Vendor Management Policy

THE AHMEDABAD DIST CO-OPERATIVE BANK LTD.

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Document Definition:

The Ahmedabad District Co-Operative Bank Ltd. rely on vendors to perform a range of services and products for BANK. Bank regulations and best business practices require to perform a risk assessment on our vendors and perform additional due diligence commensurate with the identified risk. Building and sustaining effective, positive vendor relationships directly correlates with how we are able to serve our customers, make the most of limited resources, minimize risk, keep a true regulatory course, enhance our standing in our community, and protect the information and assets in our.

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1. Policy and Program Management

The Board of Directors and management recognize the need to establish and implement policies and procedures with respect to the appropriate oversight of third-party entities who provide various support and/or product services for ADC Bank. For purposes of this policy, a third-party relationship is a broadly defined term to include any entity that has entered into a business arrangement with bank by contract or otherwise.

The third-party relationship may be positioned directly or indirectly between bank and its customers or otherwise have unfettered access to bank's customers. Consequently, the quality of that third party's performance is critical to bank's long-term success.

Purpose

The purpose of this policy is to provide a framework for managing the lifecycle of vendor relationships and provide context for ATG procedures that outline specific systems and guidelines for vendor management.

Scope

This policy applies to all ADC BANK business entities including individuals, departments that engage vendors as defined in this document.

2. Authority & Responsibility

The Board of Directors and management are ultimately responsible for identifying, controlling and properly overseeing outsourced relationships to mitigate risk against the bank. The Chief Executive Officer is responsible for maintaining the program, assisting with new vendor contracts, ensuring that annual vendor reviews are conducted, and that risk ratings are kept up to date as part of the review process. The Board of Directors and management have developed and implemented this policy to consistently govern the outsourcing process for the entire organization. This policy addresses outsourced relationships from an end-to-end perspective including:

1. Establishing servicing requirements and strategies
2. Selecting a provider by conducting due diligence activities
3. Negotiating the contract to provide the ability to control and monitor third party activities (e.g., growth restrictions, underwriting guidelines, external audits, etc.) and costs.
4. Monitoring, changing, and discontinuing the outsourced relationship if it does not meet high quality standards or uphold contractual terms.
5. Conducting annual reviews of high risk or critical third-party's audit results, financials and vendor provided documentation.
6. Reporting any exceptions to the Board of Directors to ensure exceptions are immediately addressed to evaluate the risk to First Bank.

Board of Directors

Appropriate reporting through Board committees or the entire Board of Directors shall address risk management considerations and the overall operation of vendor management activities.

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Enforcement

No part of this policy or its supporting operating procedures should be interpreted as contravening or superseding any other legal and regulatory requirements placed upon ADC Bank. Protective measures should not impede other legally mandated processes such as records retention or subpoenas. Any conflicts should be submitted immediately to management for further evaluation and/or subsequent submission to Bank's legal department.

Exceptions

Requests for exceptions to this policy must be very specific and may only be granted on specific items, rather than to entire sections. Bank personnel with exceptions are to communicate their requests to management who may need to seek Board of Director approval prior to approving or granting the exception.

3. Planning/Risk Management

It is the policy of ADC Bank to appropriately assess, measure, monitor, and control the risks associated with the use of third-party/vendor relationships in any capacity. While engaging another entity may assist the Board of Directors and management in achieving strategic goals, bank realizes that such an arrangement reduces management's direct control. Therefore, the use of a third party/vendor increases the need for oversight of the process by bank from start to finish by utilizing the following main elements of an effective third-party/vendor risk management process:

1. Risk assessment,
2. Due diligence in selecting a third party,
3. Non-Disclosure Agreement (NDA),
4. Service Level Agreement (SLA),
5. Contract structuring,
6. Legal review,
7. Ongoing oversight, and
8. Vendor Termination

While these elements apply to any third-party/vendor activity, the precise use of this process is dependent upon the nature of the third-party/vendor relationship, the scope and magnitude of the activity, and the risks identified. These guidelines are not intended to result in an expansion or a decrease in the use of third parties by bank, but to provide a framework for assessing, measuring, monitoring, and controlling risks associated with third parties throughout the relationship life cycle.

