the amount of which depends on the level of function of the individual member within the whole panel and the bank committees. Equal levels of function are compensated equally. In determining the compensation, here too, a comparison with other cantonal banks of similar proportions in terms of balance sheet total and market area is taken as a criterion.

In addition to their compensation, Bankrat members are entitled to 20 Kantonalbank certificates at a reduced price. The Bankrat member who is also a member of the Regierungsrat is exempt from this ruling. All certificates are subject to a lock-up period of five years starting from the date of acquisition. Acquisition is done at a reduction of 25.27 per cent on the market price ex-dividend. In 2017, the benefits granted to the Bankrat for the acquisition of Kantonalbank certificates amounted to a total of CHF 41,399.

Bankrat members are not entitled to any attendance fees. Membership in the Board of Directors does not entail the right to membership in the bank's pension fund. The bank does not provide any severance payments nor are Bankrat members paid any benefits in kind.

In line with Art. 14–16 of OaEC, details of compensation, ownership of Kantonbank certificates and loans to members of the Board of Directors and the Executive Board of BLKB are listed on pages 78–80 and posted on the Internet (blkb.ch/geschaeftsbericht).

6 SHAREHOLDERS' PARTICIPATION RIGHTS

Due to its legal form as an independent company under public law, Basellandschaftliche Kantonbank has non-voting share capital only, and consequently shareholders have no voting rights. All participation rights are exclusively held by the canton of Basel-Landschaft. The Bankrat and the Executive Board may invite bearers of certificates to meetings and inform them of the bank's course of affairs. These meetings are purely informative; resolutions cannot be passed. Certificates do not entitle their holders to any participation rights such as the right to vote, object or challenge. (Cantonal Law on Kantonbank, art. 5 para. 3; Rules on the issuance of Kantonbank certificates arts. 8 and 9; (blkb.ch/rechtsgrundlagen).

Items 6.1 to 6.5 of DCG (voting right restrictions, statutory quorums, convocation of the general meeting, rules on the agenda, and inscriptions into the share register) are not applicable due to BLKB's legal form.

BLKB makes use of the possibility of holding an informative meeting. Notice is given by mail to the addresses of those shareholders known to the bank. Additionally, the invitation is published in the official gazettes and the regional daily papers.

7 CHANGES OF CONTROL AND DEFENCE MEASURES

Due to the legal form of BLKB (see explanations in item 6) a change of ownership by means of buying certificates may not take place under any circumstances whatever. The question of the duty to make an offer and the clauses on change of control (item 7.1 and 7.2 in the annex to the DCG) is therefore not applicable.

8 AUDITORS

8.1 Duration of the mandate and term of office of the lead auditor

The auditor is set in by the Regierungsrat upon request by the Board of Directors (Bankrat). The audit is performed by Ernst & Young AG who also assume the regulatory auditing.

8.1.1 Date of assumption of the current audit mandate
Ernst & Young AG: assumption of mandate in 1997.

8.1.2 Date on which the lead auditor responsible for the current audit mandate took up office

Patrick Schwaller of Ernst & Young AG, auditor in charge of the current audit mandate, took up office in 2011, and, for the first time in this function, performed the audit of the annual accounts of 2011. Roman Sandmeier has been lead auditor since 2016.

8.2 Auditing fees

The total auditing fees invoiced in the year under review by the auditors for the fulfilment of their legally required duties was CHF 475,292. Calculation of these auditing expenses was done according to the principle of accrual.

8.3 Additional fees

Fees for additional services ordered by the bank concerning general, audit-related services amounted to CHF 8,000 in the year under review. Calculation of these auditing expenses was done according to the principle of accrual.

8.4 Information instruments pertaining to the external audit

One of the tasks of the Audit and Risk Committee is to assess the effectiveness of the external auditors, the internal auditors, and the internal control. The Audit and Risk Committee discusses the reports and planning documentation in several meetings with the auditor in charge of the statutory auditors and regularly informs the Board of Directors (Bankrat) of their findings.

In the business year 2017, representatives of the statutory auditors took part in six meetings of the Audit and Risk Committee. Once a year at least, the auditor in charge meets the complete Board of Directors. In the course of this meeting, the Bankrat evaluates the auditing and supervising reports done by the external auditors and receives information on their most relevant findings. In the business year 2017, representatives of the external auditors took part in two Bankrat meetings. The Audit and Risk Committee regularly assesses the risk-oriented auditing strategy and the corresponding auditing plan of the external auditors, analyses the auditing reports making sure that shortcomings are rectified and the auditors' recommendations are implemented. The Audit and Risk Committee discusses the results of its analyses with the auditor in charge. Based on its experience and resulting from the yearly assessment interview of the Audit and Risk Committee and the external auditors, it assesses the performance and compensation to the auditors, verifies their independence, and evaluates the cooperation of the auditing company and the internal auditors.

9 INFORMATION POLICY

Basellandschaftliche Kantonalbank pursues a policy of communication based on the truthful presentation of facts and the openness towards questions put forward by relevant groups of internal or external stakeholders. The head of Communications is directly answerable to the CEO.

Basellandschaftliche Kantonalbank publishes the annual results at the media conference on balances in February/March. At the beginning of the second term, the mid-year results are made public.

The annual report in German is available in printed form and online. An English translation is posted on the Internet (blkb.ch/geschaeftsbericht).

Since 2005, the sustainability report has been integrated into the annual report. It was set up in accordance with the Guidelines of the Global reporting Initiative (GRI G4, options "core"). The Board of Directors and the Executive Board emphasise that sustainable and future-oriented actions are firmly anchored in BLKB's corporate strategy and philosophy.

Further press releases are made at the time of the yearly meeting of bearers of BLKB certificates (March/April). Ad hoc releases follow according to relevance and need. The complete press releases are available on the Internet (blkb.ch/medien).

It is part of BLKB's information policy to communicate information to the employees at least at the same time as to relevant external groups of stakeholders. Our Intranet platform "blkb.piazza" is regularly and consistently used for that purpose.

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investoren@blkb.ch

Information for investors

blkb.ch/investor-relations

Information for the media

Current news: blkb.ch/medien

Newsletter Service

blkb.ch/newsletter

Mail address

Basellandschaftliche Kantonalbank
Rheinstrasse 7
4410 Liestal

Balance sheet on 31 December 2017 (before profit appropriation)

Assets

	31-12-2017 CHF 1000	31-12-2016 CHF 1000	Change CHF 1000	Change %
Liquid funds	2,767,866	2,763,340	4,527	0.16
Due from banks	187,194	266,512	-79,318	-29.76
Due from securities financing transactions	34,679	0	34,679	-
Due from customers	1,336,809	1,412,246	-75,436	-5.34
Mortgage loans	18,165,631	17,556,812	608,819	3.47
Trading business	11,679	2,735	8,944	327.01
Positive replacement values of derivative instruments	8,682	8,756	-74	-0.84
Financial investments	1,480,606	1,466,587	14,019	0.96
Accrued income and prepaid expenses	35,772	43,041	-7,269	-16.89
Participations	50,289	39,822	10,466	26.28
Tangible fixed assets	105,002	115,763	-10,761	-9.30
Other assets	28,009	13,897	14,112	101.55
Total assets	24,212,219	23,689,510	522,709	2.21
Total subordinated claims	507	223	284	127.17
- of which mandatory convertibles and/or debt waiver	0	0	0	0.00

Liabilities

	31-12-2017 CHF 1000	31-12-2016 CHF 1000	Change CHF 1000	Change %
Due to banks	450,271	640,670	-190,400	-29.72
Due to securities financing transactions	108,508	415,820	-307,313	-73.91
Due to customers in savings and deposits	16,689,671	15,729,751	959,920	6.10
Due to trading business	0	0	-0	0.00
Negative replacement value of derivative instruments	2,714	1,606	1,108	69.01
Cash bonds	24,676	44,570	-19,894	-44.64
Bonds and mortgage-backed bonds	4,487,000	4,518,000	-31,000	-0.69
Accrued expenses and deferred income	75,554	77,479	-1,925	-2.48
Other liabilities	19,367	30,178	-10,811	-35.83
Provisions	42,834	36,676	6,158	16.79
Reserves for general bank risks	1,191,500	1,129,500	62,000	5.49
Company capital	217,000	217,000	0	0.00
Legal reserve	768,001	714,084	53,917	7.55
Own shares	-6,239	-7,385	1,145	-15.51
Retained earnings brought forward	8,016	7,962	54	0.68
Annual net profit	133,348	133,599	-251	-0.19
Total liabilities	24,212,219	23,689,510	522,709	2.21
Total subordinated liabilities	0	0	0	0.00
- of which mandatory convertibles and debt waiver	0	0	0	0.00

Off-balance sheet transactions

	31-12-2017 CHF 1000	31-12-2016 CHF 1000	Change CHF 1000	Change %
Contingent liabilities	170,201	189,685	-19,485	-10.27
Irrevocable commitments	895,574	355,963	539,611	151.59
Liabilities for calls on shares and other equities	72,017	67,867	4,150	6.11
Confirmed credits	0	0	0	0.00

Income statement 2017

	2017 CHF 1000	2016 CHF 1000	Change CHF 1000	Change %
Net interest income				
Interest and discount income	368,228	406,237	-38,008	-9.36
Interest and discount income from financial investments	18,426	20,947	-2,521	-12.03
Interest expenses	-110,464	-138,369	27,905	-20.17
Gross profit from interest-related business	276,191	288,815	-12,624	-4.37
Changes of value adjustments due to default-risk as well as losses from the interest-related business	-3,452	-3,849	397	-10.31
Net income from interest-related business	272,739	284,966	-12,227	-4.29
Net fee and commission income				
Commission income from securities and investment transactions	45,713	40,171	5,542	13.80
Commission income from lending activities	7,177	5,898	1,278	21.67
Commission income from other services	20,214	19,303	911	4.72
Commission expenses	-7,755	-7,977	222	-2.78
Net fee and commission income	65,349	57,395	7,954	13.86
Net income from trading activities and the Fair-Value option	18,015	17,602	413	2.35
Net other income				
Income from the sale of financial investments	5,467	4,160	1,307	31.43
Income from participations	2,642	1,888	754	39.96
Real estate income	2,416	2,364	52	2.20
Other ordinary income	263	213	50	23.30
Other ordinary expenses	-1	-242	241	-99.78
Other ordinary income	10,788	8,383	2,404	28.68
Net operating income	366,891	368,347	-1,456	-0.40
Personnel expenses ¹⁾	-112,150	-102,495	-9,656	9.42
Other operating expenses	-64,376	-59,734	-4,642	7.77
Operating expenses	-176,527	-162,229	-14,298	8.81
Value adjustments on participations and write-offs of tangible fixed assets	-17,890	-22,446	4,556	-20.30
Changes in provisions and other value adjustments and losses	-391	-230	-161	69.95
Operating income	172,084	183,442	-11,358	-6.19
Extraordinary income	23,700	12,564	11,136	88.64
Extraordinary expenses	-68	0	-68	
Changes in reserves for general bank risks	-62,000	-62,000	0	-0.00
Taxes	-368	-406	38	-9.46
Annual net profit	133,348	133,599	-251	-0.19
Profit appropriation				
Annual net profit	133,348	133,599	-251	-0.19
Retained earnings brought forward	8,016	7,962	54	0.68
Retained earnings	141,364	141,561	-197	-0.14
Interest on endowment capital	-2,413	-2,413	0	0.00
Dividend paid on certificate capital	-19,950	-19,950	0	0.00
Compensation for state guarantee	-4,000	-4,008	8	-0.19
Payment to the canton of Basel-Landschaft	-53,587	-53,587	0	0.00
Allocation to legal reserve	-53,587	-53,587	0	0.00
Retained earnings brought forward	7,826	8,016	-190	-2.36

¹⁾ Including expenses of CHF 8 m in connection with the adjustment of the technical interest rate and the conversion rate of the BLKP 2017.

