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On the move.
Annual and sustainability report 2018.



Basellandschaftliche
Kantonalbank

On the move.

We are the region's forward-looking bank. We know where our strengths lie, and are conscious of our responsibility towards our customers. We are constantly on the move on their behalf – whether by tried-and-tested routes, or by exploring new directions. Our strong partnership with our region, our owners and our customers never changes. Whether in our leisure time or when dealing with customers, we enjoy what we do and we are in good shape – just like the employees featured on the cover.

Find out more about BLKB and our business year at blkb.ch/gb2018.

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Key figures at a glance

	2018 CHF m	2017 CHF m	2016 CHF m	2015 CHF m	2014 CHF m
Balance sheet					
Balance sheet total	25,340.8	24,212.2	23,689.5	23,178.4	21,492.0
Mortgage loans	18,718.4	18,165.6	17,556.8	17,070.2	16,611.2
Due to customers in savings and deposits	16,717.7	16,689.7	15,729.8	15,442.8	15,256.6
Income statement					
Operating income	358.5	366.9	368.3	371.7	354.0
Operating profit	165.2	172.1	183.4	191.2	175.7
Annual net profit	134.5	133.3	133.6	130.4	115.8
Dividends on certificate capital	20.0	20.0	20.0	20.0	19.4
Profit distribution to the canton ¹⁾	60.0	60.0	60.0	59.9	57.5
Additional information					
Employees (FTE average)	685	673	657	639	650
Number of branches ²⁾	23	23	24	24	24
Assets under management	19,633	19,782	19,072	18,599	19,625
Average interest margin	1.245%	1.322%	1.405%	1.396%	1.310%
Return on equity	8.08%	8.99%	9.52%	11.04%	9.03%
Core capital ratio (CET 1)	20.35%	20.02%	19.86%	18.67%	18.47%
Cost/income ratio I	46.95%	48.10%	44.04%	42.38%	44.15%
Cost/income ratio II	53.93%	53.10%	50.20%	48.56%	50.35%
Kantonalbank certificate					
Yearend closing price (in CHF)	908.00	904.50	900.00	889.00	895.50
Nominal value (in CHF)	100.00	100.00	100.00	100.00	100.00
Dividend per certificate (in CHF)	35.00	35.00	35.00	35.00	34.00
Market capitalisation ³⁾	1,970.4	1,962.8	1,953.0	1,929.1	1,943.2

¹⁾ Includes compensation for the state guarantee and interest on the endowment capital up to 2017

²⁾ Includes Mobile Bank

³⁾ Certificate and endowment capital

Highlights 2018.

Solid results.

We generated a good operating profit of CHF 165.2 m in 2018. At CHF 134.5 m, our net profit was slightly higher than in the previous year.



High stability.

We are one of the most solid banks in Switzerland and Europe. Our equity capital ratio is an excellent 223.8 per cent, and our core capital ratio (CET 1) 20.3 per cent. The bank is on a secure footing and has a sound risk buffer.



Steady distribution.

We are rooted in the canton. CHF 60m of our profit goes to the canton of Basel-Landschaft, while our certificate holders receive CHF 35 per certificate. The ordinary distribution therefore remains high.



Strong presence.

We are doing more for our customers. Our new head office and refurbished branches are strengthening our personal advisory services and enhancing the customer experience. With the new BLKB coworking space at our head office, we are also fostering creative ideas for the region.



More digitalisation.

100,000 customers now bank online. Thanks to our E-Banking service, they now have access to our in-house research information as well.



Far-sighted, all-round service.

We believe in providing far-sighted advice. Our new subsidiary Servicehub AG offers customers insurance products for family and property protection.



New investment funds.

We are the region's forward-looking bank. With "BLKB Next Generation Fund Vorsorge Yield" and "BLKB Next Generation Fund Vorsorge Balanced", we launched two investment funds with clear sustainable criteria.



Successful strategy.

We are always on the move. We work as a team, and we focus more strongly than ever on our strategy. This is reflected in our service: integrity and customer focus are the bedrock of all that we do.



We are in good shape.

Dear owners, customers and employees,

Against another volatile backdrop, Basellandschaftliche Kantonalbank achieved a solid net profit in 2018. The fact that the result is slightly in excess of the previous year's figure is an impressive achievement. The global economy continued to weaken due to the political uncertainty surrounding Brexit and the trade dispute between the US and China, as well as a result of increased market volatility. At the same time, the interest rate situation remained challenging. Despite our innovative approach, income from commission business failed to offset a decrease on the interest side of our operations. We nevertheless succeeded in delivering a pleasing result thanks to systematic implementation of our strategy as well as forward-looking investments. This success was partly due to our continued vigilance in relation to costs.

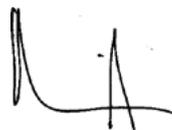
Basellandschaftliche Kantonalbank is one of the most solidly financed regional banks in Switzerland and Europe, as reflected in the AA rating with stable outlook that was recently confirmed by Standard & Poor's. Even without the state guarantee, the bank continues to enjoy a high rating of A+. This once again highlights the fact that with our forward-looking strategy geared to stability, customer proximity and sustainability, we are a secure and reliable partner for all our stakeholders: owners, customers and employees.

To ensure things stay that way, we have worked hard over the past 12 months to become even more customer-centric and more focused on the future: we achieved considerable progress in terms of implementing our strategy and continued to modernise the bank's corporate culture. At the same time, we invested in innovation solutions that create added value for our customers: we expanded our digital channels and made further improvements to our E-Banking. The new insurance products offered in cooperation with our subsidiary Servicehub AG and

partners Baloise Insurance, Anivo and AXA-ARAG will ensure that we can continue growing in the mortgage arena in a risk-aware manner. The launch of sustainable investment funds enables us to continue diversifying our income streams and therefore underpins our future success. With regard to our branch transformation programme, the opening of our new head office in Liestal set an important milestone in terms of gearing our advisory services even more systematically towards our customers' requirements.

We also made progress as an employer in 2018. Along with attractive, flexible working models, the bank introduced a mentoring and return-to-work programme. Our aim is to foster a contemporary, motivating work environment as well as the conditions for attracting and retaining talented, loyal employees who are committed to the bank's values.

Thanks to its commitment and professionalism, Basellandschaftliche Kantonalbank earns the trust of its customers, owners and employees on a daily basis. With a strategy geared towards sustainable growth, the bank is well equipped to deal with the challenges that lie ahead and is doing the necessary groundwork to ensure its continued success. We wish to thank you for your valuable support over the past year.



Thomas Schneider
Chairman of the Board of Directors



John Häfelfinger
CEO



John Häfelfinger, Thomas Schneider

Thank you, Elisabeth Schirmer-Mosset

Elisabeth Schirmer-Mosset decided in December 2017 to step down from her position as Chairwoman of the bank's Board of Directors on 30 June 2018.

Ms Schirmer-Mosset has played a crucial role in shaping BLKB's direction over the past 18 years. She was first elected as a member of the Board of Directors in 2000, becoming its Chairwoman on 1 July 2011. She has delivered outstanding service on behalf of BLKB, with the bank having enjoyed continuous growth under her leadership. Today, BLKB is one of the most secure, efficient banks in Switzerland and is well placed for the future.

The cantonal council, Board of Directors and Executive Board owe Elisabeth Schirmer-Mosset a huge debt of thanks.

Welcome, Thomas Schneider

The cantonal council elected Thomas Schneider as the new Chairman of the BLKB Board of Directors on 1 August 2018. Thomas Schneider is an independent, highly qualified business leader with an impressive track record in the domestic and international banking and finance industry. The cantonal council is convinced that the bank will be well served by his long-standing, wide-ranging experience as an auditor and advisor to banks in the retail, private and corporate banking sectors, as well as by his contacts with the supervisory authorities.

Thomas Schneider has extensive expertise in corporate governance, risk management, compliance, IT platforms, accounting, as well as national and international regulations. He lives in the region and has deep roots here.

We are delighted to welcome Thomas Schneider to BLKB, and wish him every success in his new role.

Management report.

The solid results confirm our business model and strategy. We continue to focus on sustainable growth.

Personal approach sets us apart.

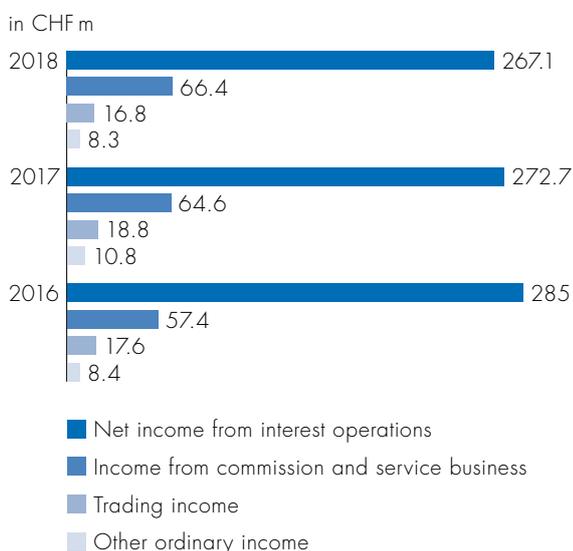
Basellandschaftliche Kantonalbank (BLKB) achieved a net profit of CHF 134.5m in 2018, 0.8 per cent higher than in the previous year. The bank achieved a solid operating profit of CHF 165.2m.

Increased income from commission business failed to offset the decline in net interest income and trading income. In overall terms, operating income was heavily affected by negative interest rates. The distribution to the canton of Basel-Landschaft is unchanged at CHF 60m, as is the dividend of CHF 35 per certificate.

Solid operating income

Operating income amounted to CHF 358.5m (-2.3%). The decline was primarily due to lower net income from interest operations (CHF 267.1m, -2.1%). This contrasted with another year-on-year rise in commission income and income from services to CHF 66.4m (+2.8%), while net trading income declined to CHF 16.8m (-10.6%).

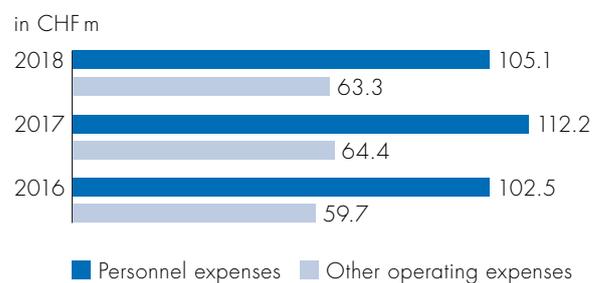
Fig. 1 Operating income



Encouraging trend in costs

Operating expenses fell compared with the previous year to CHF 168.3m (-4.6%). The decline was mainly explained by the absence of the extraordinary charge attributable to the pension fund in the previous year.

Fig. 2 Operating expenses



The cost/income ratio likewise developed very positively despite continued, high levels of investment in customer-related areas. The improvement to 47 per cent (previous year: 48.1%) is evidence of high cost awareness and strict cost discipline within the bank.

Still one of Europe's most solidly financed banks

The 8.1 per cent return on equity remains well above our target of the rolling 10-year swap +3%. Equity capital was increased by CHF 106m, taking the equity capital ratio to an outstanding 223.8 per cent (previous year: 220.5%). The core capital ratio (CET 1) was 20.3 per cent. BLKB therefore continues to be one of the most solidly financed regional banks in Switzerland and Europe, as reflected in the AA rating with stable outlook that was recently confirmed by Standard & Poor's. Even without the state guarantee, BLKB continues to enjoy a high rating of A+.

Fig. 3 Equity capital after profit distribution

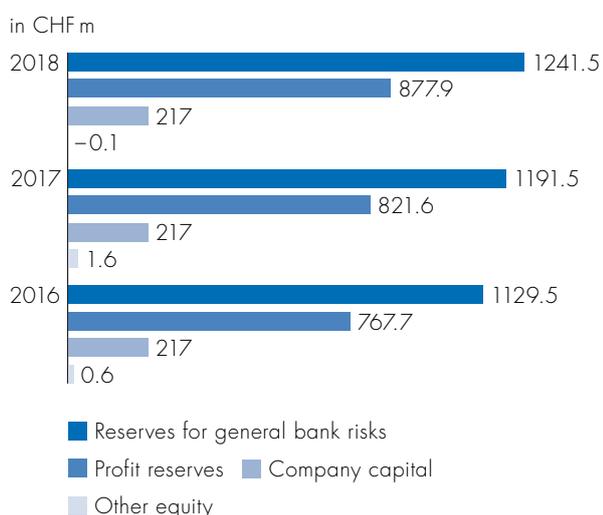
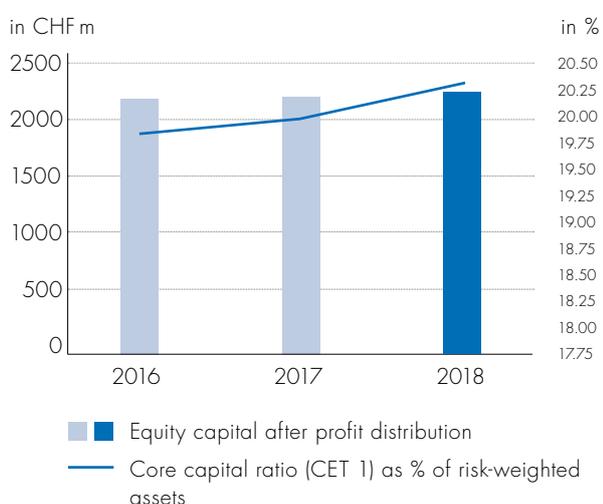


Fig. 4 Equity capital and core capital ratio



Continued high level of trust on the part of customers

Confidence in BLKB's competence and solidity remains at a high level, as reflected in a very high inflow of net new money at CHF 524m (previous year: CHF 383m) – one of the highest inflows of recent years. Amounts due to customers in savings and deposits grew slightly to CHF 16.7bn (+0.2%). Assets under management now amount to CHF 19.6bn, CHF 2,956.3m of which are managed on the basis of mandates. Assets managed within the bank's in-house investment funds grew significantly to CHF 851.2m (+36.1%). Managed assets therefore amounted to CHF 3.8bn (previous year: CHF 3.7bn).

Fig. 5 Due to customers in savings and deposits



Lending business was 83% (-2.7 percentage points year-on-year) refinanced by customer deposits.

Continued, risk-aware growth in mortgages and other loans

As in the past, BLKB continued to seek risk-aware expansion of its lending volume once again last year – though not at the expense of its margins. Mortgage lending nevertheless grew by 3 per cent to CHF 18.7 billion.

The quality of the mortgage portfolio in the private residential sector continued to increase and is very sound at a low loan-to-value ratio of 54.8 per cent. This is also reflected in continued, modest creation of value adjustments at CHF 2.8m.

Vision

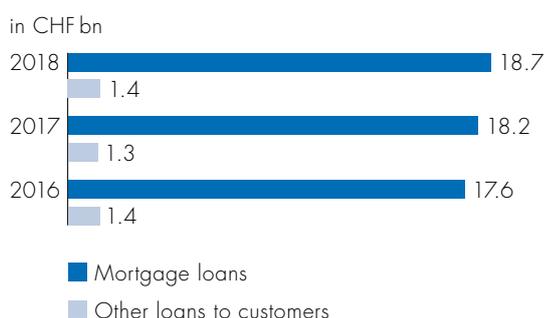
We take a refreshingly simple approach to our customers' finances. In the Basel region and in Switzerland. Today and tomorrow.

Mission

As a leading financial services provider in North-western Switzerland, we play an active part in the economic and social development of our region. Innovation enables us to capture new markets and achieve national reach.

In addition, the bank has increased its credit lines for businesses. These amount to CHF 5.5 bn (+4.9%), meaning BLKB continues to play a significant role in financing the economy of the north-western region of Switzerland.

Fig. 6 Lending to customers



High cost awareness in relation to forward-looking investments as well

Other operating expenses fell to CHF 63.3 m (–1.7%), despite extensive investment in the modernisation of branches and the bank's ongoing digitalisation programme. At the same time, personnel expenses decreased to CHF 105.1 m (–6.3%). Overall operating expenses accordingly declined to CHF 168.3 m (–4.6%).

Increase in full-time equivalents

The number of full-time equivalents rose by 12 year-on-year to 685.

ORGANISATION

As announced in December 2017, Elisabeth Schirmer-Mosset stepped down from her position as Chairwoman of the Board of Directors on 30 June 2018. Her successor is Thomas Schneider, who was elected as the new Chairman of the Board of Directors by the cantonal council on 1 August 2018. Anton Lauber, a cantonal councillor and Deputy Chairman of the Board

of Directors, chaired the Board of Directors on an interim basis during July 2018.

Simon Leumann, Head of IT & Services, stepped down from the Executive Board of BLKB on 31 July 2018. He was succeeded by Christoph Schär, who was appointed as a member of the Executive Board and Chief Digital Officer by the Board of Directors on 1 August 2018.

STRATEGY

BLKB concentrates on its strategic customer segments and systematically invests in innovation. We take a refreshingly simple approach to our customers' finances: in the Basel region, in Northwestern Switzerland, and across the country – today and tomorrow, and on a round-the-clock basis. We focused our business processes even more closely on our strategic targets in the year under review and undertook an extensive examination of our value system.

Three strategic business areas

As a leading financial services provider in Northwestern Switzerland, BLKB plays an active role in the economic and social development of our region. Our focus is on three clearly defined strategic business areas and customer segments (see "Business strategy", p. 17). In these areas we intend to grow faster than the market and bolster our strong position.

BLKB's core business provides the bank's primary income streams. Our customer segments comprise private and business customers across the Northwest Switzerland region. Our aim is to systematically utilise and invest this business potential. In addition, the bank deploys the resources from its core business to address opportunities in the market and conduct business with high-net-worth private customers, large corporates and external asset managers.

Finally, we systematically invest in nascent markets and market niches on a Swiss-wide basis with the aim of targeting digitally savvy customers. This enables us to strengthen our market position and secure lasting success.

Eight core values

High ethical standards are exceptionally important in relation to all our activities, while the needs of our customers take centre-stage. Simplicity, performance, innovation, integrity, security, proximity, market focus and future orientation are the values that guide us.

BLKB and its employees are anchored within the Northwest Switzerland region and feel an affinity towards it. Our business activities are founded on a credible, fair and transparent approach. We regard a good reputation and high degree of risk awareness as essential to a strong partnership with our stakeholders. We think and act in accordance with the needs of our customers. With their interests in mind, all banking services need to be simple, convenient and easily accessible. We foster innovative solutions through a modern work culture characterised by commitment, flexibility and openness.

Positioning as a forward-looking bank

Sustainability lies at the heart of BLKB's mission as a cantonal bank and is enshrined in the owner strategy of the canton of Basel-Landschaft. Sustainability is therefore a core element of our corporate DNA. This is also embodied within our business strategy, with various sustainability criteria already anchored within the bank's processes and activities. Others will be systematically integrated over the coming years.

We see sustainability as an opportunity to differentiate ourselves within the banking industry via a combination of economic, social and ecological criteria and to ensure the impact extends beyond the boundaries of the bank. We interpret sus-

tainability as a forward-looking concept and focus on those aspects of sustainability that have the greatest relevance for the bank and its stakeholders.

The focus here is on three key areas:

- First, we aim to generate added value for our customers through forward-looking products and services. The focus here is very much on quality, transparency and digitalisation.
- Second, BLKB seeks to build on its reputation as a forward-looking employer. The aim is to provide employees with an attractive working environment and to support their personal development.
- Third, we intend to pursue a robust, forward-looking business policy. Good corporate governance and professional risk management are pivotal to successful, sustainable business activities.

At the end of 2017, BLKB compared its performance on these three key focal points for the future with those of its competitors. These findings, together with the results of additional studies, were implemented in the form of a series of measures in the year under review. More in-depth information can be found starting on page 22 of the sustainability report.

PUBLIC SERVICE MANDATE

In accordance with the owner strategy of the canton of Basel-Landschaft, BLKB's purpose is to "contribute to the balanced economic and social development of the canton and the Northwest Switzerland region". The owner strategy also stipulates that: "The focus of the activities of BLKB shall be on benefiting the economy and people of the canton. The bank shall deal with its stakeholders in a professional manner. Its entrepreneurial mindset and day-to-day actions shall be based on sustainable and ethical principles" (see "Public service mandate", p. 17).

Distribution to the canton

CHF 60m of our profit goes to the canton of Basel-Landschaft. That is equivalent to CHF 208 for every resident.



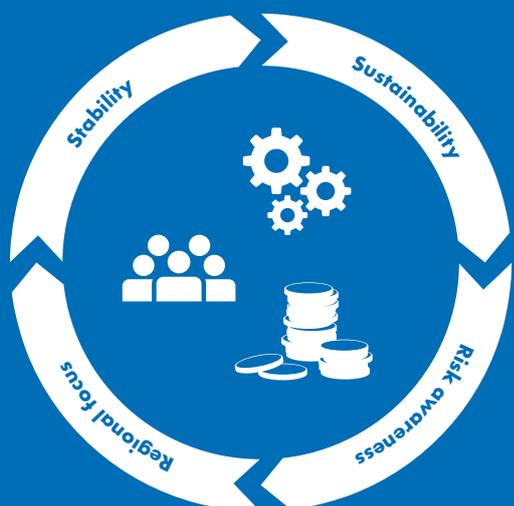
High rating

Ratings agency Standard & Poor's has awarded us an AA rating with stable outlook. We are a stable bank with high profitability.

AA

Strategy 2017–2022

	Core business	Innovation and corporate development	Complementary business
Strategic plans	Deepen core business and systematically exploit business potential.	Secure our future livelihood and income through inventiveness and innovation.	Deploy the capabilities of the core business and translate this into additional income.
Segments	<ul style="list-style-type: none"> – Private clients – Corporate clients 	<ul style="list-style-type: none"> – Nascent markets – Digitally savvy clients 	<ul style="list-style-type: none"> – High-net-worth clients – Large corporates – External asset managers
Market positioning and reach	<ul style="list-style-type: none"> – Quality leadership – Northwest Switzerland region 	<ul style="list-style-type: none"> – Innovative, simple solutions – Whole of Switzerland 	<ul style="list-style-type: none"> – Core business offering – Cross-regional business activities



Public service mandate

The canton of Basellandschaft has given us a public service mandate. This constitutes the basis of our business activities.

-  Responsibility to society
-  Economic development
-  Basic financial services

Basic financial services

BLKB addresses the needs of private individuals, businesses, municipalities and the canton, and contributes to the positive development of the region as a whole through its responsible actions. As well as 20 branches in the canton of Basel-Landschaft, the bank has a presence in Breitenbach (canton of Solothurn) and in the city of Basel. With its Mobile Bank, it also caters to customers in seven locations in the upper Basel region. By providing loans to regional companies and awarding mortgages within the canton, BLKB plays an important role in financing the region's economy and in society as a whole.

Commitment to wider society

Acting in a sustainable, responsible manner is the norm for BLKB. The bank supports over 400 environmental, cultural, sporting, educational and business associations and events that have a regional affinity and are aimed at the general public. Through its crowdfunding channel on wemakeit, BLKB also fosters innovative, sustainable projects within the region. Thirteen environmental, social and start-up projects in the region have been successfully financed since the channel was set up at the end of 2017. BLKB supports the crowdfunding projects on its channel financially, and advertises them via its website and social media channels.

CUSTOMER FOCUS

In the year under review, BLKB placed an even greater focus on the needs and life events of its customers and significantly boosted its advisory capabilities. We continue to invest in our employees' exceptional expertise, on strengthening customer proximity, and on expanding our digital offering.

Comprehensive quality management

BLKB has in recent months implemented a raft of measures designed to increase the quality of its advisory services and strengthen the customer experience through investment in its

branches. In particular, we continued to develop and standardise our advisory processes. This centres on the provision of comprehensive advice that is tailored to our customers' life events and strategic objectives. In the year under review, we focused on the life events of "selling residential property", "buying residential property" and "estate planning". In 2019, we will be adapting our advisory processes in line with additional life events.

BLKB seeks continuous improvement and to live up to its claim to be a quality leader. In 2018, the bank therefore launched an in-house training laboratory with regular training and coaching sessions for customer advisers and sales managers. At the same time, we agreed binding management and coaching standards for sales. Line managers play an increasing role as coaches and help client advisers achieve their objectives. In parallel, we continued to develop our complaint management unit and introduced a comprehensive feedback management system. The views of our customers are important to us. In future we will be recording not only complaints but also all customer feedback on a consistent, systematic basis.

The fact that "Forbes" described us as one of the best banks in the world and the best bank in Switzerland in 2019 attests to our efforts.

Expansion of distribution channels

BLKB continued to modernise its branches in the year under review. We achieved major milestones with the reopening of our head office in Liestal as well as our branches in Allschwil, Münchenstein and Muttenz. By 2021 we are planning a double-digit million investment in our presence in the region and thus in the provision of personal advisory services. The modernisation of our branches is a major step into the future for BLKB. It enables us to improve the brand experience, strengthen personal advisory services and offer customers even greater

service. One specific, free service we provide at our head office is a coworking space that people can use for working and creative thinking.

