



14

Subject to constant change.

Annual report 2014.

At a glance

	2014 CHF m	2013 CHF m	2012 CHF m	2011 CHF m	2010 CHF m
Balance sheet					
Balance sheet total	21,751.3	20,522.9	19,241.1	18,741.9	17,119.8
Mortgage loans	16,709.0	15,973.3	15,009.7	14,393.8	13,696.6
Due to customers in savings and deposits	10,474.4	9,963.7	9,371.4	8,765.0	8,148.0
Income statement					
Net operating income	356.5	349.8	364.0	360.2	361.4
Gross profit ¹⁾	200.2	192.8	206.0	202.4	186.9
Annual net profit	115.8	112.3	111.9	109.0	108.9
Dividends on certificate capital	19.4	18.8	18.8	18.8	18.8
Profit distribution to the canton	42.0	40.0	40.0	40.0	40.0
Further details					
Personnel (head count)	750	777	773	767	749
Personnel (full-time equivalents)	636	657	654	658	642
Number of branches	24	25	25	25	27
Assets under management	13,999	13,390	12,862	12,489	12,369
Average interest margin	1.310%	1.330%	1.461%	1.528%	1.497%
Return on equity	9.03%	10.63%	10.82%	10.45%	11.11%
Cost-income ratio ¹⁾	43.83%	44.86%	43.40%	43.82%	43.35%
Kantonalbank Certificate					
Share price (CHF), end of year	895.50	930.50	1,110.00	1,300.00	1,280.00
Nominal value (CHF)	100.00	100.00	100.00	100.00	100.00
Dividend per certificate (CHF)	34.00	33.00	33.00	33.00	33.00
Market capitalisation ²⁾	1,943.2	2,019.2	2,408.7	2,821.0	2,777.6

¹⁾ 2010: key figure adjusted by provisions for IT migration

²⁾ Certificate and endowment capital

Highlights 2014.

200,247,455

Gross profit.

At an amount of CHF 200,247,455, the gross profit of 2014 was one of the best ever in BLKB's history.

43.8%

Cost-income ratio.

Cost-income ratio at 43.8 per cent lies at the lower end of the target range of 40 to 50 per cent.



+6.8 m income
-0.6 m costs

Income versus costs.

In 2014, income increased by CHF 6.8 m whereas costs declined by CHF 0.6 m.

15,400 m

Customer funds.

In 2014, customer funds deposited with us increased to a total of CHF 15,400 m which corresponds to a growth of 7.8 per cent.

9.03%

Return on equity.

At 9.03 per cent, return on equity is distinctly higher than that required by 10-year swap plus 3 per cent.

308,000

Efficiency.

BLKB recorded a gross profit of CHF 308,000 per employee. This makes us one of the most successful Cantonal Banks.

98%

Recommendation.

98 per cent of the employees answered in a survey that they would recommend BLKB as an employer.

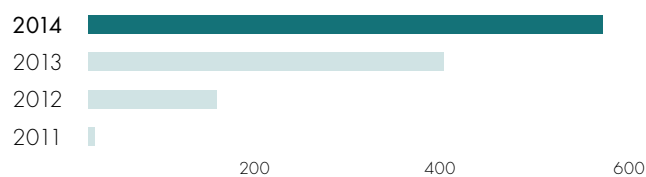


150th anniversary.

BLKB organised numerous events, competitions and activities for the public in order to celebrate its 150th anniversary.

E-mortgage.

In 2014, the loans of the e-mortgage offered in cooperation with Swissquote climbed well above the level of CHF 500 m.



169,124

E-invoices.

In 2014, customers settled 169,124 electronic invoices by means of BLKB's e-banking system.

Urs Baumann Othmar Cueni

Change in the Bankrat and the Executive Board.

In April 2014, Othmar Cueni, head of Private Customers stepped down from the Executive Board for reasons of age. In May 2014 and after eleven years of service for BLKB's Bankrat, Urs Baumann went into retirement.

Keeping an open mind.

2014 was a year that really put the values and the business model of Basellandschaftliche Kantonalbank to the test. The environment was marked by events giving rise to instability and insecurity – both on national and international levels. Some of the keywords are political destabilisation in the Near East and in Eastern Europe, the collapse of the oil prices, the substantial devaluation of the rouble, the DoJ-Program, Swiss banks being fined for millions, the adoption of the citizens' initiative on immigration, negative interest rates introduced by the Swiss National Bank, and the second anticyclical buffer for mortgage loans. All these factors have a rather unfavourable influence on the income situation of retail banks.

“We want to seize new opportunities and take an active part in shaping the changes.”

In 2014, in spite of this difficult general framework, we achieved the best results ever in BLKB's history with a gross profit of over CHF 200 m. At the same time, we managed to increase the income (CHF +6.8 m) and decrease costs (CHF –0.6 m). We reached or even exceeded our targets except for the extent of capital adequacy. The cost-income ratio, for example, at 43.8 per cent, is at the lower end of the target range of 40–50 per cent. The return on equity at 9.03 per cent is distinctly higher than the requirements of Swap plus 3 per cent. Capital adequacy, however, at a coverage ratio of 211 per cent has not reached the medium-term target of 250 per cent yet. Achieving this result has become much more difficult with the introduction of the two anticyclical buffers.

Digitalisation of communication technologies is continually developing and has a great impact on the behaviour of our customers – not only in the consumer goods industry. Banks are faced with a completely new type of competition. Apple developed a payment system of its own, payments from mobile phone to mobile phone are now being used, crowdfunding is a practice which opens up a whole range of possibilities in sponsoring and lending.

These developments are taking place outside our primary business sector but they have a noticeable effect on our business and our business model. Switzerland and the region of the Baselpbiet are no islands anymore in this world of open-border digitalisation. We have to analyse the national and international developments, come up with adequate responses and the proper actions. The motto of our guiding principles is “successful participation in shaping the future”. This is exactly what we are doing and what we did in 2014. One of the prerequisites is an open mind. We can't afford to seclude ourselves in the fictitious retreat of beautiful landscapes and harmony as described in our homeland songs – simply because such a retreat does not exist anymore. We want to seize new opportunities, participate proactively in the shaping of the changes to come – wherever it is possible and wherever it makes sense for our purposes.

We are well aware of the fact that nothing is as consistent as change. However, it is just as important that we remain consistent within the change. Our determination to stick to the business we understand will remain the same in the future, and our actions will always be based on the principles of sustainability. This means we are and remain predictable, for our customers, for our partners and suppliers, and quite logically also for our employees.



Elisabeth Schirmer-Mosset Chairwoman of the Board of Directors, Dr. Beat Oberlin Chairman of the Executive Board

Employee satisfaction remains high in times of changes

These changes are a big challenge for our employees, too: additional days of further training, new working processes, new distribution of tasks, new responsibilities. Our employees have to keep an open mind towards changes and new ideas. During this challenging period, we conducted a broad survey on employee opinion. The results give an impressive proof of our excellent corporate culture and the readiness of our employees to participate in and co-shape the changes.

87 per cent of our employees participated in the 2014 survey. That's a new high. The results go to prove that the commitment of our employees towards BLKB, at a score of 84 out of 100, is outstandingly high, particularly during this period of transformation. General satisfaction is at a high level of 75 per cent. And: 98 per cent of our employees would recommend the bank as an employer to friends.

Being innovative

Innovation plays a central part in the success of changes. In the year under review, the Innovation Factory of BLKB took up its work. Its task is to promote the innovation process within the bank on an on-going level. Keeping an open mind towards developments within the bank and outside is essential for the sustained success of BLKB. In 2011, we were the first bank in Switzerland to launch an online mortgage. Our partner for the project is Swissquote. In the reporting year, we used this channel to finance loans of roughly CHF 500 m in the whole of Switzerland.

In 2014, we were the first bank to introduce an earthquake insurance for our mortgages. The region of Basel is the area of Switzerland with an above-average earthquake risk. The earthquake of 1356 was one of the strongest tremors in Europe. Since October 2014, mortgagees of BLKB have been profiting

free of charge from an insurance covering damage up to the value of the building insurance whereby we cover damage up to the intensity of the historic earthquake of 1356. It's not only the mortgagees who profit from this insurance. It significantly reduces one of the greatest risks BLKB is confronted with and therefore also reduces the risk for the owner of BLKB, the Canton of Basel-Landschaft. The insurance covers the biggest part of BLKB's mortgage portfolio.

Another pioneering feat in the Swiss banking market was the launch of the crowdfunding platform miteinandererfolgreich.ch in the fourth quarter of the year under review. Reacting to the current development, we set up the crowdfunding-marketplace thus establishing our position in a growing market. More and more often, traditional banking activities are being handled by way of electronic platforms dealing directly with private or corporate customers. Our partner in crowdfunding is Swisscom because, whenever it is possible, we pursue our strategy of co-operating with partners who are the number one in the market.

We are giving expert e-advice on the use of electronic channels in order to improve and expand their use. This is why we also offer comprehensive telephone support at a very flexible timetable including the necessary contents at www.blkb.ch/e-beratung.

It goes without saying that we keep cooperating intensively with our partners within and outside the banking sector in order to conceive and launch novel services for our customers.

Shaping the future

We are eager to accept the challenges of a digitalised world and a changed customer behaviour as we consider this development to be a big chance for BLKB. Under the heading of "Futuro" we laid the foundations for a reorganisation of our

bank, thereby putting customer behaviour at its centre. It is our ambition to work out products and services which are perfectly adapted to the wishes of our customers so as to be able to offer them exactly what they need. And we want to offer these products and services on the very channels the customers prefer. This sounds quite common-place, however, if access to the bank is to be made possible by way of personal advisor, branch, telephone, PC, tablet or smartphone, there are considerable internal changes to be accomplished. In the past year, we started to implement the required organisational modifications for "Futuro". The transformation of our telephone service centre into a qualified customer centre and the expansion of the electronic channels are top of the agenda. The continual standardisation of processes will further improve the quality, and customer concerns can be dealt with speedily beyond the regular opening hours of our branches. In 2015, the project "Futuro" is supposed to be largely completed.

Firm roots

Our declared aim for the future is to maintain our capacity to act. Therefore, we need the appropriate financial means in order to seize opportunities in the market. Thanks to its favourable capital resources, BLKB can do so with a strong set of cards in its hands. The easiest way to promote the capacity to act is to have little or no preoccupation with the past. This means we have to comply strictly with national and international rules so as not to come into the focus of authorities or the media. It also means that we have to safeguard our sound capital backing which enables us any time to profit from the opportunities the market is offering.

The ownership strategy which was adopted by the Canton of Basel-Landschaft offers us a sound basis for that purpose. The strategy says: "BLKB is to keep sufficient reserves beyond the compliance with capital adequacy requirements in order to

have enough freedom of action in their business activities at any given moment.

Good governance

Good governance holds a key position for a successful future. Starting from mid-2015, a new Bankrat (Board of Directors) will take up the highest responsibility of BLKB. Bankrat members will be appointed on the basis of a public tender which details the required qualifications and standards thus ensuring a qualified and independent panel.

"Thanks to its favourable capital resources, BLKB has a strong set of cards in its hands."

The implementation of a comprehensive strategy of taxed assets is also part of good governance. We have already defined and implemented this strategy in the dealings with our foreign customers. We abandoned all customers domiciled in the USA and comply strictly with the existing rules on US persons. Sticking to this rigorous policy prevents us from having to participate in the Department of Justice Program (DoJ).

Other customers domiciled outside of Switzerland, with two exemptions, have the option of a customer account. The only customers we are keeping a securities account for are those living in Germany or France. The reason is that quite a number of these customers are working in the area and have strong ties to the canton and to our bank.

In Switzerland, too, we make sure that we only keep accounts for customers paying taxes on their funds. If there is anything suggesting incorrect taxation, we make extensive clarifications and take the required steps.

“In 2015, we want to remain
a predictable sparring
partner for our private and
corporate customers.”

Dealing with retrocession is one of the big challenges. The Federal Supreme Court of Switzerland set up new regulations concerning the asset management business detailing this kind of compensation for distribution and consultancy expenses of banks. In mid-year, we completed the existing model on securities accounts with a new model. All our customers with securities accounts were given the choice of remaining in the old model or of changing to a securities account plus (Depot plus). The securities account contains the whole range of services pertaining to securities accounts and advisory services for a fixed annual fee based on percentage. Any applicable retrocession payments are fully passed on to the customer.

The look ahead

2015 will be another demanding year. The global situation of instability, increasing regulation and low interest rates are all placing high demands on our bank. The Swiss National Bank created a new challenging situation with its move to abandon its long-standing cap against the euro and to exacerbate the negative interest rates in January 2015. The impact cannot be assessed yet, however, we want to remain a predictable sparring partner for our private and corporate customers in 2015.

Nevertheless, we are sure that the new alignment of our bank will bear fruit. Under these circumstances we are expecting a result slightly lower than that of the previous year.



Elisabeth Schirmer-Mosset
Chairwoman of the
Board of Directors



Dr. Beat Oberlin
Chairman of the
Executive Board

Fit in the economic cycle.

In 2014, in a demanding environment, Basellandschaftliche Kantonalbank (BLKB) recorded further growth. Gross profit at CHF 200.2 m is 3.8 per cent above the previous year. The annual profit increased by 3.1 per cent to CHF 115.8 m.

The bank was able to reach or exceed almost all the goals set by the Board of Directors (Bankrat). Cost-income ratio at 43.8 per cent lies at the lower end of the targeted range of 40–50 per cent, and at 9.0 per cent, return on equity has distinctly exceeded the objective of ten-year swaps + 3 per cent.

High efficiency

BLKB's high efficiency is reflected in the gross profit per employee which is at an outstanding CHF 308,000.

Uninterrupted inflow of net new money and further growth of savings deposits

In spite of the consistent implementation of the strategy of taxed assets, net new money amounted to CHF 202 m. Customer funds grew by 7.8 per cent to a total of CHF 15,400 m.

Increase in mortgages and credit limits to corporate customers

Mortgage-loans went up by 4.6 per cent to CHF 16,700 m. Commercial credit limits, including the public sector, grew by 2.3 per cent to CHF 5,900 m. The quality of BLKB's credit portfolio is clearly shown in the low levels of value adjustments and provisions of CHF 3 m.

Growth in the interest-related business

Income from the interest-related business is 3.4 per cent higher than in the previous year and amounts to CHF 269 m. Thereby, we profited from the consistent use of opportunities in the balance sheet management and the optimised pricing policy.

Slight increase in the net fee and commission business

Income from the net fee and commission business went slightly up by 0.5 per cent to CHF 65.9 m.

Increase in the trading business

Income from the trading business, which at BLKB consists almost exclusively in customer trading, also increased by 2.5 per cent to CHF 15.0 m.

Net operating income up

Net operating income went up by 1.9 per cent to CHF 356.5 m.

Costs stable

In 2014 too, cost discipline was high on the agenda. Net operating expenses decreased by 0.4 per cent to CHF 156.3 m. Personnel expenses remained stable at CHF 100.3 m (+0.7%). In spite of considerable investments in the way of digital technology, the other operating expenses declined by 2.4 per cent to CHF 56.0 m.

Higher interim result

The interim result increased by 2.1 per cent to CHF 175.5 m.

Dividend payment stable

Dividend per Kantonalbank Certificate in BLKB's anniversary year was CHF 34.– (CHF +1.–), the profit share of the canton went up by CHF 2 m to CHF 42 m. Compensation to the canton for the state guarantee amounted to CHF 8.5 m. The bank distributed a total of CHF 54 m to the canton.

Annual profit up

The annual profit at CHF 115.8 m is 3.1 per cent above that of the previous year.

Checks and balances in harmony.

Basellandschaftliche Kantonalbank is a company under public law, independent of state administration. The legal basis is formed by the following cantonal laws:

- Cantonal Law on Kantonalbank of 24 June 2004, in force since 1 January 2005 (Systematische Gesetzessammlung des Kantons Basel-Landschaft SGS 371).
- Decree on the determination of certificate and endowment capital of Basellandschaftliche Kantonalbank of 23 June 2005, in force since September 2005 (SGS 371.1).
- Ordinance on the Cantonal Law on Kantonalbank of 14 December 2004, in force since 1 January 2005 (SGS 371.11).
- Rules on the issuance of Kantonalbank Certificates of 26 October 2009, in force since 1 January 2010.

On the basis of the Cantonal Law on Kantonalbank of 24 June 2004, the Board of Directors (Bankrat) of Basellandschaftliche Kantonalbank passed several rules.

The enactments mentioned below are posted on the Internet (blkb.ch/rechtsgrundlagen).

- Rules of procedure and organisation of 1 July 2011, in force since 1 July 2011.
- Rules on the issuance of Kantonalbank Certificates of 26 October 2009, in force since 1 January 2010.
- Rules on the Executive Committee of 1 July 2011, in force since 1 July 2011.
- Rules on the Audit and Risk Committee of 31 August 2009, in force since 1 January 2010.
- Rules on the Human Resources and Organization Committee of 1 July 2011, in force since 1 July 2011.
- Rules on Controlling of 31 August 2009, in force since 1 January 2010.
- Rules on Risk Control of 31 August 2009, in force since 1 January 2010.

