

# SOURCING PROCUREMENT & VENDOR MANAGEMENT POLICY

(For the Purchase of Goods and Services and handling of Suppliers)

## 1. Purpose

The procurement process includes preparation and processing of a need, the purchase approval and execution, as well as the vendor management.

It mainly involves: -

- (1) purchase planning,
- (2) standards determination / specifications development,
- (3) supplier research and selection,
- (4) contract negotiation,
- (5) supply contract administration (including performance monitoring)

The purpose of this policy is the definition of a set of rules governing procurement (the purchase of goods and services). These rules principally ensure the prevalence of transparency, integrity, fair competition, and accountability throughout the execution of the process. To this extent, the policy aims to maximize the benefit in terms of expenditure on products and services, always within a fair, lawful, and ethical framework.

Another key objective of this policy is to showcase our corporate values, attitudes, competencies, and behavior that determine BOC's commitment and style of compliance with internal and external rules and regulations.

## 2. Definitions

«Purchase of Products or Services» means inter alia the supply of: -

- (i) Standardized products, such as market information or information on current prices and purchase of office inventory and other goods and consumables; and
- (ii) Counselling and other services that are not part of the business and investment activities of the institution, including legal advice.

«Outsourcing» means the use of a third party to perform services or activities that would normally be undertaken by the institution, now or in the future and does not include the Purchase of Products or Services.

«Critical or Important Service or Activity» means the service or activity whose possible improper or inappropriate or failure to execute, would materially impair the ongoing compliance of the institution with the terms and conditions under its license, or the ability of the institution to meet its regulatory responsibilities or it would affect its financial results, its soundness or the continuity of the business of the institution.

«Directive» represents The Central Bank of Cyprus's Directive to Credit Institutions on Governance and

Management arrangements in Credit Institutions of 2014, Appendix 2, Paragraph 21 –‘Outsourcing’

«Internal Control Functions» are consisted of a risk management function, a compliance function, an information security function and an internal audit function.

«Law» means the Business of Credit Institutions Laws of 1997 to (No. 6) of 2015.

«Tenders Archive» is the recording and archiving system used by SP&VM, relevant to each and every instance of tenders’ process.

“Privacy Matters” refer to personal data safeguards assessed through the privacy assessment documents incorporated in the vendor onboarding process in order to facilitate compliance with the General Data Protection Regulation (GDPR).

«Bank Data» is all data processed or created for the bank and its stakeholders (customers, employees, shareholders)

### 3. Sectors Affected

This Policy applies for all BOC units and subsidiaries in Cyprus and abroad (i.e. registered in other countries), wishing to purchase products or services or to outsource services or activities.

TC maintains the overall responsibility for monitoring the implementation and effectiveness of this policy in cooperation with SP&VM.

### 4. Policy

The principles governing the procurement process (purchase of goods and services) are organized in three main groups: -

#### A. General principles

1. **The Procurement process.** All required purchases must follow the provisions of the Sourcing Procurement & Vendor Management Process.
2. **Cost – Quality – Efficiency.** Received proposals from potential suppliers in response to BOC’s corresponding requests, should not be judged solely on the basis of economic competitiveness, but should be taking into consideration factors such as the quality of the goods / services (fit to serve the purpose) and the supplier’s ability to perform.
3. **Accountability (reporting and recording/archiving).** Any parties responsible for the execution of a purchase are obliged to report through SP&VM to the competent Approving Authority. SPVM must maintain all corresponding procurement instances’ records (purchase requests, tenders documentation, approvals, and awarded contracts/POs).
4. **Conflict of Interest.** Cases of conflict of interest relating to the business activities of the Group, or where a close relation exists between interested parties (i.e., legal entities or natural persons that may have direct or indirect financial interest/benefit through a transaction) and persons involved in the process (BOC staff – executing officer or approving authority) must be declared in accordance with the relevant Group policy.
5. **4-eyes principle.** The technical and business requirements specification must be developed by a team of qualified people (minimum 2 persons per discipline) possessing relevant expertise. In cases where

the specifications remain the same as those in a previous similar procurement occasion, these are simply reviewed and verified by a minimum of 2 experts. The same principle applies at the proposals' evaluation stage (assessment-score), as well as during the award stage (contract negotiation), and while executing the subsequent contract lifetime's procurement activities (performance monitoring and contract amendments or renewal negotiation). An SPVM analyst must be leading the team negotiating financial terms with the vendor.

6. **Reciprocity.** Synergies of mutual benefit which arise out of the Group's business relationships with its suppliers must be leveraged. It is also essential for effective controls along with relevant evaluation criteria for potential suppliers (pre-selection process); these should be aiming the development of healthy and mutually beneficial business relationships, and by no means crossing the boundaries of ethical practices, the competition laws, or relevant regulations.