Besides the strengthening of physical channels, BLKB is also investing in digitalisation. We aim to make it easier for our customers to do their banking. We further enhanced our E-Banking service in the year under review and increased its functionalities. Customers can now open retirement savings accounts directly in E-Banking. We produced a comprehensive information offering for our customers in relation to the life events of “Buying residential property” and “Selling residential property”. Existing and future homeowners can use the website to find helpful tips and advice on the subject. Video telephony was used for the first time in connection with the provision of insurance solutions for mortgage customers. This advisory approach is unique in Switzerland. At the customer’s request, BLKB can enable direct contact with insurance experts via video chat. Insurance policies can also be taken out directly and on a paperless basis via video chat.

PRODUCTS AND SERVICES

In connection with its repositioning as a forward-looking bank, BLKB reviewed the sustainability criteria specified in its product and service offering in the year under review and made corresponding changes and additions.

Forward-looking asset manager

We once again strengthened our position as a sustainable asset manager in 2018 and expanded our investment capability. In the spring, we extended our “BLKB Next Generation” range of sustainable strategy funds and also launched two investment funds that meet clear sustainable criteria. We are therefore living up to our claim to provide forward-looking, long-term advisory services in relation to pensions, too.

In parallel, we expanded our sustainable research offering – now also available online via E-Banking. All investment recommendations issued by our investment analysts in the year under review took into account sustainability criteria as well as financial factors. BLKB also published the CO₂ footprints of its in-house funds for the first time in 2018. This enables us to meet our obligations as a signatory to the PRI Montréal Carbon Pledge, which requires that we publish the CO₂ footprint of our investments and reduce it over the long term. At the same time, we improved transparency for our customers.

Innovative mortgage offering

BLKB has established itself as one of the leaders in the mortgage market in Northwestern Switzerland. We strengthened our capabilities and further simplified the mortgage process: even in the case of more complex transactions, financing decisions are now made more quickly and preferably directly through discussion with the customer. At the same time, we further expanded our offering: as well as the pension mortgage, which was introduced in 2017 and which pensioners can use to generate additional capital by topping up their mortgage, the bank now offers a “next-generation mortgage”, too. This enables first-time buyers to benefit from flexible repayment options for their fixed-rate mortgage and live payment-free for the first six months.

Together with Baloise Insurance and insurance broker Anivo, BLKB developed new insurance products for mortgage customers in relation to family and property cover, death and legal protection. The bank aims to achieve a lasting strengthening of its capabilities on all aspects of property advice and enable customers to increase their risk tolerance through insurance products. The new insurance solutions are distributed via Servicehub AG, a newly established subsidiary of BLKB. In future, Servicehub AG will also offer its advisory and product line-up to other Swiss retail banks in the form of a complete package.

Sustainable lending

BLKB has continued to strengthen its position as an SME bank and expanded its offering. Our new trading strategy includes advising businesses on all aspects relating to foreign currencies, interest rates and capital market transactions.

In 2018, BLKB reviewed its credit risk policy with regard to sustainability criteria. In future, it plans to systematically incorporate environmental, social and governance ("ESG") criteria. In addition, the bank defined sensitive topics that will be addressed in the credit decision process in future. As soon as a business becomes active in an industry that involves sensitive issues, a reputation risk management process will be instigated. Individual credit applications from such companies are meticulously examined and assessed by the Credit Committee. The new procedure enables us to ensure that sustainability considerations are systematically taken into account in relation to credit, too.

Upgrading of payment transactions offer

BLKB has developed and expanded its payment transaction services. In summer 2018, it switched its payment transactions formats to the ISO-20022 standard. eBill is set to be introduced in spring 2019. We aspire to provide customers with a modern payment transactions offering and create added value through intelligent data analysis and preparation.

More information on BLKB's future-oriented products and services can be found in the sustainability report on page 24.

EMPLOYEES

As an employer of 685 people, BLKB positioned itself for the future and continued to develop its corporate culture in the year under review. The bank aims to create a modern, motivating and performance-oriented work environment.

New management concept and value system

In this connection, BLKB revised its HR strategy in 2018; in addition to the skill sets needed by the bank and the requirements for HR planning, the strategy document also sets out the principles for employee development and recruitment. We also redefined the value system and management philosophy as part of the HR strategy. The objective-setting and assessment process was completely revised in parallel. Objectives are now assessed at team level, and only team objectives are set. A competence evaluation model was devised on the basis of the bank's values and associated behavioural anchors. In addition, all employees can now give feedback on their line managers and are able to obtain feedback from their colleagues.

Flexible work models and personnel development

As a modern employer and signatory to the Work Smart charter, BLKB is committed to promoting flexible, mobile work models. Since the start of 2018, employees have been able to choose from a range of flexible working-time models with long or short working days, for example, or with more annual leave. They also benefit from opportunities for mobile working. Since autumn 2018, BLKB employees have had a personal notebook and therefore access to the applications and drives they require from outside the bank as well. The bank also encourages job-sharing, including at a senior level.

Ongoing employee development is very important to us. BLKB invested CHF 1.6 m in employee training in the year under review and its employees each completed 3.75 training days on average. The CertKB training programme developed by BLKB in cooperation with the Banking Advisory Centre in St. Gallen was successfully concluded in autumn 2018. This means that for the first time all BLKB customer advisers are now certified.

Diversity within the business is exceptionally important to BLKB. To champion young people and women, BLKB launched a

mentoring programme on a trial basis in the year under review; this will now be definitively rolled out in 2019. Since the start of 2018, the bank has offered a return-to-work programme specifically for women; this programme systematically supports mothers before the birth of their child, as well as with returning to the workplace following their maternity leave. When it comes to recruitment too, BLKB places a special emphasis on the talents of future employees and older people. In particular, BLKB regularly recruits people who are over the age of 50.

Help with the change process

The bank has been undergoing a change process since the introduction of the revamped business strategy and new set of values in 2017. BLKB is assisting the change process through various measures and initiatives. "Game changers" from the different business areas support the anchoring of these values within the business and instigate changes. In addition, the bank conducted two employee surveys on the bank's change process. These findings were incorporated into various change measures. In September 2018, BLKB consequently launched an interactive, virtual platform that enables employees to obtain detailed information about the bank's strategy, values, plans and initiatives.

BLKB's commitment to being a fair, motivating employer is paying off. The bank was named one of Switzerland's top employers in the autumn, picking up third place in the regional banks category of the 2018 ratings published by "Bilanz" and "Le Temps".

More information about the measures taken by BLKB as a forward-looking employer can be found in the sustainability report on page 27.

BUSINESS AND RISK POLICY

In terms of business policy, BLKB made various moves to more firmly embed the bank's forward-looking approach. At the request of CEO John Häfelfinger, the Board of Directors appointed Michel Degen, head of BLKB's Risk Office, as Chief Risk Officer (CRO) from 1 January 2018. He took over this role from Herbert Kumbartzki, Deputy CEO and head of Financial & Risk Management. Mr Kumbartzki had been responsible for both functions prior to that point. Michel Degen continues to report to Herbert Kumbartzki and in his additional role reports directly to the Executive Board. With this move, BLKB has split the roles of CRO and CFO between two individuals and strengthened its corporate governance.

The Board of Directors undertook a comprehensive risk assessment at its meeting on 29 August 2018. Additional information about risk management and control can be found in the notes to the annual financial statements and the information on business activities.

OUTLOOK

BLKB's sustainable strategy opens up additional growth options. The bank anticipates that it will be able to continue growing on a profitable, risk-aware basis in the current year. BLKB expects its result for 2019 to be on a par with the previous year. Income will remain under pressure for as long as the difficult interest rate situation and political uncertainties due to Switzerland's framework agreement with the EU, Brexit and the trade dispute between the US and China continue. Accordingly, BLKB is continuing to forge ahead with its diversification into fee and commission income.

Sustainability.

We are the region's forward-looking bank. Sustainability is the norm for us, and lies at the heart of our vision and business strategy.

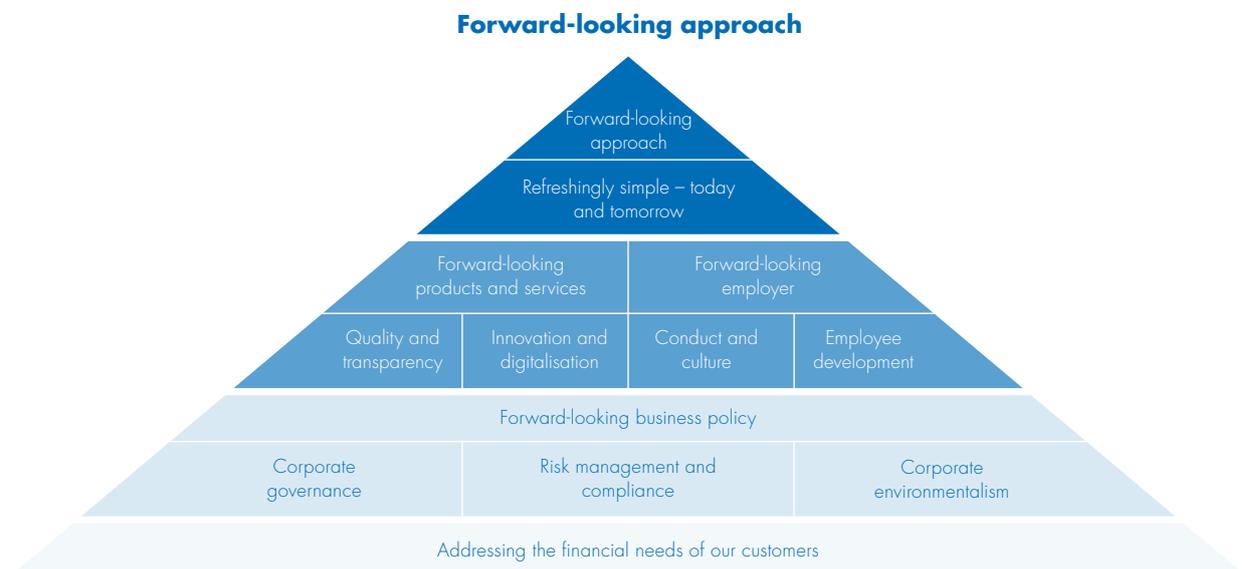
Forward-looking approach systematically embedded.

In 2018, Basellandschaftliche Kantonalbank (BLKB) worked systematically on explicitly anchoring the sustainability concept within its products and services, internal processes, as well as culture and communications.

Our public service mandate requires us to produce benefits for the economy and people of the canton. To meet this requirement even more effectively in the future, we refined our understanding of the key sustainability drivers in 2018. Taking the internally revised 2017 materiality analysis as a basis, we identified three focal points and seven areas of action for sustainability management at the start of 2018 (see illustration "Forward-looking approach"). These action areas are the levers that enable us to create added value for the bank, the economy and the people of the canton – both today and tomorrow.

Anchoring our forward-looking approach

We consequently derived concrete targets, measures, responsibilities and budgets for all these action areas. The following pages provide information on where we worked on our forward-looking approach in 2018, and about the outcome. In line with the concept of integrated sustainability management, implementation takes place in various departments and processes. The aim is for all employees to live our forward-looking approach. To ramp up this process, we relaunched our existing network of internal sustainability ambassadors in the year under review. Thirty "champions" from all areas of the business are driving the integration of our forward-looking approach in their capacity as internal contact points, architects and role models. To this end, they were familiarised with BLKB's clear positioning in the year under review and involved in strategic projects and working groups.



Standardised reporting

This sustainability report is published for the first time based on the latest generation of standards (2016) of the Global Reporting Initiative (GRI). These standards are applied internationally and recognised by the Swiss Exchange as a set of rules for transparent, comparable sustainability reporting.

FORWARD-LOOKING PRODUCTS AND SERVICES

Within the banking business and in particular with regard to investments, pensions and loans, two factors are crucial to our forward-looking approach: the quality of existing products and services and the creation of new ones. We believe our customers are increasingly looking for banking products that not only make a positive contribution in themselves but also play a positive role in relation to the environment and wider society.

Increased advisory capability

The bank's certification programme for customer advisers began in 2017, having been tailored to its requirements in cooperation with the Banking Advisory Centre in St. Gallen. The programme is divided into a section covering all aspects of the theory behind the provision of advice in the banking sector and a practical section comprising three different simulated consultations. Following the completion of training for the nearly 100 customer advisers from the Corporate Banking and Counter areas in 2017, the remaining 200 or so advisers from the Customer Centre, Retail Banking and Private Banking areas received training in the year under review. Recertification is to take place every three years.

External certification was also accompanied by investment in our advisory processes, which were standardised, focused on life events (see management report, p. 18) and supplemented by clear standards for conducting client discussions. This was complemented for the first time by a training laboratory for regular internal training sessions on advisory services and

sales, customer acquisition and sales management, as well as a quality management system for the systematic control and measurement of customer satisfaction (see management report, p. 18). In 2019, we are incorporating specific content relating to our forward-looking approach into the training laboratory programme.

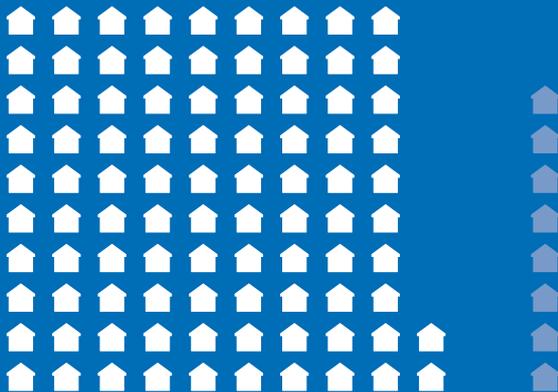
Forward-looking offering

Two investment funds were added to the range of actively managed and sustainable next-generation strategy funds in March 2018: the "BLKB Next Generation Fund Vorsorge Yield" and "BLKB Next Generation Fund Vorsorge Balanced" funds enable sustainable, broadly diversified and professional investment of third-pillar retirement assets as well as portability. The launch means we are living up to our claim to provide forward-looking, long-term advisory services in relation to pensions. In addition, our future-oriented passive "iQ Responsibility Equity Fund" was included in the model portfolio of our online asset management tool Digifolio.

We also lived up to our claim to provide long-term thinking on mortgages, too, in the year under review. With the new products for mortgage customers in cooperation with Baloise Insurance and insurance broker Anivo, we are enabling our customers to increase their risk tolerance through insurance (see management report, p. 19). The changes made within our E-Banking portal are likewise forward-looking, because a simple, easily accessible digital offering meets the needs of a growing number of customers. We are improving the digital customer experience on the basis of customer surveys and the analysis of user behaviour. This includes the direct opening of additional accounts for existing customers, as well as the advertising of personalised product and service recommendations.

Sustainable funds

Our in-house, sustainably managed collective investment schemes enable responsible investment.



Mortgage lending

We have deep roots in the region. At CHF 18.7 bn, 92 per cent of our mortgage lending was undertaken in Northwestern Switzerland in the year under review.

-  Mortgage lending in Northwest Switzerland catchment area (92%).
-  In rest of Switzerland (8%)

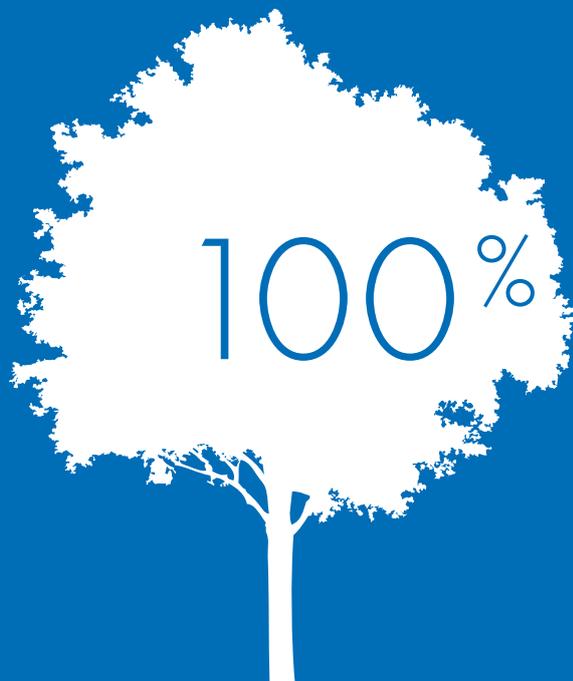
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Sustainable investment funds

The two BLKB investment funds meet clear sustainability criteria. They enable broad diversification and professional management of third-pillar retirement assets as well as portability.

Sustainable investment recommendations

All our recommendations meet environmental, social and corporate governance as well as financial criteria.



Inclusion of ESG criteria

BLKB has been a member of the United Nations-supported Principles for Responsible Investment (PRI) network since 2014. As a signatory to the six principles, we are committed to incorporating key environmental, social and governance (ESG) criteria, as well as the traditional financial criteria, into our investment analysis and decision-making process. In accordance with our membership, BLKB in 2018 published an additional PRI Transparency Report containing information about implementation in the investment business.

Since the beginning of 2017, all investment advisory recommendations issued by BLKB have taken account of environmental, social and corporate governance as well as financial criteria. The investment recommendations are produced by a team of BLKB investment analysts from an investment universe comprising around 150 sustainable equities from Switzerland, Europe and North America. BLKB's asset management mandates have taken ESG criteria into consideration since 2014. To improve customer awareness, we held several customer events with a focus on the subject of sustainable investment in 2018.

As a signatory to the Montréal Carbon Pledge Initiative, BLKB published the CO₂ footprint for its investment products in the year under review for the first time. We also took the necessary measures to enable us to publish the respective ESG portfolio valuation as well as the CO₂ footprint for our investment products and asset management in the future.

Proximity as a success factor

Proximity to our customers is one of the keys to the success of our forward-looking approach. Our customer advisers take the time to understand the needs of our customers and offer them customised solutions. We provide our private clients with advice focused on key events in their lives as well as their personal objectives (see management report, p. 18). Our Cor-

porate Banking unit supports companies along the entire value chain and throughout their life cycle – whether in the start-up, transformation or succession phase.

To further expand our advisory service and offering for companies as well as strengthen our position as a leading SME bank within the region, we launched our new trading strategy in the year under review. SMEs as well as large corporates can receive advice on all aspects of foreign currencies, interest rates and capital market transactions. In the year under review, our specialists identified various trading-related action areas and customer requirements. This led to the launch of new products for the hedging of foreign exchange and interest rate risks at the end of 2018.

For the region

In addition to its annual distribution to the canton, the bank contributes to the future of the canton and Northwestern Switzerland through its lending to the local economy. BLKB had a total of CHF 18.7bn in mortgages and CHF 1.4bn in other loans (including loans to businesses) on its books in 2018. 92 per cent of the mortgages and 46 per cent of the other loans granted by BLKB were to customers in its catchment area of the cantons of Basel-Landschaft, Basel-Stadt, Solothurn and Aargau.

Support for start-ups

As well as support for start-ups via the wemakeit platform (see management report, p.18), BLKB made another contribution through its commitment to the Swiss Innovation Challenge and the Swiss Next Challenge. This innovation support programme – with an eight-month sparring and tendering programme (including attractive award) – was created by us in 2014 in collaboration with the University of Applied Sciences Northwestern Switzerland and the Chamber of Commerce for the Basel region. It is firstly aimed at companies wishing to introduce

and implement innovative ideas and products, and secondly at companies that are actively exploring succession arrangements, or individuals who themselves wish to buy or sell a business. We also continued our cooperation with the “Entrepreneur Campus”. This initiative by the City of Basel Trade Association anchors talent development in vocational training, thereby helping to enhance the appeal of vocational training and entrepreneurship in the Northwest Switzerland region. Talented young people receive systematic training before, during and after their apprenticeship.

Promotion of vocational training

BLKB has been committed to vocational training within the region through the “Jobs for Juniors” project for the past 11 years. Thanks to the “Jobs for Juniors” charity Maestro card, BLKB and its customers have supported the Job Factory in Basel and SME Apprenticeship Association for the Basel region and its surrounding area to the tune of CHF 210,905 each.

FORWARD-LOOKING EMPLOYER

Motivated, capable and team-spirited employees are vitally important to the success of BLKB as a business. With that in mind, the bank invests in a modern, motivating and performance-oriented working environment. With the new HR strategy, we laid the groundwork for the systematic management of our capabilities and strengthening of our corporate culture in the year under review.

Management of competencies

Competency management begins with a needs assessment and culminates in a strategic HR plan. BLKB uses this as a basis for driving the recruitment of new employees as well as providing training and development for existing staff. All annual appraisal interviews conducted by line managers with employees in 2018 were in line with the newly defined criteria. The assessment covered conduct – based on values and

associated behavioural anchors – as well as expertise and problem-solving skills (see management report, p. 20).

Integration of values and team bank

The corporate culture, as the second element of the HR strategy, is based on distinctive values, a clear understanding of leadership, and a motivating work culture. In 2018 we refined our self-image and reviewed our eight corporate values. Each value is underpinned by three sets of instructions or “behavioural anchors”. One anchor relates to employee level, another to team level, and the third to management.

“Game changers” were tasked with embedding BLKB values in teams, and thus continuing to drive forward the change process initiated in the year under review (see management report, p. 21). The teams consist of employees from various business units and hierarchical levels who bring extensive experience and a multi-faceted perspective to the work. With their fresh viewpoint, they question existing formats and processes as well as habits, with a view to bringing about lasting changes in the corporate culture.

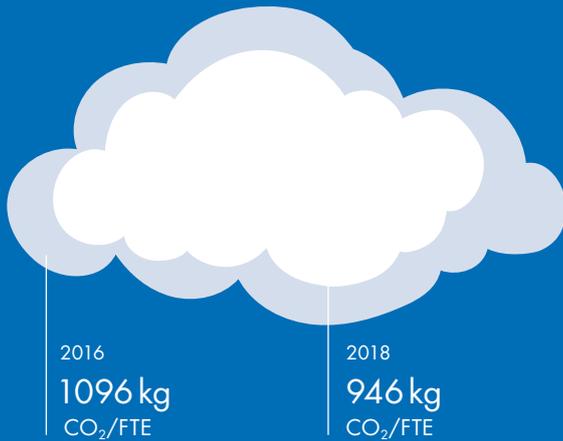
Leadership philosophy and workplace culture

We strengthened and harmonised our leadership philosophy in the year under review. Line managers are required to act as role models and set a good example. They exude BLKB values, both internally and towards the outside world. We continued to develop our workplace culture in 2018, diversity and curiosity being the primary characteristics. Innovation and productivity are encouraged, while mistakes are allowed. In an organisation with flat hierarchies, our capabilities in terms of lateral management and cooperation via networks play a crucial role.

Contemporary work models

Contemporary work models that enable greater flexibility in

CO₂ emissions



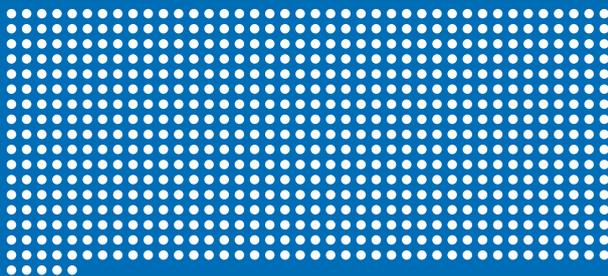
Specialist and management career

BLKB aims to have at least 20 per cent of positions in senior levels 5 to 7 occupied by women by 2020. With a current figure of 18.8 per cent, we are not that far off our target.



Total headcount

We are a significant employer in the region. 685 people work at BLKB. Nearly half of them are women, while 42 employees are in training positions.

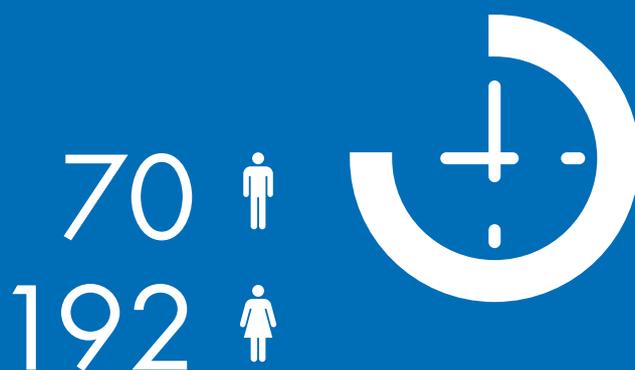


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Management roles

BLKB believes in the professional development of its employees. Two-thirds of all management roles were filled by internal specialists in 2018.

Part-time employees



50+

New hires

BLKB recruits people aged 50-plus on a regular basis, and benefits from their experience and expertise. Ten persons over the age of 50 were hired in the year under review.

terms of determining working hours and location also form part of this work culture, which is why BLKB signed the Work Smart charter in 2015. Work Smart is a cross-company initiative that helps achieve a better work/life balance through flexible ways of working, encourages initiative and responsibility, and is intended to spur motivation. Since the start of 2018, employees have been able to choose – in consultation with their line managers – from a range of work models that give them greater flexibility in determining their working hours and place of work. All employees have been given a personal notebook since autumn 2018, giving them further support with flexible working (see management report, p. 20). Finally, employees are able to retire gradually once they reach the age of 60.