- Rules on Compliance Function of 31 August 2009, in force since 1 January 2010.
- Rules on the Compensation Scheme of 23 June 2010, revised on 18 January 2012 and 21 May 2014, in force (with retroactive effect) since 1 January 2014.

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

Art. 1 Company and Head Office

- ¹ “Basellandschaftliche Kantonalbank” in the following called the “bank” is a bank with its head office in Liestal.
- ² The bank may set up branches or establish subsidiaries or participate in other companies.

Art. 2 Purpose

- ¹ The bank offers all the services of a universal bank.
- ² The bank serves the purpose of contributing, within the framework of competition and its own financial means, to a balanced development of the canton and the region of north-western Switzerland.

Art. 3 Legal Form

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

Art. 4 State Guarantee

- ¹ The canton guarantees for the liabilities of the bank, in the case of the bank’s own means not being sufficient.
- ² The bank compensates the canton for the state guarantee. Payment is calculated according to the risk amount and the probability of non-payment.

Details are set down in the ordinance.

Below, the terms "Regierungsrat" and "Landrat" are being used repeatedly.

- Regierungsrat is the executive body of the Canton of Basel-Landschaft, elected by the people.
- Landrat is the legislative body of the Canton of Basel-Landschaft, elected by the people.

The following notes are structured along the "Directive on Information Relating to Corporate Governance" (DCG), issued by the SIX Swiss Exchange in the version being valid on 1 October 2014. For reasons of clarity, subtitles may be combined with a relevant remark. In cases of facts not being applicable or relevant for Basellandschaftliche Kantonalbank, this will be indicated explicitly.

As of closing date of 31 December 2014, there have not been any essential changes.

1 STRUCTURE AND SHAREHOLDERS

1.1 Structure

1.1.1 Description of the operational structure

Basellandschaftliche Kantonalbank restricts its market presence on the region of Basel focusing thereby on the Canton of Basel-Landschaft where it operates, at a total of 23 locations, retail banking, private banking (at four locations) credit and investment business for private customers as well as financing solutions for corporate customers. Additional locations are being served by a mobile bank. Bank authorities of Basellandschaftliche Kantonalbank are the Bankrat (Board of Directors) of Basellandschaftliche Kantonalbank, the chairperson of the Board of Directors, the three Bankrat committees "Executive Committee", "Audit and Risk Committee", "Human Resources and Organization Committee", and the Executive Board. Responsibilities and competencies of the different bodies are detailed below, in items 3 (Bankrat) and 4 (Executive Board).

1.1.2 Listing:

Company: Basellandschaftliche Kantonalbank (BLKB)
Registered office: Liestal

Listed in: Zurich, SIX Swiss Exchange AG

Market capitalisation:

- Market capitalisation of Kantonalbank Certificates (570,000 at a nominal value of CHF 100.–) at year-end rate of CHF 895.50: CHF 510.4 m.
- Market capitalisation of endowment capital of CHF 160 m assuming an analogous valuation: CHF 1,432.8 m.
- Total market capitalisation (Kantonalbank Certificates and endowment capital): CHF 1,943.2 m.

Percentage of shares of group companies: none

Securities identification number: 147.355

ISIN number: CH0001473559

1.2 Significant shareholders

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

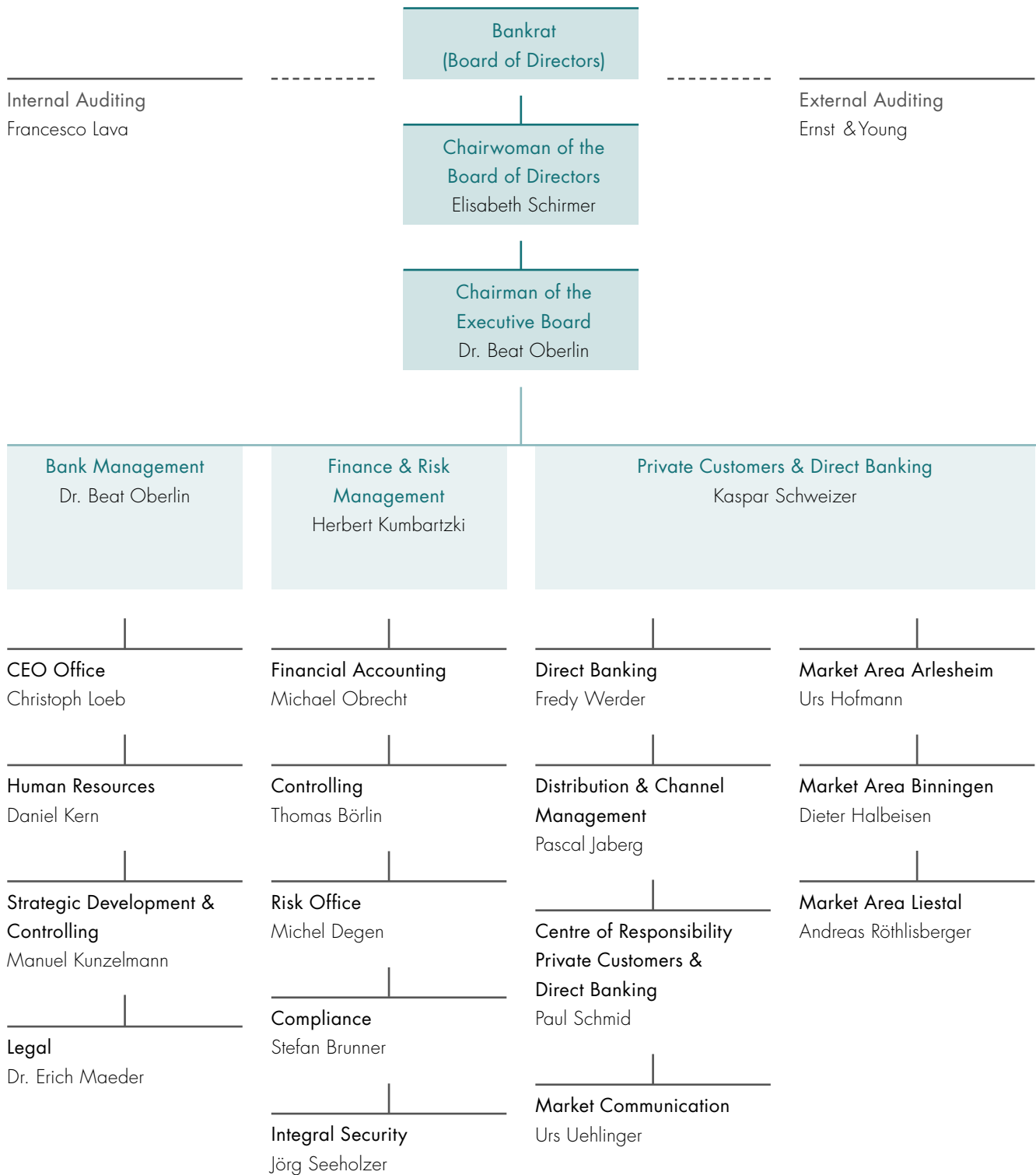
1.3 Cross-shareholdings

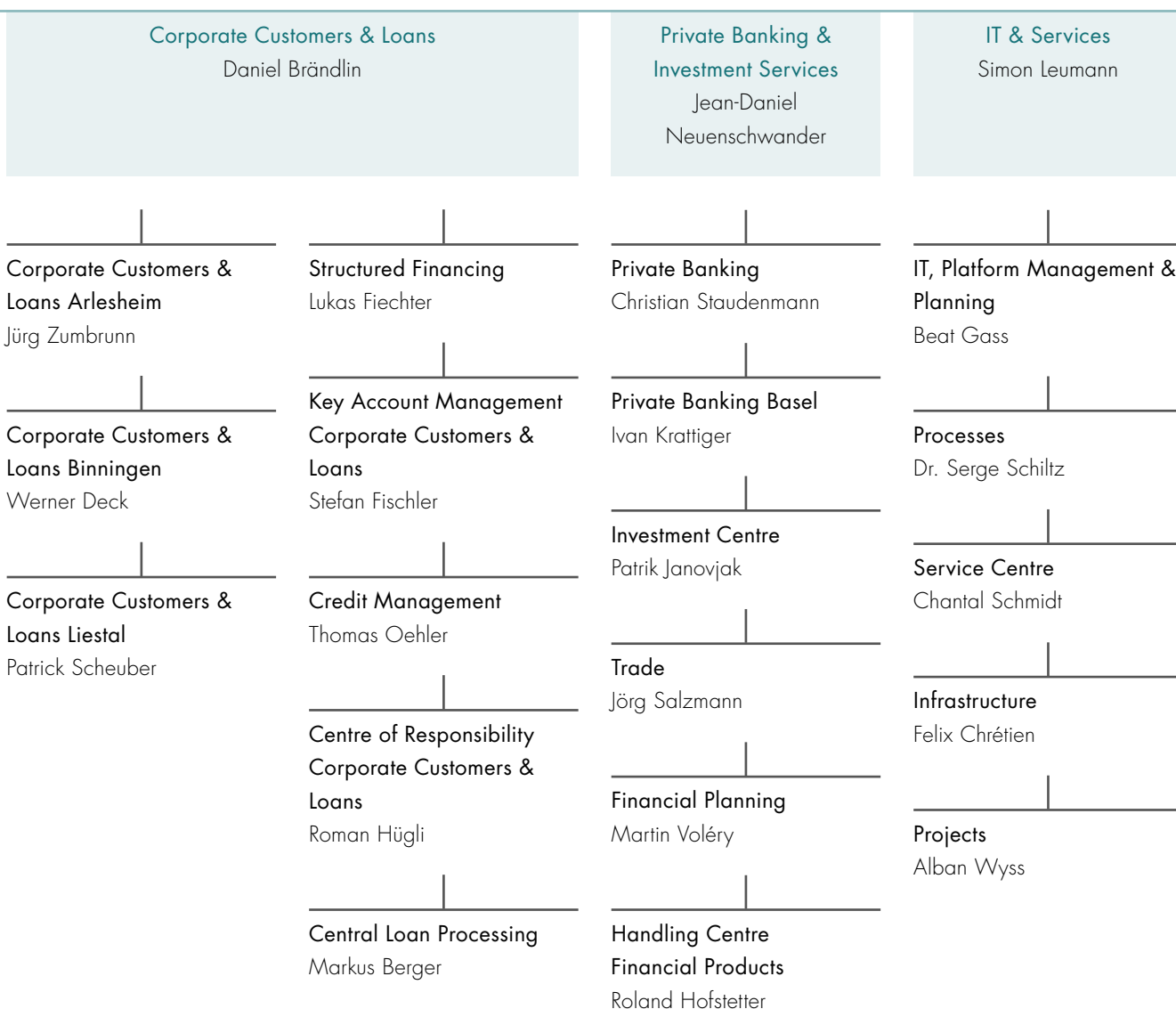
There are no cross-shareholdings.

2 CAPITAL STRUCTURE

2.1 Capital

The original capital of the bank consists of the endowment capital of the canton and the certificate capital (the term "certificate" corresponds to participation certificate and the term "certificate capital" to non-voting share capital in other companies). According to art. 5, section 2 of the Cantonal Law on Kantonalbank, the Landrat is responsible for changes of the endowment capital, whereas responsibility for the issuance of





certificates, according to section 3 of the said law, lies with the bank.

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

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

2.2 Conditional and authorised capital in particular

The legislative body (Landrat) may create authorised capital upon request by the executive body (Regierungsrat). Within this framework, Bankrat may raise the certificate capital and Regierungsrat may raise the endowment capital. As per 31 December 2014, there is neither conditional nor authorised capital.

2.3 Changes in capital

In the year 2008, the certificate capital of CHF 80 m was reduced to CHF 57 m.

2.4 Shares and participation certificates

The certificate capital amounts to CHF 57 m and is broken down into 570,000 bearer certificates of CHF 100.– nominal value (see item 2.1 above).

Certificates entitle the holder to dividend payments, subscription rights and to a proportional share of potential liquidation proceeds.

Certificates do not entitle the holder to exercise any participation rights such as the right to vote, object or challenge. The

Board of Directors and the Executive Board may invite bearers of certificates to meetings in order to inform them of the course of the bank's business. These meetings are purely informative; resolutions cannot be passed (Cantonal Law on Kantonbank art. 5, section 3; rules on the issuance of Kantonbank certificates and arts. 8 and 9); (blkb.ch/rechtsgrundlagen).

2.5 Dividend-right certificates

There are no dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

There is non-voting share capital only (see item 2.4); consequently nominee registrations are not possible. There are no limitations as to transferability of certificates.

Due to this particular legal form the following rules of DCG are not applicable:

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

2.6.2 Reasons for granting exceptions in the year under review

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

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

2.7 Convertible bonds and options

There are no outstanding convertible bonds and options.

3 BANKRAT (BOARD OF DIRECTORS)

The Cantonal Law on Kantonalbank (blkb.ch/rechtsgrundlagen) uses the term "Bankrat". The following explanations on item 3 "Board of Directors" refer to the Bankrat of Basellandschaftliche Kantonalbank.

3.1 and **3.2** combine: education and professional career (3.1) as well as other activities and vested interests (3.2). All members of the Bankrat are Swiss citizens. All members of the Bankrat are non-executive; they do not exercise any operational management tasks at BLKB. No member of Bankrat performs any relevant advisory or other services for BLKB.

In line with the FINMA circular 2008/24 "Supervision and internal control", at least one third of the Bankrat should consist of members meeting the requirements of independence as stated by margin no. 20 ff. FINMA circular 2008/24. With the exception of Anton Lauber who, as a member of the Regierungsrat of the Canton of Basel-Landschaft, does not meet the criteria (margin no. 25 f. FINMA circular 2008/24), all the other members of Bankrat are considered independent in accordance with the principles of the said circular.

The following overview of Bankrat members also contains information on their first election and the remaining term of office, which is again listed in a table in item 3.3.2.

01

Elisabeth Schirmer-Mosset. Born in 1958. Chairwoman of the Board of Directors (Bankrat) and chairwoman of the Executive Committee. Member of the Human Resources and Organization Committee. First election: 2000; current term of office 1-7-2011 to 30-6-2015. Lic. rer. pol. (university degree in economics). Co-owner of Ronda AG, Lausen; member of the Board of Directors and the Executive Board; chairwoman

of Personalvorsorgestiftung Ronda, Lausen; chairwoman of Stiftung Oase, Liestal. Business connections with BLKB.

02

Anton Lauber. Born in 1961. Vice-chairman of the Board of Directors. First election: 2013; current term of office: 1-7-2013 to 30-6-2015. Dr. jur., solicitor. Independent lawyer from 1997 to 2013. Member of the Regierungsrat of the Canton of Basel-Landschaft since 1-7-2013, head of the cantonal department of Finance and Churches. Member of: administrative commission of Basellandschaftliche Gebäudeversicherung (house insurance, chm), Basellandschaftliche Pensionskasse (pension fund, chm of the board of directors on behalf of employers), member of the board of ARA Rhein, Pratteln, member of the supervisory commission of Sozialversicherungsanstalt BL (social insurance, chm), member of the Diocesan Conference of the Roman Catholic Diocese of Basel, chairman of the Administrative Commission of Handschinstiftung, member of the cooperative of Friends of Landhus, Allschwil.

03

Doris Greiner. Born in 1977. Deputy chairwoman of the Audit and Risk Committee. First election: 2002; current term of office 1-7-2011 to 30-6-2015. Swiss certified public accountant. Lic. phil. (university degree in psychology, subsidiary subjects: economics/business administration and state/private law), BA in Business and Economics.

04

Wilhelm Hansen. Born in 1953. Member of the Audit and Risk Committee. First election: 2007; current term of office: 1-7-2011 to 30-6-2015. Lic. rer. pol. (university degree in economics); independent management consultant. Board member of: Scobag Privatbank AG, Basel (v-chm); Mobimo Holding AG, Lucerne; Sugro Holding AG, Reinach; Kantonsspital Baselland,



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Liestal; Psychiatrie Baselland, Liestal. Chairman of Personalvorsorgestiftung Scobag Privatbank AG, Basel.

05

Claude Janiak. Born in 1948. Deputy chairman of the Human Resources and Organization Committee. First election: 1991; current term of office 1-7-2011 to 30-6-2015. Dr. jur. (doctorate in law). Solicitor, independent lawyer since 1978 (at Janiak, Freivogel, Schweighauser, von Wartburg, Aeschlimann, Maier, Binningen). Board member of: Peter Reichenstein AG, Pratteln; St. Claraspital AG, Basel (v-chm). Member of the National Council. Chairman of the Cultural Foundation of Basellandschaftliche Kantonalbank until 31-12-2014. Business connections with BLKB.