Statement of cash flow

	2017 Cash inflow CHF 1000	2017 Cash outflow CHF 1000	2016 Cash inflow CHF 1000	2016 Cash outflow CHF 1000
Cash flow from operations (internal financing)				
Annual net profit	133,348		133,599	
Changes in the reserves for general bank risks	62,000		62,000	
Value adjustments on participations, write-offs on tangible fixed assets and nontangible assets	7,423		21,678	
Provisions and other value adjustments	8,227			287
Changes of value adjustments due to default risk as well as losses	3,126		3,632	
Accrued income and prepaid expenses	7,269		4,955	
Accrued expenses and deferred income		1,925		7,321
Other positions		24,924		13,690
Profit distribution previous year		79,958		79,863
Cash flow balance from operations (internal financing)	114,587		124,702	
Cash flow from equity capital transactions				
Endowment and Certificate capital				
Recorded in reserves				
Changes in own equity instruments	1,475		3,006	
Cash flow balance from equity transactions	1,475		3,006	
Cash flow from transactions with participations, tangible fixed assets and intangible assets				
Participations		1,500		10,633
Real estate	6,020		1,334	
Other tangible fixed assets		11,648		11,781
Cash flow balance from transactions with participations, tangible fixed assets and intangible assets		7,128		21,079
Cash flow from banking operations				
Medium to long-term transactions (> 1 year)				
Due to banks	100,900		75,000	
Due to customers in savings and deposits		20,000		1,742,086
Cash bonds		19,894		24,933
Bonds		150,000	200,000	
Mortgage-backed bonds	119,000		49,000	
Due from customers		17,999		117,562
Mortgage loans		610,435		472,688
Financial investments		14,019	16,313	
Short-term business				
Due to banks		291,300	136,548	
Due to securities financing transactions		307,313		324,881
Due to customers in savings and deposits	979,920		2,028,992	
Negative replacement value of derivative instruments	1,108			1,470
Due from banks	79,318		40,124	
Due from securities financing transactions		34,679	20,020	
Due from customers	89,856		138,456	
Trading business		8,944	2,995	
Positive replacement value of derivative instruments	74		2,250	
Liquidity				
Liquid funds		4,527		132,706
Cash flow balance from banking operations		108,933		106,628
Total	116,062	116,062	127,708	127,708

Statement of equity

Presentation of equity

	Company capital CHF 1000	Legal reserve CHF 1000	Reserves for general bank risks CHF 1000	Retained earnings/losses brought forward CHF 1000	Own shares (minus position) CHF 1000	Annual profit CHF 1000	Total CHF 1000
Equity at the beginning of the reporting period	217,000	714,084	1,129,500	7,962	-7,385	133,599	2,194,760
Disposal of own equity shares					1,145		1,145
Profit (loss) from disposal of own equity shares		330					330
Dividends and other payments						-79,958	-79,958
Other allocations to (releases from) reserves for general bank risks			62,000				62,000
Other allocations to (releases from) other reserves		53,587				-53,587	0
Changes in retained earnings brought forward				54		-54	0
Annual net profit						133,348	133,348
Equity at the end of the reporting period	217,000	768,001	1,191,500	8,016	-6,239	133,348	2,311,626

Notes on the financial statement (statutory single-entity financial statement True and Fair View)

1 NOTES ON BUSINESS ACTIVITIES

1 General

Basellandschaftliche Kantonalbank (BLKB), incorporated in Liestal, is the leading bank in Baselland and one of the leading banks in the north-western part of Switzerland. Legitimised by cantonal law, the bank operates independently from state administration as a public law company with its own legal personality. On 31 December 2017, the canton of Basel-Landschaft held 74 per cent of the capital stock, the remaining 26 per cent being spread in private ownership. The canton of Basel-Landschaft holds all voting rights and, according to the law, guarantees for the bank's liabilities.

Geographically seen, BLKB operates in the economic region of Basel. The bank provides an extensive range of bank services for the private sector, institutional or corporate customers, and the public sector with its 20 branches in the canton of Basel-Landschaft, one in Breitenbach (SO), and one for Private Banking in Basel. A number of ATMs at various locations are completing the services BLKB offers to its customers. A mobile bank caters for several communities in the canton of Basel-Landschaft.

2 Retail and commercial banking

The income statement is significantly marked by the net interest of about 74 per cent of the net operating income. The assets side business is dominated by the mortgage business with the chief segment being residential real estate. On the liabilities side, there are the customer deposits of approximately 69 per cent of the balance sheet total.

3 Fee and commission business

The fee and commission business contributes approximately 18 per cent to the net operating income. The principal source of this income originates from the investment and securities business with customers.

4 Trading income

Trading income sums up income from customer and proprietary trading (foreign exchange, foreign currencies, precious metals, securities) with the latter being done to a rather limited extent.

5 Other income

Financial investments consist primarily of fixed-interest securities

held to maintain liquidity by means of repo transactions with the Swiss National Bank and other banks. Financial investments also include shares and other securities held by the bank for a medium to long-term horizon.

6 Notes on risk management and risk control

BLKB applies an integrated risk management and an independent risk control headed by the Chief Risk Officer. On 20 September 2017, the Board of Directors (Bankrat) or its committees last assessed the relevant risks for the bank, their likelihood of occurrence, and their potential financial effects by using a comprehensive standardised risk catalogue. These risks are managed and monitored on the basis of relevant measures decided on by the Bankrat. On the basis of the latest risk assessment by the Board of Directors, the present annual statement adequately covers current risks by means of value adjustments or provisions.

Risk management and risk control

Recognising, assessing, managing, and monitoring of risks is a central task of BLKB's management. An integral part of any bank business is to assume, measure, manage, and control financial risks. The Bankrat establishes the general framework by issuing risk policy guidelines. Equipped with an efficient control system, the Executive Board is responsible for achieving the targets and complying with specifications. The objective of risk management and risk control is to attain a well-balanced proportion of risk and income and to ensure solvency despite a negative economic environment.

Risk acceptability

The bank is committed to its business principles which specify business behaviour compliant with the risk strategy. It thereby guarantees the acceptability of the risks. The intention is to cover potential risks, lying within an ordinary range of expectation, by means of the current income. Extraordinary losses – in the framework of stress scenarios – are to be covered by the current income and free reserves.

Principles

The principles for risk management and risk control are laid down in the risk policy stipulating a strict division of risk management and risk control. Risk management, according to BLKB's rules, means authorising individual persons (e.g. heads of branches) or groups of persons (e.g. trade) to incur risks, in line with the rules

of responsibility or the rules of limits, on behalf of the bank and to manage them. The incurrance of risks requires an approved limit as well as identifying, measuring, and monitoring of risks. Introducing new products necessitates a preceding evaluation of the risks involved.

The Risk Office is independent of risk management and is responsible for the risk control. It helps to identify risks and decides on the risk measuring method. It decides on approval of procedures for new products and evaluation methods, and implements quality assurance of the applied risk measuring method. Under the supervision of the Chief Risk Officer, all risks incurred by the bank are consolidated and commented on for the attention of the Executive Board. The Board of Directors (Bankrat) is informed of the findings in the course of the risk report as per 31 December and 30 June each year. Scenario basics are periodically submitted to checks and, if necessary, adjusted.

Systemic risks, strategic risks, reputational risks, and compliance risks

The highest level encloses the systemic risks of the Swiss financial market. Supervision and regulation thereof are carried out by the Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA).

Strategic risks result from the overall bank strategy and come under the responsibility of the senior bank management. The reputational risk includes the danger of damage to the bank's reputation. Managing of reputational risks consists mainly of assuring competency, integrity, and reliability of all business activities of the entire bank, as this risk may easily arise from the bank's business and operating activities. It is a very complex task comprising the whole range of operational and strategic guiding instruments on the part of the bank. At BLKB, strategic risks and reputational risks are qualitatively controlled

Default, market, and operational risks

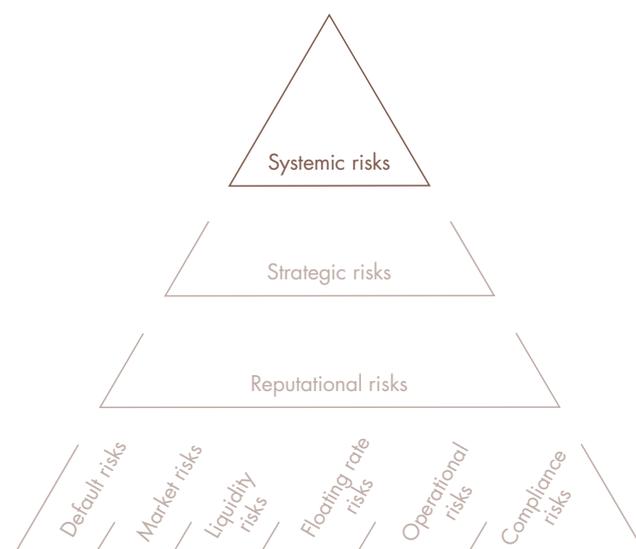
The Executive Board is responsible for the operational implementation of the management and control of credit, market, and operational risks as defined by the Basel Committee. They comprise the entirety of the capital accord for banks which was implemented in Switzerland by means of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) which was transposed into national law on 1

June 2012. For this purpose, the Executive Board issues detailed directives, guidelines, and instructions, with particular regard to strategy-compliant risk behaviour. It makes sure that risk acceptability is guaranteed and risk-adequate prices are ensured.

In order to harmonise and simplify BLKB's implementation of risk policy, the different risks were split into three commonly used and internationally recognised risk categories:

1. Credit and default risks
2. Market, price, and liquidity risks
3. Operational and legal risks

The individual risk types will be explained below including the precautions taken by BLKB. Details are laid down in the risk policy and the relevant internal guidelines.



6.1 Default and credit risks

Default or credit losses arise from the failure of a counter party to comply with an obligation the latter has incurred with BLKB. Due to the bank's strong lending business and the concentration of risks, particularly in home building in the north-western part of Switzerland (a geographically restricted area), managing credit risk is top of the agenda for the risk management at BLKB. Default risks are limited by quality requirements and covering margins.

Valuation and loan-to-value principles of real estate are laid down in the relevant guidelines. Based on a risk-oriented scheme, recoverability of a property is reappraised periodically.

The frequency of reappraisal ranges between one and twelve years and depends on the following criteria:

- type of real estate
- loan-to-value ratio
- collateral value
- amortisation
- acceptability
- payment discipline

As soon as a loan is assessed as doubtful or profitless, a reappraisal is done. The current market value serves as a basis for mortgaging and is determined as follows:

- property inhabited by owner: real value
- income property: earnings value
- commercial or industrial property used by owner: recoverable property value in the market or value-in-use
- building estate: market value in view of future use

The highest possible financing depends on the one hand on internally defined collateral value and on the other hand on its acceptability. Second mortgages without marketable additional cover must be amortised. Depending on the amount and complexity of the loan, decisions are made at different hierarchical levels and branches within BLKB's market areas. BLKB is confident that branch managers know their customers best and are therefore in a good position to assess credit risk. Creditworthiness and possible collateral are important factors in assessing the probability of default. The default risk of the bank's commercial borrowers is measured and managed by a rating system. Ratings are periodically reassessed. This system is extremely helpful in assessing the risks of lending.

Periodical meetings and continued training of the persons in charge of lending help to reduce losses and ensure a consistent lending policy by BLKB.