A family-friendly bank

Today there is strong pressure to achieve the right balance between professional and family life. Sustainable solutions are possible for our employees if all those involved collaborate on a long-term basis. Since the start of 2018, BLKB has provided a return-to-work programme in which mothers receive structured support during pregnancy and when returning to the workplace following their maternity leave. The aim is to overcome barriers, boost self-confidence, identify resources and develop a shared vision. In the year under review, BLKB also provided internal seminars for interested parents in which they were able to discuss role models as well as conflicts of roles in work and family life.

Besides flexible working arrangements, BLKB also made it easier for employees to return to work with the option of a staggered return up to one year following the birth of a child and to extend paid maternity leave from 16 to 24 weeks at full salary (depending on number of years of service).

As of 2019, we will also be making it simpler to deal with absence necessitated by caring for sick family members: employ-

ees now receive three paid days' absence per year in such cases. Mothers and fathers can have up to three paid days of absence to look after sick children – per illness, and without having to provide a doctor's certificate.

Pilot with mentoring tandems

As part of a mentoring pilot, a total of 11 pairs of individuals met on a monthly, informal basis in the year under review to exchange of views on various themes in relation to everyday working life and personal development. Participants are advised by a mentor and during the programme were given various opportunities for reflection and an exchange of views. This enabled us to develop our team concept, flat hierarchies and forward-looking approach. The mentoring programme will be introduced on a definitive basis in 2019.

Gauging the views of employees

BLKB has in the past conducted an internal employee satisfaction survey every two years. The last detailed poll took place in 2016. In the year under review, two surveys were conducted to find out whether employees feel they have been sufficiently informed, involved and well-managed during the change process. A comprehensive employee survey using a new methodology geared towards the challenges posed by change is planned for 2019.

FORWARD-LOOKING BUSINESS POLICY

Good corporate governance and effective risk management constitute the basis of a successful cantonal bank that produces benefits for the economy and people. For the purpose of managing and controlling BLKB, the governing bodies abide by clear principles and structures as set down by the Board of Directors in various regulations based on current legislation. The bank takes an integrated approach to risk management and risk is independently controlled under the leadership of the Chief Risk Officer. Integral security – in other words, appropri-

ate, durable protection of persons, information, assets and services – forms part of the risk management system. The fact that risk policy is geared towards sustainable success and a balanced relationship also makes a vital contribution to our forward-looking business policy (see notes to the financial statements, p. 69).

Culture of integrity

BLKB performs its banking activities with integrity and in accordance with legal and regulatory requirements as well as the banking industry's recognised professional and ethical principles. All applicable rules have been condensed into a set of 10 rules in our code of conduct. These rules constitute the backbone of our corporate cultures and are binding on all BLKB employees. On joining BLKB, employees are given an introduction to the code of conduct and its rules; these are later refreshed in the context of compliance training. BLKB sanctions violations, depending on their degree of severity. There were no relevant notifications or irregularities in the year under review.

More acute risk awareness

Based on the ESG criteria already applied in the investment business, we will in future systematically take into account ESG criteria and sensitive topics in relation to lending, too, and document our decisions accordingly. An analysis in the year under review showed that BLKB already operates in accordance with these criteria in a majority of cases. The focus in 2019 will be on the further operationalisation of these criteria and their integration into the reputation risk management and advisory process.

Complementing these efforts, we analysed our business for explicit or implicit climate risks and opportunities in consultation with a Swiss climate specialist for the global financial industry. The findings obtained will enable us to actively explore new ways to deal with the risks and opportunities associated with climate in 2019.

Sustainable procurement

In terms of procurement and operations management, we place the utmost emphasis on compliance with environmental and social standards. To systematically address aspects of our forward-looking approach, BLKB has concluded a sustainability agreement with service providers and suppliers since 2019. This agreement can be viewed at blkb.ch. Purchases with a value of at least CHF 3,000 must also be made in accordance with a structured list of criteria. Essential products such as ATMs or IT and construction services are exempt. In the case of the latter, the bank has had a corresponding internal directive for years.

Rating serves as progress report

In 2018, the independent Swiss sustainability ratings agency Inrate conducted an assessment of corporate governance (zRating) on behalf of BLKB. On a pleasing note, the analysis concluded that BLKB ranks in the upper mid-range compared with comparable banks.

Detailed information on corporate governance at BLKB can be found in the "Corporate governance" section starting on page 33. This is based on the current "Directive on Information relating to Corporate Governance" (DCG) of SIX Exchange Regulation. In addition, the "Comments on business activity" in the notes to the annual financial statements contain detailed information on risk management and control.

CORPORATE ENVIRONMENTALISM

BLKB's greenhouse gas emissions fell again to 946 kg per FTE in the year under review. This compares with a figure of 1,245 kg per FTE five years ago. It includes our direct emissions of greenhouse gases, such as pollutants produced by our electricity and district heating suppliers as well as by the preparation and disposal of energy sources and materials we have used.

Paving the way to emission-free electricity

Around half of BLKB's emissions of greenhouse gases are caused by its building energy requirements. 45 per cent are due to room heating and just 4.8 per cent to the production of electricity used for lighting, air-conditioning and office infrastructure. Compared with the previous year, heating energy requirements per FTE fell by 3.6 per cent and electricity requirements remained unchanged despite the hot summer.

We purchased a total of 3,060,587 kWh of electricity on a virtually emission-free basis, and exclusively from Swiss hydro-power plants, for all our bank operations. For building heating purposes, we purchased 141,304 kWh of natural gas with a 5 per cent share of biogas and 185,003 kWh of heating oil. 1,524,325 kWh was purchased from district heating suppliers. They produce heat using wood, heat pumps, block heat and power plants, and – to meet peak demand – natural gas and heating oil, too. We purchased a further 300,936 kWh for the heating of rented properties. In addition, we produced 93,308 kWh of electricity from our own photovoltaic system on the roof of our head office.

We plan to be a climate-neutral bank. With this aim in mind, we employ technical and organisational energy-saving measures. Larger bank operations therefore have a building management system that enables caretakers to optimise energy use in a targeted way. We have reached an agreement with the Energy Agency for the Economy (EnAW) to reduce our CO₂ intensity to 81.2 per cent in the period from 2013 to 2022 and to increase our energy efficiency to 107.8 per cent. Thanks to the implementation of a multi-year programme of measures, we already reduced our CO₂ intensity to 74.2 per cent in spring 2018 and increased our energy efficiency to 116 per cent.

Digitalisation reduces paper consumption

The other half of the greenhouse gases emitted by BLKB stems from business travel, paper consumption, waste and water consumption. Our employees (FTE) averaged 1,129 km of business travel in 2018. 5.5 per cent of trips were taken with electric vehicles. Paper consumption was reduced further to 144 kg per FTE. This compares with a figure of 205 kg five years ago – i.e. 42 per cent higher. 87 per cent of our paper consumption comes from recycled sources. In the case of paper consisting of virgin fibre, we did not use paper qualities that are bleached with chlorine gas. The volume of waste has varied between 200 and 240 kg per FTE over the last five years. The figure in 2018 was 211 kg, 62 per cent of which we were able to send to recycling. The rest was incinerated. Water consumption has a minimal influence on our greenhouse gas emissions. Even so, we intend to maintain a low level of consumption and use rainwater collection systems, for example.

OUTLOOK

In 2019, we will continue to systematically anchor the sustainability concept within the bank. Besides the specific steps described above, we will be reviewing our mission statement in 2019. In addition, a new sustainability mission statement based on our forward-looking approach will be produced with the aim of highlighting our priorities and ambitions to an internal and external audience. BLKB intends to develop its sustainability reporting in a pragmatic way.

Key data on our forward-looking approach

Factor	Data quality	GRI standard	VfU no.	Unit	2018	2017	2016	2015	2014
Products and services									
Mortgage lending, total	High (3)	102-2		CHF bn	18.7	18.2	17.6	17.1	16.6
Mortgage lending, Northwestern Switzerland	High (3)	102-2		Per cent	92	93	93	94	95
Other lending (including loans to companies), total	High (3)	102-2		CHF bn	1.4	1.3	1.4	1.4	1.6
Other lending (including loans to companies), Northwestern Switzerland	High (3)	102-2		Per cent	46	49	57	58	62
Total volume of assets managed in investment funds	High (3)	102-2		CHF bn	3.1	3.4	3.0	3.1	3.2
Volume of in-house, sustainably managed investment funds	High (3)	102-2		CHF bn	743.5 ¹⁾	480.4	247.9	0	0
Employees									
Average FTEs	High (3)	102-8		FTE	685	673	657	639	650
Proportion of women, overall bank (rel. to total headcount)	High (3)	102-8		Per cent	44,3	46,9	46,2	48,1	47,2
Proportion of women in function levels 1–5	High (3)	102-8		Per cent	47,5	48	49	51	–
Proportion of women in function levels 6–8	High (3)	102-8		Per cent	10	8,5	6	3	–
Women in part-time positions ²⁾ (rel. to total headcount)	High (3)	102-8		Per cent	25	25	26	27	–
Men in part-time positions ²⁾ (rel. to total headcount)	High (3)	102-8		Per cent	9	6,5	6,5	5,5	–
Number of trainees	High (3)	102-8		Number	28	28	28	31	–
Number of apprentices	High (3)	102-8		Number	14	12	13	13	–
Recruitment of employees aged 50-plus	High (3)	102-8		Number	10	5	4	2	–
Absences due to sickness or accident	High (3)	403-2		No. of days	5001	4295	4210	4315	3802
Turnover (excludes retirement, pregnancy, death)	High (3)	401-1		Per cent	5,3	5	4,6	4,5	4,1
Proportion of positions filled by internal candidates	High (3)	102-8		Per cent	5,4	4,6	–	–	–
Energy consumption									
Number of heating degree days		302-1		HDD	2620	2870	3025	2677	2399
Energy consumed in buildings (total)	High (3)	302-1	1	MJ/FTE	27236	27713	26443	28239	29240
– Electricity	High (3)	302-1		MJ/FTE	16475	16027	15269	16775	17597
– Heating energy	High (3)	302-1		MJ/FTE	11261	11686	11174	11464	11643
Business travel	Good (2)	302-1	2	km/FTE	1129	1086	1078	1495	1204
Greenhouse gas emissions³⁾									
Direct and indirect greenhouse gas emissions (total)			7	kg CO ₂ /FTE	946	981	1096	1250	1245
– Direct greenhouse gas emissions		305-1	7a	kg CO ₂ /FTE	255	272	303	320	325
– Indirect greenhouse gas emissions		305-2	7b	kg CO ₂ /FTE	284	297	381	396	434
– Other indirect greenhouse gas emissions		305-3	7c	kg CO ₂ /FTE	407	418	412	534	486

Definition of data capture quality based on VfU in 2015: (3) Data based on exact measurements (2) Data based on extrapolations (1) Data based on estimates
 MJ = megajoules CO₂ = carbon dioxide FTE = full-time equivalent HDD = heating degree days (2015 calendar year, other years heating season)

¹⁾ As of 2018 includes in-house, sustainably managed investment funds

²⁾ Workload of 90% or less

³⁾ Calculation of greenhouse gas emissions based on guidelines of Association for Environmental Management and Sustainability in Banks, Savings Banks and Insurance Companies (VfU) as well as GRI standards. This includes our direct emissions of greenhouse gases (scope 1), those produced by power stations or district heating plants (scope 2) and those produced in upstream or downstream preparation and disposal stages (scope 3). Greenhouse gas emissions stated as CO₂ equivalents. The previous year's values were retroactively aligned with the latest version of the VfU guidelines and therefore are not directly comparable with the figures published in previous sustainability reports.

Corporate governance.

Transparency towards our stakeholders is paramount for us. We act responsibly and communicate clearly.

Responsible and clear corporate governance.

Trust in the security of our bank and a good reputation constitute the basis for sustainable, successful business activities. Corporate governance is therefore a key element of our forward-looking business policy and is constantly developing.

Our corporate governance rules support us in our endeavour to ensure integrity and security in our structures, relationships and actions.

RELEVANT LEGISLATION

The Swiss Financial Market Supervisory Authority FINMA issued its Circular 2017/1 "Corporate Governance – Banks" on 1 July 2017, with a transitional period to 1 July 2018. This underscored the importance of a modern corporate governance framework and appropriate, effective risk management. The circular defines minimum requirements for the composition and background of members of a bank's board of directors as well as the structuring of the bank's internal controls system.

At cantonal level, the new law on participations (Public Corporate Governance Act, PCGA) has applied since 1 January 2018 and is aimed at ensuring uniform management and control of the canton's participations. The canton is therefore addressing the importance of an organisational framework for the management and monitoring of a company. Basellandschaftliche Kantonalbank (BLKB) is subject to the PCGA, although the provisions of the Basellandschaftliche Kantonalbank Act – as a special legislative act – take precedence.

An amendment to the Basellandschaftliche Kantonalbank Act with implications for corporate governance and other matters likewise took effect on 1 January 2018. Accordingly, the Board of Directors is now appointed by the cantonal council and no longer by the cantonal parliament. Members of the cantonal council and cantonal parliament can no longer sit on the bank's Board of Directors. Exceptions are possible in the case of the

cantonal council if the canton's interests cannot be upheld without such representation. Members of the Board of Directors cannot simultaneously be members of the Executive Board and are not permitted to provide any paid services to BLKB outside their Board of Directors mandate. The Board of Directors is to have seven to nine members in future, rather than the previous nine to eleven.

CANTONAL LEGISLATION

For BLKB, as an independent public-law entity with its own legal form and as a cantonal participation, the following cantonal legislation constitutes its legal basis:

[The Public Corporate Governance Act \(PCGA\)](#) of 15 June 2017 and in force since 1 January 2018 (Systematic Compendium of legislation of the Canton of Basel-Landschaft SGS 314); [Basellandschaftliche Kantonalbank Act](#) of 24 June 2004, in force since 1 January 2005 (status: 1 January 2018, SGS 371); [Public Corporate Governance Ordinance \(PCGO\)](#) of 12 December 2017 (SGS 314.11); [Decree on Setting the Certificate and Endowment Capital of Basellandschaftliche Kantonalbank](#) of 23 June 2005, in force since 1 September 2005 (SGS 371.1); [Basellandschaftliche Kantonalbank Ordinance](#) of 14 December 2004, in force since 1 January 2005 (SGS 371.11).

All legislation can be viewed online at blkb.ch/rechtsgrundlagen (German-only).

The purpose, legal form and state guarantee are determined by the Basellandschaftliche Kantonalbank Act of 24 June 2004:

§ 1 Name and registered office

¹ Under the name "Basellandschaftliche Kantonalbank" (hereinafter "the bank") a bank is established with its registered office in Liestal.

² The bank may set up branches, establish subsidiaries and participate in other entities.

§ 2 Purpose

- ¹ It offers the services of a universal bank.
- ² The purpose of the bank is to contribute, within a competitive framework and in accordance with its financial means, to the balanced development of the canton and the region of Northwestern Switzerland.

§ 3 Legal form

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

§ 4 State guarantee

- ¹ The state (canton) provides a guarantee for all liabilities of the bank should the latter's own means not be sufficient.
- ² In return for the state guarantee, the bank pays the canton a fee calculated on the basis of the risk amount and the probability of non-payment. Details are set out in the ordinance.

THE BANK'S INTERNAL RULES

In the course of implementing FINMA Circular 2017/1 "Corporate Governance – Banks" and the new or amended legislation at cantonal level, BLKB restructured and significantly revised its internal rules and regulations.

[Organisational Guidelines and Regulations](#) of 11 December 2017, in force since 1 July 2018. Rules of the Executive Committee of 1 July 2015, Rules of the Audit and Risk Committee of 31 August 2009 and Rules of the Human Resources and Organisation Committee of 19 December 2011 were grouped together into a single set of rules and are now contained in the "Bank committees" annex to the Organisational Guidelines and Regulations. In addition, the following are now contained in an annex to the Organisational Guidelines and Regulations: Rules on the Areas of Responsibility of BLKB of 21 November 2011; [Rules on the Issuance of Kantonalbank Certificates](#) of 20 May 2015, in force since 1 November 2015; [Rules on Auditing](#)

of 11 December 2017, in force since 1 July 2018 (previously Rules on Controlling); [Rules on Risk Control](#) of 7 February 2018, in force since 1 July 2018 (the existing Rules on the Compliance Function of 1 May 2015 were also incorporated into this); [Rules on the Compensation Scheme](#) of 18 May 2016, in force 1 June 2016.

All internal rules can be viewed online at blkb.ch/rechtsgrundlagen (German-only).

The following information is structured in accordance with the "Directive on Information Relating to Corporate Governance" (DCG) of SIX Exchange Regulation of 20 March 2018, as amended. For reasons of clarity, subtitles may be combined with a relevant remark. Matters not relevant or applicable to BLKB are explicitly indicated. There were no material changes compared with the previous year.

STRUCTURE AND SHAREHOLDERS

Structure

Description of the operating structure

BLKB restricts its market presence to the Northwest Switzerland region, in particular the canton of Basel-Landschaft, where it operates at 22 locations. It offers investments and loans for people and businesses. Additional locations are served by BLKB's Mobile Bank. Servicehub AG was set up by BLKB in February 2018 with the purpose of providing insurance brokerage services specifically in connection with risks in the mortgage business. Servicehub's share capital is wholly owned by BLKB. The Board of Directors of Servicehub AG is entirely comprised of members of the BLKB Executive Board (Chairman of the Board of Directors: Manuel Kunzelmann, member of the Board of Directors: Herbert Kumbartzki). BLKB does not prepare consolidated financial statements, since the participation in Servicehub AG has no material influence on the bank's financial reporting or risk situation.



External Auditors
Ernst & Young

Secretariat of the Board of Directors
Barbara Imwinkelried

Marketing, Communication & Branding
Monika Dunant

Strategy & Market Services
Manuel Kunzelmann

Strategy, Innovation & Sustainability
Petra Huber

Project Portfolio & Project Management
Manuel Flückiger

Product Management
Matthias Kottmann

Distribution & Channel Management
Thomas Friedli

Finance & Risk Management
Herbert Kumbartzki

Risk Office
Michel Degen

Legal & Compliance
Alexandra Lau

Finance
Thomas Börlin

Integral Security
Jörg Seeholzer

IT & Services
Christoph Schär

Enterprise Architecture
Michael Fritz

IT Projects & Optimisation
Alban Wyss

IT Operations
Patrick Sulzer

Processing Centre
Chantal Schmidt

Infrastructure
Tanja Kalt

Listing

Name: Basellandschaftliche Kantonalbank (BLKB)

Registered office: Liestal.

Listed: Zurich, SIX Swiss Exchange Ltd.

Market capitalisation:

- Market capitalisation of Kantonalbank certificates (570,000 units at a nominal value of CHF 100) at the year-end price of CHF 908: CHF 517.6 m
- Market capitalisation of the endowment capital of CHF 160 m assuming an analogous valuation: CHF 1,452.8 m
- Total market capitalisation (Kantonalbank certificates and endowment capital): CHF 1,970.4 m

Participations held in group companies: none. (BLKB's wholly owned subsidiary Servicehub AG has no material influence on the bank's financial reporting or risk situation. The preparation of consolidated financial statements is therefore waived.)

Security ID number: 147355.

ISIN number: CH0001473559.

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 held exclusively by the canton of Basel-Landschaft.

Cross-shareholdings

There are no cross-shareholdings.

CAPITAL STRUCTURE

Capital

The bank's basic capital consists of the endowment capital provided by 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 § 5 para. 2 of the Basellandschaftliche Kantonalbank Act, the cantonal parliament is responsible for changes to the endowment capital, whereas – under para. 3 of the said law – responsibility for the issuance of certificates lies with the bank.

The endowment capital provided by the canton amounts to CHF 160 m. The certificate capital is CHF 57 m, and is broken down into 570,000 bearer certificates each with a nominal value of CHF 100. The free float is 100 per cent.

According to § 5 para. 3 of the Basellandschaftliche Kantonalbank Act, the certificate capital must not exceed 50 per cent of the endowment capital amount.

Conditional and authorised capital in particular

The cantonal parliament can create authorised capital at the request of the cantonal council. Within this framework, the cantonal parliament can raise the certificate capital and the cantonal council can increase the endowment capital. As at 31 December 2018, there is neither conditional nor authorised capital.

Changes in capital

No changes have been made to the certificate capital of CHF 57 m and the endowment capital of CHF 160 m in the last three years.

Shares and participation certificates

The certificate capital amounts to CHF 57 m and is broken down into 570,000 bearer certificates each with a nominal value of CHF 100 (see "Capital", p. 40). Certificates entitle the holder

to dividend payments, subscription rights and to a proportional share of any 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 holders of certificates to meetings in order to inform them of the course of the bank's business. These meetings are purely for information purposes; resolutions cannot be passed (Basellandschaftliche Kantonbank Act, § 5 para. 3; Rules on the Issuance of Kantonbank Certificates, §§ 8 and 9; blkb.ch/rechtsgrundlagen).

Dividend-right certificates

There are no dividend-right certificates.

Limitations on transferability and nominee registrations

There is non-voting share capital only; consequently, nominee registrations are not possible. There are no limitations on the transferability of certificates. Due to this particular legal form, the following sections of the DCG are not applicable:

- Limitations on transferability for each share category, along with an indication of group clauses in the articles of association, if any, and rules for granting exceptions.
- Reasons for granting exceptions in the year under review.
- Admissibility of nominee registrations, along with an indication of per cent clauses, if any, and registration conditions.
- Procedure and conditions for cancelling privileges and limitations on transferability laid down in the articles of association.

Convertible bonds and options

There are no outstanding convertible bonds or options.

BOARD OF DIRECTORS

Basellandschaftliche Kantonbank Act (blkb.ch/rechtsgrundlagen) uses the term "Bankrat" for Board of Directors. The following explanations on item 3 "Board of Directors" of

the Directive on Information Relating to Corporate Governance" (DCG) refer to the Bankrat of BLKB.

All members of the Board of Directors are non-executive; they do not perform any operational management tasks at BLKB. No members of the Board of Directors were members of the Executive Board during the three years preceding the period under review.

In line with FINMA Circular 2017/1 "Corporate Governance – Banks", at least one third of the members of the Board of Directors must meet the independence requirements specified in margin numbers 17–25 of the FINMA Circular. The Board of Directors complies with these rules and monitors them on a regular basis.

The information regarding the initial election of the members of the Board of Directors and their remaining term of office is incorporated into the overview starting on page 40. This is shown in tabular form on page 46.

The Ordinance against Excessive Compensation in Listed Companies (OaEC) does not apply to BLKB, since it is an independent public-law entity. Therefore, there are no statutory rules regarding the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC.

Election and terms of office

Principles of the electoral procedure

In accordance with the amended Basellandschaftliche Kantonbank Act in force since 1 January 2018, the chair and the other members of the Board of Directors are now elected by the cantonal council rather than by the cantonal parliament. In all other respects, the Board of Directors is self-constituting (§ 10 para. 1^{bis}). The law also specifies material criteria for election to the Board of Directors; these were detailed by the cantonal council in the Basellandschaftliche Kantonbank Ordinance. The term of office is four years.



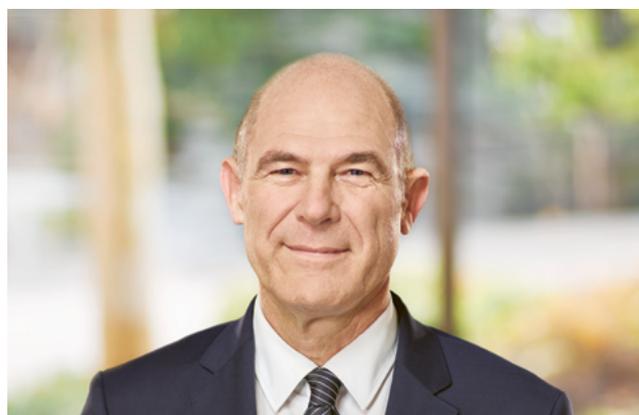
01

Thomas Schneider

Chairman of the Board of Directors; Deputy Chairman of the Executive Committee, member of the Human Resources and Organisation Committee. Born 1964; Swiss citizen; Swiss Certified Accountant, Master of Science in Business Administration. First elected 1 August 2018; current term of office: 1 August 2018 to 30 June 2019.

Thomas Schneider has been Chairman of the Board of Directors of BLKB since 1 August 2018. From 2014 until 2018 he served as Managing Director & Chief Auditor with Credit Suisse Group & Credit Suisse Switzerland. From 1999 until 2014 he was a partner at Ernst & Young.

Significant directorships: none.



02

Anton Lauber

Deputy Chairman of the Board of Directors. Born 1961; Swiss citizen; doctorate in law (Dr. iur.), lawyer. First elected 2013; current term of office: 1 July 2015 to 30 June 2019.

Anton Lauber has been a member of the Basel-Landschaft cantonal council since 1 July 2013. From 1996 until 2013 he was an independent lawyer. During the same period he was also a member of the Allschwil municipal council, becoming President in 2004.

Significant directorships: Councillor of the canton of Basel-Landschaft (owner of BLKB); Chairman of Basellandschaftliche Gebäudeversicherung (buildings insurer), Liestal; Chairman of the Supervisory Committee of SVA Basel-Landschaft (social insurance agency), Binningen (until 31.12.2018); Chairman of the Handschin Foundation, Liestal; member of the Board of Directors and Committee of the Board of Directors of Swiss Saltworks AG, Pratteln; member of the Board of Directors of Kraftwerk Birsfelden AG, Birsfelden; member of the Board of Directors of ARA Rhein AG, Pratteln.