06

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

07

Daniel Schenk. Born in 1952. Deputy chairman of the Executive Committee. First election: 2000; current term of office 1-7-2011 to 30-6-2015. Lic. rer. pol. (university degree in economics). Executive positions in international industrial group. Owner and CEO of van Baerle AG, Münchenstein since 1997. Board member of: van Baerle AG, Münchenstein; Sichem Holding AG, Zug; Häring & Cie. AG, Pratteln; Elektra Birseck (EBM), Münchenstein; EBM Trirhena AG, Münchenstein. Vice chairman of Handelskammer beider Basel (Chamber of Commerce); chairman of Stiftung van Baerle, Münchenstein; member of Wohlfahrtsstiftung EBM, Münchenstein. Business connections with BLKB.

08

Hans Ulrich Schudel. Born in 1951. Chairman of the Human Resources and Organization Committee. First election: 1998; current term of office 1-7-2011 to 30-6-2015. Lic. jur. (university degree in law). Solicitor and mediator of the Swiss Bar Association; independent lawyer since 1981, offices in Basel and Bottmingen. Board member of: Pico Vorsorge AG, Basel; Assubera AG, Basel; acting administrator of Fürsorgefonds Confidia in liquidation, Binningen; chairman of Stiftung Volkshochschule und Senioren-Universität beider Basel; vice-chairman of the Swiss Foundation for Solidarity in Tourism, chairman and liquidator of Stiftung Johanneshaus, Oberwil. Business connections with BLKB.

09

Andreas Spindler. Born in 1968. Member of the Audit and Risk Committee. First election: 2011; current term of office: 1-7-2011 to 30-6-2015. Municipal council in Aesch, BL. Head of Finance. Board member and CEO of OKC AG, Aesch. Business connections with BLKB.

10

Dieter Völlmin. Born 1956. Chairman of the Audit and Risk Committee. First election: 2007; current term of office: 1-7-2011 to 30-6-2015. Dr. iur. Solicitor, independent lawyer in Muttenz since 1988. Board member of: Herrenknecht Schweiz Holding AG, Altdorf; Herrenknecht (Schweiz) AG, Amsteg; Psychiatrie Baselland, Liestal. Chairman of the cantonal taxation commission. Business connections with BLKB.

11

Urs Baumann. Born in 1949. Member of the Executive Committee. First election 2003. Resignation as per 14-05-2014. BBA. Board member of: Ad. Stebler-Gyr AG, Nunningen (chm); Asphaltierung Nordwest AG, Basel (chm); Autogesell-

schaft Sissach-Eptingen AG, Eptingen (chm); BG Treuhand AG, Basel (chm); Böhi + Wirz AG, Liestal (chm); Gysin Asiko AG, Bökten (chm); Hasbo AG, Therwil (chm); Heime auf Berg AG, Seltisberg (chm); Luigi Mazzotti AG, Basel (chm); Möbel Rösch AG, Basel; Neonwidmer AG Werbeanlagen, Aesch; Neonwidmer AG Immobilien, Aesch; Nimeg AG, Reinach, BL (single board member); Recchiuto Gipser AG, Basel (chm); Ringo Türen AG, Aesch (chm); Rudolf Wirz Strassen- und Tiefbau AG, Liestal (chm); Swissterminal AG, Frenkendorf; Swissterminal Holding AG, Frenkendorf; Urs Baumann & Partner AG (single board member), Reinach. Additional positions: CEO and partner of: Alenco GmbH, Reinach; Take One GmbH, Reinach; CEO of Turner & Townsend Schweiz GmbH, Reinach; Delegate of Milchhändlerverband (association of dairy trade), Basel-Stadt and Baselland, Basel; Verein Basler Lehrlingsheim, Basel, liquidator; Aussenstelle Nordwestschweiz der BG Mitte, Bürgschaftsgenossenschaft für KMU, Burgdorf; member of Landrat (until 30-6-2003), member of Gemeinderat (municipal council) of Reinach (until 30-6-2004). Business connections with BLKB.

3.3 Elections and terms of office

3.3.1 Principles of election procedures

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

Art. 10 Cantonal Law on Kantonalkbank

“The Bankrat consists of nine to eleven members. One member of the Regierungsrat is also a member of the Bankrat. All members of the Board of Directors (Bankrat) are elected by the Landrat upon proposal by the Regierungsrat. The Landrat is bound to the election proposals.”

Based on these provisions, the members of the Board of Directors are elected in globo. Furthermore, the law lays

down material criteria for the election into the Bankrat which were detailed by the executive body in the Ordinance on the Cantonal Law on Kantonalkbank (blkb.ch/rechtsgrundlagen). The Board of Directors is self-constituting. Membership ends at age 70. The current term of office for all members of the Board of Directors (Bankrat) started on 1 July 2011 and will end on 30 June 2015.

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

Elisabeth Schirmer-Mosset */***		
Chairwoman	2000	to 30-6-2015
Anton Lauber		
Vice-chairman	2013	to 30-6-2013
Claude Janiak ***	1991	to 30-6-2015
Hans Ulrich Schudel ***	1998	to 30-6-2015
Daniel Schenk *	2000	to 30-6-2015
Doris Greiner **	2002	to 30-6-2015
Urs Baumann *	2003	Resigned as per 14-5-2015
Wilhelm Hansen **	2007	to 30-6-2015
Dieter Völlmin **	2007	to 30-6-2015
Frenk Mutschlechner *	2011	to 30-6-2015
Andreas Spindler **	2011	to 30-6-2015

* Member of the Executive Committee ** Member of the Audit and Risk Committee
*** Member of the Human Resources and Organization Committee

3.4 Internal organisation

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

Chairwoman: Elisabeth Schirmer-Mosset

Vice-chairman: Anton Lauber

3.4.2 Composition of Bankrat committees, tasks and areas of responsibility

Executive Committee (ExC)

Members of the Executive Committee are: Elisabeth Schirmer-Mosset (chairwoman), Daniel Schenk (deputy chairman), Urs Baumann (until 14-5-2014), and Frenk Mutschlechner. Organisation, responsibilities and tasks of the Executive Committee are detailed in the rules on the Executive Committee.

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

The Executive Committee examines developments in the banking environment on a regular basis and critically assesses business policy and strategic alignment of the bank. The committee proposes adjustments for the attention of the Bankrat concerning the normative disposition of the bank. In cooperation with the Audit and Risk Committee it analyses annual or multi-year

planning, budgeting, reporting on the course of affairs, as well as the economic and financial situation of the bank.

The Executive Committee prepares the requests made by the Executive Board to the Bankrat and formulates a recommendation, for example in the assessment of cooperation and alliances, the evaluation of acquisitions and participations, activities in new fields of business, expansion into new market areas and the choice of the IT platform. The Executive Committee does not take any operational decisions with the exception of loans and exposures to members of the bank's governing bodies and lending activities relevant to the bank's reputation.

The rules on the Executive Committee are posted on the Internet (blkb.ch/executive-committee).

Audit and Risk Committee (ARC)

Members of the Audit and Risk Committee are: Dieter Völlmin (chairman), Doris Greiner (deputy chairwoman), Wilhelm Hansen and Andreas Spindler.

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

The Audit and Risk Committee, among other things, evaluates the efficacy of the auditing company, the internal auditing and the bank's internal control. It regularly evaluates the adequacy of implementation of the regulatory framework with respect to the complexity of the bank and its risk profile. If necessary, it

sees to the implementation of relevant measures. The Audit and Risk Committee decides whether acceptance of the annual financial statements is to be recommended to the Bankrat.

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

Human Resources and Organization Committee (HROC)

Members of the Human Resources and Organization Committee are: Hans-Ulrich Schudel (chairman), Claude Janiak (deputy chairman) and Elisabeth Schirmer-Mosset.

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

Members of the Human Resources and Organization Committee keep up, in theory and practice, with the development of the banking environment and personnel and pension fund matters.

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

Among other duties, the members of the Human Resources and Organization Committee prepare personnel matters the Board of Directors (Bankrat) has to deal with, as well as check the usefulness and compliance of personnel policy and personnel

planning with corporate policy and strategic alignment of the bank. They treat all personnel and organisational issues of the Bankrat in cooperation with the Executive Board and internal or external experts. On behalf of the Bankrat, the members of the Human Resources and Organization Committee also formulate principles and practice for the selection of the members of Bankrat and its committees.

In accordance with the chairperson of the Executive Board, the Human Resources and Organization Committee evaluates the personnel policy of the bank, adopts the rules and procedures on salaries and pensions for the attention of the Bankrat, elects the members of any necessary group panels, evaluates and proposes suitable candidates for the election into the Executive Board. It regularly checks on the efficacy of the bank's internal organisational structures.

The Human Resources and Organization Committee is responsible for the compensation policy, compensation practice and personnel pension plans, and the compensation guidelines for Bankrat members and Bankrat committees. It is also responsible for the compensation policy concerning the chairperson and the members of the Executive Board, the evaluation of participation plans or certificates for employees and the bank's overall compensation policy. It applies to the Board of Directors (Bankrat) for the latter's compensation.

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

3.4.3 Work methods of the Board of Directors and its committees

The Bankrat (Board of Directors) is the governing and controlling body of the bank. It convenes upon invitation by the

chairwoman of the Board of Directors as often as is required by the course of business. Bankrat meetings may be requested by three members of the Bankrat, the Executive Board or the auditors. In the period under review, the Board of Directors held nine meetings and a two-day meeting behind closed doors. Meetings lasted for an average of three to four hours.

Bankrat meetings are usually attended by the Executive Board upon invitation by the chairwoman of the Board of Directors. Meetings dealing with the balance of accounts and the report of the external auditing are always attended by the head of the internal auditing and the auditor in charge of the external auditors. For specific topics, further internal and external experts are invited to the meetings.

In general, the Board of Directors (Bankrat) makes its decisions on the basis of a written presentment prepared by the Executive Board and/or preliminarily discussed by the Executive Committee, the Audit and Risk Committee or the Human Resources and Organization Committee.

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

In the reporting year, the Executive Committee held six meetings, the Audit and Risk Committee seven and the Human Resources and Organization Committee six. Rules stipulate a minimum of one quarterly meeting for each of the three committees. On average, meetings of the above-mentioned committees lasted three to four hours.

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

3.5 Definition of areas of responsibility

Responsibilities of the individual panels and their interactions are regulated in detail in the regulation framework mentioned earlier (blkb.ch/rechtsgrundlagen).

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

Internal auditing: internal auditing acts independently of the Executive Board and follows the instructions of the chairwoman of the Board of Directors (Bankrat). The head of internal auditing is answerable to the chairwoman of Bankrat and reports to her directly. Internal auditing is conducted in accordance with recognised auditing standards; the head of internal auditing and his/her collaborators are qualified auditors. Auditing reports and management letters are discussed in detail by the Audit and Risk Committee.

Calls by Bankrat delegations: every year, on behalf of the chairwoman of the Board of Directors, internal auditing sets up a schedule for calls on the branches and the central departments. The findings of these calls are put down in reports and forwarded for the attention of the Bankrat.

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

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

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

4 EXECUTIVE BOARD

4.1 and 4.2 combine: education and professional career (4.1) as well as other activities and vested interests (4.2). Up to 30 April 2014, the Executive Board of Basellandschaftliche Kantonalbank consisted of seven members. Since the retirement of Othmar Cueni (30 April 2014), the Executive Board has consisted of six members. All members of the Executive Board are Swiss citizens.

01

Beat Oberlin. Born in 1955. Chairman of the Executive Board since 1 January 2005. Dr. jur. Counsel and notary (Canton of Solothurn). Management training at Stanford University, USA. More than 20 years of banking experience with UBS, among others as head of retail and head of corporate customers of the region of Basel, chief of staff and head of market and distribution management Business Banking Switzerland. Board mem-

ber of: Verband Schweizerischer Kantonalbanken (Association of Swiss Cantonal Banks), Basel; Hirzbrunnenhaus AG, Basel; St. Clara AG, Basel; St. Clara Infra AG, Basel; St. Claraspital AG, Basel; board member of Handelskammer beider Basel (Chamber of Commerce); member of the group of experts for the "Further development of the financial market strategy".

02

Daniel Brändlin. Born in 1961. Member of the Executive Board since 2010; head of Corporate Customers & Loans. Lic. rer. pol. (university degree in economics). 2 years as CFO and deputy CEO of the Congrex group. Eight years as CFO and deputy CEO of ALLDOS International AG, Reinach, BL. Ten years in the corporate customers business of Union Bank of Switzerland/UBS with positions in Basel, Zurich and Sydney. Board member of: BTG Mezzfin AG, Basel; BTG-Bürgschaftsgenossenschaft beider Basel, Basel; Congrex International AG, Basel; ErfindungsVerwertung AG, Basel; Job Factory AG, Basel; Liegenschaftsstiftung Shelter, Basel; Stiftung Job Factories, Basel; Stiftung Job Training, Basel; Stiftung Jugendsozialwerk Blaues Kreuz BL, Liestal; Stiftung Pro Rehab, Basel; Stiftung Weizenkorn, Basel.

03

Herbert Kumbartzki. Born in 1962. Member of the Executive Board since 2010; head of Finance and Risk Office; head of Finance & Risk Management. Studies of theology and philosophy (lic. theol.), Basel; studies of economy (lic. rer. pol.), Basel; financial analyst CFA; Executive Master in HR management FHNW (University of Applied Sciences Northwestern Switzerland), Olten. Head of HR and Chief Investment Officer with CIC Bank, Switzerland; Chief Investment Officer with Bank Ehinger (UBS), financial analyst and portfolio manager UBS.



05

06

02

04

01

03

04

Simon Leumann. Born in 1976. Member of the Executive Board since 1 October 2013; head of IT & Services. Studies of economy (lic. rer. pol.). Certified auditor. With BLKB since 2004: deputy head of credit management, head of Institutional Customers, head of Strategic Projects. Board member of: AEB Alternativ-Energie Birsfelden AG.

05

Jean-Daniel Neuenschwander. Born in 1962. Member of the Executive Board since 2007; head of Private Banking & Investment Services. Swiss Banking School Diploma, Trust and Investment Banking; Federal Diploma in financial analysis and asset management, CEFA. Head of Portfolio Management Switzerland with UBS in Basel. CIO with Bank Ehinger und Cie AG, Basel. Head of Private Banking Bank Cial (Schweiz), Basel. Joined BLKB as chief of staff, 1 January 2005. Board member of: Aduno Holding AG, Zurich; Aduno S.A., Bedano; Viseca Card Services AG, Zurich; Zum Löwenzorn AG, Basel; Stiftung FIAS, Basel.

06

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

07

Othmar Cueni. Born 1952. Member of the Executive Board until 30-04-2014. Training in commerce, federal diploma in PR. Training in HR; banking; Advanced Management Programme

of SKU; London Business School and Harvard Business School. Assignments in London and the US. 35 years of experience with Credit Suisse in Geneva, Basel, Berne, and Zurich, in positions such as head of Advertising and PR, head of HR, head of Retail Banking & Branches of the area of Basel; head of Sales Support, Berne; head of overall bank projects, Zurich; head of Private Customers North-western Switzerland; head of Private Banking Institute & Region Switzerland CS Business School, Zurich (Managing Director).

4.3 Management contracts

Members of the Executive Board do not have any other permanent managing or advising functions. There are no management contracts.

5 COMPENSATION, SHAREHOLDINGS AND LOANS**5.1 Compensation scheme**

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

The "Rules on the compensation scheme" adopted by the Bankrat on 23 June 2010, revised on 18 January 2012 and 21 May 2014, detail the bank's characteristic design of compensation. The Board of Directors (Bankrat) decides on the compensation policy, the total amount of fixed compensation, the total amount of variable compensation, the compensation of Bankrat members and on the fixed and variable compensation of the members of the Executive Board. The Human Resources and Organization Committee, consisting of three members of the Bankrat, allocates the variable compensation at the different levels of function.

Compensation of the employees (levels of function 1–7) consists of a fixed amount based on the level of function and a variable amount based on the overall result, the level of func-

tion and the individual performance. Members of the Board of Directors (Bankrat) are paid a fixed compensation based on the individual person's level of function.

The variable compensation is based on the gross profit adjusted for special items. A percentage of 6.05 of the adjusted gross profit is deducted as variable compensation and funnelled into a pool. If the bank doesn't leave an adjusted gross profit, all variable compensation is omitted.

In 2014, the ratio of highest and lowest total compensation was 13.04:1.

5.2 Determination of fixed compensation

In order to determine the fixed compensation, a branch-of-business comparison is conducted annually. Fixed compensation of the employees is defined according to their level of function.

Internal margins have been defined for the levels of function 1–7. Within the respective margins, fixed compensation is determined by the individual person's professional training, experience and managerial responsibility. Based on these criteria, the employee's manager/superior decides according to his/her own best judgement on an amount within the corresponding margin.

The fixed compensation of the members of the Executive Board is determined by the Bankrat upon application by the Human Resources and Organization Committee (HROC). This decision is based on the sole discretion of the Bankrat and takes into account the market environment, the position, experience and the capabilities of the individual member 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 – such as

the Cantonal Banks of Aargau, Graubünden, St. Gallen or Thurgau – is taken as a criterion.

