

Compliance.

LBBW defines compliance as the preventative management of risk arising from failure to comply with the applicable laws, standards and processes, which damages the LBBW Group's business model, reputation and success and disappoints the expectations of owners, customers, employees, and the public.

The requirements of LBBW's compliance are set out in a compliance management system (CMS). This system combines requirements of the corporate culture and internal guidelines, a compliance organization, information systems, controls, employee training and reciprocal reporting to create an instrument for risk-oriented management. The goal is to implement an end-to-end culture of prevention in which all agents of the LBBW Group commit to comply with the law and act accordingly, thereby achieving risk transparency and increasing the trust of business partners.

Capital Markets Compliance.

2010 was shaped by the implementation of the requirements of the Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organization and Transparency pursuant to Sections 31 et seq. of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) for Investment Services Enterprises (MaComp) published by BaFin on June 7, 2010. The reasons for the development of MaComp were the findings on failings in the sales departments of many investment services companies gathered in the wake of the financial crisis. As a result of the measures derived from MaComp, particularly the expanded supervisory responsibilities of LBBW compliance, confidence in the securities markets is fostered and protection for all investors and the institutional functionality of the capital markets reinforced. A further focus in the compliance remit was the supervision of the implementation of the tightened regulations on recording investment advice, which have been in force since January 1, 2010.

Enhanced employee training was also provided in 2010 to identify signs of insider trading and the resulting prohibitions on trading. In addition to advice for specialized divisions on issues of capital markets compliance, the focus was again on continual monitoring of securities transactions with regard to adherence to legal regulations (control room).

Anti Money Laundering Prevention.

The requirements brought by the far-reaching amendment to the money laundering act have been implemented at LBBW. The mandatory assessment of the Group's risk situation as regards money laundering fulfills the individual requirements of a risk strategy tailored to LBBW. The high outlay associated with compiling and regularly updating this risk assessment must be viewed in the context of overall integrated compliance in a heterogeneous group.

As a result of the considerably increased requirements of the German Federal Financial Supervisory Authority and legislation, LBBW's money laundering prevention responsibilities have been restructured and the process and work flows in the Group adjusted.

Financial Sanctions/Embargoes.

As a result of the connection of the LBBW office in Singapore to the existing financial sanction auditing system, the level of standardization in processing financial sanction and embargo monitoring has been raised further. Alongside the real-time auditing of foreign payment transactions and LBBW's customers, the embargo unit also issues recommendations on matters of foreign trade legislation and supports distribution in implementing legal requirements, such as the extensive new sanction measures against Iran (EU Regulation 961/2010), which are constantly being effected for the protection of our customers and LBBW.

Financial Intelligence Activities.

Financial fraud represents a significant potential threat that, in addition to material damage, can involve incalculable risks to a company's reputation. For this reason, LBBW continues to place great emphasis on focus training for its employees and providing clarification for its customers as to offender typologies and how offenses occur. The LBBW Fraud Prevention Board addresses cross-divisional matters of fraud, e. g. with the introduction of a practical e-learning training program for all employees of the Group.

In addition, the risk assessment conducted each year forms the basis for identifying vulnerable subject areas and initiating targeted prevention measures. As well as the use of additional audits for monetary transactions and credit documents to prevent criminal actions, the consistent pursuit of fraud against the assets of LBBW is a significant part of the financial intelligence activities unit.

Data Protection.

2010 was marked by the implementation of requirements deriving from amendments I to III of the Federal Data Protection Act amended in 2009. Data protection featured heavily in the previous implementation of measures, especially those for scoring, advertising and contract data processing.

The increasing sensitivity of our customers to issues relating to data protection legislation was expressed in 2010 by numerous customer queries and requests for information. Special training for employees on data protection was again held in 2010.

In addition to advice for specialized divisions on issues of data protection, a focus of LBBW data protection was on random audits in specially selected business areas. The internal audit focal points here were branch inspections, processes for customer requests for information and the approval process for the publication of data on the internet.

LBBW also conducted audits at the premises of external service providers involved in business with credit cards and the destruction of files and data carriers.