A team of specialists at the head office takes care of exceptional cases and deals with non-performing loans. The Loan Committee, consisting of members of the Executive Board, ensures a consistent lending policy, a competitive pricing policy and monitors compliance with the rules. Changes in the credit rating of counter parties as well as compliance with the regulations aimed at avoiding concentration risks in the case of large counter parties or customers are part of the same risk category.

Unilateral decisions by governments restricting currency transfers and payments, or moratoria of all kinds, are referred to as country risks. BLKB, in close cooperation with Zürcher Kantonalbank (CBZ), adopts CBZ's country rating and chooses its partners abroad according to strict criteria in order to limit country risks to the barest minimum.

Money market transactions on an unsecured basis and over-the-counter derivatives may only be concluded with approved counter parties and within approved limits.

6.2 Market, price and liquidity risks

Market risks emerge as the result of price movements in the stock, interest, foreign exchange, and commodity markets. Compliance with bank internal limits and with the development of the individual markets are constantly being monitored.

6.2.1 Floating rate risks in the banking book

The floating rate risks are controlled by the income and price effect. The income effect measures the impact of floating rates on the performance of a certain period of time (e.g. 12 months). Consequently, floating rates influence those items on the balance sheet which will expire within twelve months and will be renewed or whose reset date recurs within the next twelve months. The price effect analyses changes of the cash value of equity under different assumed rate scenarios (e.g. parallel shift of the rate curve by 100 basis points). BLKB controls the floating rate risk primarily by means of the price effect. Calculation of the income effect is also done in line with supervisory requirements.

Balance sheet items which grant the customer the right to give notice (e.g. variable rate mortgages and savings) will be simulated by benchmark portfolios, in a way that variance of the margin between customer rate and yield of the replicating portfolio is minimised, taking into account the fluctuation of volumes on these balance sheet items. Historical products and market rates serve as a basis for the simulation. Replication keys determined in this way are checked for their relevance on a yearly basis. Limits and indicators for the different scenarios of income and price effect have been defined.

6.2.2 Market- and price risks in the trading book

In order to assess market risks in the trading book, the compliance with market value and nominal limits is checked daily.

A “List of Instruments” ensures that BLKB only uses products which can be correctly assessed and entered.

Market liquidity risks are generated by the failure of markets to provide fair buying and selling prices for certain products at all times. Market liquidity risks are restricted by limitations of the delta equivalent per issuer.

The Risk Office uses integrated systems to monitor these limits. Trading is centralised at the head office in Liestal and is operated by qualified and experienced dealers.

6.2.3 Liquidity risks

The aim of liquidity risk management is to assure the current solvency, particularly in times of stress periods, be they specific to banks and/or market wide, when secured and unsecured financing possibilities are considerably impaired.

BLKB avoids concentration risks on the liabilities side as far as counter parties, currency, or maturity are concerned. Compliance with the bank specific liquidity risk tolerance as stipulated by the Liquidity Coverage Ratio (LCR) is closely supervised. The net-stable-funding ratio is an obligation banks have to comply with starting from 1 January 2019. BLKB already now meets these requirements.

A set of qualitative and quantitative indicators ensures early identification of potential liquidity crises. In order to prepare for an efficient management of liquidity squeezes, BLKB establishes liquidity stress scenarios and sets up a corresponding emergency plan in accordance with regulatory requirements.

6.3 Operational and legal risks

Operational risks are defined as being “dangers of direct or indirect losses resulting from inappropriateness or failure of internal processes, people and systems, or external events”. They are limited by means of internally defined rules as to organisation and control. A security committee coordinates the individual areas and sets priorities. A panel, set up for this purpose, monitors compliance with the procedures and the process of authorising IT-access rights to the staff in order to minimise operational risks. The implementation of the integral set of rules, ensuring on an on-going basis that directives, procedures, and controls are correct and up-to-date, contributes significantly to an effective control

environment. Representation of the integral set of rules is tool-supported and enables the bank to rely on a systematic risk and control assessment process. The systemic risk (failure of IT-platform) is analysed in cooperation with the outsourcing partner Swisscom (Switzerland) AG on an on-going basis and minimised by suitable measures. There is a disaster manual defining procedures in case of failure of individual systems or system groups. Continued training for all employees, the transparent organisation of the bank and open communication does, however, represent the most efficient method of mitigating operational risks.

Legal risks include:

- Lack of authorisation or lack of competency and expertise required for concluding a contract (risk of concluding unwanted commitments).
- Conclusion of incorrect or incomplete contracts (the risk of a counter party not being able to meet its obligations, risk of claims for damages or negligence).

In order to minimise these risks, the bank uses standardised contracts and individual transaction confirmations. Moreover, certain transactions may only be carried out at the head office by authorised bodies. Mandatory procedures ensure that due care is exercised when signing contracts. Legal risks also include the possibility of changes in the regulation issued by national (FINMA, SBA, SIX etc.) or international regulatory institutions (BIS, SEC etc.).

Within the limits of the normal course of business, BLKB is involved in different legal proceedings. The bank sets aside provisions for actual and threatened litigation actions as well as potential obligations or expenses resulting thereof, if an outflow of funds is probable and the amount can be reliably established.

6.4 Compliance risks

Compliance risks may result from a breach of rules, standards, or codes of conduct, and may lead to legal and regulatory sanctions, financial losses, and damage to the reputation. The Compliance department assures that business activities are consistent with current regulatory specifications and the due diligence of a financial intermediary. This department is responsible for the implementation of requirements and developments on the part of supervisory and legislative bodies or other organisations. It is also responsible for the adaptation of directives to the regulatory developments and the compliance therewith.

6.5 Integral security

Integral security aims at offering adequate and permanent protection for persons, information, assets and services. Information security, protection of persons and buildings, and the Business Continuity Management have been consolidated in the department of Integral Security. This concentration enables us to have a holistic view of all security areas for the development and operation of protective measures, of training and awareness-raising of the employees and it builds the hub for all questions of security. Security is not an unchangeable entity. Internal and external parameters may change and they require the adaptation of protective measures. Checking and possibly redetermining of the appropriateness or rather the acceptability of the remaining risk is a continuing process. The independent unit for supervisory responsibilities concerning the protection of customers' data, as required by FINMA, is part of the information security.

The Business Continuity Management is responsible for systemic safety measures to be taken in the event of extraordinary and harmful events. The most important precautions are those which deal with the continuation of IT services which are crucial for banking processes in a crisis situation.

6.6 Outsourcing of business areas

Basellandschaftliche Kantonalbank delegated a number of processing services belonging to the business areas of securities back-office and payment transactions to Swisscom (Switzerland) AG. The operation of the computer centre and decentralised IT have also been delegated to Swisscom (Switzerland) AG. These outsourcing orders are regulated in detail in service level agreements as stipulated by FINMA. Confidentiality is assured by the fact that the entire staff of these providers is subject to bank secrecy.

7 Methods applied in order to identify default risks and to determine the need of value adjustments

7.1 Mortgage-backed loans

Loan values of mortgage-backed loans are checked periodically. Payment arrears on interest and amortisations are analysed as well. In this way, the bank identifies mortgage loans implicating a higher risk. If necessary, the bank will ask for higher collaterals or will build a corresponding value adjustment on the basis of the lack of collateral.

7.2 Securities-covered loans

The commitments and the value of collaterals of securities-backed loans are monitored daily. If the loan value of the securities' cover falls below the amount of the credit commitment, the bank will demand a reduction of the debt amount or additional collateral. Should the coverage gap increase or should there be unusual market situations, the securities will be disposed of and the loan closed out.

7.3 Loans without cover

Loans without cover are usually commercial operational loans or overdrafts without cover of retail customers. In the case of commercial operational loans without cover, the bank will collect information from the customer on a yearly basis or at shorter intervals depending on the necessity. This information will enable the bank to draw conclusions as to the financial development of the company. It may comprise data concerning turnover, sales, and product development. The audited annual statement and, if necessary, the interim statements are requested at regular intervals. These data are evaluated in order to identify a potential risk increase. If the bank detects a higher risk, measures for minimising risks will be set in motion. If these steps lead to the assumption that credit commitments are at risk, the bank will build a corresponding value adjustment.

7.4 Procedure to determine value adjustments and provisions

New need for value adjustments and provisions is identified according to the procedures described in chapter 7.1 to 7.3. Known risk positions which were identified as being impaired at an earlier time are assessed again as per each balance sheet date and, if necessary, the value is adjusted. Executive Board and the Bankrat have to approve the value adjustments.

8 Valuation of collateral

8.1 Mortgage-backed loans

When granting real estate loans/mortgage loans, the bank relies on its current evaluation of collaterals. Evaluations depend on the use of the property. In order to assess residential property, the bank uses a hedonic valuation model. As a matter of principle, income property is assessed according to its earnings value. Alternatively, evaluations by external, qualified real estate appraisers may be considered as well.

The lowest value emerging from the internal assessment, the purchase price, and the external assessment serve as a basis for granting a loan.

8.2 Securities-backed loans

In order to grant Lombard loans and other securities-backed loans, the bank accepts mainly transferrable financial instruments (such as bonds and shares) which are liquid and may be traded actively. Transferrable structured products for which regular rate information and a Market Maker are available are also accepted.

The bank applies discounts on the market value in order to cover the market risk related to marketable and liquid securities and to determine the loan value.

9 Business policy in the use of derivative financial instruments and hedge accounting

Derivative financial instruments are used for trading and hedging purposes. Trade with derivative financial instruments is exclusively done by especially trained dealers. The bank does not engage in Market Maker activities. Trading is done with both standardised and OTC instruments for the bank's own account and for customers' accounts, preferably in interest, currency, and equity instruments/indices-related instruments. Commodities are used to a lesser extent. There is no trade with credit derivatives.

In the framework of risk management, the bank uses derivative financial instruments mainly in order to secure interest and foreign currency risks. In the framework of Asset and Liability Management which is used to control floating rate risks in the banking book, the bank mainly uses OTC derivatives which enjoy high market liquidity. Hedge relations, targets, and strategies of hedging transactions are documented by the bank upon conclusion of the derivative hedging transaction. Thereby, efficiency of the hedging transaction is evaluated. Hedging transactions, therefore, are only effective, if they adjust interest sensitivity of the bank's balance sheet to the targeted set profile within the individual maturity bands. The set duration results from the benchmark strategy of equity in the form of a rolling ten-year investment. Efficiency of the hedging relation is checked at monthly intervals. Income from those derivatives held for hedging and managing floating rate risks is determined by the accrual method.

2 ACCOUNTING AND VALUATION PRINCIPLES

General accounting principles

Accounting and valuation principles comply with the provisions of the Swiss Code of Obligations and the Swiss banking law, the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) as stipulated by the Swiss Financial Market Supervisory Authority FINMA, by the Cantonal Law on Kantonbank, and the SIX Swiss Exchange Listing rules. The present annual financial statement of BLKB provides a realistic view of the bank's asset, finance, and income situation according to the principle of "True and Fair View" (statutory single-entity financial statements True and Fair View).

Closing date

BLKB closes its business year on December 31. Accounting is done on the basis of accrual. Expenses and income which occur time-based are accrued by maturity.

Reporting of transactions

All transactions (on-balance sheet and off-balance sheet) are recorded as of closing date and valued according to the accounting and valuation principles mentioned below. Accounting is based on the assumption that the bank will continue as a going concern for the foreseeable future. This is why valuations are made on a going-concern basis.

General valuation principles

In general, positions recorded in a certain balance sheet item are evaluated individually, if they are significant and are usually not summarised for evaluation as a group because of their homogeneity. Participations, tangible fixed assets and intangible assets are always evaluated individually.