The sum of the fixed compensation to Bankrat members depends on the level of responsibility of the individual member within the whole panel and the committees. The sum of the compensation of Bankrat members is decided at the Bankrat's discretion upon application by the Human Resources and Organization Committee (HROC). Equal levels of function are compensated equally. In order to determine the compensation, a comparison with other Cantonal Banks of similar proportions in terms of balance sheet total and market area – such as the Cantonal Banks of Aargau, Graubünden, St. Gallen or Thurgau – is taken as a criterion.

5.3 Distribution of variable compensation according to the levels of function

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

The following principles apply to the allocation of variable compensation: top performers and employees with extraordinary performances (daily work, assignments not belonging to their usual scope of activity, bank as a whole) should be considered. The appraisal meeting each employee has to undergo at least once a year, serves as the basis for the performance appraisal. The interview is conducted according to established

appraisal procedures. The scope of the ratio between fixed and variable compensation of the Executive Board is between 37.72 per cent and 47.34 per cent with the share of the chairman of the Executive Board being the highest.

5.4 Variable compensation to the employees

Variable compensation to the employees is paid in cash.

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

5.5 Variable compensation to the Executive Board

Within the proportion of total variable compensation set aside for the Executive Board, achieving the target is an essential criterion for the determination of the individual variable compensation.

Compensation of the CEO and the members of the Executive Board depends on the qualitative and quantitative targets defined by the bank and is based on its strategic objectives. In the framework of determining the bank's strategic targets, the Bankrat established several Key Performance Indicators (KPIs). Variable compensation to the members of the Executive Board is determined on the basis of these KPIs.

The following criteria – in addition to the overall performance – are decisive for the determination of the variable compensation to the chairman of the Executive Board :

- Achievement of the management targets
- Cost-Income Ratio
- Gross profit
- Equity efficiency

In 2011, the Bankrat defined the criteria for the different KPIs. They are submitted to an annual strategy review and adjusted, if need be. Said KPIs are the basis for the evaluation of the chairman of the Executive Board and consequently also for the assessment of the latter's variable compensation. For the determination of the variable compensation, weighting of the achievement of targets is a discretionary decision.

The individual performance targets of the individual members of the Executive Board are based on specific indicators within that particular area of business the members of the Executive Board can effectively influence. Among these count for example the achievement of volume targets, compliance with the defined risk framework, compliance with the budget, timely project handling, compliance with defined quality standards or service level agreements, employee satisfaction and internal service quality.

The individual achievement targets of the members of the Executive Board are defined by the chairman of the Executive Board. These targets are a substantial contribution to the achievement of the bank's strategic targets. For the determination of the variable compensation, weighting of the achievement of targets is a discretionary decision.

In addition to the variable compensation, the members of the Executive Board receive KB certificates at a reduced subscription price. The CEO draws 50 KB certificates per year, the remaining members of the Executive Board 30 KB certificates per year. All certificates are subject to a lock-up period of five years starting from the date of acquisition. Acquisition is done at a reduction of 25.27 per cent on the price ex-dividend. In 2014, the variable compensation total to the Executive Board was CHF 1,555,000.

8 AUDITING BODY

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

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

8.1.1 Date of assumption of the existing auditing mandate Ernst & Young AG: assumption of mandate in 1997

8.1.2 Date on which the lead auditor responsible for the existing auditing mandate took up office

Patrick Schwaller, auditor of Ernst & Young AG, who is responsible for the existing auditing mandate, took up office in 2011, and for the first time in this function, performed the audit of the annual accounts of 2011. Pascal Berli has been lead auditor since 2010.

8.2 Auditing fees

The total of auditing fees invoiced in the year under review by the auditors for the fulfilment of their legally required duties was CHF 427,690. Calculation of these auditing expenses was done according to the principle of accrual.

8.3 Additional fees

Fees for additional services ordered by the bank (regular audits of IT and data security platform, as well as audit-related services) amounted to CHF 12,420 in the year under review. Calculation of these auditing expenses was done according to the principle of accrual.

8.4 Informational instruments pertaining to an external audit

One of the tasks of the Audit and Risk Committee is to assess the efficacy of the external auditors, the internal auditors and the internal control. The ARC discusses the reports and

planning documentation in several meetings with the auditor in charge of the statutory auditors and regularly informs the Board of Directors (Bankrat) of their findings.

In the business year 2014, representatives of the statutory auditors took part in four ARC meetings. Once a year at least, the auditor in charge meets the complete Board of Directors. In the course of this meeting, the Bankrat evaluates the auditing and supervising reports done by the external auditors and receives information on their most relevant findings. In the business year 2014, representatives of the external auditors took part in one Bankrat meeting. The ARC regularly assesses the risk-oriented auditing strategy and the relevant auditing plan of the external auditors, analyses the auditing reports making sure that shortcomings are rectified and the auditors' recommendations are implemented. The ARC discusses the results of its analyses with the auditor in charge. Based on its experience and resulting from the yearly assessment interview of the ARC and the external auditors, the ARC assesses the performance and compensation of the auditors, verifies their independence and evaluates the cooperation of the auditing company and the internal auditors.

9 INFORMATION POLICY

Basellandschaftliche Kantonbank pursues a policy of communication based on the truthful presentation of facts and the openness towards questions put forward by relevant groups of stakeholders, within or without the company. The head of Corporate Communications is directly answerable to the chairman of the Executive Board.

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

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

Since 2005, the sustainability report has been integrated into the annual report. In this way, the Board of Directors and the Executive Board emphasise that sustainable actions are firmly anchored in BLKB's corporate strategy and philosophy. Further press releases are made at the time of the yearly meeting of bearers of BLKB certificates (March/April). Ad hoc releases follow according to relevance and need. The complete press releases are available on the Internet (blkb.ch/medien).

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

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Information for investors

www.blkb.ch/investor-relations

Information for the media

Current news: www.blkb.ch/medien

Newsletter Service

www.blkb.ch/newsletter

Mail address

Basellandschaftliche Kantonalbank
Rheinstrasse 7
CH-4410 Liestal

Balance sheet on 31 December 2014 (before profit appropriation)

Assets

	31-12-2014 CHF 1000	31-12-2013 CHF 1000	Change CHF 1000	Change %
Liquid funds	1,091,706	870,893	220,814	25.35
Money market instruments	12,399	12,523	-124	-0.99
Due from banks	580,234	344,893	235,341	68.24
Due from customers	1,592,567	1,372,534	220,033	16.03
Mortgage loans	16,709,016	15,973,263	735,753	4.61
Securities and precious metal trading portfolios	2,969	3,219	-251	-7.79
Financial investments	1,426,131	1,586,024	-159,893	-10.08
Participations	42,251	45,893	-3,642	-7.94
Tangible fixed assets	123,713	129,809	-6,096	-4.70
Intangible assets	7,521	4,965	2,556	51.49
Accrued income and prepaid expenses	84,187	98,578	-14,391	-14.60
Other assets	78,621	80,280	-1,659	-2.07
Company capital not paid	0	0	0	0.00
Total assets	21,751,316	20,522,875	1,228,441	5.99
Total subordinated claims	0	8,000	-8,000	-100.00
Total due from the Canton of Basel-Landschaft	269,745	139,312	130,434	93.63

Liabilities

	31-12-2014 CHF 1000	31-12-2013 CHF 1000	Change CHF 1000	Change %
Money market instruments	46	147	-101	-68.55
Due to banks	366,513	375,530	-9,016	-2.40
Due to customers in savings and deposits	10,474,395	9,963,658	510,736	5.13
Due to customers, other	4,782,255	4,139,599	642,655	15.52
Cash bonds	102,606	140,768	-38,162	-27.11
Bonds and mortgage-backed bonds	3,655,000	3,592,000	63,000	1.75
Accrued expenses and deferred income	179,439	211,711	-32,272	-15.24
Other liabilities	98,348	94,623	3,726	3.94
Value adjustments and provisions	158,162	164,670	-6,508	-3.95
Reserves for general bank risks	985,000	937,000	48,000	5.12
Company capital	217,000	217,000	0	0.00
Legal reserve	616,860	576,860	40,000	6.93
Own equity	-11,349	-12,850	1,502	-11.68
Revaluation reserves	0	0	0	0.00
Other reserves	687	418	269	64.31
Retained earnings brought forward	10,550	9,441	1,109	11.74
Annual net profit	115,802	112,299	3,503	3.12
Total liabilities and equity	21,751,316	20,522,875	1,228,441	5.99
Total subordinated liabilities	0	0	0	0.00
Total due to the Canton of Basel-Landschaft	258,596	275,835	-17,239	-6.25

Off-balance-sheet transactions

	31-12-2014 CHF 1000	31-12-2013 CHF 1000	Change CHF 1000	Change %
Contingent liabilities	161,234	184,738	-23,504	-12.72
Irrevocable commitments	249,600	255,553	-5,954	-2.33
Liabilities for calls on shares and other equities	42,495	34,703	7,792	22.45
Confirmed credits	0	0	0	0.00
Derivative instruments				
Positive replacement value	50,097	59,873	-9,777	-16.33
Negative replacement value	61,451	38,126	23,324	61.18
Contract volume	8,677,856	8,888,390	-210,534	-2.37
Fiduciary transactions	3,241	5,962	-2,721	-45.64

Income statement

Income and expenses from the ordinary bank business

	2014 CHF 1000	2013 CHF 1000	Change CHF 1000	Change %
Net interest income	269,033	260,228	8,805	3.38
Interest and discount income	413,796	417,225	-3,430	-0.82
Interest and discount income on trading portfolio	0	0	0	0.00
Interest and discount income on financial investments	23,987	29,335	-5,348	-18.23
Interest expenses	-168,750	-186,333	17,582	-9.44
Net fee and commission income	65,860	65,556	303	0.46
Commission income from lending activities	5,474	5,322	152	2.86
Commission income from securities and investment transactions	48,292	49,005	-713	-1.46
Commission income from other services	18,954	17,622	1,331	7.55
Commission expenses	-6,860	-6,393	-467	7.31
Net trading income	15,016	14,648	368	2.51
Net other income	6,616	9,334	-2,718	-29.12
Income from the sale of financial investments	2,205	2,627	-421	-16.04
Income from participations	1,901	3,218	-1,317	-40.92
Real estate income	2,408	3,294	-886	-26.89
Other ordinary income	125	195	-70	-35.69
Other ordinary expenses	-25	0	-25	0.00
Net operating income	356,524	349,766	6,757	1.93
Operating expenses	-156,276	-156,918	642	-0.41
Personnel expenses	-100,322	-99,612	-710	0.71
Other operating expenses	-55,954	-57,306	1,352	-2.36
Gross profit	200,247	192,848	7,399	3.84
Annual net profit				
Gross profit	200,247	192,848	7,399	3.84
Depreciation and write-offs of non-current assets	-21,676	-18,838	-2,839	15.07
Value adjustments, provisions and losses	-3,049	-2,095	-954	45.55
Interim result	175,522	171,915	3,607	2.10
Extraordinary income	853	11,362	-10,509	-92.49
Extraordinary expenses	-60,186	-70,700	10,514	-14.87
Taxes	-387	-279	-108	38.81
Annual net profit	115,802	112,299	3,503	3.12
Profit appropriation				
Annual net profit	115,802	112,299	3,503	3.12
Retained earnings brought forward previous year	10,550	9,441	1,109	11.74
Retained earnings	126,352	121,740	4,612	3.79
Interest on endowment capital	-3,506	-3,880	374	-9.64
Dividend paid on certificate capital	-19,380	-18,810	-570	3.03
Compensation for state guarantee	-8,500	-8,500	0	0.00
Payment to the Canton of Basel-Landschaft	-42,000	-40,000	-2,000	5.00
Allocation to legal reserve	-42,000	-40,000	-2,000	5.00
Retained earnings brought forward	10,966	10,550	416	3.95

Statement of cash flow

	2014 Source of funds CHF 1000	2014 Use of funds CHF 1000	2013 Source of funds CHF 1000	2013 Use of funds CHF 1000
Cash flow from operations (internal financing)	89,900		98,872	
Annual net profit	115,802		112,299	
Depreciation and write-offs of non-current assets	21,676		11,854	
Value adjustments and provisions		6,508	1,301	
Allocation to the reserves for general bank risks	48,000		70,000	
Accrued income and prepaid expenses	14,391		3,758	
Accrued expenses and deferred income		32,272		28,574
Profit distribution previous year		71,190		71,767
Other				
Cash flow from capital transactions	1,771			5,386
Endowment capital				
Certificate capital				
Legal reserve				
Own equity	1,771			5,386
Cash flow from transactions with fixed assets		14,495	15,838	
Participations		2,677	24	
Tangible fixed assets		11,818	15,815	
Cash flow from banking operations	242,361		339,266	
Operations with banks		145,612	162,186	
Due from banks (over 90 days)		115,000		20,000
Due to banks (over 90 days)		30,635	180,635	
Money market instruments (assets)	124		1,527	
Money market instruments (liabilities)		101	24	
Operations with clients	159,444			132,664
Savings and deposits	510,736		592,240	
Cash bonds		38,162		69,459
Due to customers, other	642,655		245,615	
Mortgage loans		735,753		963,514
Due to customers		220,033	62,454	
Operations in the capital market	223,144		340,921	
Bonds and mortgage-backed bonds	63,000		314,281	
Securities and precious metal trading portfolios	251			835
Financial investments	159,893		27,475	
Other balance sheet items	5,385			31,177
Other assets	1,659			115
Other liabilities	3,726			31,063
Changes in liquidity of funds	319,536		448,591	
Liquid funds	220,814		302,804	
Due from banks up to 90 days	120,341		117,428	
Due to banks up to 90 days		21,619	28,359	

Notes on the financial statement (combined individual statements)

1 NOTES ON BUSINESS ACTIVITIES AND NUMBER OF EMPLOYEES

1 General

Basellandschaftliche Kantonalbank (BLKB), incorporated in Liestal, is the leading bank in Baseland and one of the leading banks in the north-western part of Switzerland. Legitimised by cantonal law, the bank operates independently from state administration as a public law company with its own legal personality.

On 31 December 2014, the Canton of Basel-Landschaft holds 74 per cent of the capital stock, the remaining 26 per cent are spread in private ownership. The Canton of Basel-Landschaft holds all voting rights and, according to the law, guarantees for the bank's liabilities.

Geographically seen, BLKB operates in the economic region of Basel providing an extensive range of bank services for the private sector, institutional or corporate customers, and the public sector with its 21 branches in the Canton of Basel-Landschaft, one in Breitenbach (SO), and one for Private Banking in Basel. A number of ATMs at various locations as well as a mobile bank catering for smaller communities are completing the services BLKB offers to its customers in the canton.

2 Retail and commercial banking

The income statement is significantly marked by the interest balance of about 75 per cent of the net operating income. The assets side business is dominated by the mortgage business with the chief segment being residential real estate. On the liabilities side, there are the customer deposits of approximately 71 per cent of the balance sheet total.

3 Fee and commission business

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

4 Trading income

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

5 Other income

Financial investment consists primarily of fixed-interest securities held to maintain liquidity by means of repo transactions with the Swiss National Bank and other banks. Financial investment also includes equity and other securities held by the bank for a medium- to long-term horizon.

6 Notes on risk management and risk control

BLKB applies an integrated risk management and an independent risk control headed by the Chief Risk Officer. The last time the Board of Directors (Bankrat) or its committees assessed the relevant risks for the bank was 15 December 2014. In order to do so, the bank uses a comprehensive standardised risk catalogue to evaluate the likelihood of occurrence of risks as well as their potential financial effects. These risks are avoided, decreased or passed, on the basis of relevant measures decided on by the Bankrat. Those risks the bank has to bear itself are persistently monitored. On the basis of the latest risk assessment by the Board of Directors, the present annual statement adequately covers current risks by means of value adjustments or provisions. For further details concerning risk management we refer to the explanations below.

Risk management and risk control

Recognising, assessing, managing and monitoring of risks is a central task of BLKB's management. An integral part of any bank business is the taking on, managing and controlling of risks. The general framework for risk policy is established by the Bankrat. Equipped with an efficient control system, the Executive Board is responsible for achieving the targets and complying with specifications. The objective of risk management and risk control is to attain a well-balanced proportion of risk and income.

Risk acceptability

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

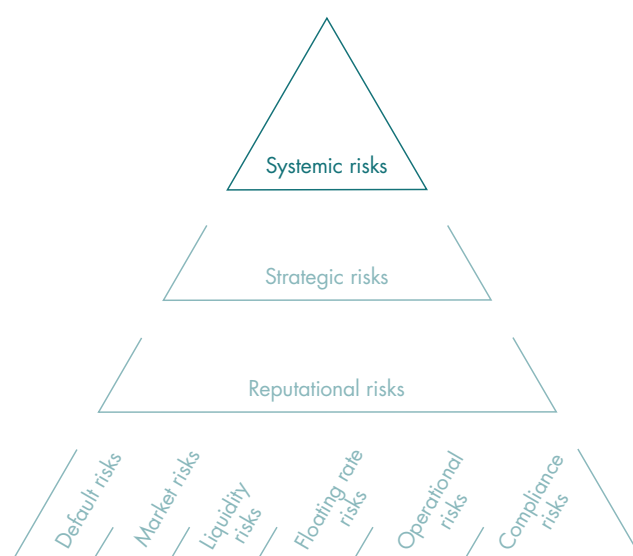
Principles

Principles for the management and control of risks are specified in the risk policy which stipulates a strict division of risk management and risk control. Risk management, according to BLKB's rules, means authorising individual persons (e.g. heads of branches) or groups of persons (e.g. trade) to incur risks, in line with the rules of responsibility or the rules of limits, on behalf of the bank and to manage them. The incurrence of risks requires an approved limit as well as the identification, measuring and monitoring of risks. Introducing a new product necessitates a preceding clarification of the risks involved.