03

Erica Dubach Spiegler

Member of the Board of Directors; member of the Executive Committee. Born 1969; Swiss citizen; PhD (Dr.sc.) ETH. First elected 2015; current term of office: 1 July 2015 to 30 June 2019.

Erica Dubach Spiegler has been an independent management consultant on digital strategy for companies and brands since 2012. From 2009 to 2012 she was a scientific advisor and doctoral student at ETH Zurich. From 2007 to 2009 she managed the SAP Future Retail Centre at SAP in Zurich; from 2002 to 2006 Erica Dubach Spiegler was a managing consultant with IBM in Zurich. From 1993 to 2002 she held various positions at the Northwestern University, USA, at UBS and at Atraxis (Swissair).

Significant directorships: member of the advisory group on digitalisation, Metall Zug (V-Zug), Zug; member of the Board of Directors of Biella-Neher Holding, Brugg.



04

Doris Greiner

Member of the Board of Directors; Deputy Chairwoman of the Audit and Risk Committee. Born 1977; Swiss citizen; Swiss Certified Accountant, university degree (lic. phil.). First elected 2002; current term of office: 1 July 2015 to 30 June 2019. Set to step down on 30 June 2019.

Doris Greiner has been Head of Risk Management & Reinsurance Specialty Lines CH & International at Helvetia Insurance Switzerland since 2016. From 2015 to 2016 she served as Risk Manager at Helvetia Insurance Switzerland. From 2013 to 2015 she was Senior Controller at Nationale Suisse (now Helvetia Insurance Switzerland) and from 2006 to 2013 Auditor at PricewaterhouseCoopers.

Significant directorships: none.



05

Nadine Jermann

Member of the Board of Directors; member of the Executive Committee. Born 1972; Swiss citizen; university degree (lic. oec.) HSG. First elected 2015; current term of office: 1 July 2015 to 30 June 2019.

Nadine Jermann is an independent marketing consultant and President of Buus municipal council. From 2005 to 2014 she was a member of the Executive Board of Mars Switzerland Ltd. Prior to that, she served in various senior roles in marketing and communications.

Significant directorships: Chairwoman of the BLKB Anniversary Foundation, Liestal (since 1 January 2019); member of the Consultative Commission on the Division of Tasks and Fiscal Equalisation of the canton of Basel-Landschaft; President of Buus municipal council.



06

Frenk Mutschlechner

Member of the Board of Directors; member of the Audit and Risk Committee. Born 1969; Swiss citizen; university degree (lic. rer. pol.), Executive MBA in Business Administration. First elected 2011; current term of office: 1 July 2015 to 30 June 2019. Set to step down on 30 June 2019.

Frenk Mutschlechner has been Managing Partner at CFM partners AG, Zurich, since 2012. From 2001 until 2011 he was a Partner at MilleniumAssociates AG

Significant directorships: none.



07

Stephan Naef

Member of the Board of Directors; Deputy Chairman of the Human Resources and Organisation Committee. Born 1962; Swiss citizen; university degree (lic. oec. publ.). First elected 2015; current term of office: 1 July 2015 to 30 June 2019.

Stephan Naef is CFO at EBM Elektra Birseck in Münchenstein. From 2008 to 2016 he was CFO at Aebi Schmidt Holding AG and from 2006 to 2007 CFO at Von Roll Holding AG. From 1998 to 2006 he was Head of Finance and Administration at DHL Switzerland Ltd.

Significant directorships: Chairman of the Board of Directors of Silo und Umschlag AG, Buchs (St. Gallen); Chairman of the Board of Directors of Turicerstamm AG, Zurich; member of the Board of Directors of EBM Wärmeholding AG, Münchenstein; member of the Board of Directors of Aare Versorgungs AG, Olten; member of the Board of Trustees of EBM Pension Fund, Münchenstein; member of the Board of Directors of Ruchfeld AG, Münchenstein; member of the Board of Directors of Erdgas AG Laufental-Thierstein (GASAG), Laufen; member of the Board of Directors of Acura AG, Basel.

Business connections with BLKB: EBM Elektra Birseck and EBM Pension Fund, both in Münchenstein.



08

Marco Primavesi

Member of the Board of Directors; Chairman of the Executive Committee. Born 1959; Swiss citizen; Swiss Certified Expert in Organisational Management. First elected 2015; current term of office: 1 July 2015 to 30 June 2019.

Marco Primavesi serves on the Board of Directors of various institutions. From 2000 to 2017 he was CEO and a member of the Executive Board of AXAS AG. From 1993 to 2000 he held various positions with the Regionalbank beider Basel, Swiss Bank Corporation and UBS.

Significant directorships: Chairman of the Board of Directors of Cocus Schweiz AG, Basel; Chairman of the Board of Directors of Settelen AG, Basel; Chairman of the Board of Directors of Tecalto AG, Zurich; Chairman of the Board of Directors of Scope Solutions AG, Basel.

Business connections with BLKB: Scope Solutions AG, Basel.



09

Kurt Strecker

Member of the Board of Directors; Chairman of the Human Resources and Organisation Committee. Born 1963; Swiss citizen; Swiss Certified Banking Specialist. First elected 2015; current term of office: 1 July 2015 to 30 June 2019. Set to step down on 30 June 2019. Kurt Strecker is an entrepreneur, founder and co-owner of FIBA Group. From 1982 to 1996 he was Deputy Commercial Director at Swiss Volksbank (SBC), Region North-western Switzerland.

Significant directorships: Chairman of the Board of Directors FIBA Immobilien AG, Dornach; Formex AG, Bubendorf; Formex Immobilien AG, Bubendorf; SK Invest AG, Hergiswil; FIBA Real Estate AG, Aesch; FIBA Invest AG, Aesch; Palmhome Holding AG, Hergiswil; Midwest Real Estate AG, Aesch; Joya Immobilien AG, Hergiswil; Suhre Park AG, Aesch. Member of the Board of Directors: MSM Immobilien AG, Aesch; FIBA Consulting AG, Aesch; Reval Investissement SA, Hergiswil; Midwest Holding AG, Hergiswil; MSM Finanz AG, Aesch; MSM Holding AG, Aesch; FRS Invest AG, Aesch; Madison Investment AG, Hergiswil; MIGOMI Invest AG, Hergiswil; Felmos Invest AG, Hergiswil. **Business connections with BLKB:** FIBA Immobilien AG, Dornach; Formex AG, Bubendorf; Formex Immobilien AG, Bubendorf; MSM; Immobilien AG, Aesch.



10

Dieter Völlmin

Member of the Board of Directors; Chairman of the Audit and Risk Committee. Born 1956; Swiss citizen; doctorate in law (Dr. iur.), lawyer. First elected 2007; current term of office: 1 July 2015 to 30 June 2019. Set to step down on 30 June 2019.

Dieter Völlmin is founder and partner of the law firm LEXPARTNERS in Muttenz.

Significant directorships: Chairman of the Taxation and Remission Commission of the Canton of Basel-Landschaft; member of the Board of Directors of Herrenknecht Schweiz Holding AG, Altdorf; Chairman of the Board of Directors of Herrenknecht (Schweiz) AG, Amsteg; member of the Board of Directors of Psychiatrie Baselland, Liestal.

Unless other arrangements have been made by way of special provisions in the Basellandschaftliche Kantonalbank Act, the election of the members of the Board of Directors shall be subject to the new Public Corporate Governance Act (PCGA). § 5 of the act ("Appointing the members of the strategic management body") specifies a maximum term of office of 16 years. In addition, persons who will turn 70 years of age during their term of office cannot be elected as members.

Unless other arrangements have been made by way of special provisions in the Basellandschaftliche Kantonalbank Act, the election of the members of the Board of Directors shall be subject to the new Public Corporate Governance Act (PCGA). § 5 of the act ("Appointing the members of the strategic management body") specifies a maximum term of office of 16 years. In addition, persons who will turn 70 years of age during their term of office cannot be elected as members.

Furthermore, the cantonal council in December 2017 approved a requirements specification for the Board of Directors as a whole, individual members of the Board of Directors and the Chair. The requirements specification complies with FINMA Circular 2017/1 "Corporate Governance – Banks".

The amended Basellandschaftliche Kantonalbank Act states that the Board of Directors shall now consist of seven to nine members rather than the previous nine to eleven; this includes the Chairman or Chairwoman of the Board of Directors. Under a transitional provision, the current members of the Board of Directors will remain in office until the end of the current term of office, i.e. 30 June 2019.

Elisabeth Schirmer-Mosset stepped down from her position as Chairwoman of the Board of Directors on 30 June 2018. In December 2017, the cantonal council had already tasked a selection board with evaluating suitable candidates and preparing

a proposal for election. At the request of the selection board, consisting of cantonal councillors Anton Lauber and Thomas Weber and members of the Board of Directors Marco Primavesi and Stephan Naef, the cantonal council elected Thomas Schneider as the new Chairman of the Board of Directors on 17 April 2018.

Changes in the Board of Directors

Several changes are set to take place on the Board of Directors at the end of the current term of office on 30 June 2019. Doris Greiner is standing down due to the restrictions on the term of office. Dieter Völlmin, Frenk Mutschlechner and Kurt Strecker are likewise stepping down from the Board of Directors. In accordance with the amended Basellandschaftliche Kantonalbank Act, which specifies seven to nine members, the cantonal council is reducing the Board of Directors to eight members for the next term of office, from 1 July 2019 to 30 June 2023. The four persons leaving will be replaced by just two new members. The cantonal council has tasked a selection board with preparing a proposal for the election. The selection board consists of cantonal councillor Anton Lauber, Chairman of the Board of Directors Thomas Schneider and member of the Board of Directors Stephan Naef. Individuals with specialist knowledge are sought for both roles, with a view to completing the competencies brought together on the overall Board and even more successfully meeting the challenges posed by an ever-changing banking environment. The full Board of Directors will be elected by the cantonal council in spring 2019. The future, smaller Board of Directors will be self-constituting for its new term of office.

First election and remaining term of office of each member

Thomas Schneider*/***		
Chairman	2018	to 30.6.2019
Anton Lauber		
Deputy 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 Organisation Committee		

Internal organisational structure

Allocation of tasks within the Board of Directors

Chairwoman/Chairman: Elisabeth Schirmer-Mosset until 30 June 2018 and Thomas Schneider from 1 August 2018. Deputy Chairman Anton Lauber served as Chairman on an interim basis during July 2018. Deputy Chairman: Anton Lauber.

Members list, tasks and area of responsibility for each committee of the Board of Directors

The organisational structure, responsibilities and tasks of the committees are laid down in annex 2 "Bank committees" of the Organisational Guidelines and Regulations. The latter can be viewed online (blkb.ch/rechtsgrundlagen).

Executive Committee (ExC)

The members of the Executive Committee are: Marco Primavesi (Chairman), Erica Dubach Spiegler, Nadine Jermann and, since 1 August 2018, Thomas Schneider (Deputy Chairman).

Until 30 June 2018, Elisabeth Schirmer-Mosset was a member and Deputy Chairwoman of the Executive Committee.

The tasks of the Executive Committee include regular examination of developments in the banking environment and assessment of the bank's business policy and strategic alignment. In cooperation with the Audit and Risk Committee, it analyses annual and multi-year planning, budgeting, reporting on the course of business, as well as the economic and financial situation of the bank. The Executive Committee prepares the proposals made by the Executive Board to the Board of Directors and expresses a recommendation, for example, on the assessment of cooperation and alliances, evaluation of acquisitions and participations, activities in new fields of business, expansion into new market areas and choice of IT platform.

Members of the Executive Committee must possess the specialist expertise and experience as well as the time necessary for the fulfilment of their duties. Their knowledge and experience preferably extend to leadership, strategy, corporate development and the ability 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 abreast of the latest theory and practice in relation to the development of the banking environment.

Audit and Risk Committee (ARC)

The members of the Audit and Risk Committee are: Dieter Völlmin (Chairman), Doris Greiner (Deputy Chairwoman) and Frenk Mutschlechner.

As an independent, objective body, the Audit and Risk Committee supervises financial reporting and the integrity of the annual financial statements, the framework concept for institution-wide risk management and the internal controls system. In addition, the Audit & Risk Committee evaluates the effectiveness

of the external auditors and Internal Audit unit, as well as their interaction within the parent bank, any subsidiaries and the group.

Similarly to the Executive Committee, the members of the Audit and Risk Committee possess the required specialist knowledge and experience whereby the Board of Directors specifically expects expertise in finance and accounting, knowledge of internal and external auditing and the basic principles of an internal controls system. Members of the Audit and Risk Committee attend regular training sessions in order to keep abreast of the latest theory and practice in relation to accounting and financial reporting requirements.

Human Resources and Organisation Committee (HROC)

The members of the Human Resources and Organisation Committee are: Kurt Strecker (Chairman), Stephan Naef (Deputy Chairman) and, since 1 August 2018, Thomas Schneider. Elisabeth Schirmer-Mosset was a member of the Committee until 30 June 2018.

The Human Resources and Organisation Committee supports the Board of Directors on matters relating to management, strategy, as well as corporate and HR development. It checks whether the HR policy and planning comply with the bank's corporate strategy and discusses all personnel and organisational issues of the Board of Directors in cooperation with the Executive Board as well as internal and external experts. The Committee prepares the business of the Board of Directors, including the appointment of the CEO and members of the Executive Board, and sets compensation for the bank as a whole and at Executive Board level. On behalf of the Board of Directors, it also formulates principles and practice for the selection of the members of the Board of Directors and the committees of the Board of Directors.

Members of the Human Resources and Organisation Committee possess the specialist expertise and experience necessary for the

fulfilment of their duties as well as the required amount of time. Their knowledge and experience preferably extend to leadership, strategy, corporate development, and the ability to defend an opinion in a knowledgeable way, even against the current opinion of the Executive Board or any other operational authority. Members of the Human Resources and Organisation Committee keep abreast of the latest theory and practice in relation to the development of the banking environment as well as HR and pension fund matters.

At least once a year, the three committees check whether their composition, organisational structure and working methods still comply with regulatory requirements as well as meet their own objectives.

Working methods of the Board of Directors and its committees

The Board of Directors is the governing, supervisory and control body of the bank. It convenes at the invitation of the Chairman of the Board of Directors as often as business requires, but at least once a quarter. Board of Directors meetings may be requested by three members of the Board of Directors, Executive Board or auditors. In the period under review, the Board of Directors held 13 meetings including a two-day retreat and a teleconference. Meetings lasted for an average of four hours.

The committees of the Board of Directors prepare the business of the Board of Directors and monitor the bank's operations. Meetings of the Board of Directors are usually attended by the CEO. The other members of the Executive Board take part if their presence is required to discuss matters concerning their area of responsibility.

Meetings dealing with the financial statements and the report of the external auditors are attended by the head of Internal Audit 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 Board of Directors makes its decisions on the basis of a written proposal prepared and discussed in advance by the Executive Board and/or the Executive Committee, Audit and Risk Committee, or the Human Resources and Organisation Committee.

The Board of Directors is quorate if at least two thirds of its members are present. Votes are decided by a simple majority. The Chairman or Chairwoman of the Board of Directors has a casting vote, which decides the issue in the event of a tied vote. Election is usually open; in the first round an absolute majority decides, while in the second round a relative majority is required and in a tied vote the decision is taken by drawing lots.

The Executive Committee held nine meetings in the year under review, the Audit and Risk Committee ten, and the Human Resources and Organisation Committee eight. Meetings of the Executive Committee lasted 3 hours and 45 minutes on average, 4 hours in the case of the Audit and Risk Committee, and 2 hours 15 minutes in the case of the Human Resources and Organisation Committee.

Valid decisions of the committees of the Board of Directors require the presence of a majority of members. Votes are decided by a simple majority. The Chairman or Chairwoman has a casting vote, which decides the issue in the event of a tied vote. For all three committees, the interfaces with the other committees, Board of Directors, Executive Board and other bodies are set out in annex 2 "Bank committees" of the Organisational Guidelines and Regulations, as are the reporting relationships. These rules are published online at blkb.ch/rechtsgrundlagen.

Definition of areas of responsibility

The responsibilities of the Board of Directors and the Executive Board are defined in the Operational Guidelines and Regulations of 1 July 2018, as well as in annex 1 "Definition of

Areas of Responsibility" (previously: Rules on the Areas of Responsibility). The Board of Directors is required to issue a set of Operational Guidelines and Regulations under Art. 11, para. 2 of the Basellandschaftliche Kantonalbank Act of 24 June 2004. In Art. 4 para. 1 and 2 a–m and in Art. 5, the Operational Guidelines and Regulations specify the non-transferable and inalienable duties of the Board of Directors. The Definition of Areas of Responsibility assigns the respective responsibilities (decision, taking note, proposal) to the Board of Directors, bank committees and Executive Board in a matrix.

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

Internal Audit: Internal Audit acts independently of the Executive Board and follows the instructions of the Chairman of the Board of Directors and the Audit and Risk Committee. It reports to the Audit and Risk Committee on a functional basis and assumes the controlling and monitoring duties assigned to it by the Audit and Risk Committee and the Board of Directors. Internal Audit conducts its activities in accordance with recognised auditing standards. The head of Internal Audit and his/her staff are suitably qualified. Audit reports are discussed in detail by the Audit and Risk Committee.

"Dialogue with the Board of Directors" (previously visits by delegations from the Board of Directors): Every year, members of the Board of Directors visit selected organisational units in small teams. The aim is to gain an insight into the everyday working life of employees and exchange views on current issues.

Reporting: The Executive Board regularly informs the Board of Directors of the course of business, income situation, risk exposure, and status of projects with respect to strategy and yearly planning. A monthly report by the Executive Board including the financial results (monthly balance and monthly income statement with comparisons against the previous year and the budget) is submitted to the Board of Directors. A comprehensive report

evaluating all the relevant risks for the bank is submitted to the Board of Directors on a half-yearly basis.

External Auditors: The representative of the statutory auditor attends Board of Directors meetings dealing with the annual financial statements, annual report and audit report. The representative is also present at the yearly meeting held by the finance committee of the cantonal parliament for the purpose of discussing the financial statements. The auditor is in regular communication with the Chairman of the Board of Directors, head of the Audit and Risk Committee, head of Internal Audit and head of Financial & Risk Management. The external auditors take note of the report by Internal Audit and comment on it as necessary.

EXECUTIVE BOARD

The Executive Board of BLKB comprises seven members.

The Ordinance against Excessive Compensation in Listed Companies (OaEC) does not apply to BLKB, since it is an independent public-law entity. Therefore, there are no statutory rules regarding the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC.

Management contracts

There are no management contracts with third parties.



01

John Häfelfinger

CEO. Born 1971; Swiss/Italian citizen; Business Administration HFW, Swiss Banking School Diploma.

John Häfelfinger has been CEO of BLKB since 2017. Between 1996 and 2016 he served in various roles with Credit Suisse. From 2015 to 2016 he was Head of Corporate & Specialty Lending and a member of the Executive Board of the bank's International Wealth Management division. Prior to that, he served as Deputy Head and from 2012 to 2015 as a member of the Executive Board of the Swiss Corporate Clients business. From 2011 to 2015 he was a member of the Credit Suisse regional management team for Northern Switzerland.

Significant directorships: Chairman of the BLKB 2014 Anniversary Foundation, Liestal; member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel; board member of the Basel Chamber of Commerce; board member of the Basel Banking Association.



02

Herbert Kumbartzki

Deputy CEO; CFO; head of Financial & Risk Management. Born 1962; Swiss/German citizen; university degree (lic. theol. et lic. rer. pol.), Chartered Financial Analyst (CFA).

Herbert Kumbartzki has been a member of BLKB's Executive Board since 2010, having joined the bank in 2007. From 2001 to 2007, Herbert Kumbartzki served as head of Human Resources and Chief Investment Officer at Bank CIC (Switzerland). From 1996 to 2001, he held the role of Chief Investment Officer with Bank Ehinger & Cie. and worked as a financial analyst and portfolio manager with Union Bank of Switzerland (later UBS).

Significant directorships: Member of the Board of Directors of ErfindungsVerwertung AG, Basel; member of the Board of Directors of True Wealth AG (until 30.6.2018), Zurich; member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal; member of the Board of Directors of Servicehub AG, Liestal.



03

Manuel Kunzelmann

Member of the Executive Board; head of Strategy & Market Services. Born 1974; Swiss citizen; graduate of business economics FH, Executive MBA UZH, Master of Advanced Studies FHO in Business Information Management.

Manuel Kunzelmann has been a member of the Executive Board of BLKB since 2017. From 2013 to 2017 he served as head of Strategic Development & Controlling with BLKB and from 2009 to 2013 as head of Product Management and head of the Market Services Competence Centre. From 1999 to 2009, Manuel Kunzelmann held a variety of roles at UBS.

Significant directorships: Chairman of the Board of Directors of Servicehub AG, Liestal; member of the Board of Directors of True Wealth AG, Zurich; member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal.



04

Jean-Daniel Neuenschwander

Member of the Executive Board; head of Private Banking & Investment Services. Born 1962; Swiss citizen; Swiss Banking School Diploma, Trust & Investment Banking, Swiss Certified Financial Analyst and Asset Manager, CEFA.

Jean-Daniel Neuenschwander has been a member of BLKB's Executive Board since 2007. From 2007 to 2014 he served as head of Market Services and from 2005 to 2007 as Chief of Staff. From 2001 to 2004 he was head of Private Banking at Bank Cial (Switzerland) in Basel. From 1999 to 2001 he was Chief Investment Officer with Bank Ehinger & Cie. in Basel.

Significant directorships: Member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal.



05

Beat Röthlisberger

Member of the Executive Board; head of Corporate Banking. Born 1971; Swiss citizen; graduate of business economics FH, Advanced Executive Programme SFI.

Beat Röthlisberger has been a member of BLKB's Executive Board since 2017. From 2015 to 2017 he was head of Corporate Customers & Loans Binningen/Specialist Financing with BLKB. From 1992 to 2015 he served in a variety of roles at UBS. These included deputy regional head of Corporate Clients and deputy head of Credit Risk Management at UBS in Basel.

Significant directorships: Member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal.



06

Christoph Schär

Member of the Executive Board; Chief Digital Officer; head of IT & Services. Born 1976; Swiss citizen; Executive MBA HSG, Master of Science ETH.

Christoph Schär has been a member of the Executive Board of BLKB since 2018, having joined the bank in the same year. From 2016 to 2018 he served as head of Digital Development at Swisscom Ltd and from 2013 to 2015 he was responsible for developing CRM and billing solutions at Swisscom Ltd. From 2010 to 2012 he was a member of the Customer Relationship Management Strategy team at Swisscom Ltd.

Significant directorships: Member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal; member of the Conference Board of Agile Leadership Day.



07

Kaspar Schweizer

Member of the Executive Board; head of Retail & Direct Banking. Born 1964; Swiss citizen; university degree (lic. oec.) HSG, Executive MBA in Business Engineering HSG.

Kaspar Schweizer has been a member of BLKB's Executive Board since 2001, having joined the bank in 1992. From 2001 to 2013 he served as head of Corporate Services and from 1999 to 2000 as head of Strategy, Planning and Bank Logistics. From 1997 to 1998 he headed up the project to migrate the bank's IT to RTC and from 1992 to 1996 was assistant to Senior Management.

Significant directorships: Member of the Board of Trustees of the Christoph Merian Cantonal Banks Foundation, Basel; member of the Board of Trustees of the BLKB 2014 Anniversary Foundation, Liestal.

COMPENSATION REPORT

Information on compensation, shareholdings and loans is explained in the separate section "Compensation report" on page 55 onwards.

SHAREHOLDERS' PARTICIPATION RIGHTS

Due to its legal form as an independent public-law entity with its own legal personality, BLKB 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 Board of Directors and the Executive Board may invite holders of certificates to meetings in order to inform them of the course of the bank's business. These meetings are purely for information purposes; resolutions cannot be passed. Certificates do not entitle the holder to exercise any participation rights such as the right to vote, object or challenge (Basellandschaftliche Kantonalbank Act, § 5 para. 3; Rules on the Issuance of Kantonalbank Certificates, §§ 8 and 9; blkb.ch/rechtsgrundlagen).

Items 6.1 to 6.5 in the annex of the DCG (voting rights restrictions and representation, quorums required by the articles of association, convocation of the general meeting of shareholders, inclusion of items on the agenda and entries in the share register) are not applicable due to BLKB's legal form.

BLKB makes use of the option of holding an information meeting. Holders of BLKB certificates who are known to the bank receive a personal written invitation. Additionally, the invitation is published in the Swiss Official Gazette of Commerce and in regional newspapers

CHANGES OF CONTROL AND DEFENCE MEASURES

Due to BLKB's legal form (see explanations in "Shareholders' participation rights"), a change of ownership by means of the purchase of certificates cannot take place under any circumstances whatsoever. The question of the duty to make an offer and the

clauses on change of control (items 7.1 and 7.2 in the annex to the DCG) are therefore not applicable.

AUDITORS

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

The auditor is appointed by the cantonal government based on the proposal of the Board of Directors. The audit is performed by Ernst & Young AG, which is also entrusted with the regulatory audit.

