

## 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](http://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
<b>Fixed and variable compensation</b>						
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
<b>Fringe benefits</b>	N				D	P
<b>Pension scheme</b>	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.

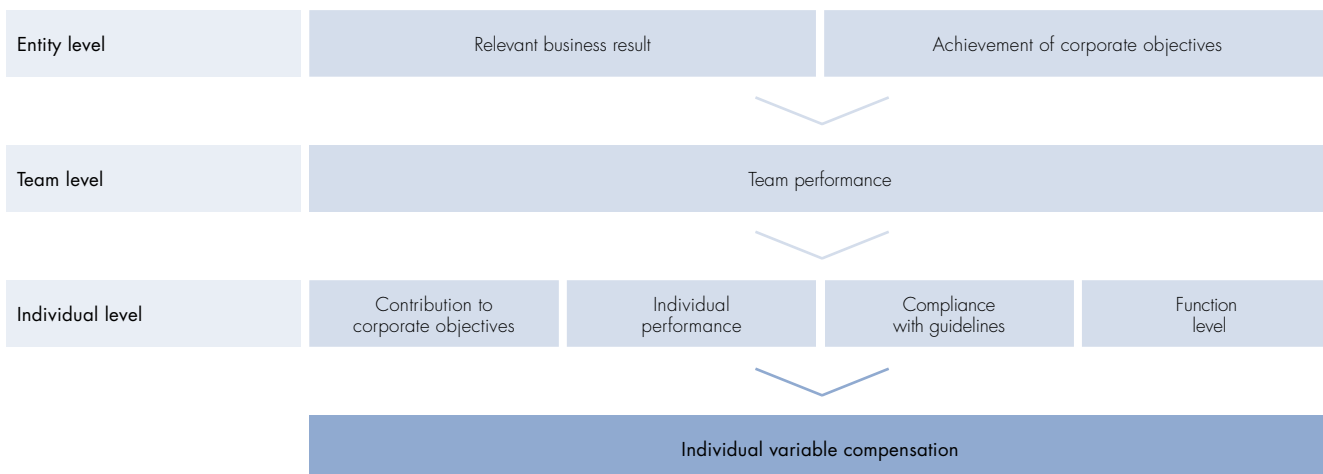
**Components of compensation**

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
<b>T. Schneider, Chairman<sup>1)</sup></b>								
2018	83,333	0	–	2,917	0	86,250	20,701	106,951
2017	–	–	–	–	–	–	–	–
<b>E. Schirmer, Chairwoman<sup>2)</sup></b>								
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
<b>A. Lauber, Deputy Chairman<sup>3)</sup></b>								
2018	55,000	0	–	2,000	0	57,000	0	57,000
2017 <sup>4)</sup>	55,000	0	–	2,000	0	57,000	0	57,000
<b>M. Primavesi<sup>5)</sup></b>								
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
<b>D. Völlmin<sup>6)</sup></b>								
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
<b>K. Strecker<sup>7)</sup></b>								
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
<b>E. Dubach Spiegler</b>								
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
<b>D. Greiner</b>								
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
<b>N. Jermann</b>								
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
<b>F. Mutschlechner</b>								
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
<b>S. Naef</b>								
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
<b>Total compensation</b>								
2018	885,833	0	–	31,717	41,400	958,950	80,215	1,039,165
2017 <sup>4)</sup>	900,000	0	–	32,300	41,399	973,699	63,901	1,037,600

<sup>1)</sup> Joined 1 August 2018<sup>2)</sup> Stepped down 30 June 2018<sup>3)</sup> The fee has been paid to the canton of Basel-Landschaft since 2016.<sup>4)</sup> Reclassification of TCHF 5 of expense allowances to fixed compensation<sup>5)</sup> Chairman of the ExC<sup>6)</sup> Chairman of the ARC<sup>7)</sup> 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 <sup>1)</sup>	Expense allowance	Value of discounted KBC purchase	Total compensation	Employer contributions to social insurance	Total expenses
<b>John Häfelfinger, CEO</b>								
2018 <sup>2)</sup>	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
<b>Rest of Executive Board<sup>3)</sup></b>								
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
<b>Total, Executive Board</b>								
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

<sup>1)</sup> Discounted Reka money, lunch allowance, company car

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

<sup>3)</sup> 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 Röhlißberger 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 Kantonallbank 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 Kantonallbank 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.