As a matter of principle, offsetting of assets and liabilities as well as of expenses and income is not done. Offsetting is usually done in the following cases:

- Deduction of value adjustments from the corresponding asset positions
- Offsetting of positive and negative value adjustments in the compensation account, not affecting the balance sheet
- Positive and negative replacement values of derivative financial instruments vis-à-vis the same counterparty are offset, if there exist recognised and legally enforceable netting contracts.

Foreign currencies

Bookkeeping and accounting are done in Swiss francs. Foreign currency transactions are entered at the respective day's rate. Foreign currency monetary assets are translated into Swiss francs at rates valid on balance-sheet date. Income from currency translation is entered in item "Result from trading activities and the fair value option".

The following rates on balance sheet date were used for the currency translation:

	2017	2016
Average exchange rate EUR/CHF	1.1163	1.0893
Year-end rate EUR/CHF	1.1702	1.0723
Average exchange rate USD/CHF	0.9802	0.9878
Year-end rate USD/CHF	0.9745	1.0164

Accounting and valuation principles

Liquid funds, dues to banks, dues to customers in savings and deposits, and cash bonds

Valuation is done at nominal value.

Dues and liabilities from securities financing transactions

Securities financing transactions include repurchase and reverse-repurchase transactions, securities lending and securities borrowing.

Reverse repurchase transactions are securities purchased under the condition of resale. Repurchase transactions are securities sold under the condition of repurchase.

Market value of obtained or supplied securities are monitored daily in order to make available or request additional securities, if necessary.

Interest income from reverse repurchase transactions and interest expenses on repurchase transactions are accrued by maturity.

Dues from banks and customers, mortgage loans

Recording is done at nominal value. Doubtful dues, meaning dues from customers who have failed to meet their capital and interest liabilities for 90 days or longer or dues from customers with a high probability of not being able to meet their future liabilities are val-

ued individually. The impairment is covered by individual value adjustments which are deducted from the assets position. The amount of the value adjustment is based on the difference between the book value of the claim and the likely income, taking into account the risk of the counter party and of the net income from selling off collateral. When determining net income of the collateral, the costs of carry such as interest, maintenance and sales costs etc. up to the estimated time of sale are deducted, so are potential taxes and fees. The bank checks the whole exposure of the customer or the economic entity for the presence of counter party risks.

BLKB does not build any general provisions for latent default risks. All risks arising from the credit business are valued individually.

Bills of exchange are accrued by a discount. Precious metal liabilities on metal accounts are valued at fair value, if the corresponding precious metal is traded at a price-efficient and liquid market.

Interest, due for more than 90 days but not paid are not recorded as income from interest-related business but are entered in "Changes in value adjustments due to default-risk and losses from interest-related business" and written off.

Value adjustments for default-risks, from an accounting period which, from an economical point of view, are not needed any more, are liquidated and recorded in the income statement or used for new individual value adjustments.

First and later building of risk provisions for loans with credit limits the use of which is typically subject to frequent and high fluctuations (for example current account credits) is done in one go (e.g. value adjustments for the actual use and provisions for not fully exhausted credit limits). The same applies to liquidation of freed-up value adjustments or provisions in the item "Changes in value adjustments for default risks and losses from interest operations". In case of changes in the full exhaustion, a transfer not affecting the balance sheet, between value adjustments and provisions is done. As soon as outstanding amounts of capital and interest are paid in due time and according to the contracts, and other requirements concerning creditworthiness are met, impaired loans are reclassified as full-value debt. Liquidation of the corresponding value adjustment is recorded affecting the balance sheet, in "Changes in value adjustments for default risk and losses from interest operations".

Trading business

As a matter of principle, trading portfolios are valued and recorded at fair value as per balance sheet date. Fair value is the price determined on the basis of a price-efficient and liquid market or a price determined on the basis of a valuation model. Should fair value not be available, recording and valuation is done according to the principle of minimum value. Valuation income, realised profits and losses, and interest and dividend income from trading transactions are entered in the income statement in "Income from the trading business and the fair value option". Expenses for funding for the trading business in securities is debited to "Income from trading business and the fair value option" and credited to "Interest and discount income".

Structured products

A structured product (hybrid financial instrument) consists of at least two components: a host instrument and an embedded derivative which is not related to bank-owned equity securities. Together, they build a combined investment product.

On the asset side of the balance sheet, structured products valued at fair value, are entered in item "Other financial instruments valued at fair value". In structured products which are valued separately, the host instrument is valued and recorded according to valuation principles for host instruments. The derivative is valued at fair value and entered in item "Positive replacement value of derivative financial instruments" or "Negative replacement value of derivative financial instruments".

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are financial contracts whose value is established on the basis of prices of one or more underlying assets (equity securities or other financial instruments, commodities) or of reference rates (interest, currencies, indices, credit rating). Derivatives are valued at fair value. Positive and negative replacement values of derivative financial instruments from transactions for the bank's own account or that of customers which are outstanding on balance sheet date, are recorded in this item.

Replacement values from OTC transactions, in which the bank acts as a commission agent, are recorded.

BLKB offsets positive and negative replacement values vis-à-vis the same counter party in the framework of concluded netting contracts.

Financial investments

Financial investments comprise debt securities, equity securities, physical precious metal holdings, as well as real estate and commodities acquired from credit activities and intended for resale. BLKB purchases real estate on behalf of the canton of Basel-Landschaft and its communities in trust. Ownership of such real estate is entered in Financial investments, and fiduciary obligation in Other liabilities.

Valuation of equity securities, of own physical precious metal holdings, and real estate and commodities intended for resale is done according to the lower of cost or market value. In real estate and commodities acquired from credit activities and intended for resale, lower of cost or market value is determined as being the lower of cost or liquidation value. Own physical precious metal holdings, serving as collateral for dues from precious metal accounts, are valued at fair value, and value adjustments are recognised in item "Other ordinary expenses" or "Other ordinary income".

Financial investments valued at lower of cost or market value are revalued upwards to the historical cost or amortised acquisition cost at maximum, if the fair value, having dropped below the acquisition cost, has recovered again. Value adjustments are recorded in item "Other ordinary expenses" or "Other ordinary income".

On acquisition, debt securities are divided into two categories and valued as follows:

Held-to-maturity: valuation according to the principle of acquisition cost, premiums and discounts are accrued over the remaining term. Capital gains, realised on the premature sale of financial investments, are accrued over the remaining term. Default-risk-related valuation changes are debited immediately to item "Changes in value adjustments for default risks and losses from interest operations".

Available-for-sale: valuation is done according to the principle of lower of cost or market value. An upwards revaluation to the historical cost or amortised acquisition cost at maximum is recog-

nised, if the fair value, having dropped below the acquisition cost, recovers again. Value adjustments are recorded in item "Other ordinary expenses" or "Other ordinary income". Default-risk-related value adjustments are entered in "Changes in value adjustments for default risks and losses from interest operations".

Switches between trading positions, financial investments, and participations are possible. They are done at fair value, valid when the decision to switch is made. Results thereof are treated in the same way as income from disposals.

Participations

Participations are equity securities owned by the bank in undertakings held as long-term investments irrespective of voting right shares. They include in particular participations in joint organisations of banks of an infrastructural nature. Valuation of the participations is done at acquisition cost less economically necessary value adjustments.

Impairment testing of the participations is carried out yearly. The assessment is done on the basis of signs suggesting that individual assets might be affected by such impairment. If signs of impairment are detected, the bank defines the recoverable value which is the higher of the net market value and the value-in-use. Impairment means that the book value exceeds the recoverable value. The book value is then reduced to the recoverable value. The impairment is debited to item "Value adjustments on participations and write-offs on tangible fixed assets and intangible assets".

Profits or losses from the disposal of participations are entered in items "Extraordinary income" or "Extraordinary expenses".

Tangible fixed assets

Tangible fixed assets are recorded at cost value less economically necessary straight-line write-offs on the basis of the estimated useful life, defined in the following way and unchanged compared to the previous year:

	2017
bank buildings	30 years
other real estate	33 years
other tangible fixed assets	3–5 years

Tangible fixed assets are valued individually.

Impairment testing of tangible fixed assets is carried out in the same way as that of participations. If there is a change in the asset's useful life, the remaining book value is subjected to scheduled depreciation over the newly determined useful life. Ordinary and out-of-schedule write-offs are recorded in item "Value adjustments on participations and write-offs of tangible fixed assets and intangible assets". A write-up from the reversal of impairment is entered in "Extraordinary income".

Profits and losses from disposals of tangible fixed assets are recorded in "Extraordinary income" or "Extraordinary expenses".

Intangible assets

Purchased intangible assets are recorded, if there is a measurable benefit for the company over a period of a several years. Purchased intangible assets are entered according to the principle of acquisition cost, worked-for intangible assets at production cost. They are written off over the estimated useful life and entered in the income statement. In general, a write-off is done according to the straight-line method. In accordance with the accounting rules stipulated by FINMA, purchased IT programmes are entered in item "Tangible fixed assets".

Accrued income and expenses, prepaid expenses, deferred income

All income statement positions are accrued according to the matching principle.

Other assets and liabilities

These balance sheet positions contain, among others, the asset and liability balance of the compensation account. It is used to record positive and negative replacement values resulting from the valuation of interest rate swaps which are not recognised in the income statement.

Provisions

This balance sheet position comprises latent default risks. They result from impaired receivables for unused limits, provisions for latent risks from the off-balance sheet transactions, and provisions for all other business risks as per balance sheet date.

Provisions are built for all legal and de-facto liabilities whose amounts or maturities are uncertain but may, nevertheless, be estimated reliably and which are recognisable on balance sheet date.

The amount of the provisions corresponds to the expected value of future cash outflows and takes into account their probability and reliability. Existing provisions are revaluated as per each balance sheet date. On the basis of these reassessments, they are maintained at the same level, or increased, or released.

Provisions which are no longer economically necessary and which are not used for similar purposes are released to income. If the accounting rules for banks do not state any other way of handling, these provisions are entered in the income statement in item "Changes in provisions and other value adjustments and losses".

Provisions for pension schemes:

BLKB's pension scheme for employees is contribution-defined. The economic benefit and economic cost of this pension scheme is calculated annually, following a static method according to Swiss GAAP FER 26 (accounting of pension funds) by an independent qualified pension fund actuary. Underfunding or overfunding of the pension scheme may result in an economic benefit or an economic liability for BLKB. Any economic benefit or liability is entered in "Other receivables" or in "Provisions". The difference between the year under review and the previous year is recorded as personnel expenses in the income statement. The employer's contribution to the pension scheme is accrued in personnel expenses.

Own debt and equity securities

The balance of own bonds and cash bonds is offset with the relevant liability item. The balance of equity securities is deducted at acquisition cost from the own equity (negative item) in the separate item "Own equity". If own shares are disposed of, the realised difference between the cash inflow and the book value is recorded in item "Legal reserve". Dividends on own shares are credited to "Legal reserve".

Reserves for general bank risks

Reserves for general bank risks are precautionary reserves established to cover risks in the operating activities of the bank. These reserves are considered to be equity in line with art. 21, para. 1, lit. c of the Capital Adequacy Ordinance (CAO).

In those cantons where BLKB is subject to taxation, the changes in the reserves for general bank risks are set off with the direct

taxes. Building and releasing of reserves for general bank risks are recorded in "Changes in reserves for general bank risks".

Legal reserve

Allocation to the legal reserves complies with the general rules of the Swiss Code of Obligation and the rules on the distribution of net profit as stipulated by the Cantonal Law on Kantonalbank from 24 June 2004.