Ernst & Young AG assumed the audit mandate in 1997.

Bruno Patusi of Ernst & Young AG has been the lead auditor for the audit mandate since April 2018. He succeeded Patrick Schwaller, who held the role from 2011 to 2018. Roman Sandmeier has been the second auditor-in-charge since 2016.

Auditing fees and additional fees

The total auditing fees invoiced by the auditors for the fulfilment of their legally required duties in the year under review was CHF 512,480. These auditing expenses were calculated in accordance with the accrual principle. Fees for additional, general audit-related services commissioned by the bank amounted to CHF 18,540 in the year under review.

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, Internal Audit, and the internal controls system. The Audit and Risk Committee discusses the reports and planning documentation in several meetings with the lead auditor of the statutory auditors and regularly informs the Board of Directors of its findings.

Representatives of the statutory auditors attended six meetings of the Audit and Risk Committee in the year under review. The lead auditor meets with the full Board of Directors at least once a year. In the

course of this meeting, the Board of Directors evaluates the audit and supervisory reports prepared by the external auditors and is informed of their key findings. In the year under review, representatives of the external auditors attended two meetings of the Board of Directors. The Audit and Risk Committee regularly assesses the risk-oriented audit strategy and corresponding audit plan of the external auditors, analyses the audit reports and makes sure that shortcomings are rectified and that the auditors' recommendations are implemented. The Audit and Risk Committee discusses the results of its analyses with the lead auditor. Based on its own experience as well as its annual review meeting with the external auditors, the Audit and Risk Committee assesses the performance and compensation of the external auditors, satisfies itself as to their independence and assesses the cooperation between the external and internal auditors.

INFORMATION POLICY

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

BLKB presents its annual results at a media conference in February/March. The mid-year results are published at the beginning of the second half of the year. The annual report in German is available in printed form and online. An English translation can be viewed online (blkb.ch/geschaeftsbericht).

The sustainability report forms an integral part of the annual report. It was set up in accordance with the latest standards (2016) of the Global Reporting Initiative. In this way, the Board of Directors and the Executive Board highlight the fact that sustainable, forward-looking actions are firmly anchored within BLKB's corporate strategy and philosophy.

Further press releases are published at the time of the annual meeting of BLKB certificate holders (March or April) and where necessary or appropriate (ad hoc publicity). All press releases can be viewed online at blkb.ch/medien.

In accordance with BLKB's information policy, information is communicated to employees at the latest at the same time as it is communicated to external stakeholders. The intranet platform "blkb.piazza" is regularly and consistently used for that purpose.

Investor Relations contact

Thomas Staffelbach
Telephone +41 61 925 91 93
investoren@blkb.ch

Information for investors and the media

blkb.ch/investor-relations
blkb.ch/medien

Newsletter service

blkb.ch/newsletter

Postal address

Basellandschaftliche Kantonalbank
Rheinstrasse 7
4410 Liestal

Compensation report.

Our compensation model is fair and competitive. It supports a motivating corporate culture and rewards employees based on performance.

Performance-related compensation.

In the year under review, the compensation model of Basellandschaftliche Kantonalbank (BLKB) was once again based on the following components: profitability of the bank as a whole, corporate objectives, team success and individual performance.

COMPENSATION POLICY

Highly qualified, loyal employees who are committed to the bank's values are the key to our lasting success and a guarantee that we can continue to develop and achieve our corporate objectives. It is therefore important for us to attract talented employees on the labour market and retain them over the long term. An attractive working environment enables us to create the conditions required for a modern, motivating and performance-driven work culture. That also includes a contemporary compensation policy that is guided by our business performance and by our values. Our compensation policy is competitive and in line with that of similar banks. We offer equal pay for equal work – irrespective of age and gender.

COMPENSATION PROCESS

Basic principles

The Ordinance against Excessive Compensation in Listed Companies (OaEC) does not apply to BLKB, due to its legal form. 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 votes by the general meeting on the subject of compensation, are therefore not required.

The principles of compensation policy for the bank as a whole are set out in the "BLKB Human Resources and Compensation Policy" of 24 February 2016.

The "Rules on the Compensation Scheme" of 18 May 2016 and the "Definition of Areas of Responsibility" in the annex to

the "Operational Guidelines and Regulations" of 1 July 2018 detail the features and competencies regarding the bank's compensation (blkb.ch/rechtsgrundlagen). Both sets of rules are issued by the Board of Directors.

Furthermore, the canton's owner strategy stipulates that compensation for the Board of Directors and the Executive Board must be in line with industry levels. Total compensation for the Board of Directors and the Executive Board must not exceed the average for similar banks and must be commensurate with roles and performance. The compensation system must be geared towards the long-term achievement of the business goals. The overall compensation of the Board of Directors is decided by the cantonal parliament.

Responsibilities and competencies

Compensation policy: The Board of Directors determines the bank's compensation policy and has issued the "BLKB Human Resources and Compensation Policy". The Executive Board is responsible for implementing the compensation policy. The Human Resources and Organisation Committee (HROC) makes sure that it is implemented correctly.

Fixed compensation: The total amount of fixed compensation and the amount of fixed compensation for the members of the Executive Board are determined annually by the Board of Directors based on the proposal of the HROC. In addition, the Board of Directors determines the compensation of the members of the Board of Directors based on the proposal of the HROC. The Chairman of the Board of Directors decides the fixed compensation of the head of Internal Audit based on the proposal of the Audit and Risk Committee (ARC). The fixed compensation of individual employees is determined by Human Resources, in consultation with line managers, based on the criteria of our function level system.

Variable compensation: The total amount of variable compensation is calculated based on the relevant business result. It is determined by the Board of Directors once a year based on the proposal of the HROC. The HROC decides the quotas for allocating the total amount to the individual function levels. Furthermore, the Board of Directors determines the variable compensation for the CEO (based on the proposal of the Chairman of the Board of Directors) and the other members of the Executive Board (based on the proposals of the HROC and the CEO). The Chairman of the Board of Directors determines the variable compensation of the head of Internal Audit based on the proposal of the ARC. The variable compensation of employees is determined by the respective line manager.

Expense allowances: The members of the Board of Directors, CEO, Executive Board and employees in function levels 5 to 7

receive expense allowances. The details are set out in the annex to the "Rules on the Compensation Scheme" issued by the Board of Directors.

Additional payments (fringe benefits): The HROC decides on additional payments based on the proposal of the Executive Board. The Board of Directors takes note of this.

Pension scheme: The Board of Directors determines changes to the pension scheme based on the proposal of the HROC or the Executive Board.

Compensation model

The bank operates a system of function levels based on the size and complexity of the area of responsibility, experience in the area of responsibility, training and development of emp-

Responsibilities and procedures

	BoD	CoBoD	ExC	ARC	HROC	EB
Fixed and variable compensation						
Compensation policy	D				P	
Determination of total amount of fixed compensation	D				P	
Fixed compensation for overall Executive Board	D				P	
Compensation for Board of Directors and its members	D				P	
Compensation for CEO	D	P			P	
Compensation for members of the Executive Board	D				P	P (CEO)
Compensation for head of Internal Audit		D		P		
Compensation for other personnel						D
Annual determination of overall pool of variable compensation	D				P	P
Annual quotas for allocating variable compensation at function levels	N				D	P
Fringe benefits	N				D	P
Pension scheme	D				P	P

employees, functional and personal responsibility, participation in projects as well as personal competencies and management competencies based on the job profile. Specialist and management careers are of equal value. No specific compensation provisions apply to control and risk management functions.

Total compensation for employees (function levels 1 to 7) and the members of the Executive Board (function level 8) consists of a fixed and a variable salary component as well as various additional benefits. Members of function levels 5 to 7 and the members of the Executive Board (function level 8) additionally receive an expense allowance. The Board of Directors receives fixed compensation and an expense allowance.

The total amount of variable compensation is 6.05 per cent of the relevant business result. This is based on the operating profit and determined in accordance with the guidelines set by the Board of Directors. The HROC approves the quotas for allocation to the individual function levels. If the bank does not post a

positive relevant net operating profit, no variable compensation is paid.

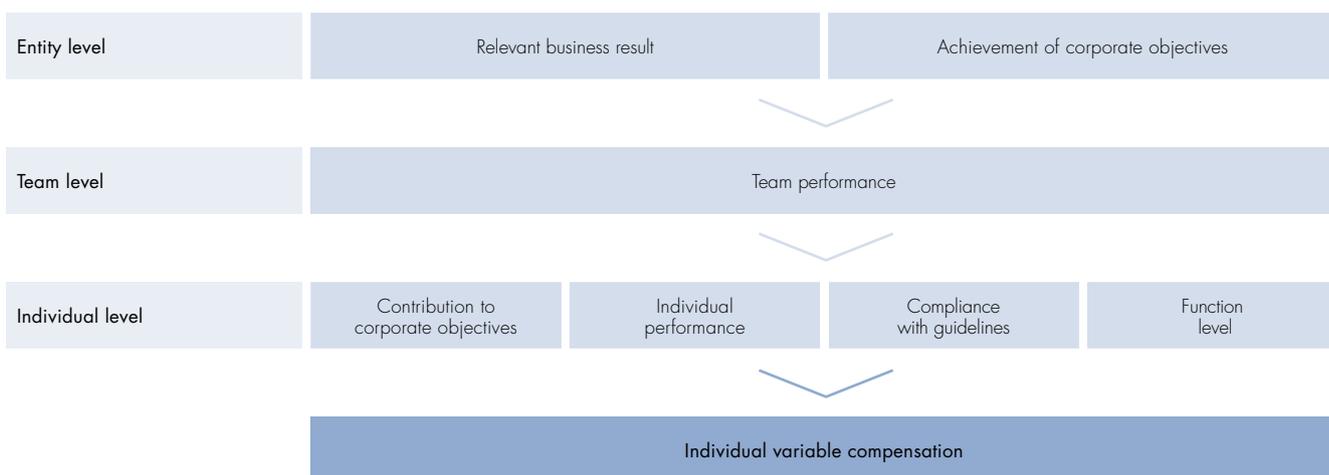
Components of compensation

BLKB considers all cash benefits paid directly or indirectly to employees in connection with their employment or membership of a governing body to be compensation. This can include cash payments, benefits in kind, benefits conferring entitlement to pension benefits, pensions, investment allocations, convertible and option rights, and the waiving of claims.

Fixed salary: The fixed component of salary is determined by the employee’s function. Based on the set criteria, employees are divided into function levels that determine their salaries. Each job profile is assigned to one or more function levels.

Variable compensation: The individual variable salary component is calculated on the basis of the relevant business result, achievement of the corporate objectives, team performance,

Basis for variable compensation



individual performance and individual contribution to the achievement of corporate objectives, compliance with guidelines and function level. Any long-term absences (unpaid leave, for example) and the length of employment in the year under review are also taken into account.

Mandatory purchase of Kantonbank certificates: The members of the Board of Directors and the Executive Board must purchase Kantonbank certificates on preferential terms on a yearly basis. Kantonbank certificates are blocked for five years following purchase.

Expense allowances: The members of the Board of Directors, CEO, other members of the Executive Board and employees in function levels 5 to 7 receive expense allowances. In the case of members of the Board of Directors, their expense allowance is based on their function and tasks within the Board of Directors.

Fringe benefits: All employees enjoy favourable interest rates on loans and savings, as well as reduced banking charges. They also receive subsidised lunches, discounted Reka money, vouchers for reduced-price travelcards, marriage and baby allowances, as well as long-term service awards. In addition, members of the Executive Board are entitled to a company car. The members of the Board of Directors do not receive any fringe benefits.

Statutory allowances: The bank grants employees extended continued salary payments relative to the statutory employer contributions to social insurance in the event of illness, accident or pregnancy.

Sign-on and severance compensation: Sign-on and severance compensation may be granted on specific conditions. Any amounts in excess of CHF 50,000 must be approved by the HROC.

Long-term deferred compensation: BLKB does not have any long-term deferred compensation plan, i.e. compensation components based on the long-term performance of the business.

COMPENSATION GROUPS

Board of Directors

The members of the Board of Directors receive fixed compensation depending on their function and tasks within the Board of Directors (chair, deputy chair, committee chair, committee member). Equal compensation is paid for equal functions. In addition, members are paid an expense allowance that is likewise based on their role and tasks. They are also required to purchase 20 Kantonbank certificates annually on preferential terms. The member of the cantonal government is exempt from this rule. Certificates are purchased at a discount of 25.274 per cent to the market price on the ex-dividend date. All certificates are blocked for five years from the date of purchase. No variable compensation or fringe benefits are paid to the members of the Board of Directors.

Members of the Board of Directors for whom their mandate is their main occupation have been insured with the Pension Fund of the Canton of Basel-Landschaft on a mandatory basis since 2018. The pension fund regulations were amended on 1 January 2019 so that members of the Board of Directors for whom the mandate is a secondary occupation can also be insured.

CEO and other members of the Executive Board (function level 8)

The members of the Executive Board receive fixed compensation. The amount of fixed compensation for the members of the Executive Board is decided by the Board of Directors at its own discretion. The fixed compensation takes into account the market environment, position, responsibilities, experience and 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 serves as a yardstick.

In addition, the members of the Executive Board receive variable compensation that is dependent on their performance and contribution to the achievement of the goals of the bank as a whole. The latter are quantitative and qualitative targets that are based on the bank's strategic objectives.

The individual performance targets of the individual members of the Executive Board are based on specific indicators within the particular area of business that can be influenced by the individual member of the Executive Board. They include 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 performance targets of the members of the Executive Board are defined by the CEO. These targets are intended to make a substantial contribution to the achievement of the bank's strategic targets. When setting variable compensation, weightings are assigned to the achievement of targets on the basis of discretion.

Various additional benefits are paid to the members of the Executive Board; in addition, they are entitled to a company car. Furthermore, the members of the Executive Board are required to purchase Kantonbank certificates on preferential terms. Certificates are purchased at a discount of 25.274 per cent to the market price on the ex-dividend date.

The CEO is required to purchase 50 Kantonbank certificates annually, while the other members of the Board of Directors are required to purchase 30 per year. Where an individual joins during the year, the purchase is made on a pro-rata basis. All certificates are blocked for five years from the date of purchase.

Any directors' fees received by members of the Executive Board are remitted to BLKB in their entirety and included in the "Other ordinary income" item.

Employees in function levels 5–7

In addition to fixed and variable compensation, employees in function levels 5 to 7 receive an expense allowance as well as fringe benefits.

Employees in function levels 1–4

Employees in function levels 1 to 4 receive fixed and variable compensation as well as fringe benefits.

Compensation components and groups

	Board of Directors	Executive Board	Employees in function levels 5–7	Employees in function levels 1–4
Base salary	x	x	x	x
Variable compensation		x	x	x
Expense allowances	x	x	x	
Statutory allowances	x	x	x	x
Fringe benefits		x	x	x

Compensation for the members of the Board of Directors for financial years 2018 and 2017

Name	Fixed compensation	Variable compensation	Fringe benefits	Expense allowance	Value of discounted KBC purchase	Total compensation	Employer contributions to social insurance	Total personnel expenses
T. Schneider, Chairman¹⁾								
2018	83,333	0	–	2,917	0	86,250	20,701	106,951
2017	–	–	–	–	–	–	–	–
E. Schirmer, Chairwoman²⁾								
2018	97,500	0	–	3,500	4,600	105,600	7,270	112,870
2017	195,000	0	–	7,000	4,600	206,600	14,531	221,130
A. Lauber, Deputy Chairman³⁾								
2018	55,000	0	–	2,000	0	57,000	0	57,000
2017 ⁴⁾	55,000	0	–	2,000	0	57,000	0	57,000
M. Primavesi⁵⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
D. Völlmin⁶⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
K. Strecker⁷⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
E. Dubach Spiegler								
2018	70,000	0	–	2,500	4,600	77,100	6,741	83,841
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
D. Greiner								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
N. Jermann								
2018	70,000	0	–	2,500	4,600	77,100	6,741	83,841
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
F. Mutschlechner								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
S. Naef								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
Total compensation								
2018	885,833	0	–	31,717	41,400	958,950	80,215	1,039,165
2017 ⁴⁾	900,000	0	–	32,300	41,399	973,699	63,901	1,037,600

¹⁾ Joined 1 August 2018²⁾ Stepped down 30 June 2018³⁾ The fee has been paid to the canton of Basel-Landschaft since 2016.⁴⁾ Reclassification of TCHF 5 of expense allowances to fixed compensation⁵⁾ Chairman of the ExC⁶⁾ Chairman of the ARC⁷⁾ Chairman of the HROC

Compensation for the members of the Executive Board for financial years 2018 and 2017

Name	Fixed compensation	Variable compensation	Fringe benefits ¹⁾	Expense allowance	Value of discounted KBC purchase	Total compensation	Employer contributions to social insurance	Total expenses
John Häfelfinger, CEO								
2018 ²⁾	425,100	420,000	7,960	24,000	11,400	888,460	164,019	1,052,479
2017	425,100	400,000	2,844	24,000	0	851,944	112,082	964,027
Rest of Executive Board³⁾								
2018	1,827,278	1,040,000	49,123	97,110	34,400	3,047,911	784,777	3,832,688
2017	1,933,728	1,120,000	48,854	102,401	45,999	3,250,981	909,838	4,160,819
Total, Executive Board								
2018	2,252,378	1,460,000	57,083	121,110	45,800	3,936,371	948,796	4,885,167
2017	2,358,828	1,520,000	51,698	126,401	45,999	4,102,925	1,021,921	5,124,846

¹⁾ Discounted Reka money, lunch allowance, company car

²⁾ Variable compensation: of which CHF 20,000 due to the discounted purchase of KB certificates in 2019 with a blocking period of five years

³⁾ The rest of the Executive Board consisted of six members as at 1 January 2017. John Häfelfinger joined BLKB as CEO on 1 January 2017. Beat Oberlin retired on 30 April 2017. Manuel Kunzelmann and Beat Röhlsberger were appointed to the Executive Board on 1 July 2017. Daniel Brändlin left the bank on 31 December 2017. The rest of the Executive Board consisted of six members as at 1 January 2018. Simon Leumann left the Executive Board on 31 July 2018. Christoph Schär joined the Executive Board on 1 August 2018. The rest of the Executive Board consisted of six members as at 31 December 2018.

COMPENSATION IN 2018

Total compensation in the year under review amounted to CHF 84,212,294 (previous year: CHF 83,619,813). Compared with 2017, the number of full-time equivalents rose by 12 to 685 in the year under review.

The total amount of fixed compensation was 1 per cent higher than in the previous year at CHF 69,867,963 (CHF 68,776,804). Along with the increase, systematic structural and individual salary adjustments were made on the basis of comparisons (men/women, 20–30 age group, labour market situation).

Due to the reduced operating profit, the total amount of variable compensation available in 2018 was lower than in the previous year at CHF 11,612,060 (CHF 12,144,200).

The other elements of total compensation, in addition to fixed and variable compensation, are fringe benefits at CHF 1,261,709 (previous year: CHF 1,282,285), expense allowances at CHF 949,121 (previous year: CHF 829,077) and the value of discounted purchases of Kantonbank certificates at CHF 521,442 (previous year: CHF 524,448).

Total fixed compensation for the members of the Executive Board amounted to CHF 2,252,378 in the year under review, with the highest individual share going to the CEO at CHF 425,100.

The total amounts of Kantonbank certificates of individual members of the Board of Directors and Executive Board are shown in the notes to the annual financial statements on pages 105 and 106.

Sign-on and severance compensation

No sign-on or severance compensation was paid to members of the Executive Board in the year under review. Total sign-on compensation of CHF 160,000 was paid to five employees.

Ratio between highest and lowest total compensation

The ratio between the highest and lowest total compensation in 2018 was 13.28:1.

Annual financial statements.

We achieved a solid operating profit of CHF 165.2 m. Net profit was slightly higher than in the previous year at CHF 134.5 m. The ordinary distribution to the canton remains high at CHF 60 m.

Balance sheet on 31 December 2018 (before profit appropriation)

Assets

	31.12.2018 CHF 1000	31.12.2017 CHF 1000	Change CHF 1000	Change %
Liquid funds	2,858,051	2,767,866	90,185	3.26
Due from banks	459,917	187,194	272,723	145.69
Due from securities financing transactions	0	34,679	-34,679	-
Due from customers	1,444,109	1,336,809	107,299	8.03
Mortgage loans	18,718,413	18,165,631	552,782	3.04
Trading business	24,580	11,679	12,901	110.47
Positive replacement values of derivative financial instruments	5,694	8,682	-2,988	-34.42
Financial investments	1,615,054	1,480,606	134,448	9.08
Accrued income and prepaid expenses	34,033	35,772	-1,739	-4.86
Participations	57,485	50,289	7,197	14.31
Tangible fixed assets	104,226	105,002	-776	-0.74
Other assets	19,263	28,009	-8,746	-31.23
Total assets	25,340,826	24,212,219	1,128,607	4.66
Total subordinated claims	0	507	-507	-100.00
- of which mandatory convertibles and/or debt waiver	0	0	0	0.00

Liabilities

	31.12.2018 CHF 1000	31.12.2017 CHF 1000	Change CHF 1000	Change %
Due to banks	425,074	450,271	-25,197	-5.60
Due to securities financing transactions	470,707	108,508	362,200	333.80
Due to customers in savings and deposits	16,717,651	16,689,671	27,979	0.17
Due to trading business	2	0	2	-
Negative replacement values of derivative financial instruments	1,249	2,714	-1,465	-53.98
Cash bonds	17,283	24,676	-7,393	-29.96
Bonds and mortgage-backed bonds	5,168,470	4,487,000	681,470	15.19
Accrued expenses and deferred income	76,692	75,554	1,138	1.51
Other liabilities	18,163	19,367	-1,203	-6.21
Provisions	29,238	42,834	-13,596	-31.74
Reserves for general bank risks	1,241,500	1,191,500	50,000	4.20
Company capital	217,000	217,000	0	0.00
Legal reserve	821,914	768,001	53,913	7.02
Own equity	-6,396	-6,239	-157	2.51
Retained earnings brought forward	7,826	8,016	-190	-2.36
Annual net profit	134,453	133,348	1,105	0.83
Total liabilities	25,340,826	24,212,219	1,128,607	4.66
Total subordinated liabilities	0	0	0	0.00
- of which mandatory convertibles and debt waiver	0	0	0	0.00

Off-balance sheet transactions

	31.12.2018 CHF 1000	31.12.2017 CHF 1000	Change CHF 1000	Change %
Contingent liabilities	179,608	170,201	9,407	5.53
Irrevocable commitments	900,783	895,574	5,209	0.58
Liabilities for calls on shares and other equities	71,417	72,017	-600	-0.83
Confirmed credits	0	0	0	0.00

Income statement and profit appropriation 2018

	2018 CHF 1000	2017 CHF 1000	Change CHF 1000	Change %
Net interest income				
Interest and discount income ¹⁾	316,382	332,827	-16,445	-4.94
Interest and dividend income from financial investments	15,279	18,426	-3,147	-17.08
Interest expenses ¹⁾	-61,843	-75,062	13,218	-17.61
Gross profit from interest-related business	269,817	276,191	-6,374	-2.31
Change in value adjustments due to default risk as well as losses from the interest-related business	-2,753	-3,452	698	-20.23
Net income from interest-related business	267,064	272,739	-5,675	-2.08
Net fee and commission income				
Commission income from securities and investment transactions ¹⁾	44,919	44,960	-42	-0.09
Commission income from lending activities	7,534	7,177	357	4.98
Commission income from other services	21,653	20,214	1,439	7.12
Commission expenses	-7,698	-7,755	57	-0.74
Net fee and commission income	66,408	64,596	1,812	2.80
Net income from trading activities and the fair-value option¹⁾	16,783	18,768	-1,985	-10.58
Net other income				
Income from the sale of financial investments	253	5,467	-5,214	-95.38
Income from participations	6,308	2,642	3,666	138.76
Real estate income	1,779	2,416	-638	-26.38
Other ordinary income	168	263	-95	-36.08
Other ordinary expenses	-257	-1	-257	48,933.33
Net other income	8,250	10,788	-2,537	-23.52
Net operating income	358,505	366,891	-8,386	-2.29
Personal expenses ²⁾	-105,059	-112,150	7,092	-6.32
Other operating expenses	-63,290	-64,376	1,086	-1.69
Operating expenses	-168,349	-176,527	8,178	-4.63
Value adjustments on participations and write-offs of tangible fixed assets and intangible assets	-23,937	-17,890	-6,047	33.80
Changes in provisions and other value adjustments and losses	-1,066	-391	-675	172.78
Operating profit	165,154	172,084	-6,930	-4.03
Extraordinary income	20,172	23,700	-3,527	-14.88
Extraordinary expenses	-7	-68	60	-89.05
Changes in reserves for general bank risks	-50,000	-62,000	12,000	-19.35
Taxes	-865	-368	-497	135.27
Annual net profit	134,453	133,348	1,105	0.83
Profit appropriation				
Annual net profit	134,453	133,348	1,105	0.83
Retained earnings brought forward	7,826	8,016	-190	-2.36
Retained earnings	142,279	141,364	916	0.65
Interest on endowment capital	0	-2,413	2,413	-100.00
Dividend paid on certificate capital	-19,950	-19,950	0	0.00
Compensation for state guarantee	-4,034	-4,000	-33	0.83
Payment to the canton of Basel-Landschaft	-56,000	-53,587	-2,413	4.50
Allocation to legal reserve	-56,000	-53,587	-2,413	4.50
Retained earnings brought forward	6,296	7,826	-1,530	-19.55