The Risk Office is independent of risk management and is responsible for risk control. It helps to identify risks and decides on the risk measuring method. It decides on procedures for new products and evaluation methods and implements quality assurance of the applied risk measuring method.

Under the supervision of the Chief Risk Officer all risks incurred by the bank are consolidated and commented on for the attention of the Executive Board. The Board of Directors (Bankrat) is informed of the findings in the course of the risk report as per 31 December and 30 June each year. Scenario analyses are periodically submitted to checks and, if necessary, adjusted.

Systemic risks, strategic risks, reputational risks and compliance risks



The highest level encloses the systemic risks of the Swiss financial market. Supervision and regulation thereof are carried out by the Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA). The crisis of the financial markets demonstrated that in extraordinary situations the Federal Council may also be actively involved.

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

Default, market and operational risks

The Executive Board is responsible for the operational implementation of the management and control of credit, market and operational risks as defined by the Basel Committee. They comprise the entirety of the capital accord for banks which was implemented in Switzerland by means of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO), which was transferred into national law on 1 January 2007. For that purpose, the Executive Board issues detailed guidelines, directives and instructions, with particular regard to strategy-compliant risk behaviour. It makes sure that risk acceptability is guaranteed and risk-adequate prices are ensured.

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

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

The individual risk types will be explained below including the precautions taken by BLKB. Details are laid down in the risk policy and the relevant internal procedures. Risk management will continue to pose a challenge for the entire banking world, a point thoroughly proven by the current efforts to overcome the financial crisis.

6.1 Default and credit risks

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

The appraisal of real estate is laid down in the relevant procedures. Based on a risk-oriented scheme, recoverability of a property is reappraised periodically. The frequency of reappraisal ranges between three and fifteen years and depends on the following criteria:

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

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

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

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

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

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

Unilateral decisions by governments restricting currency transfers and payments, or moratoria of all kinds, are referred to as country risks.

BLKB, in close cooperation with Zürcher Kantonalbank (CBZ), adopts CBZ's country rating and chooses its partners abroad according to strict criteria in order to limit country risk to the barest minimum.

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

6.2 Market-, price- and liquidity risks

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

6.2.1 Interest rate risks in the banking book

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

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

Limits for the different scenarios of income and price effect have been defined.

6.2.2 Market- and price risks in the trading book

In order to assess market risks in the trading book, the compliance with market value and nominal limits is checked daily. A "List of Instruments" ensures that BLKB only uses products which can be correctly assessed and entered.

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

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

6.2.3 Liquidity risks

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

In this way, concentration on the liabilities side may be avoided as far as counter parties, currencies or maturities are concerned. Compliance with the bank specific liquidity risk tolerance as stipulated by the Liquidity Coverage Ratio (LCR) is closely supervised. A set of qualitative and quantitative indicators helps to identify potential liquidity crises early on. In order to prepare for an efficient management of liquidity squeezes, BLKB establishes liquidity stress scenarios and sets up an emergency plan in accordance with regulatory requirements.

6.3 Operational and legal risks

Operational risks are defined as “dangers of direct or indirect losses resulting from inappropriateness or failure of internal processes, people and systems, or external events”. They are limited by means of internally defined rules and directions as to organisation and control. A security committee coordinates the individual areas and sets priorities. Internal auditing regularly checks internal controlling and reports the findings. The internal control unit monitors compliance with the procedures and authorises IT-access rights to the staff in order to minimise operational risks. Internal operational procedures, processes and systems are reviewed on an on-going basis and are prioritised with respect to their importance for the operation of the bank. Follow-up and adaptation to new systems, processes and operational procedures are thereby assured. Scope and frequency of different checks executed by superior bodies are defined in an internal-control manual. A disaster plan defines backup procedures in case of failure of individual systems or system groups.

Systemic risks (failure of IT-platform) are analysed in cooperation with the outsourcing partner Swisscom IT Services AG on an on-going basis, and appropriate measures are in place to minimise these risks. Continued training for all employees, the transparent organisation of the bank and open communication do, however, represent the most efficient method of mitigating operational risks. Legal risks include:

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

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

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

6.4 Compliance risks

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

6.5 Integral security

Integral security aims at offering adequate and permanent protection for persons, information, assets and services. IT-security, protection of persons and buildings, and the Business Continuity Management have been consolidated in the department of Integral Security. This concentration enables us to have a holistic view of all security areas for the development and operation of protective measures, of training and awareness raising of the employees, and it builds the hub for all questions of security. Security is not an unchangeable entity. Internal and external parameters may change and they require the adaptation of protective measures. Checking and possibly re-determining of the appropriateness or rather the acceptability of the remaining risk is a continuing process.

The purpose of the Business Continuity Management is to systematically prepare for the handling of extraordinarily damaging events. This includes measures which guarantee the IT services which are indispensable for the continuation of crucial banking processes in a case of crisis.

6.6 Outsourcing of business areas

Basellandschaftliche Kantonalbank delegated a number of functions belonging to the business areas of securities back-office and payment transactions to Swisscom Banking Provider AG, Gümliigen. The operation of the computer centre and the development of bank applications were entrusted to Swisscom IT Services AG. Decentralised IT was tended to by Atos IT Solutions and Services AG until 31 March 2014. On 1 April 2014, Swisscom IT Services AG assumed responsibility for this task. The outsourcing order was regulated in detail in service level agreements as stipulated by FINMA. Confidentiality is assured by the fact that the entire staff of these providers is subject to bank secrecy.

7 Employees

In line with the FINMA counting method the number of employees was established as:

	2014	2013
Full-time equivalents (acc. to FINMA)	636	657

Headcount was:

	2014	2013
Number of persons	750	777
– of which apprentices	30	29
– of which trainees	14	13

2 ACCOUNTING PRINCIPLES

General accounting principles

The annual financial statement is set up according to the relevant Swiss accounting principles for banks. It provides a view of the bank's asset, finance and income situation according to the principle of "true and fair view" (combined individual statement). It meets the legal requirements laid down in the regulation of the Canton of Basel-Landschaft and complies with the listing rules of the Swiss Stock Exchange as well as with the directives of FINMA.

Closing date

BLKB closes its financial year on 31 December.

Reporting of transactions

All transactions (on-balance-sheet and off-balance-sheet) are recorded as of closing date and valued according to the accounting and valuation principles.

Foreign currencies

Foreign currency transactions are entered at the respective day's rate. Monetary assets are translated into Swiss francs at rates valid on balance-sheet date and entered affecting net income. Exchange rate differences between the day of conclusion and the day of fulfilment of the transaction are entered in the income statement.

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

	2014	2013
Average exchange rate EUR/CHF	1.2126	1.2287
Year-end rate EUR/CHF	1.2023	1.2254
Average exchange rate USD/CHF	0.9197	0.9242
Year-end rate USD/CHF	0.9936	0.8894

Accounting and valuation principles

Liquid funds, deposits

Valuation is done at nominal value.

Repurchase and reverse repurchase transactions

Reverse repurchase transactions are securities purchased under the condition of resale. Repurchase transactions are securities sold under the condition of repurchase. Reverse repurchase transactions are recorded in the balance sheet as advance against collateral and repurchase transactions are recorded as secured payables.

Market value of obtained or supplied securities is monitored daily in order to make available or request additional securities, if need be.

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

Dues from bills and money market receivables

Bills of exchange and cheques

Accounting is done at nominal value. Bills of exchange are accrued by a discount.

Money market receivables

Accounting is done at cost value.

Dues from banks and customers, mortgage loans

Recording is done at nominal value with the exception of claims and liabilities from non-monetary values such as precious metal accounts and securities lending and borrowing which are entered at market value. Specific provisions are built for doubtful dues, meaning dues from customers who have failed to meet their capital and interest liabilities for 90 days or longer. The same applies to the probability of a customer failing to meet his liabilities in full or in part in the future. Valuation adjustment is determined by the difference between the book value of the claim and the likely income, taking into account the risk of the counter party and the net income from selling off collateral. When determining net income of the collateral, cost of carry such as interest, maintenance and sales costs, etc. up to the estimated time of sale are deducted, so are potential taxes and fees.

Securities and precious metal trading portfolios

Trading portfolios are always valued and recorded at fair value on balance sheet date. Fair value is the price determined on the basis of a price-efficient and liquid market or a price determined on the basis of a valuation model. In the exceptional case of fair value not being available, recording and valuation is done according to the principle of minimum value. Valuation income is reflected in the income statement as net trading income. Interest and dividend income is also entered as net trading income. Funding expenditure for trading of securities is debited to net trading income and credited to net interest income.

Financial investment

Own equity and precious metals are valued according to the principle of minimum value. On purchase of fixed-interest debt securities, they are divided into two categories and valued as follows:

Held-to-maturity: valuation at cost, premiums and discounts are accrued over the remaining term of the financial investment. Capital gains, realised on the premature sale of financial investments, are accrued over the remaining term.

Available-for-sale: valuation according to the principle of minimum value. Crediting is done at lower of cost or market. Real estate and participations taken over from the credit business and intended for sale are recorded in financial investments and valued at lower of cost or market, which means the lower of acquisition and liquidation value. BLKB purchases real estate on behalf of the canton of Basel-Landschaft and its communities in trust. Fiduciary ownership of such real estate is entered in the receivables side and fiduciary obligation in the liabilities side of the balance sheet.

Participations

Participations are valued at acquisition cost less operationally required depreciation.

Tangible fixed assets

Tangible fixed assets are recorded at cost value less operationally required depreciation on the basis of the estimated useful life determined in the following way:

	2014
bank buildings	30 years
other real estate	33 years
other tangible assets	3–5 years

Recoverability of tangible fixed assets is checked yearly. If there is a change in the period of use or a depreciation, an extraordinary write-off is done. Ordinary and extraordinary write-offs, if any, are recorded in item depreciation and write-offs of non-current assets of the income statement. Maintenance costs are debited to the income statement.

Intangible assets

Purchased intangible assets are recorded, if there is a measurable benefit for the company over a period of several years. Worked-for intangible assets are not recorded. Recording is done at cost value based on the defined useful life of the assets. Recoverability of intangible assets is checked yearly. If there is a change of use or a depreciation, an extraordinary write-off is done. Ordinary and extraordinary write-offs, if any, are recorded in item depreciation and write-offs of non-current assets of the income statement.

Goodwill

Goodwill is written off by the straight-line method over the conservatively estimated useful life of an asset (5 years maximum).

Other intangible assets

Other intangible assets are written off over a period of three years.

Accrued income and expenses, prepaid expenses, deferred income

Accruals are established according to the matching principle.

Other assets and liabilities

These balance sheet items contain, among others, the positive and negative replacement values of derivative instruments, valued at market value as of balance sheet date.

Valuation adjustments and provisions

Specific provisions and reserves are made for all risks recognisable on balance sheet date. Valuation adjustments represent gross values. Interest and commission income from customers overdue 90 days and more are adjusted. Provisions from one accounting period, which from an operational point of view are not needed any more, are liquidated and recorded in the income statement or used for new specific provisions. Historic experience has shown that specific provisions cover latent risks sufficiently. Therefore, general provisions were not made.

Provisions for pension schemes

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

Own debt and participation securities

Positions in own debenture and cash bonds are offset with the relevant liability item.

Positions in own equity are deducted from equity capital in a separate section own equity at cost value.

Reserves for general bank risks

These reserves are added to the equity capital in line with art. 21, para. 1, lit. c of the Capital Adequacy Ordinance (CAO).

Legal reserve

Allocation to the legal reserves complies with general legal regulation and the regulation on the distribution of net profit as stipulated by the Cantonal Law on Kantonbank of 24 June 2004. Surplus earnings of issues carried out since the introduction of the certificate capital, represent a component of the general legal reserves.

Other reserves

The balance sheet item other reserves records the income of own equity in the trading portfolio. Dividend payments and income from resale of own equity are recorded in other reserves.

Annual net profit

The annual net profit comprises BLKB's worked-for profit.

Taxes

BLKB, as a public law institution, is exempt from direct federal tax and from cantonal tax in the Canton of Basel-Landschaft. It is, however, not exempt from tax payments for branches outside the canton. Direct tax due for on-going assessment is recorded in accrued expenses and deferred income. According to GAAP FER 11, current and future fiscal effects are entered as provisions in the annual statement.

Contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equity, confirmed credits and fiduciary transactions

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

Forward transactions, derivative instruments

BLKB records positive and negative replacement costs vis-à-vis the same counter party in line with concluded netting agreements.

Trading transactions

Valuation of all derivative instruments concluded as trading transactions is done at fair value. They are recorded as positive or negative replacement costs in other assets or other liabilities. Fair value is based on market rates or calculation models. For transactions with derivative instruments concluded for trading reasons, realised and non-realised income is recorded in income from trading transactions.

Hedging transactions

Furthermore, the bank uses derivative instruments within the framework of asset and liability management in order to control changes of interest rate risks. Hedging transactions are valued along the same line as secured basic transactions. Income from hedging transactions is allocated to the same balance sheet item as income from secured transactions.

In order to secure changes of interest rate risks, macro-hedges are used. Income of those derivatives held for hedging and managing interest rate risks is accrued. Positive and negative replacement costs are recorded in other assets or other liabilities. Accrued interest on the hedging item is recorded in the compensation account of other assets or other liabilities.

Hedge relations, aims and strategies of hedging transactions are documented by the bank upon conclusion of derivative hedging transactions. Efficiency of hedge relations is checked at regular intervals. Hedging transactions where hedge relations have partly or fully become ineffective are treated as trading transactions as far as the non-effective part is concerned.

Changes compared to the previous year

None

Events after the balance sheet date

On 15 January 2015, the Swiss National Bank announced that it would discontinue the minimum exchange rate against the euro. Foreign currencies have a minor effect only on the balance sheet of Basellandschaftliche Kantonalbank. Therefore, the discontinuation of the minimum exchange rate did not influence the annual financial statement of Basellandschaftliche Kantonalbank.

3 INFORMATION ON THE BALANCE SHEET

3.1 Summary of collaterals

	Mortgage cover CHF 1000	Other cover CHF 1000	Without cover CHF 1000	Total CHF 1000
Receivables				
Due from customers				1,592,567
– public bodies	1,440	37,467	361,055	399,962
– others	227,054	214,679	750,871	1,192,605
Mortgage loans				16,709,016
– residential real estate	14,346,447			14,346,447
– office and business buildings	540,605			540,605
– trade and industry	1,233,358			1,233,358
– others	588,605			588,605
Total due from customers as per 31-12-2014	16,937,510	252,146	1,111,926	18,301,582
Previous year	16,165,543	162,426	1,017,828	17,345,797
Off-balance-sheet				
Contingent liabilities	15,714	14,305	131,215	161,234
Irrevocable commitments	146,260	7,816	95,524	249,600
Liabilities for calls on shares and other equities			42,495	42,495
Confirmed credits				0
Total off-balance-sheet as per 31-12-2014	161,974	22,121	269,234	453,329
Previous year	155,741	42,623	276,630	474,995
	Total debt	Estimated realisation of securities	Net debt	Specific provisions
Doubtful receivables as per 31-12-2014	420,863	259,631	161,232	156,500
Previous year	435,611	268,947	166,664	161,455

3.2 Securities and precious metal trading portfolio, financial investments and participations

3.2.1 Securities and precious metal trading portfolios

			31-12-2014 CHF 1000	31-12-2013 CHF 1000
Debt securities			1,699	2,856
– listed on an exchange			1,699	2,856
– not listed			0	0
Equities			1,096	58
Precious metals			173	306
Total trading portfolios in securities and precious metals			2,969	3,219
– of which securities eligible for repo transactions			632	542

3.2.2 Financial investments

	Book value 31-12-2014 CHF 1000	Book value 31-12-2013 CHF 1000	Fair Value 31-12-2014 CHF 1000	Fair Value 31-12-2013 CHF 1000
Debt securities	1,347,414	1,495,037	1,407,326	1,523,042
– of which valued according to the accrual method	1,347,414	1,495,037	1,406,825	1,522,551
– of which valued according to the lower of cost or market method	0	0	502	491
Equities	58,828	73,694	85,004	94,541
– of which qualified participations	501	501	501	501
Precious metals	1,369	1,369	4,062	3,702
Fiduciary real estate	9,076	7,623	9,076	7,623
Real estate for sale	9,444	8,301	9,444	8,301
Total financial investments	1,426,131	1,586,024	1,514,912	1,637,208
– which securities eligible for repo transactions	1,347,414	1,395,037	1,406,825	1,422,060

3.2.3 Participations

			31-12-2014 Book value	31-12-2013 Book value
With quoted value			22,836	28,655
Without quoted value			19,415	17,238
Total non-consolidated holdings			42,251	45,893

3.3 Participations

	Business activities	Share capital CHF 1000	Interest share 31-12-2014	Interest share 31-12-2013
Disclosed in financial investments				
Landwirtschaftliche Trocknungs-Anlagen LTA AG, Pratteln	Drying plant	900	16.28	16.28
AEB AlternativEnergie Birsfelden AG, Birsfelden	Energy generation	3,300	12.12	12.12
Ultra-Brag AG, Muttenz	Shipping/warehousing/trade	3,000	11.67	11.67
BTG Mezzfin AG, Basel ¹⁾	Financial services	1,400	14.29	14.29
Disclosed in non-consolidated participations				
ErfindungsVerwertung AG, Basel ²⁾	Knowledge transfer	1,352	42.49	42.49
Caleas AG, Zurich	Financing company	800	11.19	11.19
Swissquote Group Holding SA, Gland	Financial services	3,066	4.77	5.00
Pfandbriefzentrale der schweiz. Kantonalbanken AG, Zurich	Bank financing	1,025,000	5.18	5.18
Swisscanto Holding AG, Berne ³⁾	Financial services	24,204	4.99	4.99
Aduno Holding AG, Zurich	Credit cards	25,000	3.08	3.08
SIX Group AG, Zurich	Financial services	19,522	0.41	0.41
newhome.ch AG, Zurich		100	7.14	7.14
S.W.I.F.T., La Hulpe, Belgium	Bank telecommunications	13,887 *	0.02	0.02

* EUR

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

¹⁾ Plus participation certificates worth CHF 800,000.- (representing 50% of non voting share capital).²⁾ Effects of a theoretical application of the equity method: the year 2014, with application of the equity method, results in a negative contribution of CHF 300,000.- to the income statement. The equity share in the balance sheet is CHF 1,280,000.-.³⁾ BIKB sold its stake (4.99%) in Swisscanto to Zürcher Kantonalbank with retroactive effect as per 1 July 2014. This transaction requires the permission by the supervisory authorities. We expect to receive it in the first quarter of 2015. Therefore, the sale has no influence on the annual financial statement of 2014.