Taxes

BLKB, as a public law institution, is exempt from direct federal tax and from cantonal tax in the canton of Basel-Landschaft. It is, however, not exempt from tax payments for branches outside the canton of Basel-Landschaft. Direct tax due for on-going assessment is recorded in accrued expenses and deferred income.

Off-balance sheet transactions

Off-balance sheet transactions are recorded at par value. Appropriate provisions are made for all risks recognisable.

Changes compared to the previous year

None.

Events after the balance sheet date

None.

3 INFORMATION ON THE BALANCE SHEET, ON OFF-BALANCE SHEET TRANSACTIONS, AND THE INCOME STATEMENT

1 Breakdown of securities financing transactions (assets and liabilities)

	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Book value of claims from cash deposits related to securities borrowing and reverse repurchase business ¹⁾	34,679	0
Book value of liabilities from cash deposits related to securities lending and repurchase business ¹⁾	108,508	415,820
Book value of own securities lent in securities lending or deposited as collateral in securities borrowing or transferred in repurchase business	103,047	391,402
– of which securities with unrestricted right to resell or repledge	0	0
Fair value of securities deposited as collateral in securities lending or borrowed in securities borrowing or received in reverse repurchase business, with unrestricted right to resell or repledge	34,684	0
– of which repledged securities	0	0
– of which resold securities	0	0

¹⁾ Before inclusion of netting contracts.

2 Presentation of collaterals for receivables and off-balance sheet transactions as well as for impaired receivables

Collateral for receivables and off-balance sheet transactions

	Mortgage cover CHF 1000	Other cover CHF 1000	Without cover CHF 1000	Total CHF 1000
Receivables (before set-off with value adjustments)				
Due from customers	182,320	235,016	960,620	1,377,956
Mortgage loans				18,258,192
– Residential real estate	15,696,780	3,902	6,408	15,707,090
– Office and business buildings	944,894	0	6,786	951,681
– Trade and industry	1,037,743	399	16,648	1,054,790
– Others	505,666	1,079	37,886	544,631
Total receivables (before set-off with value adjustments) as per 31-12-2017	18,367,404	240,396	1,028,349	19,636,148
Previous year	17,849,630	271,624	976,317	19,097,570
Total receivables (after set-off with value adjustments) as per 31-12-2017	18,274,843	240,396	987,202	19,502,441
Previous year	17,758,678	263,916	946,464	18,969,058
Off-balance-sheet				
Contingent liabilities	9,157	49,333	111,710	170,201
Irrevocable commitments	345,036	66,055	484,483	895,574
Liabilities for calls on shares and other equities			72,017	72,017
Confirmed credits				0
Total off-balance-sheet as per 31-12-2017	354,193	115,388	668,210	1,137,792
Previous year	163,628	73,391	376,497	613,515

Impaired receivables

	Gross debt CHF 1000	Estimated realisation of securities CHF 1000	Net debt CHF 1000	Specific provisions CHF 1000
Impaired receivables as per 31-12-2017	462,370	311,260	151,110	133,927
Previous year	487,061	350,380	136,681	128,732

3 Breakdown of trading positions and other financial instruments measured at fair value (assets and liabilities)

	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Assets		
Trading business		
Debt securities, money market instruments and transactions	10,009	2,172
– of which listed on an exchange	10,009	2,172
Equity securities	1,460	436
Precious metals and commodities	209	127
Total trading business	11,679	2,735
Total assets	11,679	2,735
– of which determined by a valuation model	0	0
– of which securities eligible for repo transactions acc. to liquidity standards (HQLA)	602	0
Liabilities		
Dues		
Total liabilities	0	0

4 Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
	Positive replacement value 31-12-2017 CHF 1000	Negative replacement value 31-12-2017 CHF 1000	Contract volume 31-12-2017 CHF 1000	Positive replacement value 31-12-2017 CHF 1000	Negative replacement value 31-12-2017 CHF 1000	Contract volume 31-12-2017 CHF 1000
Interest rate contracts	4,964	4,921	64,000	105,239	132,586	5,759,000
Futures contracts incl. FRAs	0	0	0	0	0	0
Swaps	4,964	4,921	64,000	105,239	132,586	5,759,000
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Foreign exchange contracts/Precious metals	6,476	6,410	1,299,475	0	0	0
Futures contracts	5,147	5,081	362,550	0	0	0
Combined interest and currency swaps	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	1,329	1,329	936,925	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Total before inclusion of netting contracts	11,440	11,331	1,363,475	105,239	132,586	5,759,000
– of which determined on the basis of a valuation model	11,440	11,331		105,239	132,586	
Previous year	10,079	9,937		169,136	187,202	
– of which determined on the basis of a valuation model	10,079	9,937		169,136	187,202	
			Positive replacement value (cumulated)			Negative replacement value (cumulated)
Total after inclusion of netting contracts			8,682			2,714
Previous year			8,756			1,606
			Central clearing party	Banks and securities dealers	Other customers	
Positive replacement values (after inclusion of netting contracts), broken down by counter parties			0	0	8,682	

5 Breakdown of financial investments

	31-12-2017 Book value CHF 1000	31-12-2016 Book value CHF 1000	31-12-2017 Fair Value CHF 1000	31-12-2016 Fair Value CHF 1000
Debt securities	1,416,480	1,401,137	1,451,545	1,450,248
– of which held to maturity	1,416,480	1,401,137	1,451,034	1,449,696
– of which available for sale	0	0	511	551
Equity securities	48,662	50,578	77,195	70,850
– of which qualified participations ¹⁾	501	0	805	805
Precious metals	1,369	1,369	4,362	4,016
Fiduciary real estate	10,286	9,507	10,286	9,507
Real estate intended for sale	3,810	3,997	3,810	3,998
Total financial investments	1,480,606	1,466,587	1,547,199	1,538,618
– of which securities eligible for repo transactions acc. to liquidity standards (HQLA)	1,416,480	1,401,137	1,451,034	1,449,696

¹⁾ At least 10% of capital or voting rights.

Counterparties broken down by ratings¹⁾

	AAA to AA– CHF 1000	A+ to A– CHF 1000	BBB+ to BBB– CHF 1000	BB+ to B– CHF 1000	Lower than B– CHF 1000	Without rating CHF 1000
Book value of debt securities	540,560	8,100	0	0	0	867,820

¹⁾ Ratings are based on a FINMA-approved rating agency.

6 Presentation of participations

	Acquisition cost CHF 1000	Accumulated depreciation or adjustment (equity valuation) CHF 1000	Book value end of 2016 CHF 1000	Reclassifica- tions 2017 CHF 1000	Investments 2017 CHF 1000	Disinvest- ments 2017 CHF 1000	Write-offs 2017 CHF 1000	Value adjustments of par- ticipations/ write-ups acc. to the equity method 2017 CHF 1000	Book value end of 2017 CHF 1000	Market value end of 2017 CHF 1000
– of which with quoted value	42,154	–24,698	17,456	0	0	0	0	10,466	27,922	27,922
– of which without quoted value	40,098	–17,732	22,366	0	1,500	–200	–1,500	200	22,366	
Total participations^{1) 2)}	82,251	–42,429	39,822	0	1,500	–200	–1,500	10,666	50,288	27,922

¹⁾ BLKB does not value any participations according to the equity method.

²⁾ Effects of a theoretical application of the equity method: the year 2017 posts a loss from the sale of participations of CHF 342,000 (previous year CHF 632,000). The equity share in the balance sheet in CHF is 2,077,000 (previous year CHF 2,268,000).

7 Disclosure of companies BLKB holds a significant permanent direct or indirect stake in

Company name and headquarters	Business activities	Company capital CHF 1000	Interest share 31-12-2017 %	Interest share 31-12-2016 %
Disclosed in financial investments				
Landwirtschaftliche Trocknungs-Anlagen LTA AG, Pratteln	Drying plant	900	16.28	16.28
ULTRA-BRAG AG, Muttenz	Shipping/warehousing/trade	3,000	11.67	11.67
Bio/MedInvest III LP, St Peter Port, Guernsey	Holding company	96,050	5.21	–
BTG Mezzfin AG, Aesch	Financial services	1,400	0.00	14.29
Disclosed in non-consolidated participations				
Aduno Holding AG, Zurich	Credit cards	25,000	3.08	3.08
Caleas AG, Zurich	Financing company	800	11.19	11.19
ErfindungsVerwertung AG, Basel	Knowledge transfer	1,642	41.08	41.08
Pfandbriefzentrale der schweiz. Kantonalbanken AG, Zurich	Bank financing	1,625,000	5.18	5.18
SIX Group AG, Zurich	Financial services	19,522	0.41	0.41
Swissquote Group Holding SA, Gland	Financial services	3,066	4.77	4.77
True Wealth AG, Zurich	Financial services	160	26.06	21.99

The table shows all non-consolidated participations whose interest share is at least 10% or whose share of participation in the company capital is at least CHF 100,000 or whose book value is at least CHF 250,000.

All participations are held directly by BLKB.

None of the participations recorded in the balance sheet holds shares therefore, capital quota corresponds to voting rights quota.

8 Presentation of tangible fixed assets

	Acquisition cost CHF 1000	Accumulated depreciation CHF 1000	Book value end of 2016 CHF 1000	Reclassifications 2017 CHF 1000	Investments 2017 CHF 1000	Disinvestments 2017 CHF 1000	Write-offs 2017 CHF 1000	Write-ups 2017 CHF 1000	Book value end of 2017 CHF 1000
Tangible fixed assets									
Real estate	200,220	-98,575	101,645	0	568	-6,588	-5,781	0	89,844
– of which bank buildings	159,737	-84,431	75,306	0	532	-3,066	-4,793	0	67,980
– of which other real estate	40,483	-14,144	26,339	0	36	-3,522	-989	0	21,864
Self-developed or separately acquired software	25,363	-17,454	7,909	0	7,356	0	-6,948	0	8,317
Other tangible fixed assets	21,121	-14,912	6,209	0	4,425	-133	-3,661	0	6,840
Total tangible fixed assets	246,703	-130,940	115,763	0	12,349	-6,720	-16,390	0	105,002

There is no property in finance leasing and no liability from operational leasing.

9 Presentation of intangible assets

BLKB does not own any intangible assets.

10 Breakdown of other assets and other liabilities

	31-12-2017 Other assets CHF 1000	31-12-2016 Other assets CHF 1000	31-12-2017 Other liabilities CHF 1000	31-12-2016 Other liabilities CHF 1000
Compensation account	10,514	0	0	3,929
Settlement accounts	11,958	9,155	2,682	2,643
Indirect taxes	3,124	2,330	2,672	8,671
Interest on endowment capital	2,413	2,413		
Bank-owned "funds" without any legal personality such as pension schemes or welfare funds			0	0
Coupons and debt securities, due and not realised			1,968	2,400
Other liabilities from deliveries and services			1,759	3,029
Compensation fiduciary real estate			10,286	9,507
Total	28,009	13,897	19,367	30,178

11 Disclosure of assets pledged or ceded to secure own commitments and assets under reservation of ownership

	31-12-2017 Book value CHF 1000	31-12-2017 Actual liability CHF 1000	31-12-2016 Book value CHF 1000	31-12-2016 Actual liability CHF 1000
Pledged/ceded assets:				
Pledged and ceded mortgage loans for mortgage-backed securities	2,893,149	1,867,000	2,545,181	1,748,000
Financial investments	136,189	0	136,284	0
Fiduciary real estate	10,286	10,286	9,507	9,507
Assets under reservation of ownership				
None				
Total	3,039,624	1,877,286	2,690,972	1,757,507

12 Disclosure of liabilities relating to own pension schemes as well as number and nature of equity instruments held by the bank's own pension schemes

	31-12-2017 CHF 1000	31.12.2016 CHF 1000
Liabilities to customers	374,294	302,910
Bonds ¹⁾	374	374
Cash bonds ¹⁾	0	0
Negative replacement values	0	0
Total	374,668	303,284

¹⁾ Pro rata amount of the pension scheme of BLKB in the collective institution.