¹⁾ Restatement of the previous year's figures due to a change in the recognition of income from the securities underwriting business (see pages 76 and 99) and in the disclosure of negative interest components in derivative financial instruments

²⁾ Including expenses of CHF 8 m in connection with the adjustment of the technical interest rate and the conversion rate of the Canton of Basel-Landschaft Pension Fund (BLPK) in 2017

Statement of cash flow

	2018 Cash inflow CHF 1000	2018 Cash outflow CHF 1000	2017 Cash inflow CHF 1000	2017 Cash outflow CHF 1000
Cash flow from operations (internal financing)				
Annual net profit	134,453		133,348	
Changes in the reserves for general bank risks	50,000		62,000	
Value adjustments on participations, write-offs on tangible fixed assets and intangible assets	11,588		7,423	
Provisions and other value adjustments		5,146	8,227	
Changes in value adjustments due to default risk as well as losses		6,082	3,126	
Accrued income and prepaid expenses	1,739		7,269	
Accrued expenses and deferred income	1,138			1,925
Other items	7,543			24,924
Profit distribution previous year		79,950		79,958
Cash flow balance from operations (internal financing)	115,283		114,587	
Cash flow from equity capital transactions				
Endowment and certificate capital				
Recorded in reserves				
Changes in own equity instruments	169		1,475	
Cash flow balance from equity transactions	169		1,475	
Cash flow from transactions with participations, tangible fixed assets and intangible assets				
Participations		2,162		1,500
Real estate		3,295	6,020	
Other tangible fixed assets		12,647		11,648
Cash flow balance from transactions with participations, tangible fixed assets and intangible assets		18,104		7,128
Cash flow from banking operations				
Medium to long-term transactions (>1 year)				
Due to banks		72,728	100,900	
Due to customers in savings and deposits		45,000		20,000
Cash bonds		7,393		19,894
Bonds	423,470			150,000
Mortgage-backed bonds	258,000		119,000	
Due from banks		50,000		
Due from customers	156,486			17,999
Mortgage loans		548,656		610,435
Financial investments		118,055		14,019
Short-term business				
Due to banks	47,530			291,300
Due to securities financing transactions	362,200			307,313
Due to customers in savings and deposits	72,979		979,920	
Due to trading business		2		0
Negative replacement values of derivative financial instruments		1,465	1,108	
Due from banks		222,723	79,318	
Due from securities financing transactions	34,679			34,679
Due from customers		270,281	89,856	
Trading business		12,901		8,944
Positive replacement values of derivative financial instruments	2,988		74	
Financial investments		16,291		
Liquidity				
Liquid funds		90,185		4,527
Cash flow balance from banking operations		97,347		108,933
Total	115,452	115,452	116,062	116,062

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 equity (minus position) CHF 1000	Annual profit CHF 1000	Total CHF 1000
Equity at the beginning of the reporting period	217,000	768,001	1,191,500	8,016	-6,239	133,348	2,311,626
Disposal of own equity					-157		-157
Profit (loss) from disposal of own equity		326					326
Dividends and other payments						-79,950	-79,950
Other allocations to (releases from) reserves for general bank risks			50,000				50,000
Other allocations to (releases from) other reserves		53,587				-53,587	0
Changes in retained earnings brought forward				-190		190	-0
Annual net profit						134,453	134,453
Equity at the end of the reporting period	217,000	821,914	1,241,500	7,826	-6,396	134,453	2,416,298

Notes to the financial statements (true and fair view statutory single-entity financial statements)

1 NOTES ON BUSINESS ACTIVITIES

1 GENERAL

Basellandschaftliche Kantonbank (BLKB), which is headquartered in Liestal, is the leading bank in the canton of Basel-Landschaft and one of the leading banks in Northwestern Switzerland. Established by cantonal law, the bank operates independently of state administration as a public-law entity with its own legal personality. The canton of Basel-Landschaft held 74 per cent of the capital stock as at 31 December 2018, the remaining 26 per cent being broadly distributed between private owners. The canton of Basel-Landschaft holds all voting rights and, according to the law, guarantees the bank's liabilities.

Geographically speaking, BLKB operates within the economic region of Basel. With 20 branches in the canton of Basel-Landschaft, another in Breitenbach (canton of Solothurn), as well as a specialist Private Banking outlet in Basel, the bank offers an extensive range of banking services to private, institutional, business and public-sector customers. BLKB's customer service network is rounded off by a number of ATMs at various locations. BLKB also operates a mobile bank, which serves several municipalities in the canton of Basel-Landschaft.

2 INTEREST INCOME

The income statement is dominated by net interest income, at about 74 per cent of net operating income. The asset side is dominated by mortgage business, the chief segment being residential real estate. On the liabilities side, customer deposits amount to approximately 66 per cent of the balance sheet total.

3 FEE AND COMMISSION INCOME

Fee and commission business contributes approximately 18 per cent of net operating income. The lion's share of this income comes from securities and investment business with customers.

4 TRADING INCOME

Trading income comes from trading on behalf of customers as well as proprietary trading (foreign exchange, precious metals and securities), although the latter is of a very limited nature.

5 OTHER INCOME

Financial investments primarily consist of fixed-interest securities held for liquidity maintenance purposes by means of repo transactions with the Swiss National Bank and other banks. Financial investments also include equities and other securities which the bank intends to hold on a medium to long-term horizon.

6 NOTES ON RISK MANAGEMENT AND RISK CONTROL

BLKB operates an integrated risk management and independent risk control system headed by its Chief Risk Officer. Using a comprehensive, standardised risk catalogue, the Board of Directors last assessed the material risks to the bank, as well as their likelihood of occurrence and any financial effects, on 29 August 2018. These risks are managed and monitored by means of corresponding measures decided by the Board of Directors. Based on the most recent risk assessment by the Board of Directors, the risks present in the current annual financial statements are adequately covered by value adjustments or provisions.

Risk management and control

The recognition, assessment, management and monitoring of risk is a key management task for BLKB. The acceptance, management and control of financial risk is an integral part of banking business. The Board of Directors 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 control is to achieve a balanced relationship between risk and income, and to ensure solvency even in an adverse economic environment.

Risk capacity

In its business principles the bank is committed to ensuring that risk behaviour is in line with its strategy, thus guaranteeing that risks remain at an acceptable level. The aim is to ensure that any risks arising within a reasonable range of expectations can be covered by current income. Extraordinary losses on the scale of stress scenarios would be covered by current income together with free reserves.

Principles

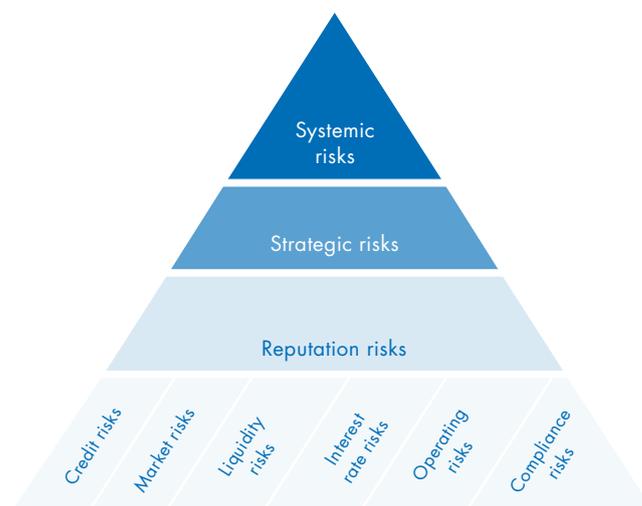
The principles of risk management and control are laid down in the risk policy, which stipulates a strict division between risk management and risk control. Risk management, according to BLKB's rules, means authorising individual persons (e.g. heads of branches) or groups of persons (e.g. trading) to enter into and manage risks on behalf of the bank in accordance with their areas of responsibility or limits. The acceptance of risk requires an approved limit as well as the identification, measurement and monitoring of risks. The launch of new products necessitates prior evaluation of the risks involved.

The Risk Office is responsible for the risk control and is independent of risk management. It supports the responsible units with identifying risks and is responsible for setting the parameters of the risk measurement method, managing the acceptance procedure for new products and valuation methods. It is also responsible for the operation and quality assurance of the risk measurement system implemented. 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 is informed of the findings in the risk report produced on 31 December and 30 June each year. The basis of the scenarios is reviewed on a regular basis and adjusted if necessary.

Systemic, strategic, reputation and compliance risks

The top level consists of systemic risks for the Swiss financial market. The Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA) are responsible for operational supervision and regulation.

Strategic risks result from the overall bank strategy and responsibility lies with the bank's senior management. Reputation risk is the danger of damage to the bank's image. As reputation risk is derived from the bank's business operations, the risks are managed primarily by ensuring competency, integrity and reliability throughout the bank's business operations. This is a highly complex task covering the bank's entire range of operational and strategic management tools. Strategic and reputation risks are managed on a qualitative basis at BLKB.



Credit, market and operating risks

The Executive Board is responsible for operational implementation of the management and control of credit, market and operating risks. This is covered by the package of capital adequacy rules for banks as defined in the mandatory Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO). For this purpose, the Executive Board issues the necessary detailed directives, guidelines and instructions, with particular regard to strategy-compliant risk behaviour. It ensures that risk capacity is guaranteed and that pricing reflects the risk.

To harmonise and simplify implementation of BLKB's risk policy, the various risks were split into three commonly used, internationally recognised categories:

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

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

6.1 Default and credit risks

Defaults or credit losses arise from the failure of a counterparty to comply with its contractual obligations towards BLKB. Due to the major significance of lending business to the bank as well as a degree of risk concentration in the form of residential

construction in a geographically confined area (Northwestern Switzerland), the management of default and credit risks is accorded a high priority at BLKB. Default risks are limited by means of quality requirements and cover margins.

Property valuation and lending principles are laid down in the relevant guidelines. Furthermore, the market value of properties is checked on a periodic basis using a risk-oriented approach. 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
- Affordability
- Payment history

As soon as a loan is deemed impaired or non-performing, a reappraisal is carried out. The current market value serves as the basis for mortgaging and is determined as follows:

- Owner-occupied residential property: market value
- Investment property: earnings value
- Owner-used commercial or industrial property: recoverable market value or value in use
- Building land: market value taking into account future use

The maximum possible financing depends on internally defined collateral values, on the one hand, and affordability on the other. Repayment is compulsory for second mortgages with no additional, marketable collateral. Depending on the amount and complexity of the desired loan, decisions are made at different hierarchical levels and branches within BLKB's market areas. BLKB is confident that local branch managers know their customers best and are therefore in a good position to assess the credit risk. Creditworthiness and possible collateral are important factors in assessing the probability of default. The bank uses a rating system to measure and manage the default risk of its commercial borrowers. Ratings are periodically reassessed. This system is extremely helpful in assessing the risks of lending.

Regular meetings and continuous training of credit officers help to reduce losses and ensure consistent implementation of BLKB's lending policy.

A team of specialists at head office takes care of exceptional cases and deals with non-performing loans. Consisting of members of the Executive Board, the Credit Committee ensures consistent implementation of the lending policy and competitive pricing, and also monitors compliance with the rules. Risks due to changes in the credit rating of counterparties, as well as compliance with the regulations aimed at avoiding concentration risks in the case of large counterparties or customers, also fall within this 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 (ZKB), adopts ZKB's country ratings and chooses its partners abroad according to strict criteria in order to limit country risks to an absolute minimum.

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

6.2 Market price and liquidity risks

Market risks emerge as a result of price movements in the equity, bond, foreign exchange and commodity markets. Compliance with bank-internal limits and developments on individual markets are monitored on a constant basis. Liquidity risk is defined as a risk that arises as a result of deviation from expected and actual payment flows.

Interest rate risks in the banking book

Interest rate risks are managed via the income and wealth effect. The income effect measures the impact of changes in interest rates on net income over a certain period of time (e.g. 12 months). Consequently, changes in interest rates influence those items on the balance sheet that will mature or be renewed within twelve months or whose rate-fixing date is within the next twelve months. The wealth effect analyses the changes in the net present value of equity based on various interest rate scenarios (e.g. parallel shift in the interest rate curve by 100 basis points). BLKB controls interest rate risk primarily by means of the wealth effect. Calculation of the income effect is performed in line with supervisory requirements.

Balance sheet items that grant the customer termination rights (e.g. variable mortgages and savings products) are simulated using benchmark portfolios in a way that minimises the variance of the margin between the customer interest rate and the yield of the replicating portfolio, taking into account the fluctuation in volumes on these balance sheet items. Historical product and market interest rates serve as a basis for the simulation. The relevance of replication keys determined in this way is checked on a yearly basis. Limits and indicators have been defined for the various scenarios of the income and wealth effect.

Market price risks in the trading book

To assess market price and liquidity risks in the trading book, compliance with market value and nominal limits is checked daily. A "List of Instruments" ensures that BLKB only uses products that can be valued and shown correctly.

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 on 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 undertaken by qualified, experienced traders.

Liquidity risks

The aim of liquidity risk management is to ensure constant solvency, particularly in times of bank-specific and/or market-wide stress periods when secured and unsecured financing options are considerably impaired.

BLKB avoids liabilities-side concentration risks in terms of counterparties, currency and maturity. Furthermore, compliance with bank-specific liquidity risk tolerance on the basis of the liquidity coverage ratio (LCR) is closely supervised. BLKB already meets the net stable funding ratio requirement.

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

6.3 Operating and legal risks

Operating risks are defined as "the risk 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 on 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 process of authorising IT access rights to individual members of staff in order to minimise operational risks. Implementation of the Integral Rules, ensuring that directives, procedures and controls are correct and up-to-date on an ongoing basis, contributes significantly to an effective control environment. Representation of the Integral Rules is tool-supported and enables the bank to rely on a systematic risk and control assessment process. Systemic risk (failure of the IT platform) is analysed in cooperation with outsourcing partner Swisscom (Switzerland) Ltd on an ongoing basis and minimised through appropriate measures. A disaster manual defines procedures in the event of the failure of individual systems or groups of systems. Training for all employees, the bank's transparent organisational structure and open communication nevertheless represent the most efficient method of minimising operating risks.

Legal risks include:

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

To minimise these risks, the bank uses standardised contracts and individual transaction confirmations. Moreover, certain types of transaction 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 regulations issued by national (FINMA, SBA, SIX, etc.) and international regulatory bodies (BIS, SEC, etc.).

BLKB is involved in various legal proceedings in the normal course of business. The bank sets aside provisions for actual and threatened litigation, as well as resulting potential obliga-

tions or expenses, where an outflow of funds is probable and the amount can be reliably established.

6.4 Compliance risks

Compliance risks may arise due to a breach of rules, standards or codes of conduct, and may lead to legal and regulatory sanctions, financial losses and reputation damage. Legal & Compliance ensures that business activities are consistent with current regulatory specifications and the due diligence obligations of a financial intermediary. The department is responsible for implementing requirements and developments on the part of the supervisory authority, legislature and other organisations. It is also responsible for ensuring that directives are adapted in line with regulatory developments and complied with.

6.5 Integral Security

The aim of Integral Security is to provide appropriate, permanent protection for people, information, assets and services. Information security, the protection of persons and buildings as well as business continuity management have been brought together in the Integral Security department. This concentration provides a holistic view of all security areas with regard to the development and operation of protective measures as well as employee training and awareness-raising. Integral Security is the contact point for all security matters. Security is in constant flux: internal and external parameters can change, requiring protective measures to be adapted. Checking and possibly redetermining the appropriateness or acceptability of the remaining risk is an ongoing process. The independent unit for control tasks in connection with the protection of customer data, as required by FINMA, constitutes part of the information security system.

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

6.6 Outsourcing

BLKB has delegated a number of processing services in the securities back-office and payment transactions area to Swisscom (Switzerland) Ltd. Operation of the computing centre and decentralised IT have also been delegated to Swisscom

(Switzerland) Ltd. These outsourcing contracts are governed by detailed service level agreements, as stipulated by FINMA. Confidentiality is assured due to the fact that all employees of these service providers are subject to banking confidentiality.

7 METHODS APPLIED IN ORDER TO IDENTIFY DEFAULT RISKS AND DETERMINE THE NEED FOR VALUE ADJUSTMENTS

7.1 Mortgage-backed loans

The collateral values of mortgage-backed loans are checked periodically. Payment arrears on interest and amortisations are also analysed. In this way, the bank identifies mortgage loans that are associated with greater risk. If necessary, the bank requests additional collateral or creates corresponding value adjustments based on the lack of collateral.

7.2 Securities-backed loans

Exposures and the value of collateral for securities-backed loans are monitored daily. If the value of the securities serving as collateral falls below the amount of the credit exposure, the bank requests a reduction in the debt amount or additional collateral. If the collateral gap widens, or in the event of exceptional market situations, the securities will be disposed of and the loan closed out.

7.3 Loans without collateral

Loans without collateral are usually commercial operating loans or overdrafts of retail customers. In the case of commercial operating loans without collateral, the bank obtains information from the customer on a yearly basis, or at shorter intervals if required. This enables it to draw conclusions as to the financial performance of the company. The information may include data concerning turnover, sales and product development. The audited annual financial statements and interim statements, if applicable, are requested at regular intervals. These data are evaluated in order to identify a potential increase in risk. If the bank detects a higher risk, measures to minimise the risks will be set in motion. If these steps lead to the assumption that the credit exposure is at risk, the bank creates a corresponding value adjustment.

7.4 Procedure to determine value adjustments and provisions

A new need for value adjustments and provisions is identified according to the procedures described in sections 7.1 to 7.3. In addition, known risk positions that were identified as being impaired at an earlier stage are reassessed on each balance sheet date and the value is adjusted if applicable. The value adjustments created also have to be approved by the Executive Board and the Board of Directors.

8 VALUATION OF COLLATERAL

8.1 Mortgage-backed loans

A current valuation of collateral is undertaken prior to each lending decision, with valuations dependent on the use of the property. The bank uses a hedonic valuation model to assess residential property. Investment properties are normally assessed on the basis of their earnings value. Alternatively, evaluations by external, qualified real estate appraisers may be considered as well.

The bank uses the lower of the value resulting from the internal assessment, the purchase price and any external appraisal as the basis for granting a loan.

8.2 Securities-backed loans

For Lombard and other securities-backed loans, the bank accepts transferable financial instruments (such as bonds and equities) that are liquid and actively traded. Transferable structured products for which regular pricing information and a market-maker are available are also accepted.

The bank applies discounts to market values in order to cover the market risk associated with marketable, liquid securities and determine the collateral value.

9 BUSINESS POLICY ON THE USE OF DERIVATIVES AND HEDGE ACCOUNTING

Derivative instruments are used for trading and hedging purposes. Trading in derivatives is exclusively undertaken by suitably trained traders. The bank does not engage in market-maker activities. Trading takes place in standardised and OTC instruments for the bank's own account as well as for the account of customers, in particular in interest rates, currencies, equity instruments/indices and, to a lesser extent, commodities. There is no trading in credit derivatives.

As part of its risk management process, the bank uses derivatives mainly to hedge interest rate and foreign currency risks. In the course of asset and liability management, which is used to manage interest rate risks in the banking book, the bank mainly uses OTC derivatives that enjoy a high level of market liquidity. Hedge relationships, targets, and strategies of hedging transactions are documented by the bank on conclusion of the derivative hedging transaction. This enables the effectiveness of the hedges to be assessed. A hedge transaction is effective if it adjusts the interest rate sensitivity of the bank's balance sheet to the target profile within the individual maturity bands. The target duration results from the benchmark strategy of equity in the form of a rolling ten-year investment. The effectiveness of the hedge is checked at monthly intervals. Income from those derivatives used for hedging and the management of interest rate risks is determined in accordance with 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 Banking Act, the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) of the Swiss Financial Market Supervisory Authority FINMA, the Basellandschaftliche Kantonalbank Act and the Listing Rules of SIX Swiss Exchange. These annual financial statements of BLKB give a true and fair view of the financial position, the results of operations and the cash flows (true and fair view statutory single-entity financial statements).

Closing date

BLKB closes its business year on 31 December. The financial statements are prepared on the basis of the accrual principle. Expenses and income incurred over a specific period are recognised on an accrual basis.

Reporting of transactions

All transactions (both on- and off-balance sheet) concluded up to the balance sheet date are reported based on the trading-day principle and measured in accordance with 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; going-concern values are therefore used as the basis.

Consolidation

BLKB does not consolidate majority participations that are of marginal significance to financial reporting or the risk situation.

General valuation principles

The individual items under a particular balance-sheet heading are individually valued provided they are significant and are not usually grouped together for valuation purposes due to their homogeneity. Participations, tangible fixed assets and intangible assets are always individually valued.

As a matter of principle, there is no netting of assets and liabilities or of expenses and income. However, netting is normally performed in the following cases:

- Deduction of value adjustments from the corresponding asset position
- Netting in the compensation account of positive and negative value adjustments not recognised in the income statement in the reporting period
- Positive and negative replacement values of derivative financial instruments vis-à-vis the same counterparty are netted if there are recognised, legally enforceable netting agreements.

Foreign currencies

The accounts are prepared in Swiss francs. Transactions in foreign currency are converted at the corresponding daily rate. Monetary assets in foreign currency are translated into Swiss francs at the rate valid on the balance-sheet date. Income from currency translation is included in the item "Result from trading activities and the fair-value option".

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

	2018	2017
Average rate EUR/CHF	1.1506	1.1163
Year-end rate EUR/CHF	1.1269	1.1702
Average rate USD/CHF	0.9773	0.9802
Year-end rate USD/CHF	0.9858	0.9745

Accounting and valuation principles

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

These items are carried at nominal value.

Due from, and due to, 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.

The market values of securities received or delivered are monitored daily in order to make additional securities available or request additional securities, if applicable.

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

Due from banks, due from customers, mortgage loans

These items are carried at nominal value. Impaired receivables, meaning amounts due where contractually agreed principal and interest payments have not been made in full for 90 days or more (overdue claims), or where there is a high probability that the debtor will be unable to meet its future obligations, are valued individually. The impairment is covered by individual value adjustments, which are deducted from the asset item. The amount of value adjustment is based on the difference between the carrying amount of the claim and the likely achievable income, taking into account the counterparty risk and the net proceeds from selling any collateral. When determining the net income from collateral, all holding costs such as interest, maintenance and sales costs, etc., up to the estimated time of sale are deducted, as are potential taxes and fees. In each case, the bank checks the entire exposure of the customer or economic entity for the presence of counterparty risks.

Experience has shown that an apparently good-quality lending portfolio can contain default risks that only become an issue at a later date. In addition to value adjustments for impaired receivables, value adjustments for latent default risks are created in order to cover these risks. All risks arising from the credit business are

valued individually. BLKB does not create any general provisions for latent default risks.

Bills of exchange are accrued on a discounted basis. Precious metal liabilities on metal accounts are stated at fair value, if the corresponding precious metal is traded on a price-efficient, liquid market.

Interest due but not paid for more than 90 days is not recorded as income from interest-related business but written off via the item "Changes in value adjustments for default risks and losses from interest operations".

Value adjustments for default risks that are no longer required for operating purposes in a particular accounting period are reversed through the income statement or used to create new, individual value adjustments.

For loans with corresponding credit lines, whose utilisation is typically subject to frequent, high levels of fluctuation (e.g. current account loans), initial and subsequent creation of risk provisions is performed on an overall basis (i.e. value adjustments for actual use and provisions for credit lines not fully utilised) and released value adjustments or provisions reversed via the item "Changes in value adjustments for default risks and losses from interest operations". In the case of changes in utilisation, a reclassification is made between value adjustments and provisions without affecting net income.

As soon as outstanding amounts of principal and interest are paid on time once again and in accordance with the contractual provisions, and provided other requirements concerning creditworthiness are met, impaired receivables are reclassified at full value. The corresponding value adjustments are reversed in the income statement via "Change in value adjustments for default risk and losses from interest operations".

Trading business

As a matter of principle, trading portfolios are valued and stated at fair value as per the balance-sheet date. Fair value is the price determined on the basis of an efficient and liquid market or a price determined on the basis of a valuation model. In exceptional cases where fair value is unavailable, positions are valued at the lower of cost or market. Valuation gains, as well as realised

gains and losses and interest and dividend income from trading transactions, are shown in the income statement in "Net income from trading activities and the fair-value option". Expenses for the funding of trading in securities is debited to "Net income from trading activities and the fair-value option" and credited to "Interest and discount income".

Income from the securities underwriting business, both commission-based and fixed-underwriting, is stated in the item "Net income from trading activities and the fair-value option".

Structured products

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

Structured products on the asset side of the balance sheet, which are measured using the fair-value option, are shown in the item "Other financial instruments valued at fair value". In the case of structured products that are split and measured separately, the host instrument is measured and recorded according to the valuation principles for the host instrument. The derivative is stated at fair value and shown in the 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 rates, currencies, indices, credit rating). Derivatives are stated at fair value. Positive and negative replacement values of all derivative financial instruments from transactions for the bank's own account and for the account of customers which are outstanding on the balance sheet date are shown under this balance-sheet heading.