3.4 Analysis of capital assets

	Historical cost CHF 1000	Write-offs/ depreciation CHF 1000	Book value 31-12-2013 CHF 1000	Transfers 2014 CHF 1000	Additions 2014 CHF 1000	Disposals 2014 CHF 1000	Write-offs/ depreciation 2014 CHF 1000	Book value 31-12-2014 CHF 1000
Total non-consolidated participations	72,739	-26,846	45,893	0	2,677	0	-6,319	42,251
– of which majority interest	0	0	0	0	0	0	0	0
– of which minority interest	72,739	-26,846	45,893	0	2,677	0	-6,319	42,251
Total real estate	230,675	-100,865	129,809	0	4,318	-180	-10,234	123,713
Assets arising from finance leases	206,545	-84,257	122,289	0	676	-180	-6,288	116,497
– of which bank buildings	162,959	-71,901	91,058	0	676	-180	-5,090	86,464
– of which other real estate	43,586	-12,356	31,230	0	0	0	-1,197	30,033
Other tangible fixed assets	24,129	-16,609	7,521	0	3,642	0	-3,946	7,216
Assets arising from finance leases	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
Total intangible assets	58,662	-53,697	4,965	0	7,680	0	-5,124	7,521
– of which goodwill	0	0	0	0	0	0	0	0
– of which remaining intangible assets	58,662	-53,697	4,965	0	7,680	0	-5,124	7,521
Fire insurance value of real estate			249,592					249,592
Fire insurance value of other tangible fixed assets			45,000					45,000
Liabilities: future commitments under operational lease agreements			0					0

3.5 Other assets and other liabilities

	31-12-2014 Other assets CHF 1000	31-12-2014 Other liabilities CHF 1000	31-12-2013 Other assets CHF 1000	31-12-2013 Other liabilities CHF 1000
Replacement values from derivative instruments	50,097	61,451	59,873	38,126
Principal transactions	50,097	61,451	59,873	38,126
– of which held for trading	10,395	6,877	9,049	8,882
– of which held for hedging	39,702	54,574	50,824	29,244
Agency transactions	0	0	0	0
Compensation account	11,385	0	0	21,580
Capitalised organisational costs	0	0	0	0
Interest on endowment capital	3,506	0	3,880	0
Value added tax and other taxes	1,203	12,005	1,848	15,000
Other receivables/payables	12,431	24,893	14,678	19,917
Total	78,621	98,348	80,280	94,623

3.6 Assets pledged or ceded to secure own commitments, and assets subject to retention of title

	31-12-2014 Book value CHF 1000	31-12-2014 Effective commitment CHF 1000	31-12-2013 Book value CHF 1000	31-12-2013 Effective commitment CHF 1000
Not freely available assets on balance sheet date:				
Pledged or ceded mortgage loans for mortgage backed securities	2,881,344	1,420,000	2,379,194	1,357,000
Financial investments	136,527	0	155,325	1,147
Fiduciary real estate	9,076	9,076	7,623	7,623
Total assets pledged or ceded	3,026,946	1,429,076	2,542,142	1,365,770

Loan business and repurchase agreement with securities

	31-12-2014 CHF 1000	31-12-2013 CHF 1000
Book value of claims from cash deposits in securities borrowing and reverse repurchase business	291,134	193,631
Book value of liabilities from cash deposits in securities lending and repurchase business	64,584	0
Book value of own securities lent in securities lending or deposited as collateral in securities borrowing or transferred in repurchase business	58,757	0
– of which securities with unlimited right of disposal or pledge	0	0
Fair value of securities deposited as collateral in securities lending or borrowed in securities borrowing or received in reverse repurchase business for which unlimited right of disposal or pledge has been granted	290,733	194,395
– fair value of those securities which were disposed of or pledged	0	0

3.7 Commitment to pension schemes

All employees of BLKB are insured with the pension fund of Basellandschaftliche Kantonalbank (BLPK) for the compulsory benefits of BVG/LPP as well as for additional benefits. Part-time employees with a minimal workload are exempt from this scheme. The pension scheme is contribution-defined. Regular retirement is reached after completion of the 63rd year. Early retirement is possible after attaining the age of 60 years.

Economic benefit/Economic liability/Pension expenses

	31-12-2014 Excess cover/ Deficient cover CHF 1000	31-12-2014 Economic share of BLKB CHF 1000	1-1-2014 Economic share of BLKB CHF 1000	Changes compared to previous year CHF 1000 ¹⁾	Accrued amounts CHF 1000	2014 Pension expenses within personnel expenses CHF 1000	2013 Pension expenses within personnel expenses CHF 1000
Pension fund: defined contribution ¹⁾	46,473	0	0	0	10,260	10,260	9,647
Total	46,473	0	0	0	10,260	10,260	9,647

¹⁾ In 2009, the Bankrat of BLKB decided to convert the existing benefit-defined pension plan for employees into a new, contribution-defined pension plan with BLPK as per 1 January 2011. Employer contribution is continually debited to the income statement. Pension expenses consist of the accrued contributions and the changes in the economic liabilities which are recorded in provisions. BLKB's share of deficient or excess cover in this pension fund was extrapolated for the year 2014 by an independent expert on pension funds on the basis of BLPK's annual financial statement as per 31-12-2013. On 31-12-2013, coverage ratio was 108%. The set margin of the value fluctuation reserve has not been reached, therefore, there is no economic benefit for the bank. There are no employer's reserves either.

3.8 Bonds and mortgage-backed securities

	Year of issue	Interest rate %	Due date	31-12-2014 Balance CHF 1000	31-12-2013 Balance CHF 1000
	2007	3.000	14.12.2017	300,000	300,000
	2012	0.625	27.02.2018	250,000	250,000
	2010	1.750	25.06.2019	300,000	300,000
	2009	2.500	16.12.2019	300,000	300,000
	2010	1.750	09.11.2020	300,000	300,000
	2012	1.000	04.10.2022	300,000	300,000
	2013	1.125	27.03.2023	260,000	260,000
	2011	1.750	22.11.2024	225,000	225,000
Total bonds				2,235,000	2,235,000
Total mortgage-backed securities		1.429		1,420,000	1,357,000
Total bonds and mortgage-backed securities		1.606		3,655,000	3,592,000

3.9 Value adjustments/Fluctuation reserve for credit risks/Reserves for general bank risks

	Balance 31-12-2013 CHF 1000	Usage CHF 1000	Change of purpose (reclassification) CHF 1000	Recoveries, interest overdue, translation differences CHF 1000	Write-offs (debit to income statement) CHF 1000	Recoveries (credit to income statement) CHF 1000	Balance 31-12-2014 CHF 1000
Value adjustments and provisions for default risks and other risks:							
Value adjustments and provisions for default risks (including country risks)	161,455	-8,657		118	12,222	-8,639	156,500
Value adjustments and provisions for other business risks	0						0
Provisions for pension plans (FER 16)	0						0
Other provisions (provisions für migration)	3,214	-1,531				-21	1,662
Total value adjustments and provisions	164,670	-10,188	0	118	12,222	-8,660	158,162
less: value adjustments offset against receivables	0						0
Total value adjustments and provisions according to the balance sheet	164,670	-10,188	0	118	12,222	-8,660	158,162
Fluctuation reserves for credit risks	0						0
Reserves for general bank risks	937,000				48,000		985,000

Basellandschaftliche Kantonalbank is exempt from tax on profit and capital. Building of latent tax on the reserve for general bank risks is not necessary.

3.10 Company capital, owners with voting rights exceeding 5%

	31-12-2014 Total nominal value CHF 1000	31-12-2014 Quantity	31-12-2014 Capital entitled to dividend CHF 1000	31-12-2013 Total nominal value CHF 1000	31-12-2013 Quantity	31-12-2013 Capital entitled to dividend CHF 1000
Endowment capital	160,000	-	160,000	160,000	-	160,000
Certificate capital	57,000	570,000	57,000	57,000	570,000	57,000
Total company capital	217,000	570,000	217,000	217,000	570,000	217,000
Approved capital	0			0		
Issued and paid-in capital	0			0		

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

Certificates do not entitle the holder to any voting rights.

The endowment capital is divided as follows:

	Year of issue	Interest rate %	Due date	31-12-2014 Balance CHF 1000	31-12-2013 Balance CHF 1000
Bond	2002	3.250	30.09.2014	0	50,000
Bond	2014	0.500	30.09.2022	50,000	0
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

	31-12-2014 Nominal value CHF 1000	31-12-2014 Share %	31-12-2013 Nominal value CHF 1000	31-12-2013 Share %
Canton of Basel-Landschaft	160,000	74	160,000	74
Owners of certificates	57,000	26	57,000	26

3.11 Statement of equity

CHF 1000

Equity at the beginning of the reporting year		
Company capital		217,000
– less capital not paid		0
Company capital paid (subtotal)		217,000
Legal reserve		576,860
Reserves for general bank risks		937,000
Own equity		–12,850
Other reserves		418
Retained earnings		121,740
Total equity at beginning of reporting year (before profit appropriation)		1,840,169
– Capital reduction		0
– Premium on capital reduction		0
+ Allocation to reserve for general bank risks		48,000
+ Re-qualification reserve for own equity in reserves for general bank risks		0
– Requalification reserve for general bank risks in reserve for own equity		0
– Release from reserves		0
– Dividend and other distributions from the annual result of the previous year		–71,190
+ Net profit of the reporting year		115,802
+ Balance of own equity in trading portfolio and financial investment		1,502
+/- Profits/losses from disposal of own equity		269
+/- Profits/losses from rate translations		0
Total equity on 31-12-2014 (before profit appropriation)		1,934,551
of which:		
Company capital		217,000
– less capital not paid		0
Company capital paid (subtotal)		217,000
Legal reserve		616,860
Reserves for general bank risks		985,000
Own equity		–11,349
Other reserves		687
Retained earnings		126,352

	2014 Quantity	2014 Average transaction price	2013 Quantity	2013 Average transaction price
Own equity on 01-01	13,810		7,940	
+ Acquisitions	11,641	899	17,155	1,015
- Sales	–12,778	927	–11,285	1,046
Balance on 31-12	12,673		13,810	

3.12 Maturity structure of current assets and borrowed funds

	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
Current assets								
Liquid funds	1,091,706							1,091,706
Money market instruments	22		8,502	3,756	119			12,399
Due from banks	115,900		329,334	135,000				580,234
Due from customers		304,200	788,480	71,816	222,844	205,227		1,592,567
Mortgage loans	1,665	458,413	892,466	1,990,243	8,555,997	4,810,232		16,709,016
Securities and precious metal trading portfolios	2,969							2,969
Financial investments	69,640		11,228	21,859	771,467	542,861	9,076	1,426,131
Total current assets on 31-12-2014	1,281,902	762,613	2,030,010	2,222,674	9,550,427	5,558,320	9,076	21,415,022
Previous year	1,073,522	810,739	1,870,347	1,982,797	8,969,938	5,448,383	7,623	20,163,349
Liabilities								
Money market instruments	46							46
Due to banks	81,715		134,798	50,000	100,000			366,513
Due to customers in savings and deposits		10,474,395						10,474,395
Due to customers, other	4,428,156			99	206,000	148,000		4,782,255
Cash bonds			9,953	23,418	59,551	9,684		102,606
Bonds and mortgage-backed bonds			26,000	90,000	1,768,000	1,771,000		3,655,000
Total liabilities on 31-12-2014	4,509,918	10,474,395	170,751	163,517	2,133,551	1,928,684	0	19,380,815
Previous year	3,838,784	9,963,658	278,553	201,450	1,601,927	2,327,331	0	18,211,703

3.13 Payables and receivables to/from affiliated companies as well as receivables from loans and exposures to the bank's governing bodies

	31-12-2014 CHF 1000	31-12-2013 CHF 1000
Due from affiliated companies	89,837	62,477
Due to affiliated companies	775,795	474,256
Due from members of the bank's governing bodies	30,139	39,386

Transactions with related parties

Transactions (securities transactions, payment, credit accommodation, compensation on deposits) with related parties are done at conditions valid for third parties. The bank's employees enjoy the conditions valid for personnel.

3.14 Assets and liabilities by domestic and foreign origin

	31-12-2014 Domestic CHF 1000	31-12-2014 Foreign CHF 1000	31-12-2013 Domestic CHF 1000	31-12-2013 Foreign CHF 1000
Assets				
Liquid funds	1,091,706	0	870,893	0
Money market instruments	12,399	0	12,523	0
Due from banks	270,969	309,265	77,803	267,090
Due from customers	1,502,752	89,815	1,305,965	66,569
Mortgage loans	16,709,016	0	15,973,263	0
Securities and precious metal trading portfolios	1,874	1,095	2,619	600
Financial investments	1,000,486	425,645	1,167,250	418,774
Participations	42,251	0	45,893	0
Tangible fixed assets	123,713	0	129,809	0
Intangible assets	7,521	0	4,965	0
Accrued income and prepaid expenses	78,093	6,094	91,808	6,771
Other assets	78,621	0	79,978	302
Total assets	20,919,402	831,914	19,762,769	760,106
Liabilities				
Money market instruments	46	0	147	0
Due to banks	359,484	7,030	322,747	52,782
Due to customers in savings and deposits	10,016,528	457,867	9,501,903	461,756
Due to customers, other	4,733,211	49,043	4,092,358	47,242
Cash bonds	102,606	0	140,768	0
Bonds and mortgage-backed bonds	3,655,000	0	3,592,000	0
Accrued expenses and deferred income	170,218	9,222	202,516	9,195
Other liabilities	82,803	15,545	81,643	12,980
Value adjustments and provisions	158,162	0	164,670	0
Reserves for general bank risks	985,000	0	937,000	0
Company capital	217,000	0	217,000	0
Legal reserve	616,860	0	576,860	0
Own equity	-11,349	0	-12,850	0
Revaluation reserve	0	0	0	0
Other reserves	687	0	418	0
Retained earnings brought forward	10,550	0	9,441	0
Annual net profit	115,802	0	112,299	0
Total liabilities and equity	21,212,609	538,707	19,938,920	583,955

3.15 Assets by country groups

	31-12-2014 CHF 1000	31-12-2014 Share %	31-12-2013 CHF 1000	31-12-2013 Share %
Assets				
Switzerland	20,919,402	96.18	19,762,769	96.30
Europe	787,763	3.62	707,762	3.45
North America	33,835	0.16	33,282	0.16
Asia/Australasia	4,663	0.02	13,408	0.07
Other	5,652	0.03	5,654	0.03
Total assets	21,751,316	100.00	20,522,875	100.00

3.16 Assets and liabilities by currencies

	CHF CHF 1000	USD CHF 1000	EUR CHF 1000	Other CHF 1000	Total CHF 1000
Assets					
Liquid funds	1,079,655	467	11,189	395	1,091,706
Money market instruments	12,377	3	19		12,399
Due from banks	191,298	171,225	182,236	35,474	580,234
Due from customers	1,344,669	49,983	194,117	3,798	1,592,567
Mortgage loans	16,709,016				16,709,016
Securities and precious metal trading portfolios	2,688		116	165	2,969
Financial investments	1,278,105	17,379	129,278	1,369	1,426,131
Participations	42,251				42,251
Tangible fixed assets	123,713				123,713
Intangible assets	7,521				7,521
Accrued income and prepaid expenses	81,504	100	2,584		84,187
Other assets	78,490	77	55		78,621
Total on-balance-sheet assets	20,951,287	239,233	519,594	41,201	21,751,316
Delivery claims from spot exchange dealings, forward exchange deals and foreign exchange options	180,362	32,522	135,441	10,531	358,856
Total assets 31-12-2014	21,131,649	271,755	655,035	51,732	22,110,171
Liabilities					
Money market instruments	46				46
Due to banks	203,769	129,420	33,324		366,513
Due to customers in savings and deposits	10,274,861		199,533		10,474,395
Due to customers, other	4,368,269	110,022	267,641	36,322	4,782,255
Cash bonds	102,606				102,606
Bonds and mortgage-backed bonds	3,655,000				3,655,000
Accrued expenses and deferred income	179,439				179,439
Other liabilities	98,168	175	4	1	98,348
Value adjustments and provisions	158,161		1		158,162
Reserves for general bank risks	985,000				985,000
Company capital	217,000				217,000
Legal reserve	616,860				616,860
Own equity	-11,349				-11,349
Other reserves	687				687
Retained earnings brought forward	10,550				10,550
Annual net profit	115,802				115,802
Total on-balance-sheet liabilities and equity	20,974,872	239,617	500,503	36,323	21,751,316
Delivery liabilities from spot exchange dealings, forward exchange deals and foreign exchange options	178,493	28,690	137,037	14,636	358,856
Total liabilities 31-12-2014	21,153,365	268,307	637,540	50,959	22,110,171
Net position per currency	-21,716	3,448	17,495	773	

Delivery claims or delivery liabilities from currency forward exchange contracts and currency exchange options = contract volume.