12.1 Number and nature of equity instruments held by the bank's own pension schemes

	31-12-2017 Number	31-12-2016 Number
Kantonalbank certificates	0	0

13 Disclosures of the economic situation of the pension schemes

All employees of BLKB profit both from the compulsory BVG/LPP benefits and from the additional benefits of the pension fund of Basellandschaftliche Pensionskasse (BLPK) with the exception of part-time employees with a minimal workload. The pension scheme is contribution-defined. Regular retirement age is reached after completion of the 63rd year. Early retirement is possible after attaining the age of 60 years.

a) Reserves of the employer contribution (AGBR)

	31-12-2017 Nominal value CHF 1000	31-12-2017 Waiver of use CHF 1000	31-12-2017 Net contribution ¹⁾ CHF 1000	31-12-2016 Net contribution ¹⁾ CHF 1000	2017 Influence of AGBR on personnel expenses CHF 1000	2016 Influence of AGBR on personnel expenses CHF 1000
Pension schemes	0	0	0	0	25	42

¹⁾ Activation is mandatory.

b) Presentation of the economic benefit/economic liability/pension expenses

	31-12-2017 Excess cover/ Deficient cover CHF 1000	31-12-2017 Economic share of BLKB CHF 1000	31-12-2016 Economic share of BLKB CHF 1000	Changes compared to pre- vious year of the economic share (economic benefit or liability)) CHF 1000	Paid-in contribu- tions for the reporting period CHF 1000	2017 Pension expenses within personnel expenses CHF 1000	2016 Pension expenses within personnel expenses CHF 1000
Pension fund contribution-defined ¹⁾	73,947	0	0	0	10,482	18,416	9,839
Total	73,947	0	0	0	10,482	18,416	9,839

¹⁾ BLKB has a contribution-defined pension solution with Basellandschaftliche Pensionskasse (BLPK). Employer contribution is continually debited to the income statement. Pension expenses consist of these accrued contributions, the changes in the employer's contribution reserves, and the changes in the economic liabilities which are recorded in provisions. For the year 2017, BLKB's share of deficient or excess cover in this pension fund was extrapolated by an independent expert on pension funds on the basis of BLPK's annual financial statement as per 31-12-2016 and the quarterly financial statement as per 30-09-2017. According to the extrapolation of the independent expert on pension funds as per 31-12-2017, coverage ratio was 117.6%. The set margin of the value fluctuation not having been reached, there is no economic benefit for the bank. The employer's contribution reserves were used to pay for the employer contributions.

14 Presentation of issued structured products

As per 31-12-2017 and 31-12-2016, BLKB has not issued any structured products.

15 Presentation of bonds outstanding and mandatory convertible bonds

Type of bond	Year of issue	Interest rate %	Maturities	31-12-2017 Balance CHF 1000	31-12-2016 Balance CHF 1000
Non-subordinated	2007	3.000	14-12-2017	0	300,000
Non-subordinated	2012	0.625	27-02-2018	250,000	250,000
Non-subordinated	2010	1.750	25-06-2019	300,000	300,000
Non-subordinated	2009	2.500	16-12-2019	300,000	300,000
Non-subordinated	2010	1.750	09-11-2020	300,000	300,000
Non-subordinated	2012	1.000	04-10-2022	300,000	300,000
Non-subordinated	2013	1.125	27-03-2023	260,000	260,000
Non-subordinated	2011	1.750	22-11-2024	225,000	225,000
Non-subordinated	2015	0.250	13-05-2025	150,000	150,000
Non-subordinated	2015	0.750	30-03-2028	185,000	185,000
Non-subordinated	2016	0.000	20-04-2020	200,000	200,000
Non-subordinated	2017	0.000	06-10-2021	150,000	0
Total bonds ¹⁾		1.190		2,620,000	2,770,000
Loans of mortgage-backed securities		0.851		1,867,000	1,748,000
Total outstanding bonds and mortgage-backed securities		1.049		4,487,000	4,518,000

¹⁾ No call for premature redemption of any of the bonds

Overview of the maturities of outstanding bonds

	Within one year CHF 1000	>1 to <=2 years CHF 1000	>2 to <=3 years CHF 1000	>3 to <=4 years CHF 1000	>4 to <=5 years CHF 1000	>5 years CHF 1000	31-12-2017 Total CHF 1000
Total outstanding bonds	250,000	600,000	500,000	150,000	300,000	820,000	2,620,000

16 Presentation of value adjustments and provisions as well as reserves for general bank risks and changes therein during the current year

	Balance 31-12-2016 CHF 1000	Appropriate usage CHF 1000	Book transfer CHF 1000	Translation differences CHF 1000	Interest overdue, recoveries CHF 1000	Recoveries debited to income CHF 1000	Recoveries credited to income CHF 1000	Balance 31-12-2017 CHF 1000
Provisions for pension fund	0					8,000		8,000
Provisions for default risks (potential cash outflows related to off-balance sheet transactions)	34,858		-2,069			99	-203	32,685
Provisions for other business risks	1,383	-19				350	0	1,713
Other provisions	436							436
Total provisions	36,676	-19	-2,069	0	0	8,449	-203	42,834
Reserves for general bank risks	1,129,500					62,000		1,191,500
Value adjustments for default risks and country risks	128,732	-250	2,069	0	-12	20,988	-17,600	133,927
– of which value adjustments for default risks from impaired receivables	128,732	-250	2,069		-12	20,988	-17,600	133,927
– of which value adjustments for latent risks	0							0

BLKB is exempt from tax on profit and capital; therefore, building of latent tax on the reserve for general bank risks is not necessary.

17 Presentation of the bank's capital

	31-12-2017 Total nominal value CHF 1000	31-12-2017 Quantity	31-12-2017 Capital entitled to dividend CHF 1000	31-12-2016 Total nominal value CHF 1000	31-12-2016 Quantity	31-12-2016 Capital entitled to dividend CHF 1000
Company capital						
Endowment capital	160,000	–	160,000	160,000	–	160,000
Certificate capital	57,000	570,000	57,000	57,000	570,000	57,000
– of which paid-up	57,000			57,000		
Total company capital	217,000	570,000	217,000	217,000	570,000	217,000
Approved capital	0			0		
– of which capital increases were carried out	0			0		
Conditional capital	0			0		
– of which capital increases were carried out	0			0		

The canton of Basel-Landschaft holds 100% of the endowment capital. The funds are brokered by BLKB who assumes responsibility for the debt service.

Certificates do not entitle the holder to any voting rights.

18 Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosure of any employee participation schemes

	Equity securities			
	31-12-2017 Number	31-12-2016 Number	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Members of Bankrat ¹⁾	1,220	1,040	1,103	936
Members of the Executive Board ¹⁾	1,383	2,518	1,251	2,266
Employees ²⁾	1,508	1,466	1,364	1,319
Total	4,111	5,024	3,718	4,522

¹⁾ Further information on participations of the members of the Executive Board and the Bankrat is detailed in chapter 4 Information on compensation and participations

²⁾ Kantonalbank certificates subscribed to by employees in the anniversary year of 2014 with a lock-up period of 4 years, including locked-up Kantonalbank certificates of former members of the EB

19 Disclosure of dues to/from related parties

	Receivables		Payables	
	31-12-2017 CHF 1000	31-12-2016 CHF 1000	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Qualified shareholders	19,621	63,481	188,163	156,713
Affiliated companies	75,734	80,260	524,988	432,181
Governing bodies	20,583	24,220	23,637	21,108

Transactions with related parties

Transactions (securities transactions, payment transactions, credit accommodation, compensation on deposits) with related parties are done at conditions valid for third parties. The bank's employees enjoy conditions valid for personnel as is customary in the banking business. There are no significant off-balance sheet transactions with related parties.

20 Disclosure of holders of significant participations

Significant shareholders and groups of shareholders with voting rights	31-12-2017 Nominal value CHF 1000	31.12.2017 Share in %	31-12-2016 Nominal value CHF 1000	31-12-2016 Share in %
With voting rights				
Canton of Basel-Landschaft	160,000	74	160,000	74
Without voting rights				
Bearer of certificates	57,000	26	57,000	26

21 Disclosure of own shares and composition of equity capital

	2017 Number	2017 Average transaction price CHF	2016 Number	2016 Average transaction price CHF
Number of Kantonalbank certificates held by the bank on 01-01	8,205		11,065	
+ acquisitions	1,566	899	4,394	904
- sales	-2,873	911	-7,254	914
Balance on 31-12	6,898		8,205	
Contingent liabilities regarding own equity instruments, sold or acquired, in CHF 1000	0		0	
Number of Kantonalbank certificates held by subsidiaries, joint ventures, affiliated companies and foundations related to the bank	1,325		1,325	
Number of own equity instruments reserved for a certain purpose and Kantonalbank certificates held by persons related to the bank	3,928		4,883	

The endowment capital is divided into the following sections:

	Year of issue	Interest rate %	Maturities	31-12-2017 Balance CHF 1000	31-12-2016 Balance CHF 1000
Bond	2014	0.500	30-03-2022	50,000	50,000
Loan	2012	0.930	01-10-2022	40,000	40,000
Bond	2010	2.550	05-03-2025	70,000	70,000
Total				160,000	160,000

Information on transactions with shareholders in their capacity as shareholders

All transactions with shareholders were executed with liquid funds or balanced with other transactions and were done at normal market conditions.

22 Disclosure in accordance with the Ordinance Against Excessive Compensation in Listed Companies and art. 663c para.3 of the Code of Obligation for banks whose equity instruments are listed

More information on compensation and participation is detailed in chapter 4.

In 2017, there was no compensation paid to former members of the Bankrat nor was there any compensation on unusual terms to persons related to members of the Bankrat or the Executive Board. There was no compensation paid to former members of the Executive Board.