Replacement values from OTC transactions in which the bank acts as a commission agent are shown in the balance sheet.

BLKB offsets positive and negative replacement values vis-à-vis the same counterparty under netting agreements.

Financial investments

Financial investments comprise debt securities, equity securities, physical precious metal holdings as well as property and commodities acquired from credit activities and intended for resale. BLKB purchases property on behalf of the canton of Basel-Landschaft and its municipalities on a fiduciary basis. Ownership of these properties is reported under "Financial investments" and the fiduciary obligation under "Other liabilities".

Equity securities, own physical precious metal holdings and property and commodities intended for resale are valued in accordance with the lower of cost or market. In the case of property and commodities acquired from credit activities and intended for resale, the lower of acquisition cost and liquidation value is used. Own physical precious metal holdings serving as collateral for liabilities from precious metal accounts are measured at fair value and value adjustments recognised in the item "Other ordinary expenses" or "Other ordinary income".

Financial investments valued at lower of cost or market are written up to a maximum of historical or amortised cost if fair value, having dropped below acquisition cost, has recovered again. Value adjustments are recorded in the 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 acquisition cost principle; 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 and shown on a pro rata basis. Default-risk-related valuation changes are immediately charged to the item "Changes in value adjustments for default risks and losses from interest operations".

Available-for-sale: valuation is based on the lower of cost or market principle. A write-up to a maximum of historical or amortised cost is recognised if fair value, having dropped below acquisition cost, recovers again. Value adjustments are recorded net in the item "Other ordinary expenses" or "Other ordinary income". Default-risk-related value changes are recorded in the item "Change in value adjustments for default risks and losses from interest operations".

Switches between trading positions, financial investments and participations are possible. This is performed at fair value at the time of the decision and such income 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 participations in joint infrastructure-type organisations of the banks. Participations are valued at acquisition cost less economically necessary value adjustments.

Impairment testing of the participations is carried out yearly. The assessment is carried out on the basis of indications that individual assets might be affected by such impairment. If signs of impairment are detected, the bank defines the recoverable value; this is the higher of net market value and value-in-use. If the carrying amount exceeds the recoverable value an impairment exists and the carrying amount is reduced to the recoverable value. The impairment is charged to the item "Value adjustments on participations and write-offs on tangible fixed assets and intangible assets".

Gains or losses from the disposal of participations are recorded in the items "Extraordinary income" or "Extraordinary expenses".

Tangible fixed assets

Tangible fixed assets are shown at acquisition cost less economically necessary straight-line depreciation based on the following estimated useful life, which is unchanged from the previous year:

	2018
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 it is for participations. If the review shows a change in the asset's useful life, the residual carrying amount is subjected to scheduled depreciation over the newly deter-

mined useful life. Ordinary as well as any unplanned write-downs are recorded in the item "Value adjustments on participations and write-offs of tangible fixed assets and intangible assets". A write-up from the reversal of impairment is recorded in "Extraordinary income".

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

Intangible assets

Acquired intangible assets are recognised in the balance sheet if they yield measurable benefits for the bank over several years.

Acquired intangible assets are recognised and valued at acquisition cost, and internally generated intangible assets at production cost. They are written down over their estimated useful life through the income statement. Depreciation is normally by the straight-line method. In accordance with the accounting rules stipulated by FINMA, purchased IT programmes are reported in the balance sheet item "Tangible fixed assets".

Accrued income and expenses, accrued expenses and deferred income

All items in the income statement are accrued according to the matching principle.

Other assets and liabilities

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

Provisions

This balance sheet item comprises latent default risks resulting 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 the balance sheet date.

Provisions are created for all probable legal and de-facto liabilities whose amounts and/or maturities are uncertain but which can be reliably estimated and are recognisable on the balance sheet date. The amount of the provision corresponds to the expected value of future cash outflows and takes into account

their probability and reliability. Existing provisions are revalued as per each balance sheet date. Based on this reassessment they are increased, maintained at the same level or released.

Provisions that are no longer necessary from an economic point of view and are not used for similar purposes are released to the income statement. If the accounting rules for banks do not provide for any other treatment, these provisions are recognised in the income statement in the item "Changes in provisions and other value adjustments and losses".

Provisions for pension schemes

BLKB's pension scheme for employees is of the defined-contribution type. The economic benefit and cost of this pension scheme is calculated annually on the basis of a static method in accordance with Swiss GAAP FER 26 ("Accounting of pension plans") by an independent, qualified pension fund actuary. Underfunding or overfunding of the pension scheme may result in an economic benefit or cost for BLKB. Any economic benefit or cost is reported in the balance sheet in the items "Other assets" or "Provisions". The difference between the year under review and the previous year is recorded in the income statement as personnel expense. 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 netted with the relevant liability item. The balance of equity securities is deducted from equity at acquisition cost in the separate item "Own equity" (minus item). In the event of the disposal of capital shares, the realised difference between the cash inflow and the carrying amount is recorded in the item "Legal reserve". Dividends on own capital shares are credited to the item "Legal reserve".

Reserves for general bank risks

Reserves for general bank risks are precautionary reserves established to cover risks in the bank's operating activities. These reserves are included in equity in accordance 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 against direct taxes. The creation and release of reserves for general bank risks are recorded in "Changes in reserves for general bank risks".

Legal reserve

The allocation to the legal reserve complies with the general rules of the Swiss Code of Obligations and the rules on the distribution of net profit as stipulated by the Basellandschaftliche Kantonbank Act of 24 June 2004.

Taxes

As a public-law institution, BLKB is exempt from direct federal tax and taxes in the canton of Basel-Landschaft. However, it is not exempt from tax in relation to its branches outside the canton of Basel-Landschaft. Direct tax due on current assessments is recorded in accrued expenses and deferred income.

Off-balance sheet transactions

Off-balance sheet transactions are reported at nominal value. Appropriate provisions are created for all recognisable risks.

Changes compared with the previous year

Income from the securities underwriting business, both commission-based and fixed-underwriting, is carried in the item "Income from trading business and the fair-value option" and no longer in "Commission income from securities and investment transactions". The previous-year figures have been adjusted to aid comparison. The changes have no impact on the annual net profit or equity.

In terms of individual value adjustments, BLKB has distinguished between value adjustments for impaired receivables and latent default risks since 2018. The previous-year figures have been adjusted to aid comparison.

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)

	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Book value of claims from cash deposits related to securities borrowing and reverse repurchase business ¹⁾	0	34,679
Book value of liabilities from cash deposits related to securities lending and repurchase business ¹⁾	470,707	108,508
Book value of own securities lent in securities lending or deposited as collateral in securities borrowing or transferred in repurchase business	456,993	103,047
– 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	0	34,684
– of which repledged securities	0	0
– of which resold securities	0	0

¹⁾ Before inclusion of any netting agreements

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

Collateral for receivables and off-balance sheet transactions

	Mortgage collateral CHF 1000	Other collateral CHF 1000	No collateral CHF 1000	Total CHF 1000
Loans (before set-off with value adjustments)				
Due from customers	171,707	258,879	1,061,165	1,491,752
Mortgage loans				18,806,848
– Residential real estate	16,326,814	3,704	9,949	16,340,467
– Office and business buildings	1,018,407	0	8,554	1,026,961
– Trade and industry	1,061,979	420	16,000	1,078,399
– Others	290,249	3,814	66,957	361,020
Total loans (before set-off with value adjustments) as per 31.12.2018	18,869,156	266,817	1,162,626	20,298,599
Previous year	18,367,404	240,396	1,028,349	19,636,148
Total loans (after set-off with value adjustments) as per 31.12.2018	18,780,721	266,817	1,114,983	20,162,522
Previous year	18,274,843	240,396	987,202	19,502,441
Off-balance-sheet				
Contingent liabilities	15,288	37,835	126,485	179,608
Irrevocable commitments	385,876	63,189	451,718	900,783
Liabilities for calls on shares and other equities			71,417	71,417
Confirmed credits				0
Total off-balance-sheet as per 31.12.2018	401,164	101,024	649,619	1,151,808
Previous year	354,193	115,388	668,210	1,137,792

Impaired receivables

	Gross debt CHF 1000	Estimated realisation of securities CHF 1000	Net debt CHF 1000	Specific provisions CHF 1000
Impaired receivables as per 31.12.2018	104,535	73,169	31,366	25,801
Previous year ¹⁾	75,668	45,788	29,880	28,891

¹⁾ Figures for previous years have been restated to reflect a change in the recognition of value adjustments for latent risks.

Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Assets		
Trading business		
Debt securities, money market instruments and transactions	23,580	10,009
– of which listed on an exchange	23,580	10,009
Equity securities	744	1 460
Precious metals and commodities	256	209
Total trading business	24,580	11,679
Total assets		
	24,580	11,679
– of which determined by a valuation model	0	0
– of which securities eligible for repo transactions according to liquidity standards (HQLA)	5,729	602
Liabilities		
Dues		
Trading business		
Debt securities, money market instruments and transactions	2	0
– of which listed on an exchange	0	0
Equity securities	2	0
Precious metals and commodities	0	0
Other trading liabilities	0	0
Other financial instruments measured at fair value	0	0
Debt instruments	0	0
Structured products	0	0
Others	0	0
Total liabilities	2	0
– of which determined by a valuation model	0	0

4 Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
	Positive replacement value 31.12.2018 CHF 1000	Negative replacement value 31.12.2018 CHF 1000	Contract volume 31.12.2018 CHF 1000	Positive replacement value 31.12.2018 CHF 1000	Negative replacement value 31.12.2018 CHF 1000	Contract volume 31.12.2018 CHF 1000
Interest rate contracts	4,220	4,651	72,000	80,353	102,199	4,844,000
Futures contracts including FRAs	0	0	0	0	0	0
Swaps	4,220	4,651	72,000	80,353	102,199	4,844,000
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	2,705	2,631	1,190,122	0	0	0
Futures contracts	1,296	1,222	229,499	0	0	0
Combined interest and currency swaps	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	1,409	1,409	960,623	0	0	0
Options (exchange-traded)	0	0	0	0	0	0
Total before inclusion of netting contracts	6,925	7,282	1,262,122	80,353	102,199	4,844,000
– of which determined on the basis of a valuation model	6,925	7,282		80,353	102,199	
Previous year	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	
			Positive replacement values (cumulated) CHF 1000			Negative replacement values (cumulated) CHF 1000
Total after inclusion of netting contracts			5,694			1,249
Previous year			8,682			2,714
			Central clearing party CHF 1000	Banks and securities dealers CHF 1000	Other customers CHF 1000	
Positive replacement values (after inclusion of netting contracts), broken down by counterparties			0	0	5,694	

5 Breakdown of financial investments

	31.12.2018 Book value CHF 1000	31.12.2017 Book value CHF 1000	31.12.2018 Fair Value CHF 1000	31.12.2017 Fair Value CHF 1000
Debt securities	1,550,278	1,416,480	1,578,555	1,451,545
– of which held to maturity	1,550,278	1,416,480	1,578,050	1,451,034
– of which available for sale	0	0	505	511
Equity securities	49,006	48,662	70,107	77,195
– of which qualified participations ¹⁾	501	501	805	805
Precious metals	1,369	1,369	4,399	4,362
Fiduciary real estate	10,259	10,286	10,259	10,286
Real estate intended for sale	4,143	3,810	4,143	3,810
Total financial investments	1,615,054	1,480,606	1,667,463	1,547,199
– of which securities eligible for repo transactions acc. to liquidity standards (HQLA)	1,550,278	1,416,480	1,578,050	1,451,034

¹⁾ At least 10 per cent 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	No rating CHF 1000
Book value of debt securities	568,222	0	0	0	0	982,057

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 2017 CHF 1000	Reclassifica- tions 2018 CHF 1000	Investments 2018 CHF 1000	Disinvest- ments 2018 CHF 1000	Write-offs 2018 CHF 1000	Value adjustments of participa- tions/write- ups acc. to the equity method 2018 CHF 1000	Book value end of 2018 CHF 1000	Market value end of 2018 CHF 1000
– of which with quoted value	42,154	–14,231	2,923	0	0	0	–7,063	12,260	33,119	33,119
– of which without quoted value	41,398	–19,032	22,366	0	2,162	–89	–162	89	24,366	
Total participations^{1) 2)}	83,551	–33,263	50,289	0	2,162	–89	–7,225	12,349	57,485	33,119

¹⁾ BLKB does not measure any participations on the basis of the equity method.

²⁾ Effects of a theoretical application of the equity method: a loss of CHF 519,000 is recorded from the sale of participations in 2018 (previous year: CHF 342,000). The equity share in the participations is CHF 1,557,000 (previous year: CHF 2,077,000).

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

Company name and headquarters	Business activities	Company capital CHF 1000	Interest share 31.12.2018 %	Interest share 31.12.2017 %
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
BioMedInvest III LP, St Peter Port, Guernsey	Holding company	100,000	5.00	5.21
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
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
Servicehub AG, Liestal	Insurance broking	2,000	100.00	–
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	164	26.06	26.06

The table shows all non-consolidated participations where there is a share stake of at least 10 per cent, or where the share of participation in the company capital is at least CHF 100,000 or the book value is at least CHF 250,000.

BLKB does not consolidate majority participations that are of marginal significance to financial reporting or the risk situation.

All participations are held directly by BLKB.

None of the participations reported in the balance sheet holds voting shares; the share of capital therefore corresponds to the share of voting rights.

8 Presentation of tangible fixed assets

	Acquisition cost CHF 1000	Accumulated depreciation CHF 1000	Book value end of 2017 CHF 1000	Reclassifica- tions 2018 CHF 1000	Investments 2018 CHF 1000	Disinvestments 2018 CHF 1000	Write-offs 2018 CHF 1000	Write-ups 2018 CHF 1000	Book value CHF 1000
Tangible fixed assets									
Real estate	191,063	-101,219	89,844	-102	4,426	-1,029	-5,681	0	87,458
– of which bank buildings	155,252	-87,272	67,980	-102	4,426	-91	-4,806	0	67,407
– of which other real estate	35,811	-13,947	21,864	0	0	-938	-875	0	20,051
Internally developed or separately acquired software	28,229	-19,912	8,317	0	4,726	0	-6,729	0	6,314
Other tangible fixed assets	20,658	-13,817	6,840	0	7,953	-39	-4,302	0	10,453
Total tangible fixed assets	239,950	-13,949	105,002	-102	17,105	-1,068	-16,712	0	104,226

There are no properties under financial leases and no liabilities arising from operating leases.

9 Presentation of intangible assets

BLKB does not own any intangible assets.

10 Breakdown of other assets and other liabilities

	31.12.2018 Other assets CHF 1000	31.12.2017 Other assets CHF 1000	31.12.2018 Other liabilities CHF 1000	31.12.2017 Other liabilities CHF 1000
Compensation account	6,076	10,514	0	0
Settlement accounts	9,249	11,958	1,441	2,682
Indirect taxes	3,930	3,124	2,306	2,672
Interest on endowment capital	0	2,413		
Bank-owned "funds" with no legal personality such as pension schemes or welfare funds			0	0
Coupons and debt securities, due and not realised			1,697	1,968
Other liabilities from deliveries and services			2,460	1,759
Compensation fiduciary real estate			10,259	10,286
Other items	9			
Total	19,263	28,009	18,163	19,367

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

	31.12.2018 Book value CHF 1000	31.12.2018 Actual liability CHF 1000	31.12.2017 Book value CHF 1000	31.12.2017 Actual liability CHF 1000
Pledge/ceded assets				
Pledged or ceded mortgage loans for mortgage-backed securities	5,176,451	2,125,000	2,893,149	1,867,000
Financial investments	136,283	0	136,189	0
Fiduciary real estate	10,259	10,259	10,286	10,286
Assets under reservation of ownership				
None				
Total	5,322,992	2,135,259	3,039,624	1,877,286

12 Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the bank held by own pension schemes

	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Liabilities to customers	365,065	374,294
Bonds ¹⁾	449	374
Cash bonds ¹⁾	0	0
Negative replacement values	0	0
Total	365,514	374,668

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

	31.12.2018 Number	31.12.2017 Number
Kantonalbank certificates	0	0

13 Disclosures of the economic position of own pension schemes

All BLKB employees are insured for the mandatory benefits of the BVG/LPP as well as the extra-mandatory benefits of the Pension Fund of Basel-Landschaft (BLPK), with the exception of part-time employees on minimal working hours. The pension scheme is of the defined-contribution type. The normal retirement age is 63. Early retirement is possible at age 60.

a) Employer contribution reserve (AGBR)

	31.12.2018 Nominal value CHF 1000	31.12.2018 Waiver of use CHF 1000	31.12.2018 Net amount ¹⁾ CHF 1000	31.12.2017 Net amount ¹⁾ CHF 1000	2018 Influence of AGBR on personnel expenses CHF 1000	2017 Influence of AGBR on personnel expenses CHF 1000
Pension schemes	0	0	0	0	0	25

¹⁾ Must be capitalised

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

	31.12.2018 Over/under- funding CHF 1000	31.12.2018 Economic share of BLKB CHF 1000	31.12.2017 Economic share of BLKB CHF 1000	Changes in economic share compared with previous year (economic benefit or liability) CHF 1000	Paid-in contributions for reporting period CHF 1000	2018 Pension expenses within personnel expenses CHF 1000	2017 Pension expenses within personnel expenses CHF 1000
Defined-contribution pension scheme ¹⁾	34,596	0	0	0	10,667	10,631	18,416
Total	34,596	0	0	0	10,667	10,631	18,416

¹⁾ BLKB has a defined-contribution pension solution with the Pension Fund of Basel-Landschaft (BLPK). The employer contributions are charged to the income statement on an ongoing basis. Pension expenses consist of these accrued contributions, the change in the employer's contribution reserve, and the changes in economic liabilities recognised as provisions. For the year 2018, BLKB's share of under/overfunding in this pension fund was calculated by an independent pension fund expert based on the BLPK's annual financial statement as per 31 December 2017 and quarterly financial statement as per 30 September 2018. According to the extrapolation of the independent pension fund expert as per 31 December 2018, the coverage ratio was 108.0%. As the target value for the fluctuation reserve is not 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

BLKB had not issued any structured products as per 31 December 2018 and 31 December 2017.

15 Presentation of bonds outstanding and mandatory convertible bonds

Type of bond	Year of issue	Interest rate %	Maturities	31.12.2018 Total CHF 1000	31.12.2017 Total CHF 1000
Non-subordinated	2012	0.625	27.02.2018	0	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	2016	0.000	20.04.2020	200,000	200,000
Non-subordinated	2010	1.750	09.11.2020	300,000	300,000
Non-subordinated	2017	0.000	06.10.2021	150,000	150,000
Non-subordinated	2012	1.000	04.10.2022	300,000	300,000
Non-subordinated	2018	0.000	23.03.2023	150,000	0
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	2018	0.375	23.03.2026	225,000	0
Non-subordinated	2018	0.250	25.01.2027	300,000	0
Non-subordinated	2015	0.750	30.03.2028	185,000	185,000
Own holding of bonds				-1,530	0
Total bonds ¹⁾		1.025		3,043,470	2,620,000
Loans of mortgage-backed securities		0.737		2,125,000	1,867,000
Total outstanding bonds and mortgage-backed securities		0.907		5,168,470	4,487,000

¹⁾ None of the bonds has an early call option.

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	31.12.2018 Total CHF 1000
Total outstanding bonds	600,000	500,000	150,000	300,000	410,000	1,083,470	3,043,470

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

	Balance 31.12.2017 CHF 1000	Appropriate usage CHF 1000	Reclassifications CHF 1000	Translation differences CHF 1000	Overdue interest, recoveries CHF 1000	New creation charged to income CHF 1000	Reversals credited to income CHF 1000	Balance 31.12.2018 CHF 1000
Provisions for pension fund obligations	8,000	-6,000						2,000
Provisions for default risks (potential cash outflows related to off-balance sheet transactions)	32,685		-8,452			858	-2	25,090
Provisions for other business risks	1,713							1,713
Other provisions	436							436
Total provisions	42,834	-6,000	-8,452	0	0	858	-2	29,238
Reserves for general bank risks	1,191,500					50,000		1,241,500
Value adjustments for default risks and country risks	133,927	-8,705	8,452	0	-6	21,022	-18,393	136,296
– of which value adjustments for default risks from impaired receivables ¹⁾	29,349	-8,237	8,137	0	-6	1,477	-4,570	26,151
– of which value adjustments for latent risks ¹⁾	104,577	-469	314	0	0	19,545	-13,823	110,145

¹⁾ Figures for previous years have been restated to reflect a change in the recognition of value adjustments for latent risks.

BLKB is exempt from taxes on profit and capital; therefore, there is no need for latent tax on the reserve for general bank risks.

17 Presentation of the bank's capital

	31.12.2018 Total nominal value CHF 1000	31.12.2018 Quantity	31.12.2018 Capital entitled to dividend CHF 1000	31.12.2017 Total nominal value CHF 1000	31.12.2017 Quantity	31.12.2017 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 carried out	0			0		
Conditional capital	0			0		
– of which capital increases carried out	0			0		

The canton of Basel-Landschaft holds 100 per cent of the endowment capital. These funds are brokered by BLKB.

The certificates do not carry 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 disclosures of any employee participation schemes

	Equity securities			
	31.12.2018 Number	31.12.2017 Number	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Members of the Board of Directors ¹⁾	1,020	1,220	926	1,103
Members of the Executive Board ¹⁾	1,148	1,383	1,042	1,251
Employees ²⁾	350	1,508	318	1,364
Total	2,518	4,111	2,286	3,718

¹⁾ Further information on participations of the members of the Executive Board and the Board of Directors is provided in section 4 "Information on compensation and participations".

²⁾ 2018: Blocked Kantonalbank certificates of former members of the Executive Board. 2017: Kantonalbank certificates subscribed by employees in the anniversary year of 2014 with a blocking period of four years, including blocked Kantonalbank certificates of former members of the Executive Board.

19 Disclosure of amounts due from/to related parties

	Due from		Due to	
	31.12.2018 CHF 1000	31.12.2017 CHF 1000	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Qualified shareholders	46,752	19,621	139,533	188,163
Affiliated companies	70,816	75,734	555,159	524,988
Governing bodies	18,059	20,583	13,501	23,637

Transactions with related parties

Transactions (securities transactions, payment transactions, lending, or compensation on deposits) are conducted with related parties on the same conditions that are applied to third parties. Standard banking industry conditions apply in the case of bank employees. 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	31.12.2018 Nominal value CHF 1000	31.12.2018 Share in %	31.12.2017 Nominal value CHF 1000	31.12.2017 Share in %
With voting rights				
Canton of Basel-Landschaft	160,000	74	160,000	74
Without voting rights				
Certificate holders	57,000	26	57,000	26

21 Disclosure of own shares and composition of equity capital

	2018 Number	2018 Average transaction price CHF	2017 Number	2017 Average transaction price CHF
Number of Kantonalbank certificates held by the bank on 1 January	6,898		8,205	
+ Purchases	5,963	903	1,566	899
- Sales	-5,817	919	-2,873	911
Balance on 31 December	7,044		6,898	
Contingent liabilities in connection with 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	3,493		3,928	

The endowment capital is divided into the following sections:

	Year of issue	Interest rate %	Maturity	31.12.2018 Total CHF 1000	31.12.2017 Total 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 equity holders in their capacity as equity holders

No transactions were conducted with equity holders that were not executed with liquid funds or balanced with other transactions. All transactions with shareholders were conducted on normal market conditions.

22 Disclosures in accordance with the Ordinance against Excessive Compensation in Listed Companies and Art. 663C para. 3 of the Code of Obligations for banks whose equity instruments are listed

Detailed information is contained in section 4 "Information on compensation and participations".