In certain instances, a third-party relationship may be classified by bank as "high risk" if the:

1. Relationship has a material or critical effect on bank revenues or expenses;
2. Third party/vendor performs critical functions;
3. Third party/vendor stores, accesses, transmits or performs transactions regarding confidential customer/member or employee information; or
4. Third party/vendor poses risks that could significantly affect earnings or capital

Third party/vendor relationships that fall into the high risk or critical category require the highest level of due diligence, legal review and ongoing oversight. Bank assess the risk of the products and/or services provided in order to derive one of these three vendor relationship types:

1. **Critical** – extreme liabilities result if the information is compromised, could cause major financial loss, result in legal action against the institution, or severely damage the institution's reputation. Appropriate vendor oversight is required and due diligence must be conducted annually.

2. **Moderate** – serious liabilities result if the information is compromised, could cause moderate financial loss, legal action against the institution would be likely, or damage to the institution's reputation would be moderate. Appropriate vendor oversight is necessary and due diligence will be conducted every two years.

3. **Minor** – Liabilities could possibly result if the information is compromised, would likely cause only minor financial loss, litigation unlikely or damage to the institution's reputation would be minimal. Due diligence should be conducted on an as needed basis.

4.Overall Vendor Risk Rating

It is the policy of bank to review service provider relationships on an ongoing basis, with the frequency and level of detail determined according to the risk categories mentioned above. The overall risk rating is determined by the bank's initial due diligence and the results of the completed vendor risk rating review. This process takes into consideration the relationship significance, due diligence collected, recent performance assessments and any incidents reported. Overall vendor risk ratings include:

High
The risk associated with the vendor/service relationship could be significant, either due to the service or the vendor providing the service.

Medium
There is measurable risk associated with the vendor/service relationship, either due to nature of the service or the vendor providing the service.

Low
There is little risk associated with the vendor/service relationship. Impact is minimal and could be considered a cost of doing business. Additional controls could further reduce the impact and might be considered as part of an optimization process. Appropriate vendor oversight is minimal.

5. Service Provider Due Diligence

The Board of Directors and Management recognize the need to incorporate a complete and extensive due diligence process before a contract is awarded and as a condition of continuing support for any of Bank's significant vendors (i.e., subcontractors, support vendors, and other parties). Ultimately, the depth of due diligence will vary depending on the scope and importance of the outsourced services in addition to the risk to bank from these services.

Due Diligence Standards

It is the responsibility of the Board of Directors or management to select a qualified entity to implement the activity or program following an assessment of risks and a decision to proceed with a plan to establish a third-party relationship through a request for proposal (RFP) and/or e-tender process as directed by regulatory authorities on e-procurement portal.

The due diligence process provides bank with the information needed to address qualitative and quantitative aspects of potential third parties to determine if a relationship would help achieve bank 's strategic and financial goals and mitigate identified risks. Not only is due diligence to be performed prior to selecting a third party, but it is also to be performed periodically during the course of the relationship, particularly when considering the renewal of a contract.

Comprehensive due diligence involves a review of all available information about a potential third party/vendor, focusing on the entity's financial condition, its specific relevant experience, its knowledge of applicable laws and regulations, its social and environmental practices, its reputation, and the scope and effectiveness of its operations and controls. The evaluation of a third party may include the following items:

- Audited financial statements, annual reports, and other available financial indicators.
- Inspecting as far back in the supply chain as needed to obtain assurances that the entire supply chain is free from unethical social and environmental conditions and to ensure that component and material substitutions are aligned with agreed-upon materials.
- Significance of the proposed contract on the third party's financial condition.
- Experience and ability in implementing and monitoring the proposed activity.
- Business reputation, including existence and corporate history.
- Qualifications, backgrounds, and reputations of company principals, including criminal background checks when appropriate.
- Strategies and goals, including service philosophies, quality initiatives, efficiency improvements, and employment policies.
- Legal and regulatory compliance, including the existence of any significant complaints or litigation, or regulatory actions against the company.
- Ability to perform the proposed functions using current systems or the need to make additional investment.
- Reliance on and success in dealing with the use of other third parties or subcontractors by the third party.
- Scope of internal controls, systems and data security, privacy protections, and audit coverage.
- Business resumption strategy and contingency plans.
- Knowledge of relevant consumer protection and civil rights laws and regulations.
- Adequacy of management information systems.
- Insurance coverage.
- Other companies using similar services from the provider that may be contacted for reference.
- Service delivery capability, status, and effectiveness.
- Technology and systems architecture.

The depth and formality of the due diligence performed by Management may vary according to the risk of the outsourced relationship, Bank's familiarity with the prospective service providers, and the stage of the provider selection process.

6. Contract Considerations

Each purchase or service order is based upon an individual situation, and the selection of an appropriate vendor is to be selected on the basis of quality, service and price in addition to the due diligence directives of this policy. Price should not be the driving force in this decision-making process. Some degree of loyalty to a vendor may generate a more immediate response when a need of First Bank becomes a priority.

It is the responsibility of the Board of Directors and Management to ensure that the specific expectations and obligations of both bank and the third party are outlined in a written agreement prior to entering into the arrangement after selecting a third party. The Board of Directors will be informed by Management prior to entering into any critical or material third party arrangements. Appropriate legal counsel is also to review significant agreement prior to finalization.

It is the responsibility of Management to ensure that a critical or material risk contract, at a minimum:

1. Portrays an accurate description of the outsourcing relationship.
2. Is clearly written and contains sufficient detail to comprehensively define the rights and responsibilities of each party.
3. Is reviewed by Legal Department, when appropriate.

The following is a list of key contract elements that every vendor owner should consider including in new agreements during the contract negotiation process or existing agreements during the contract renewal review process. The inclusion of various elements listed will depend on the type of service provided and risk rating of the vendor.

1. Nature and Scope of Arrangement
2. Performance Measures or Benchmarks
3. Responsibilities for Providing, Receiving, and Retaining Information
4. The Right of the bank to Audit and Require Remediation
5. Responsibility to Comply with Applicable Laws and Regulation
6. Cost and Compensation
7. Ownership and License
8. Confidentiality and Integrity
9. Business Resumption and Contingency Plans
10. Indemnification
11. Insurance
12. Dispute Resolution
13. Limits on Liability
14. Default and Termination
15. Customer Complaints
16. Grievance Redressal
17. Subcontracting
18. Legal Review
19. Regulatory Supervision
20. Cybersecurity

7. Ongoing Monitoring

It is the responsibility of bank to maintain adequate oversight of third-party activities and adequate quality control over those products and services provided through third party arrangements in order to minimize exposure to potential significant financial loss, reputation damage and supervisory action. For vendors that interact with customers directly, it's a policy of the bank to monitor consumer complaints concerning products or services provided through the vendors. Because the regulators regard the actions of the vendors as those of the Bank, we include ongoing monitoring of consumer complaints as part of its vendor management program. At a minimum, such monitoring should address the following:

8. Vendor Termination

Any vendor not in compliance with Bank's Vendor Management Program will be required to make the necessary enhancements to correct noted deficiencies and assure compliance within an acceptable timeframe. Any weakness that a vendor is unwilling or unable to correct to the Bank's satisfaction will be addressed with the Compliance Officer. Management will determine whether the weakness presents an unacceptable risk to the institution and forward any findings to the Board of Directors for final approval. In instances when a solution that controls/mitigates the weaknesses found cannot be reached, alternative vendors will be sought.

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FOR, THE AHMEDABAD DIST. CO-OP. BANK LTD.

CHIEF EXECUTIVE OFFICER

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