23 Presentation of the maturity structure of financial instruments

	On demand CHF 1000	Callable CHF 1000	Due within 3 months CHF 1000	Due after 3 to 12 months CHF 1000	Due after 12 months to 5 years CHF 1000	Due after 5 years CHF 1000	Immobilised CHF 1000	Total CHF 1000
Assets/Financial instruments								
Liquid funds	2,767,866							2,767,866
Due from banks	86,150	4,624	96,420					187,194
Due from securities financing transactions			34,679					34,679
Due from customers	1,932	214,007	475,649	82,716	380,773	181,732		1,336,809
Mortgage loans	1,186	266,031	1,346,712	2,909,285	10,386,738	3,255,679		18,165,631
Trading business	11,679							11,679
Positive replacement value of derivative financial instruments	8,682							8,682
Financial investments	50,030		60,604	114,573	632,519	608,784	14,096	1,480,606
Total as per 31-12-2017	2,927,526	484,663	2,014,063	3,106,573	11,400,031	4,046,195	14,096	23,993,147
Previous year	2,934,342	633,609	1,834,673	2,026,011	11,287,412	4,747,437	13,503	23,476,987
Loans/Financial instruments								
Due to banks	83,529		140,842		100,900	125,000		450,271
Due to securities financing transactions			108,508					108,508
Due to customers in savings and deposits	4,749,266	11,637,999	89,534	19,873	113,000	80,000		16,689,671
Negative replacement value of derivative financial instruments	2,714							2,714
Cash bonds			1,656	5,407	17,488	125		24,676
Bonds and mortgage-backed bonds			433,000	101,000	2,122,000	1,831,000		4,487,000
Total as per 31-12-2017	4,835,508	11,637,999	773,539	126,280	2,353,388	2,036,125	0	21,762,839
Previous year	3,979,763	11,172,523	1,143,364	629,741	2,206,320	2,218,706	0	21,350,417

24 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

	31-12-2017 Domestic CHF 1000	31-12-2017 Foreign CHF 1000	31-12-2016 Domestic CHF 1000	31-12-2016 Foreign CHF 1000
Assets				
Liquid funds	2,766,113	1,753	2,757,535	5,804
Due from banks	124,383	62,811	190,380	76,132
Due from securities financing transactions	9,745	24,934		
Due from customers	1,197,107	139,702	1,299,870	112,376
Mortgage loans	18,165,631		17,556,812	
Trading business	10,234	1,445	2,314	421
Positive replacement value of derivative financial instruments	8,682		8,756	
Financial investments	1,121,841	358,765	1,112,885	353,702
Accrued income and prepaid expenses	32,222	3,550	39,090	3,951
Participations	50,185	104	39,718	104
Tangible fixed assets	105,002		115,763	
Other assets	28,009		13,106	791
Total assets	23,619,155	593,064	23,136,230	553,281
Liabilities				
Due to banks	334,032	116,238	276,474	364,197
Due to securities financing transactions	108,508		415,820	
Due to customers in savings and deposits	16,197,751	491,920	15,216,679	513,072
Due to trading business	0		0	
Negative replacement value of derivative financial instruments	2,714		1,606	
Cash bonds	24,676		44,570	
Bonds and mortgage-backed bonds	4,487,000		4,518,000	
Accrued expenses and deferred income	75,550	4	77,474	5
Other liabilities	16,630	2,736	25,319	4,859
Provisions	42,834		36,676	
Reserves for general bank risks	1,191,500		1,129,500	
Company capital	217,000		217,000	
Legal reserve	768,001		714,084	
Own shares	-6,239		-7,385	
Retained earnings brought forward	8,016		7,962	
Annual net profit	133,348		133,599	
Total liabilities	23,601,321	610,898	22,807,377	882,133

25 Breakdown of total assets by country or country groups (domicile principle)

	31-12-2017 CHF 1000	31-12-2017 Share in %	31-12-2016 CHF 1000	31-12-2016 Share in %
Assets				
Switzerland	23,619,155	97.55	23,136,230	97.66
Europe	519,979	2.15	493,902	2.08
North America	45,204	0.19	42,336	0.18
Asia/Australasia	15,875	0.07	11,679	0.05
Other	12,005	0.05	5,364	0.02
Total assets	24,212,219	100.00	23,689,510	100.00

26 Breakdown of assets by credit rating of country groups (risk domicile view)

Rating category ¹⁾	Net foreign exposure 31-12-2017 CHF 1000	Net foreign exposure 31-12-2017 Share in %	Net foreign exposure 31-12-2016 CHF 1000	Net foreign exposure 31-12-2016 Share in %
1	590,118	97.97	559,591	99.04
2	0	0.00	79	0.01
3	129	0.02	0	0.00
4	117	0.02	3	0.00
5	13	0.00	35	0.01
6	6,981	1.16	5,331	0.94
7	5,015	0.83	0	0.00
No rating	0	0.00	0	0.00
Total	602,374	100.00	565,040	100.00

¹⁾ BLKB uses the country ratings of Zürcher Kantonalbank (ZCB).

27 Presentation of assets and liabilities broken down by the most significant currencies

	CHF CHF 1000	EUR CHF 1000	USD CHF 1000	Other CHF 1000
Assets				
Liquid funds	2,753,722	13,208	552	384
Due from banks	5,538	18,635	102,973	60,048
Due from securities financing transactions			29,235	5,444
Due from customers	903,760	349,742	76,838	6,469
Mortgage loans	18,164,344	1,287		
Trading business	10,991	486		202
Positive replacement value of derivative financial instruments	8,682			
Financial investments	1,334,179	130,023	15,036	1,369
Accrued income and prepaid expenses	32,675	2,548	488	60
Participations	50,185		104	
Tangible fixed assets	105,002			
Other assets	27,946	63	1	
Total on-balance-sheet assets	23,397,023	515,992	225,227	73,976
Delivery claims from spot exchange dealings, forward exchange deals, and foreign exchange options	202,400	147,310	132,549	10,432
Total assets 31-12-2017	23,599,423	663,303	357,776	84,409
Liabilities				
Due to banks	352,921	47,878	44,199	5,273
Due to securities financing transactions	50,000	58,508		
Due to customers in savings and deposits	16,041,231	402,921	179,719	65,800
Due to trading business	0			
Negative replacement value of derivative financial instruments	2,714			
Cash bonds	24,676			
Bonds and mortgage-backed bonds	4,487,000			
Accrued expenses and deferred income	75,488	2	46	17
Other liabilities	19,313	53	1	
Provisions	42,834			
Reserves for general bank risks	1,191,500			
Company capital	217,000			
Legal reserve	768,001			
Own shares	-6,239			
Retained earnings brought forward	8,016			
Annual net profit	133,348			
Total on-balance-sheet liabilities	23,407,802	509,361	223,966	71,090
Delivery liabilities from spot exchange dealings, forward exchange deals, and foreign exchange options	202,358	147,290	132,545	10,433
Total liabilities 31-12-2017	23,610,160	656,651	356,511	81,523
Net position per currency	-10,737	6,652	1,265	2,886

28 Breakdown of and explanations on contingent assets and liabilities

	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Guarantee for collateralisation of loans and similar	67,321	81,811
Guarantee for warranty and similar	99,395	103,565
Irrevocable commitments from documentary letters of credit	3,485	4,309
Total contingent liabilities	170,201	189,685
Other contingent claims	p. m. ¹⁾	p. m. ¹⁾
Total contingent claims	0	0

¹⁾ Within the sale of the Swisscanto participation to ZCB, part of the proceeds will be paid in the years 2016 to 2018 in three yearly payments (earn-out). The amount depends on the contribution to the business performance BLKB makes with Swisscanto products. Therefore, the amount of the earn-out cannot accurately be estimated.

29 Breakdown of credit commitments

There are no credit commitments.

30 Breakdown of fiduciary transactions

	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Fiduciary deposits with third party companies	3,827	3,820
Total	3,827	3,820

31 Breakdown of assets under management, presentation and development

a) Breakdown of assets under management

Type of assets under management	31-12-2017 CHF 1000	31-12-2016 CHF 1000
Assets in collective investment instruments managed by the bank	625,542	404,403
Assets with management mandate	3,119,267	3,067,941
Other assets under management	16,662,043	16,003,763
Total assets under management (including double counting)	20,406,852	19,476,108
– of which double counting	625,252	404,253

The assets under management comprise assets in securities accounts including fiduciary assets and liabilities to customer deposits. Business activities comprising only liquidity investments and/or repo transactions are not included.

b) Presentation of the development of assets under management

	2017 CHF 1000	2016 CHF 1000
Total assets under management (including double counting) at the beginning of the year	19,476,108	18,772,626
+/- Net new money inflow or net new money outflow	383,274	553,701
Changes in double counting	221,039	230,757
+/- price movement, interest, dividend, and currency development	418,564	-261,297
+/- other effects	-92,134	180,321
Total assets under management (including double counting) at year-end	20,406,852	19,476,108

Calculation of net new money is based on the assets under management and is done according to the direct method. This method determines cash in- and outflows at customer level on the basis of transactions. Expenses and commissions as well as price movements are excluded. The same applies to Interest payments. Reclassification within custody assets is considered net new money.

32 Breakdown of the result from trading transactions and the fair-value option

a) Broken down by business line (acc. to the bank's organisation)

	2017 CHF 1000	2016 CHF 1000
Basellandschaftliche Kantonalbank ¹⁾	18,015	17,602
Total	18,015	17,602

¹⁾ BLKB does not set up any accounts by business line.

b) Broken down by underlying risks and due to the application of the fair-value option

Trading income from	2017 CHF 1000	2016 CHF 1000
Interest rate contracts (incl. funds)	554	725
Equity instruments (incl. funds)	17	-8
Foreign exchange	17,265	16,690
Commodities/precious metals	180	195
Total net trading income	18,015	17,602
- of which from fair value option	0	0

33 Disclosure of significant refinancing income in the item "Interest and discount income" as well as on significant negative interest

	2017 CHF 1000	2016 CHF 1000
Refinancing income from trading positions	0	0
Negative interest claims	-613	-427
Negative interest liabilities	8,751	9,962

34 Breakdown of personnel expenses

	2017 CHF 1000	2016 CHF 1000
Salaries (attendance fees and fixed compensation paid to bank authorities, salaries and benefits)	-80,905	-79,506
– of which expenses related to share-based compensation and alternative forms of variable compensation	-524	-537
Social benefits ¹⁾	-26,772	-18,576
Value adjustments as to the economic benefit or liability of pension schemes	0	0
Other personnel expenses	-4,473	-4,413
Total personnel expenses	-112,150	-102,495

¹⁾ Including expenses of CHF 8 m in connection with the adjustment of the technical interest rate and the conversion rate of the BLKP 2017.

35 Breakdown of other operating expenses

	2017 CHF 1000	2016 CHF 1000
Premises expense	-6,538	-4,345
Expense for IT and communications technology	-24,940	-22,022
Expense for vehicles, machinery, furniture, other equipment, and operational leasing	-953	-1,136
Fees for the auditing company	-483	-463
– of which for accounts and supervision audit	-475	-441
– of which for other services	-8	-22
Other operating expenses	-31,463	-31,768
– of which compensation for the state guarantee	0	0
Total operating expenses	-64,376	-59,734

36 Explanations regarding material losses, extraordinary income and expenses as well as material releases of hidden reserves, reserves for general bank risks and freed-up value adjustments and provisions

	2017 CHF 1000	2016 CHF 1000
Extraordinary income	23,700	12,564
– of which profits from sales of participations, real estate and tangible fixed assets ¹⁾	13,233	8,795
– of which revaluations of participations, real estate, and tangible fixed assets ²⁾	10,466	769
– of which other extraordinary income ³⁾	0	3,000
Extraordinary expenses	-68	0
– of which realised losses from disposal of shares, real estate and tangible fixed assets	-22	0
– of which other extraordinary expenses	-46	0
Deposits in reserves for general bank risks	-62,000	-62,000

In 2017, the bank did not register any substantial losses and freed-up value adjustments and provisions.

¹⁾ 2017: this concerns mainly the proceeds from the disposal of real estate and the received earn-out payments concerning the sale of participations in Swisscanto Holding AG
2016: this concerns mainly the proceeds from the disposal of real estate and the received earn-out payments concerning the sale of participations in Swisscanto Holding AG

²⁾ 2017: this concerns mainly the revaluation of a participation

³⁾ 2016: this concerns a reimbursement of the Foundation for the anniversary 2014 due to unclaimed services in relation with the anniversary activities in 2014.

37 Information on and justification of the revaluation of participations and tangible fixed assets up to acquisition costs

In 2017, a participation for which value adjustments had been made in the years before, was partly revaluated. The income from the discontinuation of the impairment was entered in item "Extraordinary income". Further details in item 36 above.

38 Presentation of income by domestic and foreign origin according to the operational site principle

BLKB does not have any foreign operational sites.

39 Presentation of on-going taxes and latent taxes as well as disclosure of the tax rate

	2017 CHF 1000	2016 CHF 1000
Expenses for on-going taxes	-368	-406
Building of provisions for latent taxes	0	0
Total taxes	-368	-406
Weighted average interest rate	-	-

In its capacity as a public-law institution, Basellandschäftliche Kantonalbank is exempt from direct federal taxes and from taxes in the canton of Basel-Landschaft. Therefore, the bank does not state any average interest rate.