No compensation was paid to former members of the Board of Directors in 2018; nor was there any compensation on unusual terms to persons related to members of the Board of Directors or the Executive Board. No compensation was 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	2,858,051							2,858,051
Due from banks	94,377	5,272	140,268	170,000	30,000	20,000		459,917
Due from securities financing transactions								0
Due from customers	1,432	234,746	553,411	254,302	222,359	177,858		1,444,109
Mortgage loans	1,241	262,405	1,492,387	2,258,209	11,337,114	3,367,056		18,718,413
Trading business	24,580							24,580
Positive replacement values of derivative financial instruments	5,694							5,694
Financial investments	50,374		35,549	155,575	673,017	686,138	14,402	1,615,054
Total as at 31.12.2018	3,035,750	502,424	2,221,615	2,838,086	12,262,491	4,251,052	14,402	25,125,819
Previous year	2,927,526	484,663	2,014,063	3,106,573	11,400,031	4,046,195	14,096	23,993,147
Liabilities/financial instruments								
Due to banks	77,193	16,907	76,901	100,900	28,173	125,000		425,074
Due to securities financing transactions			370,707	100,000				470,707
Due to customers in savings and deposits	4,571,054	11,929,922	34,074	34,600	118,000	30,000		16,717,651
Due to trading business	2							2
Negative replacement values of derivative financial instruments	1,249							1,249
Cash bonds			2,575	4,841	9,867			17,283
Bonds and mortgage-backed loans				752,000	2,072,000	2,344,470		5,168,470
Total as at 31.12.2018	4,649,498	11,946,829	484,257	992,341	2,228,040	2,499,470	0	22,800,435
Previous year	4,835,508	11,637,999	773,539	126,280	2,353,388	2,036,125	0	21,762,839

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

	31.12.2018 Domestic CHF 1000	31.12.2018 Foreign CHF 1000	31.12.2017 Domestic CHF 1000	31.12.2017 Foreign CHF 1000
Assets				
Liquid funds	2,856,028	2,024	2,766,113	1,753
Due from banks	409,009	50,908	124,383	62,811
Due from securities financing transactions	0		9,745	24,934
Due from customers	1,258,120	185,989	1,197,107	139,702
Mortgage loans	18,718,413		18,165,631	
Trading business	21,404	3,176	10,234	1,445
Positive replacement values of derivative financial instruments	5,694		8,682	
Financial investments	1,287,912	327,142	1,121,841	358,765
Accrued income and prepaid expenses	31,210	2,823	32,222	3,550
Participations	57,382	104	50,185	104
Tangible fixed assets	104,226		105,002	
Other assets	19,031	232	28,009	
Total assets	24,768,428	572,399	23,619,155	593,064
Liabilities				
Due to banks	315,347	109,727	334,032	116,238
Due to securities financing transactions	392,392	78,316	108,508	
Due to customers in savings and deposits	16,232,818	484,832	16,197,751	491,920
Due to trading business	2		0	
Negative replacement values of derivative financial instruments	1,249		2,714	
Cash bonds	17,283		24,676	
Bonds and mortgage-backed loans	5,168,470		4,487,000	
Accrued expenses and deferred income	76,605	87	75,550	4
Other liabilities	16,873	1,290	16,630	2,736
Provisions	29,238		42,834	
Reserves for general bank risks	1,241,500		1,191,500	
Company capital	217,000		217,000	
Legal reserve	821,914		768,001	
Own shares	-6,396		-6,239	
Retained earnings brought forward	7,826		8,016	
Annual net profit	134,453		133,348	
Total liabilities	24,666,575	674,251	23,601,321	610,898

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

	31.12.2018 CHF 1000	31.12.2018 Anteil in %	31.12.2017 CHF 1000	31.12.2017 Share in %
Assets				
Switzerland	24,768,428	97.74	23,619,155	97.55
Europe	506,154	2.00	519,979	2.15
North America	37,947	0.15	45,204	0.19
Asia/Australasia	16,019	0.06	15,875	0.07
Others	12,279	0.05	12,005	0.05
Total assets	25,340,826	100.00	24,212,219	100.00

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

Rating category ¹⁾	Net foreign exposure 31.12.2018 CHF 1000	Net foreign exposure 31.12.2018 Share in %	Net foreign exposure 31.12.2017 CHF 1000	Net foreign exposure 31.12.2017 Share in %
1	575,381	97.89	590,118	97.97
2	0	0.00	0	0.00
3	77	0.01	129	0.02
4	24	0.00	117	0.02
5	462	0.08	13	0.00
6	6,814	1.16	6,981	1.16
7	5,014	0.85	5,015	0.83
No rating	0	0.00	0	0.00
Total	587,772	100.00	602,374	100.00

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

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	2,843,054	14,077	506	414
Due from banks	248,284	14,845	153,210	43,578
Due from securities financing transactions				
Due from customers	894,886	467,080	70,771	11,372
Mortgage loans	18,717,342	1,071		
Trading business	24,325			255
Positive replacement value of derivative financial instruments	5,642		51	
Financial investments	1,477,895	120,659	15,132	1,369
Accrued income and prepaid expenses	30,981	2,219	820	14
Participations	57,382		104	
Tangible fixed assets	104,226			
Other assets	19,200	46	3	14
Total on-balance-sheet assets	24,423,216	619,996	240,598	57,017
Delivery claims from spot exchange dealings, forward exchange deals and foreign exchange options	155,150	85,231	131,162	13,076
Total assets 31.12.2018	24,578,366	705,227	371,759	70,093
Liabilities				
Due to banks	320,656	93,208	11,205	5
Due to securities financing transactions	335,000	33,807	95,623	6,278
Due to customers in savings and deposits	16,060,574	477,725	132,218	47,134
Due to trading business	2			
Negative replacement value of derivative financial instruments	1,197		51	
Cash bonds	17,283			
Bonds and mortgage-backed bonds	5,168,470			
Accrued expenses and deferred income	76,496		185	11
Other liabilities	18,160	1	3	0
Provisions	29,238			
Reserves for general bank risks	1,241,500			
Company capital	217,000			
Legal reserve	821,914			
Own shares	-6,396			
Retained earnings brought forward	7,826			
Annual net profit	134,453			
Total on-balance-sheet liabilities	24,443,373	604,741	239,285	53,427
Delivery obligations from spot exchange dealings, forward exchange deals and currency option transactions	155,114	85,200	131,161	13,069
Total liabilities 31.12.2018	24,598,487	689,941	370,446	66,496
Net position per currency	-20,121	15,286	1,313	3,597

28 Breakdown and explanations of contingent assets and liabilities

	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Guarantees for collateralisation of loans and similar	63,637	67,321
Guarantees for warranty and similar	106,831	99,395
Irrevocable commitments from documentary letters of credit	9,140	3,485
Total contingent liabilities	179,608	170,201
Other contingent assets	0	p. m. ¹¹⁾
Total contingent assets	0	0

¹¹⁾ In connection with the sale of the Swisscanto participation to Zürcher Kantonalbank, part of the proceeds in years 2016 to 2018 will be paid in three yearly tranches (earn-out). The amount depends on BLKB's turnover from Swisscanto products. Therefore, the amount of the earn-out cannot be reliably estimated.

29 Breakdown of credit commitments

There are no credit commitments.

30 Breakdown of fiduciary transactions

	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Fiduciary deposits with third party companies	5,473	3,827
Total	5,473	3,827

31 Breakdown of assets under management, and presentation of their development

a) Breakdown of assets under management

Type of assets under management	31.12.2018 CHF 1000	31.12.2017 CHF 1000
Assets in collective investment instruments managed by the bank	851,215	625,542
Assets with management mandate	2,956,268	3,119,267
Other assets under management	16,676,851	16,662,043
Total assets under management (including double counting)	20,484,334	20,406,852
– of which double counting	851,215	625,252

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

b) Presentation of the development of assets under management

	2018 CHF 1000	2017 CHF 1000
Total assets under management (including double counting) at the beginning of the year	20,406,852	19,476,108
+/- Net new money inflow or net new money outflow	523,782	383,274
Changes in double counting	225,964	221,039
+/- Price movement, interest, dividend, and currency development	-588,552	418,564
+/- Other effects	-83,710	-92,134
Total assets under management (including double counting) at year-end	20,484,334	20,406,852

The calculation of net new money is based on the assets under management and performed in accordance with the direct method. This method determines cash inflows 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) Breakdown by business line (acc. to the bank's organisation)

	2018 CHF 1000	2017 CHF 1000
Basellandschaftliche Kantonalbank ^{1) 2)}	16,783	18,768
Total	16,783	18,768

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

²⁾ Figures for previous year are restated. Income from the securities underwriting business has been shown in the result from trading transactions and the fair-value option since 2018. Figures for previous years have been adjusted for the sake of comparability. See pages 66 and 76.

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

Trading income from	2018 CHF 1000	2017 CHF 1000
Interest rate contracts (incl. funds) ¹⁾	2,010	1,307
Equity instruments (incl. funds)	4	17
Foreign exchange	14,598	17,265
Commodities/precious metals	171	180
Total net trading income	16,783	18,768
– of which from fair-value option	0	0

¹⁾ Figures for previous year have been restated. Income from the securities underwriting business has been shown in the result from trading transactions and the fair-value option since 2018. Figures for previous years have been adjusted for the sake of comparability. See page 79.

33 Disclosure of material refinancing income in the item "Interest and discount income" as well as material negative interests

	2018 CHF 1000	2017 CHF 1000
Refinancing income from trading positions	0	0
Negative interest claims (reduction in interest income)	–597	–613
Negative interest liabilities (reduction in interest expenses)	8,724	8,751

The negative interest rates of the hedging transactions have not been taken into account.

34 Breakdown of personnel expenses

	2018 CHF 1000	2017 CHF 1000
Salaries (attendance fees and fixed compensation paid to bank authorities, salaries and benefits)	-81 675	-80 905
– of which expenses related to share-based compensation and alternative forms of variable compensation	-521	-524
Social benefits ¹⁾	-18 985	-26 772
Value adjustments in relation to economic benefit or liability of pension schemes	0	0
Other personnel expenses	-4 398	-4 473
Total personnel expenses	-105 059	-112 150

¹⁾ Includes expenses of CHF 8 m in connection with the adjustment of the technical interest rate and the conversion rate of the Canton of Basel-Landschaft Pension Fund (BLPK) in 2017

35 Breakdown of other operating expenses

	2018 CHF 1000	2017 CHF 1000
Premises expense	-7,579	-6,538
Expense for IT and communications technology	-23,516	-24,940
Aufwand für Fahrzeuge, Maschinen, Mobiliar, übrige Einrichtungen sowie Operational Leasing	-1,067	-953
Expense for vehicles, machinery, furniture, other equipment, and operational leasing		
Fees for the auditing company	-531	-483
– of which for accounts and supervisory audit	-512	-475
– of which for other services	-19	-8
Other operating expenses	-30,597	-31,463
– of which compensation for the state guarantee	0	0
Total operating expenses	-63,290	-64,376

36 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general bank risks, and value adjustments and provisions no longer required

	2018 CHF 1000	2017 CHF 1000
Extraordinary income	20,172	23,700
– of which profits from sales of participations, real estate and tangible fixed assets ¹⁾	7,913	13,233
– of which revaluations of participations, real estate, and tangible fixed assets ²⁾	12,260	10,466
– of which other extraordinary income	0	0
Extraordinary expenses	–7	–68
– of which realised losses from disposal of shares, real estate and tangible fixed assets	–7	–22
– of which other extraordinary expenses	–	–46
Allocation to reserves for general bank risks	–50,000	–62,000

In 2018 and 2017, the bank did not register any substantial losses or releases of value adjustments and provisions.

¹⁾ 2018: this mainly concerns the proceeds from the disposal of real estate and the earn-out payments received in connection with the sale of participations in Swisscanto Holding AG.

2017: this mainly concerns the proceeds from the disposal of real estate and the earn-out payments received in connection with the sale of participations in Swisscanto Holding AG.

²⁾ 2018: this mainly concerns the revaluation of a participation in Swissquote Group Holding SA, Gland

2017: this mainly concerns the revaluation of a participation in Swissquote Group Holding SA, Gland

37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

In 2018, a participation for which value adjustments had been made in previous years was partly revalued. The income from the discontinuation of the impairment was entered in the item "Extraordinary income". Further details can be seen in item 36 above.

38 Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

BLKB does not have any foreign operational sites.

39 Presentation of current and deferred taxes and disclosure of tax rate

	2018 CHF 1000	2017 CHF 1000
Expenses for current taxes	-865	-368
Creation of provisions for latent taxes	0	0
Total taxes	-865	-368
Weighted average interest rate	-	-

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

40 Disclosures and explanations of the earnings per equity security in the case of banks whose equity securities are listed

	2018 CHF	2017 CHF
Undiluted result for endowment capital/per Kantonalbank certificate	62,16	61,65
Diluted result for endowment capital/per Kantonalbank certificate	62,16	61,65

The undiluted profit from the endowment capital or per Kantonalbank certificate is calculated on the basis of the profit for 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 with a nominal value of CHF 100. There is no difference between the diluted and the undiluted result.

4 INFORMATION ON COMPENSATION AND PARTICIPATIONS

1 Overview of compensation paid to the Board of Directors and the bank's employees for financial years 2018 and 2017

Below is a summarised overview of the key figures:

	Fixed compensation	Variable compensation	Fringe benefits ¹⁾	Expense allowances	Value of discounted price of KBC	Total compensation	Employer's contributions to social benefits
2018	69,867,963	11,612,060	1,261,709	949,121	521,442	84,212,294	18,985,168
2017	68,776,804	12,144,200	1,282,285	892,077	524,448	83,619,813	26,771,918

¹⁾ Discounted Reka money and lunch allowances

Amount of outstanding deferred benefits

Kantonalbank certificates

31.12.2018	1,870 units
31.12.2017	2,769 units

Ratio of lowest to highest gross compensation

2018	1 to 13.28
2017	1 to 12.21

2 Compensation for the members of the Board of Directors for financial years 2018 and 2017

Name	Fixed compensation	Variable compensation	Fringe benefits	Expense allowances	Value of reduced price of KBC	Total compensation	Employer's contributions to social benefits	Total personnel expenses
T. Schneider, Chairman¹⁾								
2018	83,333	0	–	2,917	0	86,250	20,701	106,951
2017	–	–	–	–	–	–	–	–
E. Schirmer, Chairwoman²⁾								
2018	97,500	0	–	3,500	4,600	105,600	7,270	112,870
2017	195,000	0	–	7,000	4,600	206,600	14,531	221,130
A. Lauber, Deputy Chairman³⁾								
2018	55,000	0	–	2,000	0	57,000	0	57,000
2017 ⁴⁾	55,000	0	–	2,000	0	57,000	0	57,000
M. Primavesi⁵⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
D. Völlmin⁶⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
K. Strecker⁷⁾								
2018	100,000	0	–	3,600	4,600	108,200	7,601	115,801
2017	100,000	0	–	3,600	4,600	108,200	7,596	115,795
E. Dubach Spiegler								
2018	70,000	0	–	2,500	4,600	77,100	6,741	83,841
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
D. Greiner								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
N. Jermann								
2018	70,000	0	–	2,500	4,600	77,100	6,741	83,841
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
F. Mutschlechner								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
S. Naef								
2018	70,000	0	–	2,500	4,600	77,100	5,320	82,420
2017	70,000	0	–	2,500	4,600	77,100	5,317	82,417
Total remuneration								
2018	885,833	0	–	31,717	41,400	958,950	80,215	1,039,165
2017 ⁴⁾	900,000	0	–	32,300	41,399	973,699	63,901	1,037,600

¹⁾ Joined 1 August 2018²⁾ Stepped down 30 June 2018³⁾ The fee has been paid to the canton of Basel-Landschaft since 2016.⁴⁾ Reclassification of TCHF 5 of expense allowances to fixed compensation⁵⁾ Chairman of the ExC⁶⁾ Chairman of the ARC⁷⁾ Chairman of the HROC

3 Compensation for the members of the Executive Board for financial years 2018 and 2017

Name	Fixed compensation	Variable compensation	Fringe benefits ¹⁾	Expense allowances	Value of reduced price of KBC	Total compensation	Employer's contributions to social benefits	Total expenses
John Häfelfinger, CEO								
2018 ²⁾	425,100	420,000	7,960	24,000	11,400	888,460	164,019	1,052,479
2017	425,100	400,000	2,844	24,000	0	851,944	112,082	964,027
Rest of Executive Board³⁾								
2018	1,827,278	1,040,000	49,123	97,110	34,400	3,047,911	784,777	3,832,688
2017	1,933,728	1,120,000	48,854	102,401	45,999	3,250,981	909,838	4,160,819
Total, Executive Board								
2018	2,252,378	1,460,000	57,083	121,110	45,800	3,936,371	948,796	4,885,167
2017	2,358,828	1,520,000	51,698	126,401	45,999	4,102,925	1,021,921	5,124,846

¹⁾ Discounted cheques for Reka money, lunch allowance, company car

²⁾ Variable compensation: of which CHF 20,000 due to the discounted purchase of KB certificates in 2019 with a blocking period of five years

³⁾ The rest of the Executive Board consisted of six members as at 1 January 2017. John Häfelfinger joined BLKB as CEO on 1 January 2017. Beat Oberlin retired on 30 April 2017. Manuel Kunzelmann and Beat Röhliberger were appointed to the Executive Board on 1 July 2017. Daniel Brändlin left the bank on 31 December 2017. The rest of the Executive Board consisted of six members as at 1 January 2018. Simon Leumann left the Executive Board on 31 July 2018. Christoph Schär joined the Executive Board on 1 August 2018. The rest of the Executive Board consisted of six members as at 31 December 2018.

4 Loans, credits, subscription of Kantonalbank certificates (in the business year) and KBC holdings of Board of Directors and related parties

Name	Function	Loans and credits 31.12.2018	Loans and credits 31.12.2017	KBC subscribed in 2018	KBC subscribed in 2017	KBC total (blocked) 31.12.2018	KBC total (blocked) 31.12.2017
T. Schneider ¹⁾	Chairman	0	–	0	–	0	–
E. Schirmer ²⁾	Chairwoman	–	1,750,000	20	20	–	360 (100)
A. Lauber	Deputy Chairman	0	0	0	0	0	0
M. Primavesi	Member	0	0	20	20	50 (50)	30 (30)
D. Völlmin	Member	730,000	780,000	20	20	230 (100)	210 (100)
K. Strecker	Member	2,500,000	2,500,000	20	20	50 (50)	30 (30)
E. Dubach Spiegler	Member	0	0	20	20	50 (50)	30 (30)
D. Greiner	Member	0	0	20	20	400 (100)	380 (100)
N. Jermann	Member	250,000	250,000	20	20	50 (50)	30 (30)
F. Mutschlechner	Member	0	0	20	20	140 (100)	120 (100)
S. Naef	Member	0	0	20	20	50 (50)	30 (30)
Total Board of Directors		3,480,000	5,280,000	180	180	1,020 (550)	1,220 (550)

¹⁾ Joined 1 August 2018

²⁾ Stepped down 30 June 2018

5 Loans and credits to members of the Executive Board and related parties

Name	Function	Loans and credits 31.12.2018	Loans and credits 31.12.2017
Jean-Daniel Neuenschwander ¹⁾	Member of the EB	1,491,862	1,499,685
Remaining members of the EB	Members of the EB	1,818,750	2,713,050
Total Executive Board		3,310,612	4,212,735

¹⁾ Maximum amount to a member of the Executive Board

6 Subscriptions of Kantonalbank certificates (in the business year) by members of the Executive Board and related parties

Name	Function	KBC subscribed in 2018	KBC subscribed in 2017	KBC total (blocked) 31.12.2018	KBC total (blocked) 31.12.2017
John Häfelfinger	CEO	50	50	100 (50)	50 (0)
Beat Oberlin ¹⁾	CEO	–	50	–	–
Daniel Brändlin ²⁾	Member of the EB	–	30	–	150 (150)
Herbert Kumbartzki	Member of the EB	30	35	195 (150)	215 (150)
Manuel Kunzelmann ³⁾	Member of the EB	15	0	15 (15)	0 (0)
Simon Leumann ⁴⁾	Member of the EB	30	30	–	222 (109)
Jean-Daniel Neuenschwander	Member of the EB	30	30	250 (150)	220 (156)
Beat Rötliisberger ³⁾	Member of the EB	15	0	15 (15)	0 (0)
Christoph Schär ⁵⁾	Member of the EB	0	–	17 (0)	–
Kaspar Schweizer	Member of the EB	30	35	556 (140)	526 (146)
Total Executive Board		200	260	1,148 (520)	1,383 (711)

¹⁾ Stepped down 30 April 2017

²⁾ Stepped down 31 December 2017

³⁾ Member of EB since 1 July 2017

⁴⁾ Stepped down from EB on 31 July 2017

⁵⁾ Joined 1 August 2018

Report of the statutory auditor on the financial statements



Ernst & Young Ltd
Aeschengraben 9
P.O. Box
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

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

Basel, 26 February 2019

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 64 to 106), for the year ended 31 December 2018.



Board of Directors' responsibility

The Bankrat (Board of Directors) is responsible for the preparation of the financial statements in accordance with the accounting rules for banks, the requirements of Swiss law and the law on Basellandschaftliche Kantonalbank. 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 2018 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law and the law on Basellandschaftliche Kantonalbank.



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 of loans to clients and measurement of value adjustments and provisions for default risks

Area of focus Loans to clients are presented in the financial statements in the position due from customers and mortgage loans and are recorded at nominal value net of individual value adjustments. The amount of the value adjustment is based on the difference between the book value of the claim and the recoverable amount. For loans to clients whose utilization is subject to frequent and high fluctuations (e.g. current account credits) value adjustments are built on the utilized amounts and provisions for default risk for not fully exhausted credit limits.

Judgment is applied in making assumptions on the individual amount of value adjustments and provisions for impaired loans, which can vary depending on the individual case.

As of 31 December 2018 loans to clients amount to CHF 20'162.5 mio. (equivalent to 79.6% of the total balance sheet of Basellandschaftliche Kantonalbank). Therefore, loans to clients and the measurement of value adjustments and provisions for default risks represent a key audit matter.

The bank describes its accounting and valuation principles concerning loans to clients, value adjustments and provisions for default risks on pages 75 and 76 of the annual report. For further information we refer to disclosure no. 2 and 16 in the notes to the financial statements.



Our audit response

Our procedures included the assessment of processes and controls in connection with the granting and monitoring of loans to clients as well as for the identification and measurement of value adjustments and provisions for default risks. We also performed valuation testing on individual loans to clients on a sample basis. We further evaluated the models and assumptions used in the calculation of individual value adjustments and provisions for default risks.

Further procedures included the assessment of the accounting and valuation principles used as well as the assessment of the disclosures in the notes to the financial statements. Our procedures did not lead to any reservations concerning loans to clients and the measurement of value adjustments and provisions for default risks.


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 law on Basellandschaftliche Kantonalbank. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Bruno Patusi
Licensed audit expert
(Auditor in charge)

Roman Sandmeier
Licensed audit expert

Anniversary Foundation of Basellandschaftliche Kantonalbank

(not audited)

2018
CHF2017
CHF

Balance sheet as at 31 December

	2018 CHF	2017 CHF
Assets		
Current assets		
Bank deposits	767,802	1,461,041
Outstanding withholding tax	52,923	52,997
Prepaid expenses and accrued income	14,416	10,746
Non-current assets		
Fixed-term deposits	3,000,000	3,000,000
Property	2,400,000	2,400,000
Total assets	6,235,142	6,924,784
Liabilities		
Debt capital		
Amounts earmarked	410,500	394,250
Other liabilities	8,023	8,436
Prepaid income	23,303	18,906
Mortgage	2,000,000	2,000,000
Provisions for property maintenance	14,220	610,259
Equity		
Foundation capital	3,000,000	3,000,000
Reserves	779,096	892,933
Total liabilities and equity	6,235,142	6,924,784
Income statement		
Income		
Allocation by the bank	500,000	500,000
Contributions not drawn	29,250	43,750
Interest on capital	151,208	151,420
Property income	7,318	49,058
Total income	687,776	744,228
Expense		
Approved contributions	792,000	884,800
Cost of Kantonalbank Prize	5,290	3,190
Other expenses	4,323	1,478
Total expenses	801,613	889,468
Profit/loss	-113,837	-145,240

Foundations

Vorsorgestiftung Sparen 3	Board of Trustees	Urs Hofmann, Chairman	
		Roman Hügli	
		Daniel Kern	
		Adrian Simmen	
		Bart Van Riemsdijk	
		Stéphane Curchod	
	Foundation Management	Cornelia Dürrenberger	
	Auditors	Ernst&Young AG, Basel	
	Vested Benefits Foundation	Board of Trustees	Urs Hofmann, Chairman
Roman Hügli			
Daniel Kern			
Adrian Simmen			
Bart Van Riemsdijk			
Stéphane Curchod			
Foundation Management		Cornelia Dürrenberger	
Auditors		Ernst&Young AG, Basel	
Anniversary Foundation		Board of Trustees	Erich Maeder, Dr., Chairman (until 31.12.2018)
	Nadine Jermann (Chairwoman from 1.1.2019)		
	Hanspeter Hauenstein (until 31.12.2018)		
	Doris Fellenstein Wirth, Dr. (from 1.1.2019)		
	Esther Freivogel		
	Gabriela Häner		
	Marco Di Pasquale		
	Foundation Management		Carole Kriesi
	Auditors		Ernst&Young AG, Basel
2014 Anniversary Foundation	Board of Trustees	John Häfelfinger, Chairman	
		Beat Röhliberger	
		Herbert Kumbartzki	
		Manuel Kunzelmann	
		Christoph Schär	
		Jean-Daniel Neuenschwander	
		Kaspar Schweizer	
		Foundation Management	Monika Dunant
		Auditors	Ernst&Young AG, Basel

Contact

Telephone

+41 61 925 94 94

Internet

blkb.ch

Address

Rheinstrasse 7, 4410 Liestal, Switzerland

Branches

Details of our branches, ATMs and Mobile Bank can be found at blkb.ch/niederlassungen.

Stay up to date

See our social media channels for all the latest news about our products and services, as well as our business performance.



Imprint

This Annual Report is a translation. In case of inconsistencies, the German original version prevails.

Overall responsibility, concept and text

BLKB Marketing, Communication & Branding

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Jonas Weibel, Zurich (cover); Daniel Infanger, Basel (pages 9; 40–44; 49–52)

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Contact

Media/Investor Relations, medien@blkb.ch, investoren@blkb.ch
Basellandschaftliche Kantonalbank, Rheinstrasse 7, 4410 Liestal, Switzerland

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