4 INFORMATION ON OFF-BALANCE-SHEET TRANSACTIONS

4.1 Contingent liabilities

	31-12-2014 CHF 1000	31-12-2013 CHF 1000
Guarantee for collateralisation of loans and similar	63,850	85,563
Guarantee for warranty and similar	85,008	86,664
Irrevocable commitments	12,377	12,511
Other contingent liabilities	0	0
Total contingent liabilities	161,234	184,738

4.2 Confirmed credits

	31-12-2014 CHF 1000	31-12-2013 CHF 1000
Liabilities from deferred payments	0	0
Acceptance liabilities	0	0
Other confirmed credits	0	0
Total confirmed credits	0	0

4.3 Derivative financial instruments

	Trading instruments			Hedging instruments		
	Positive replacement value 31-12-2014 CHF 1000	Negative replacement value 31-12-2014 CHF 1000	Contract volume 31-12-2014 CHF 1000	Positive replacement value 31-12-2014 CHF 1000	Negative replacement value 31-12-2014 CHF 1000	Contract volume 31-12-2014 CHF 1000
Interest rate contracts						
Futures contracts incl. FRAs	0	0	0	0	0	0
Swaps	9,293	9,218	114,000	181,850	193,234	8,205,000
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						
Futures contracts	2,499	2,437	211,744	0	0	0
Combined interest and currency swaps	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	141	247	147,112	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Precious metal contracts						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Equities/index contracts						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Other contracts						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
Total before inclusion of netting contracts	11,933	11,902	472,856	181,850	193,234	8,205,000
Previous year	11,238	11,071	573,390	110,412	88,832	8,315,000
			Positive replacement value (cumulated)			Negative replacement value (cumulated)
Total after inclusion of netting contracts			50,097			61,451
Previous year			59,873			38,126

4.4 Fiduciary transactions

	31-12-2014 CHF 1000	31-12-2013 CHF 1000
Fiduciary deposits with third-party banks	3,241	5,962
Fiduciary deposits with associated banks	0	0
Fiduciary credits	0	0
Other fiduciary transactions	0	0
Total fiduciary transactions	3,241	5,962

5 INFORMATION ON THE INCOME STATEMENT

5.1 Refinancing income included in interest and discount income

	2014 CHF 1000	2013 CHF 1000
Refinancing income from trading positions	14	16

5.2 Net trading income

	2014 CHF 1000	2013 CHF 1000
Foreign exchange and precious metals	13,846	14,141
Securities	1,167	508
Interest rate contracts	3	-1
Total net trading income	15,016	14,648

5.3 Personnel expenses

	2014 CHF 1000	2013 CHF 1000
Salaries and bonuses incl. attendance fees and compensation paid to bank authorities	-79,136	-79,243
AHV, IV, ALV (pension, disability and unemployment) and other legal benefits	-7,041	-6,840
Contributions to personnel and welfare schemes and pension fund for middle management	-10,260	-9,647
Other personnel expenses	-3,885	-3,882
Total personnel expenses	-100,322	-99,612

5.4 Other operating expenses

	2014 CHF 1000	2013 CHF 1000
Premises expense	-5,826	-7,033
Expense for IT, machinery, furniture, vehicles and other equipment	-22,710	-23,656
Other	-27,418	-26,617
Total operating expenses	-55,954	-57,306

5.5 Refinancing income included in interest and discount

	2014 CHF 1000	2013 CHF 1000
Extraordinary income	853	11,362
– Profits from disposal of tangible fixed assets	644	3,420
– Other extraordinary income	209	7,942
Extraordinary expenses	–60,186	–70,700
– Deposits for reserves for general bank risks	–48,000	–70,000
– Other extraordinary expenses ¹⁾	–12,186	–700

¹⁾ 2014: Including non-recurrent expenses for activities concerning the bank's anniversary and not being part of the ordinary bank business.

5.6 Disclosure and explanation of revaluation of non-current assets up to historical cost (art. 665 and 665a Code of Obligations)

None.

6 INFORMATION ON COMPENSATION AND PARTICIPATIONS

6.1 Responsibilities and procedures

The following table details the responsibilities and procedures involved in establishing compensations.

	BR	BRP	ExC	ARC	HROC	GL
Fixed and variable remuneration						
Remuneration policy	E				A	
Determination of fixed remuneration total	E				A	
Fixed remuneration to the total of the Executive Board	E				A	
Fixed remuneration to the members of the Board of Directors	E				A	
Fixed remuneration to CEO	E	A			A	
Fixed remuneration to the members of the Executive Board	E				A	A (CEO)
Fixed remuneration to the head of Internal Auditing		E		A		
Fixed remuneration to the members of the Senior Management						E
Fixed remuneration to the remaining personnel						E
Annual determination of pool total of variable remuneration	E				A	A
Annual allocation ratio of variable remuneration according to level of function	K				E	A
Non-wage benefits	K				E	A
Pension regulation	E				A	A

BD = Board of Directors, ChwBD = Chairwoman of the Board of Directors, ExC = Executive Committee, ARC = Audit and Risk Committee, HROC = Human Resources and Organization Committee, EB = Executive Board, CEO = chairman of the Executive Board, D = decision, P = petition, TN = Take note

6.2 Overview of compensation paid to the Board of Directors (Bankrat) and the bank's employees for the business years 2014 and 2013

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

	Fixed remuneration	Variable remuneration	Non-wage benefits ¹⁾	Lump sum expenses	Value of reduced price of KBC ²⁾	Total remuneration	Employer's contribution to social benefits
2014	67,014,547	11,127,975	1,113,958	834,004	1,351,410	81,441,894	17,300,895
2013	67,586,011	11,550,700	1,108,296	821,296	629,481	81,695,783	16,486,751

¹⁾ Benefits for REKA cheques and lunch allowance

²⁾ 2014: including gifts to employees for the bank's anniversary

Amount of outstanding postponed benefits

31-12-2014	9,816 pcs.
31-12-2013	12,019 pcs.

Ratio of highest to lowest gross compensation

2014	1 to 13.04
2013	1 to 12.93

In 2014 and 2013, no severance packages were paid.

6.3 Compensation paid to the members of the Board of Directors for the business years 2014 und 2013

Name	Fixed remuneration	Variable remuneration	Non-wage benefits	Lump sum expenses	Value of reduced price of KBC	Total remuneration	Employer's contribution to social benefits	Total personnel expenses
E. Schirmer, Chairwoman								
2014	187,000	0	–	13,800	4,787	205,587	15,950	221,537
2013	160,000	27,000	–	13,800	5,510	206,310	14,263	220,573
A. Lauber, Vice-chairman¹⁾								
2014	45,000	0	–	2,800	0	47,800	3,720	51,520
2013	19,000	3,500	–	1,400	0	23,900	1,457	25,357
A. Ballmer, Vice-chairman²⁾								
2014	0	0	–	0	0	0	230	230
2013	19,000	3,500	–	1,400	5,510	29,410	1,257	30,667
D. Völlmin³⁾								
2014	96,500	0	–	6,500	4,787	107,787	8,506	116,293
2013	83,000	13,500	–	6,500	5,510	108,510	7,596	116,106
H. U. Schudel⁴⁾								
2014	96,500	0	–	6,500	4,787	107,787	8,506	116,293
2013	83,000	13,500	–	6,500	5,510	108,510	7,596	116,106
U. Baumann⁵⁾								
2014	34,500	0	–	2,200	4,787	41,487	3,405	44,892
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
D. Greiner								
2014	69,000	0	–	4,400	4,787	78,187	6,052	84,239
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
W. Hansen								
2014	69,000	0	–	4,400	4,787	78,187	6,052	84,239
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
C. Janiak⁶⁾								
2014	72,000	0	–	4,400	4,787	81,187	4,080	85,267
2013	63,000	9,000	–	4,400	5,510	81,910	5,099	87,009
F. Mutschlechner								
2014	69,000	0	–	4,400	4,787	78,187	6,052	84,239
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
D. Schenk								
2014	69,000	0	–	4,400	4,787	78,187	6,052	84,239
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
A. Spindler								
2014	69,000	0	–	4,400	4,787	78,187	6,052	84,239
2013	60,000	9,000	–	4,400	5,510	78,910	5,448	84,358
Total remuneration								
2014	876,500	0	–	58,200	47,869	982,569	74,657	1,057,226
2013	787,000	124,000	–	60,400	60,607	1,032,007	69,956	1,101,963

¹⁾ Member and vice-chairman of the Board of Directors since 1-7-2013

²⁾ Member and vice-chairman of the Board of Directors up to 30-6-2013

³⁾ Chairman of the ACR

⁴⁾ Chairman of the HROC

⁵⁾ Resigned as per 14-5-2014

⁶⁾ Including CHF 3,000 fee for chair of Cultural Foundation

6.4 Compensation paid to the members of the Executive Board for the business years 2014 and 2013

Name	Fixed remuneration	Variable remuneration	Non-wage benefits ¹⁾	Lump sum expenses	Value of reduced price of KBC	Total remuneration	Employer's contribution to social benefits	Total personnel expenses
B. Oberlin, CEO								
2014	444,964	400,000	9,616	24,000	17,165	895,745	182,069	1,077,814
2013	444,964	350,000	9,616	24,000	13,774	842,355	171,543	1,013,898
Remaining members of the Executive Board								
2014	1,658,302	1,155,000	50,788	85,334	47,703	2,997,127	704,736	3,701,863
2013	1,838,428	1,096,000	57,118	88,876	41,323	3,121,745	732,317	3,854,062
Total Executive Board								
2014	2,103,266	1,555,000	60,404	109,334	64,868	3,892,872	886,806	4,779,678
2013	2,283,392	1,446,000	66,735	112,876	55,097	3,964,100	903,860	4,867,960

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

On 1 January 2013, the remaining Executive Board consisted of five members. With effect of 1-10-2013, Simon Leumann was appointed member of the Board of Directors. On 31-12-2013 the remaining Executive Board consisted of six members. With effect of 30-04-2014, Othmar Cueni went into retirement. On 31-12-2014, the remaining Executive Board consisted of five members.

6.5 Loans and credits, subscription to Kantonalbank Certificates (in the business year) and KBC stock of the Board of Directors and the Executive Board as per 31 December 2014 and 31 December 2013

Name	Function	Loans and credits per yearend 2014	Loans and credits per yearend 2013	KBC subscribed for in 2014	KBC subscribed for in 2013	KBC balance (restricted) per yearend 2014	KBC balance (restricted) per yearend 2013
E. Schirmer	Chairwoman of the Board of Directors	600,000	600,000	20	20	300 (140)	280 (160)
A. Lauber ¹⁾	Vice-chairman	0	0	0	0	0	0
A. Ballmer ²⁾	Vice-chairman	-	-	-	20	-	-
D. Völlmin	Member	780,000	430,000	20	20	170 (130)	150 (150)
H. U. Schudel	Member	569,200	575,000	20	20	350 (140)	330 (160)
U. Baumann ³⁾	Member	-	0	20	20	-	450 (160)
D. Greiner	Member	0	0	20	20	320 (140)	300 (160)
W. Hansen	Member	0	0	20	20	200 (140)	180 (160)
C. Janiak	Member	680,500	683,500	20	20	120 (120)	170 (130)
F. Mutschlechner	Member	0	0	20	20	60 (60)	40 (40)
D. Schenk	Member	0	0	20	20	240 (140)	370 (160)
A. Spindler	Member	930,000	930,000	20	20	60 (60)	40 (40)
Total of the Board of Directors		3,559,700	3,218,500	200	220	1,820 (1070)	2,310 (1120)
Beat Oberlin	Chairman of the Executive Board	1,600,000	564,500	61	50	1,166 (356)	1,105 (400)
Remaining members of the Executive Board	Members of the Executive Board	3,532,250	1,090,100	185	150	1,108 (719)	1,497 (1259)
Total of the Executive Board		5,132,250	1,654,600	246	200	2,279 (1075)	2,602 (1659)

¹⁾ Joined as per 1-7-2013

²⁾ Resigned as per 30-6-2013

³⁾ Resigned as per 14-5-2014

7 CAPITAL ADEQUACY DISCLOSURE

In Switzerland, the new capital adequacy rules of the international Basel III framework entered into force on 1 January 2013, allowing for some transitional provisions. The present chapter shows the capital adequacy requirements for Basellandschaftliche Kantonalbank as detailed by the FINMA circular 08/22 margin no 3. The present quantitative and qualitative information refers to the annual financial statement of Basellandschaftliche Kantonalbank as per 31 December 2014.

At an equity capital ratio of 210.71 per cent, Basellandschaftliche Kantonalbank clearly meets the current capital adequacy requirements of FINMA (minimum requirement 150 per cent plus the required current anticyclical buffer) as well as those of the circular "Capital buffer and capital planning for banks" applicable since 1 July 2011. The reserves, which are above average, guarantee further growth of the bank in the dynamism of the economic area of north-western Switzerland, both for the customers and the canton.

Business activities of Basellandschaftliche Kantonalbank are closely tied to the economic region of north-western Switzerland. According to the Law on Kantonalbank of 24 June 2004, business in the remaining parts of Switzerland or abroad is only admissible, if no risks arise for the bank from these activities and money and credit needs of the canton of Basel-Landschaft are not impaired.

QUANTITATIVE INFORMATION

Eligible and required equity capital

Paid-in capital of Basellandschaftliche Kantonalbank consists of the endowment capital and the certificate capital. On 31 December 2014, it amounted to CHF 217 m, unchanged compared to the previous year. Basellandschaftliche Kantonalbank does not engage in the use of "innovative", "hybrid" and subordinate instruments as they are defined in the CAO by the legislator.

The paid-in capital in the form of the endowment capital is put at disposal in its entirety by the canton of Basel-Landschaft. The amount remains unchanged at CHF 160 m.

Apart from that, there is the certificate capital as stipulated by the Landrat on 22 May 2008, of CHF 57 m, unchanged from the previous year. The bank's paid-in capital is based on art. 5 of the cantonal Law on Kantonalbank and the decree on the determination of certificate and endowment capital of Basellandschaftliche Kantonalbank.

7.1 Representation of the eligible regulatory capital

The equity capital shown in the balance-sheet is identical with the eligible regulatory capital after taking account of the planned profit distribution. This is why the bank refrains from disclosing a transitional balance-sheet.