40 Disclosures of and explanations on the earnings per equity security with listed banks

	2017 CHF	2016 CHF
Undiluted result for the endowment capital/per Kantonalbank Certificate	61.65	61.80
Diluted result for the endowment capital/per Kantonalbank Certificate	61.65	61.80

The undiluted profit from the endowment capital or rather per Kantonalbank Certificate is calculated on the basis of the profit of the business year, divided by the number of outstanding certificates at year-end (after deduction of Kantonalbank Certificates held by the bank).

The endowment capital was converted into certificates of CHF 100.– nominal value. There is no difference between the diluted and the undiluted result.

4 INFORMATION ON COMPENSATION AND PARTICIPATIONS

4.1 Responsibilities and procedures

The following table explains the responsibilities and procedures used in determining compensation

	BD	ChpBD	ExC	ARC	HROC	EB
Fixed and variable compensation						
Compensation policy	D				P	
Determination of fixed compensation total	D				P	
Fixed compensation to the total of the Executive Board	D				P	
Compensation to the members of the Board of Directors	D				P	
Compensation to CEO	D	P			P	
Compensation to the members of the Executive Board	D				P	P (CEO)
Compensation to the head of Internal Auditing		D		P		
Compensation to the members of the Senior Management						D
Compensation to the remaining personnel						D
Annual determination of pool total of variable compensation	D				P	P
Annual allocation ratio of variable compensation according to level of function	TN				D	P
Non-wage benefits	TN				D	P
Pension regulation	D				P	P

BD = Board of Directors, ChpBD = Chairperson of the Board of Directors, ExC = Executive Committee, ARC = Audit and Risk Committee, HROC = Human Resources and Organization Committee, EB = Executive Board

D = decision, P = proposal, TN = take note

4.2 Overview of compensation paid to the Board of Directors (Bankrat) and the bank's employees for the business years 2017 and 2016

Below, there is a summarised overview of the most important key figures:

	Fixed compensation	Variable compensation	Non-wage benefits ¹⁾	Lump sum expenses	Value of reduced price of KBC	Total compensation	Employer's contribution to social benefits
2017	68,776,804	12,144,200	1,282,285	892,077	524,448	83,619,813	26,771,918
2016	66,733,293	12,491,100	1,207,672	831,539	537,068	81,800,671	18,575,675

¹⁾ Benefits for REKA cheques and lunch allowance.

Amount of outstanding postponed benefits

	Kantonalbank certificates
31-12-2017	2,769 Stk.
31-12-2016	2,850 Stk.

Ratio of highest to lowest gross compensation

2017	1 zu 12.21
2016	1 zu 12.45

4.3 Compensation paid to the members of the Board of Directors for the business years 2017 and 2016

Name	Fixed compensation	Variable compensation	Non-wage benefits	Lump sum expenses	Value of reduced price of KBC	Total compensation	Employer's contribution to social benefits	Total personnel expenses
E. Schirmer, Chairwoman								
2017	195,000	0	–	7,000	4,600	206,600	14,531	221,130
2016	195,000	0	–	7,000	4,549	206,549	14,531	221,080
A. Lauber, Vice-chairman¹⁾								
2017	50,000	0	–	7,000	0	57,000	0	57,000
2016	50,000	0	–	7,000	0	57,000	0	57,000
M. Primavesi²⁾								
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
2016	100,000	0	–	3,600	2,275	105,875	7,596	113,470
D. Völlmin³⁾								
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
2016	100,000	0	–	3,600	4,549	108,149	7,596	115,745
K. Strecker⁴⁾								
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
2016	100,000	0	–	3,600	2,275	105,875	7,596	113,470
E. Dubach Spiegler								
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
2016	70,000	0	–	2,500	2,275	74,775	5,317	80,091
D. Greiner								
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
2016	70,000	0	–	2,500	4,549	77,049	5,317	82,366
N. Jermann								
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
2016	70,000	0	–	2,500	2,275	74,775	5,317	80,091
F. Mutschlechner								
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
2016	70,000	0	–	2,500	4,549	77,049	5,317	82,366
S. Naef								
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
2016	70,000	0	–	2,500	2,275	74,775	5,317	80,091
Total Vergütungen								
2017	895,000	0	–	37,300	41,399	973,699	63,901	1,037,600
2016	895,000	0	–	37,300	29,571	961,871	63,901	1,025,772

¹⁾ The fee has been credited to the canton of Basel-Landschaft, since 2016

²⁾ Chairman of the ExC

³⁾ Chairman of the ARC

⁴⁾ Chairman of the HROC

4.4 Compensation paid to the members of the Executive Board for the business years 2017 and 2016

Name	Fixed compensation	Variable compensation	Non-wage benefits ¹⁾	Lump sum expenses	Value of reduced price of KBC	Total compensation	Employer's contribution to social benefits	Total expenses
John Häfelfinger, CEO								
2017	425,100	400,000	2,844	24,000	0	851,944	112,082	964,027
Beat Oberlin, CEO								
2016	444,964	410,000	8,780	24,000	11,373	899,117	203,636	1,102,753
Remaining members of the Executive Board								
2017	1,933,728	1,120,000	48,854	102,401	45,999	3,250,981	909,838	4,160,819
2016	1,504,241	1,066,000	39,756	77,562	34,120	2,721,679	715,958	3,437,637
Total Executive Board								
2017	2,358,828	1,520,000	51,698	126,401	45,999	4,102,925	1,021,921	5,124,846
2016	1,949,205	1,476,000	48,536	101,562	45,493	3,620,797	919,594	4,540,390

¹⁾ Benefits for REKA cheques and lunch allowance, company car.

On 1 January 2016, the remaining Executive Board consisted of five members. In the course of 2016, there were no changes in the composition of the Executive Board. On 1 January 2017, John Häfelfinger joined BLKB as CEO. Beat Oberlin went into retirement as per 30 April 2017. Manuel Kunzelmann and Beat Röhliberger were appointed members of the Executive Board as per 1 July 2017. Daniel Brändlin resigned from the board as per 31-12-2017. The remaining Executive Board consisted of six members as per 31-12-2017.

4.5 Loans and credits, subscription to Kantonbank Certificates (in the business year) and KBC balance of the Board of Directors and persons related to them

Name	Function	Loans and credits 31-12-2017	Loans and credits 31-12-2016	KBC subscribed for in 2017	KBC subscribed for in 2016	KBC balance (restricted) 31-12-2017	KBC balance (restricted) ¹⁾ 31-12-2016
E. Schirmer	Chairwoman of the Board of Directors	1,750,000	1,050,000	20	20	360 (100)	340 (100)
A. Lauber	Vicechairman	0	0	0	0	0	0
M. Primavesi	Member	0	0	20	10	30 (30)	10 (10)
D. Völlmin	Member	780,000	780,000	20	20	210 (100)	190 (100)
K. Strecker	Member	2,500,000	2,500,000	20	10	30 (30)	10 (10)
E. Dubach Spiegler	Member	0	0	20	10	30 (30)	10 (10)
D. Greiner	Member	0	0	20	20	380 (100)	360 (100)
N. Jermann	Member	250,000	250,000	20	10	30 (30)	10 (10)
F. Mutschlechner	Member	0	0	20	20	120 (100)	100 (100)
S. Naef	Member	0	0	20	10	30 (30)	10 (10)
Total Members		5,280,000	4,580,000	180	130	1220 (550)	1040 (450)

4.6 Loans and credits to members of the Executive Board and persons related to them

Name	Function	Loans and credits 31-12-2017	Loans and credits 31-12-2016
Jean-Daniel Neuenschwander ¹⁾	member of the EB	1,499,685	–
Beat Oberlin ¹⁾	CEO	–	1,600,000
Remaining members of the Executive Board	member of the EB	2,713,050	4,127,150
Total Executive Board		4,212,735	5,727,150

¹⁾ Maximum loan amount to a member of the Executive Board.

4.7 Subscription to Kantonalbank Certificates (in the business year) by members of the Executive Board and persons close to them

Name	Function	KBC subscribed for in 2017	KBC subscribed for in 2016	KBC Balance (restricted) 31-12-2017	KBC Balance (restricted) 31-12-2016
John Häfelfinger ¹⁾	CEO	50	–	50 (0)	–
Beat Oberlin ²⁾	CEO	50	50	–	1266 (256)
Daniel Brändlin	member of the EB	30	30	150 (150)	150 (150)
Herbert Kumbartzki	member of the EB	35	30	215 (150)	240 (150)
Manuel Kunzelmann ³⁾	member of the EB	0	–	0 (0)	–
Simon Leumann	member of the EB	30	31	222 (109)	192 (79)
Jean-Daniel Neuenschwander	member of the EB	30	30	220 (156)	190 (156)
Beat Rötthlisberger ³⁾	member of the EB	0	–	0 (0)	–
Kaspar Schweizer	member of the EB	35	30	526 (146)	491 (146)
Total Executive Board		260	201	1383 (711)	2529 (937)

¹⁾ Joined as per 1-1-2017

²⁾ Retired as per 30-4-2017

³⁾ Member of the EB since 1-7-2017

Report of the statutory auditor on the financial statements



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To the Regierungsrat (executive body) for the attention of the Landrat
(legislative body) of the Canton of Basel-Landschaft

Basle, 7 February 2018

Basellandschaftliche Kantonalbank, Liestal

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Basellandschaftliche Kantonalbank, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 38 to 80), for the year ended 31 December 2017.



Board of Directors' responsibility

The Bankrat (Board of Directors) is responsible for the preparation of the financial statements in accordance with the legal requirements and the valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bankrat (Board of Directors) is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss banking law and comply with the legal requirements.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to that matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Loans to clients – Impairment testing and calculation of fair value adjustments and determination of individual value adjustments and provisions for default risks

Area of focus Loans to clients, presented in amounts due from customers and mortgage loans, are recorded at nominal value, less value adjustments for impaired loans. The impairment is covered by individual value adjustments and the amount of the value adjustment is based on the difference between the book value of the loan and the expected income, taking into account the counterparty risk and the net income from selling the collateral.

For loans with credit facilities whose utilization is typically subject to frequent and high fluctuations (e.g. current account credit facilities) fair value adjustments on the actual utilization and provisions on unused credit facilities are recorded.

Calculation of fair value adjustments and provisions for default risks are subject to significant judgement by the management and can vary depending on the individual assessment.

As per 31 December 2017 loans to clients amount to CHF 19'502.4 mio. (equivalent to 80.5% of the total balance sheet amount) and represent a significant share of the assets of Basellandschaftliche Kantonalbank. Therefore, the valuation of loans to clients is a key audit matter.

The bank describes its accounting and valuation principles concerning loans to clients and value adjustments on page 49 of the annual report. For further information we refer to disclosure no. 2 showing the presentation of collaterals for receivables and off-balance sheet transactions as well as for impaired receivables and no. 16 presenting the value adjustments and provisions as well as reserves for general bank risks and changes during the current year in the notes of the financial statements.



Our audit response

Our audit procedures include the assessment of processes and controls in connection with the granting and monitoring of credits as well as the identification and calculation of fair value adjustments and provisions for default risks. This includes the performance of impairment tests of loans on a sample basis and the evaluation of procedures and assumptions for the determination of individual fair value adjustments.

Further audit procedures encompass the assessment of the accounting and valuation principles used as well as the assessment of the disclosures in the notes of the financial statements.


Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Bankrat (Board of Directors).

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Patrick Schwaller
Licensed audit expert
(Auditor in charge)

Roman Sandmeier
Licensed audit expert



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