	31-12-2014 CHF 1000	31-12-2013 ¹⁾ CHF 1000	Change CHF 1000	Change %
Common equity tier 1 (CET1)				
Issued paid-in capital, fully eligible	160,000	160,000	0	0.00
Retained earnings, including reserves for general bank risks/ Retained earnings brought forward and net profit for the period	1,655,514	1,564,829	90,685	5.80
Total common equity tier 1 capital (CET1), before adjustment	1,815,514	1,724,829	90,685	5.26
Adjustments regarding common equity capital				
Net long position in own CET1 instruments	-10,081	-11,469	1,388	-12.10
Further deductions	0	0	0	0.00
Total CET1 adjustments	-10,081	-11,469	1,388	-12.10
Total tier 1 capital (net CET1)	1,805,432	1,713,359	92,073	5.37
Additional tier 1 capital (AT1)				
Issued paid-in instruments, fully eligible	57,000	57,000	0	0.00
– of which regulatory capital instruments according to the financial statement	57,000	57,000	0	0.00
Total additional tier 1 capital, before adjustments	57,000	57,000	0	0.00
Adjustments to the additional tier 1 capital				
Net long positions in own AT1 instruments	-1,267	-1,381	114	-8.23
Amount of AT1 adjustments	-1,267	-1,381	114	-8.23
Total additional tier 1 capital (AT1)	55,733	55,619	114	0.20
Total tier 1 capital (AT1)	1,861,165	1,768,978	92,187	5.21
Total regulatory capital (net T1 & T2)	1,861,165	1,768,978	92,187	5.21
Amount of risk-weighted positions	9,773,193	9,447,103	326,090	3.45

¹⁾ Figures of the previous year were adjusted because of changes in regulatory requirements and for better comparability.

7.1.1 Capital ratios according to Basel III

		31-12-2014	31-12-2013
Capital ratios			
Tier 1 capital ratio (net CET1)	in % of risk-weighted positions	18.47	18.26
Tier 1 capital ratio (net tier 1)	in % of risk-weighted positions	19.04	18.73
Regulatory capital ratio (net tier 1 und tier 2)	in % of risk-weighted positions	19.04	18.73
Requirements tier 1 capital (CET1) acc. to CAO transitional provisions (minimum requirements + equity buffer + anticyclical buffer)	in % of risk-weighted positions	5.04	4.00
– of which equity buffer acc. to CAO transitional provisions	in % of risk-weighted positions	0.00	0.00
– of which anticyclical buffer	in % of risk-weighted positions	1.04	0.50
Available tier 1 capital (CET1) to cover minimum and buffer requirements, after deduction of AT1 and AT2 requirements which are being fulfilled by CET1	in % of risk-weighted positions	14.27	14.06
Capital adequacy target (CET1) acc. to FINMA circular 11/2 plus anticyclical buffer	in % of risk-weighted positions	8.84	8.30
Available capital (CET1)	in % of risk-weighted positions	15.31	14.56
Capital adequacy target (tier 1) acc. to FINMA circular 11/2 plus anticyclical buffer	in % of risk-weighted positions	10.64	10.10
Available tier 1 capital	in % of risk-weighted positions	17.11	16.36
Regulatory capital target acc. to FINMA 11/2 plus anticyclical buffer	in % of risk-weighted positions	13.04	12.50
Available regulatory capital	in % of risk-weighted positions	19.04	18.73
Amounts below threshold values for deductions (before risk-weighting)			
Non-qualified participations in the financial sector	in CHF	38,562	42,204
Other qualified participations in the financial sector (capital CET1)	in CHF	0	0

Capital adequacy requirements

In order to calculate capital adequacy requirements for credit, market and operational risks, banks, under Basel III, have a number of different approaches at their disposal.

Basellandschaftliche Kantonalbank uses:

- the International Standard Approach (SA-BIS) for credit risks (using external ratings by Standard & Poor's for their own securities in the trading and banking book as well as for the inter-bank business)
- the Standardized Approach to Market Risk for calculating the required capital for market risks
- the Basic Indicator Approach as a basis for the required capital for operational risks

7.2 Representation of the required capital

	Approach used	Minimum capital requirement 31-12-2014 CHF 1000	Approach used	Minimum capital requirement 31-12-2013 CHF 1000	Change CHF 1000	Change %
Credit risk	SA-BIS	714,037	SA-BIS	686,923	27,115	3.95
– of which rate risk regarding equity shares in the banking book		9,937		11,439	–1,502	–13.13
Non-counterparty-related risks		11,980		12,056	–75	–0.63
Market risk	Standard Approach	2,938	Standard Approach	3,474	–535	–15.41
– on interest rate instruments ¹⁾		157		264	–107	–40.55
– on equity shares		176		9	166	1,773.97
– on foreign exchange and precious metals		2,375		2,540	–165	–6.50
– on commodities		231		660	–429	–65.04
Operational risk	Basic Indicator Approach	52,899	Basic Indicator Approach	53,316	–417	–0.78
Total capital requirements		781,855		755,768	26,087	3.45

¹⁾ General and specific market risk

Credit commitments

In the following, credit commitments record all on-balance-sheet claims which entail the risk of a loss caused by a counterparty not meeting its contractually agreed upon obligation. Liquid funds, non-counterparty-related assets and credit commitments of a participating nature are not recognised. Off-balance-sheet credit commitments comprise contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equities, and confirmed credits. Fiduciary transactions, however, are not comprised.

7.3 Credit risk/by groups of counterparties as per 31 December 2014

	Central governments/ central banks CHF 1000	Other bodies governed by public law CHF 1000	Banks CHF 1000	Companies CHF 1000	Private Customers and retail (SME/others) in CHF 1000	Equity shares CHF 1000	Other positions CHF 1000	Total CHF 1000
Balance sheet/receivables								
Liquid funds	1,010,286						81,421	1,091,706
Due from banks			580,234					580,234
– of which repo			291,134					291,134
Due from customers		399,962		848,838	343,768			1,592,567
Mortgage loans		64,332		651,723	15,992,960			16,709,016
Financial investments/ debt securities/securities without securitisation transaction	163,410	474,924	132,347	580,259		102,175	8,874	1,461,988
Other assets	2,392	16,582	54,283	7,787	12,493		57,887	151,424
– of which positive replacement values after inclusion of netting contracts		8,130	40,411	705	851			50,097
Total as per 31-12-2014	1,176,088	955,800	766,864	2,088,607	16,349,221	102,175	148,181	21,586,936
Previous year	907,042	687,009	558,889	2,404,141	15,517,621	119,646	174,879	20,369,227
Off-balance-sheet¹⁾								
Contingent liabilities		1,000		28,777	47,127			76,904
Confirmed credits								0
Irrevocable commitments		39,569		60	56,292			95,921
Calls on shares and other equities				42,495				42,495
Derivative instruments (add-ons)		400	33,430	748	1,060			35,639
Total as per 31-12-2014	0	40,969	33,430	72,080	104,479	0	0	250,958
Previous year	0	40,614	43,453	93,499	94,057	0	0	271,623

¹⁾ Off-balance sheet positions were converted into credit equivalents.

7.4 Credit risk/risk mitigation as per 31 December 2014

Banks may reduce their capital requirements for credit risks by including securities. FINMA particularly recognises securities, guarantees and mortgage-backed securities as collateral for the mitigation of credit risks. BLKB takes into account possible securities for its capital requirements.

Exposures/default risks	Covered by recognised financial securities ¹⁾ CHF 1000	Covered by guarantees and credit derivatives ¹⁾ CHF 1000	Mortgage-backed securities ¹⁾ CHF 1000	Other exposures ¹⁾ CHF 1000	Not covered ¹⁾ CHF 1000	Total CHF 1000
Balance sheet/receivables						
Liquid funds					1,091,706	1,091,706
Due from banks	291,134	21,699			267,401	580,234
of which repo	291,134					291,134
Due from customers	26,096	177,748	194,427	26,495	1,167,800	1,592,567
Mortgage loans	232,070	29,839	15,170,675	603,023	673,409	16,709,016
Financial investments/debt securities/ securities without securitisation transaction					1,461,988	1,461,988
Other assets	41,400	7,583	253	9	102,179	151,424
of which positive replacement values after inclusion of netting contracts	32,421	7,555			10,120	50,097
Derivative instruments						0
Total as per 31-12-2014	590,701	236,869	15,365,355	629,527	4,764,483	21,586,935
Previous year	528,485	90,756	14,636,656	614,913	4,498,418	20,369,227
Off-balance-sheet²⁾						
Contingent liabilities	2,417		7,857	109	66,521	76,904
Confirmed credits						0
Irrevocable commitments	1,020		29,151	2,661	63,088	95,921
Calls on shares and other equities					42,495	42,495
Derivative instruments (add-ons)		24,036			11,603	35,639
Total as per 31-12-2014	3,437	24,036	37,008	2,770	183,707	250,958
Previous year	3,744	34,017	43,090	3,546	187,225	271,623

¹⁾ In the comprehensive approach, the position is netted against the collateralised portion of the position. The net position remains in its original position category.

²⁾ Off-balance-sheet positions were converted into credit equivalents.

7.5 Credit risks broken down by risk weighting categories according to Basel III as per 31 December 2014

Credit commitments	Supervisory requirements ¹⁾							
	0% CHF 1000	20% CHF 1000	35% CHF 1000	50% CHF 1000	75% CHF 1000	100% CHF 1000	150% CHF 1000	Total CHF 1000
Balance sheet/receivables								
Liquid funds	1,091,706							1,091,706
Due from banks		240,557		100,004		3,684		344,245
– of which repo		55,145						55,145
Due from customers		409,010	70,269	181,233	36,576	794,512	7,683	1,499,283
Mortgage loans		302	12,908,231	86,242	871,100	1,913,911	738	15,780,525
Financial investments/ debt securities/securities without securitisation transaction	236,063	1,023,696		94,795		64,662	44,102	1,463,319
Other assets	3,353	17,779	64	11,450	4	74,101		106,750
– of which positive replacement values after inclusion of netting contracts		7,555		8,564		1,556		17,675
Derivative instruments								0
Total as per 31-12-2014	1,331,123	1,691,344	12,978,564	473,725	907,680	2,850,869	52,523	20,285,828
Previous year	1,078,256	1,501,542	12,501,258	330,484	880,993	2,787,545	49,345	19,129,423
Off-balance-sheet²⁾								
Contingent liabilities	2,526		919	1,000	49	72,410		76,904
Confirmed credits								0
Irrevocable commitments	3,681	39,569	26,726		837	25,107		95,921
Calls on shares and other equities						42,495		42,495
Derivative instruments (add-ons)		24,114		9,716	472	1,336		35,639
Total as per 31-12-2014	6,207	63,683	27,645	10,716	1,358	141,349	0	250,958
Previous year	7,290	73,448	31,968	10,619	1,231	147,066	0	271,623

¹⁾ In the comprehensive approach, the position is netted against the collateralised portion of the position. The net position remains in its original position category.

²⁾ Off-balance-sheet positions were converted into credit equivalents.

7.6 Risk weighted positions as per 31 December 2014, determined on the basis of external ratings

Credit commitments		Risk weighted position ¹⁾					Total CHF 1000
		0% CHF 1000	20% CHF 1000	50% CHF 1000	100% CHF 1000	150% CHF 1000	
Counterparty:							
Central governments/central banks	Standard & Poor's	56,980	19,637				76,617
	without rating	89,185					89,185
Other bodies governed by public law	Standard & Poor's	83,173	477,581	98,783	26		659,563
	without rating	8,781	119,519	207,691	1,216		337,207
Banks and securities dealers	Standard & Poor's		528,818	110,998			639,816
	without rating		156,294	500	100		156,894
Companies	Standard & Poor's		77,045	50,009	6,105	6,044	139,203
	without rating		499,457		1,391,104	267	1,890,828
Total as per 31-12-2014		238,119	1,878,351	467,981	1,398,551	6,311	3,989,313

¹⁾ In the comprehensive approach, the position is netted against the collateralised portion of the position. The net position remains in its original position category.

Interest rate risks balance sheet structure

The new ordinance on capital adequacy continues to recognise the internal systems of banks as the main instrument of measuring the interest rate risk in the banking book.

Controlling of interest rate risks is done by the Risk Management Committee (RMC), which in general convenes once a month. The RMC evaluates the income situation by means of the interest rate margin and the income effect, it evaluates the risk situation by means of sensitivity key figures. Apart from considerations related to the reference date, evaluation of the interest rate risk is completed by dynamic simulations and stress tests. The Bankrat (Board of Directors) defines the maximum risk the bank has to bear. The Bankrat is informed on a monthly basis of the development at the money and capital markets, and of the balance sheet structure and the inherent interest rate risks.

On 31 December 2014, sensitivity of the equity capital was 4.91 per cent, at a parallel shift of the rate curve by 100 basis points. Sensitivity of the equity capital is completed by maturity-related sensitivity key figures (key rate duration). The

Key Rate Duration measures the sensitivity of the equity capital against the shift of the rate curve in the given maturity margin. Controlling of the Key Rate Duration in the relevant maturities is done by precise refinancing contracts, structuring of conditions and derivative financial instruments (interest rate swaps).

The interest rate risks reflect the correct relation to the cash value of the equity capital. In the current low-interest-rate environment, fixed-rate mortgages of multi-annual duration were very much in demand thus increasing the average duration of interest-bearing assets. Basellandschaftliche Kantonalbank fulfilled its obligation as a safe haven for institutional investors. The measures taken to control the balance sheet were an answer to the clients' behaviour and resulted in a stable sensitivity in the equity capital throughout the year. Investing our equity capital evenly over a period of ten years is a means of securing the interest income in the long term and at the same time reducing volatility.

Contract volume of credit derivatives in the banking book

There are no credit derivatives in the banking book.

QUALITATIVE INFORMATION

Participations and scope of consolidation

Basellandschaftliche Kantonalbank is not subject to any obligation to consolidate neither regarding capital adequacy nor accounting. As per 31 December 2014, the book value of their participations is CHF 42.251 m and comprises largely participations in financial service providers and joint operations for banks.

Credit risk

Managing of credit risks is crucial for the overall situation of a bank. Basellandschaftliche Kantonalbank considers its direct lending business (on-balance- and off-balance-sheet) and therefore the risk management of default and credit risks as their core competency.

The principles regarding default and credit risks are laid down in the bank's risk policy and the relevant instructions. There is a hierarchy of responsibilities and a number of instructions issued by the Executive Board in order to check and approve credits (including the assessment of creditworthiness and the evaluation of collateral) for the level of individual loans. These instructions help to recognise, assess and limit credit risks.

In order to assess the credit risk we apply a rating procedure taking into account the credit sum and the counterparty. Analysis of the creditworthiness of commercial customers is based on the rating system CreditMaster by RSN (Risk Solution Network AG). RSN AG is a cooperation of 20 licensed banks with aggregate total assets of CHF 200,000 m with the aim of building a common data pool.

Basellandschaftliche Kantonalbank uses the rating tools "Corporate Model" and "Immobilien-gesellschaften". This first evaluation, based on qualitative and quantitative factors, is completed by the expert knowledge contributed by loan specialists. All those corporate customers who were rated by means of the rating system CreditMaster are being allocated to ten different rating categories, according to the creditworthiness established by the bank. This shows the risk diversification over the whole credit portfolio and builds the basis for an adjusted pricing and provisions policy.

The bank calculates large exposures in line with the regulations of the Capital Adequacy Ordinance (CAO). Additionally, the readiness to assume risks is restrained by the bank setting

internal counterparty-limits for the maximum commitment per individual transaction or per customer (group). Calculation of the required capital for credit risks is done according to the International Standard Approach (SA-BIS). Calculation of the credit equivalent for derivatives is done according to the method of market value; the simplified approach is applied for the eligibility of collateral. Further explanations on credit and default risks are detailed in this report on page 39.

Market risk

Capital adequacy requirements for market risks are calculated by means of the standardized Approach to Market Risk. The trading book is monitored daily while there are sub-limits for securities, foreign exchange and precious metals. The overall limits for risks in the banking and trading books are submitted to the Bankrat annually for their approval. Procedures and organisation of the risk management in the trading and banking books are regulated in the risk policy and internal rules and instructions. Risks in the individual risk categories are measured on the basis of appropriate methods and are monitored by means of limiting systems. These are reported on a daily or weekly basis to the appropriate levels of the management and information systems of the bank. Once a month, the bank establishes a comprehensive trading report for the attention of the Executive Board. BLKB publishes additional qualitative information on market risks in general and on the risks of interest rate changes in particular on page 40 of this report.

Operational risk

The bank applies the basic indicator approach (BIA) for their capital adequacy requirements for operational risks. Further information on operational risks and their management are published on page 41 of this report.

Risk management

Detailed information on risk management, risk control, and risk organisation of Basellandschaftliche Kantonalbank is to be found on page 37 of this report.

Report of the statutory auditor on the financial statements



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

Basellandschaftliche Kantonbank, Liestal

Basle, 11 February 2015

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Basellandschaftliche Kantonbank, which comprise the balance sheet, income statement, cash flow statement and notes (pages 33 to 78), for the year ended 31 December 2014.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss banking law and comply with the legal requirements.



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

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

Ernst & Young Ltd

A blue ink signature of Patrick Schwaller, consisting of a stylized 'P' followed by a series of loops and a horizontal line.

Patrick Schwaller
Licensed audit expert
(Auditor in charge)

A blue ink signature of Pascal Berli, consisting of a stylized 'P' followed by a series of loops and a horizontal line.

Pascal Berli
Licensed audit expert



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