#### **B. Vendor management (selection, engagement, appraisal)**

1. **Suppliers Catalogue.** Compilation and management by category of service or product. Pre-selection process must use defined criteria regarding capacity, capability, consistency, effectiveness, experience, current or previous cooperation and reciprocity.
2. **Selection.** A structured assessment and, where appropriate, vendor due diligence must be executed prior to selecting a supplier. This is done before accepting any proposal or signing any contract, as a key part of a vendor's assessment or the tenders' evaluation (RFP process) where Privacy Matters are also taken into consideration.
3. **Engagement.** A supplier is engaged for the supply of goods or services through a legal contract, based on an approved by LS "BOC agreement template". In the case where this is not achievable, i.e. the contract is drafted by the supplier, or is based on the supplier's specialized terms of product or service provision, the BO or PM must ensure that terms of the proposed contract are fully reviewed by the LS supported by business area technical experts, the RISK and SPVM and agreed before this is signed.
4. **Protection of Bank Data.** Suppliers must be contractually obligated to take appropriate and evidenced measures in order to meet the following non-negotiable objectives:
  - To protect Group's and its customer's data in compliance with the bank secrecy provisions as defined in the Law, GDPR and /or any other related regulation or laws that may apply.
  - To inform BOC immediately of any detected, suspected, or attempted security breaches related to Bank Data.
5. **Privacy assessment:** In case the Supplier processes personal data of the Bank's clients or employees, it should be safeguarded that they properly apply the GDPR principles throughout the contract relationship-lifecycle. Structured assessments utilized warrant that only Suppliers that provide sufficient guarantees in regard to safeguarding the Bank's or third parties' personal data are being on boarded. The Supplier must be contractually obligated to meet such important privacy objectives in order to ensure the Bank only uses Suppliers which have demonstrated proven ability or willingness to implement the required actions to support and implement appropriate safeguards to comply with GDPR and BOC data privacy policies.
6. **Performance and Risk monitoring.** Suppliers' performance must be regularly appraised on the basis of meeting their contractual objectives. SLA performance, relevant audit reports, test results (e.g., business continuity tests), independent (security or other) attestations as well as user /customer assessment surveys (where available) should be considered at a minimum as part of the supplier's appraisal.
7. **Strategic partnerships.** Development of healthy partner-like relationships with major supplier for regular consultation and procurement planning, leading to enhanced efficiencies (cost reduction) as well as to improved quality of purchased goods and services.

8. **Mitigating concentration risk.** Protecting the Group against dependence on one specific, or on a limited number of suppliers. When procuring, the minimum number of potential suppliers is set at three (3). Every possible effort must be made for the replenishment of the supplier's catalogue where shortage of candidate vendors is identified. Monopolistic purchases when unavoidable must be duly justified as part of the expenditure approval process.

**C. Sourcing (direct, or through tenders)**

1. **Protection against dependence on specific, or on a limited number of, suppliers.** The minimum number of suppliers is set at three (3), provided that all necessary steps have been taken to find and invite a greater number of potential capable suppliers. In this way over-dependence of the bank on a limited number of suppliers (or on specific suppliers) is avoided. If the number reduces (for any reason) to less than three (3), it should immediately be replenished. Where the number of suppliers for a specific business area/requirement is large, then it can be restricted by taking into consideration possible particularities of each business area.
2. **Confidentiality.** Any information provided to the potential supplier, during the sourcing process (e.g. via the tender documentation), must be protected in accordance with the relevant Group Non-Disclosure Agreement. Equally important remains BOC's responsibility to protect confidential and business-sensitive information included in a prospective supplier's proposal from inappropriate access and/or misuse.
3. **Fair Competition.** Potential suppliers must be treated fairly, by securing neutral definition of specifications which focus on best meeting BOC's needs or business requirements. The same level of information and support must be provided to all contestants in the preparation of tenders.
4. **Evaluation – award.** The evaluation of tenders must be transparent and be using standardized methods based on accepted industry practices. The integrity of the evaluation weighting structure and criteria must be assured through the employment of necessary controls before the invitation to tender is issued and maintained as such throughout the process. At the highest level the proportional rule of 40% to 60% as regards the weight of financial criteria to technical criteria respectively should apply. The award should always be made by the competent Approving Authority, upon submission of a detailed proposal (evaluation report) through SP&VM.

## 5. Roles & Responsibilities

**Each Divisional or Business Unit Director** is responsible for ensuring that the principles of this policy are implemented by the operations under his control.

Board of Directors (Management Body)	Approving the policy (authority to approve may be delegated to a relevant executive committee).
CEO and Directors (Senior Management)	Setting and regularly reviewing this policy, as well as overseeing its implementation. Evaluating the completeness and implementation effectiveness of the SPVM policy and procedures. Determining ways for addressing any issues raised and improving based on implementation reports and observations. All Directors maintain the responsibility for the policy's implementation by the operations under their control.



The Tenders Committee	Expenditure Approvals, Tenders Award – monitors the implementation of this policy, suggests improvements to, and approves deviations when an individual case's conditions require for such changes to the standard process. Refers for decisions to higher approval authorities when appropriate.
Legal and Control functions (RISK, TPRM, DPO and Compliance where necessary)	Providing expert advice in identifying/managing risks when requested during the execution of the Procurement process.
Competent unit Manager/Director	<p>Each Director is required to prepare an annual procurement plan which should incorporate the details of the <u>expenditure requirements as budgeted for the year</u>.</p> <p>Appoints a suitably qualified person responsible for each procurement/tenders case, the "Business Owner". Requests for the appointment of a relevant Project Manager where necessary.</p> <p>Evaluating whether, and the extent to which, a particular need requires an acquisition via the tenders' process. Accountable for compliance with this policy. Approves or requests for the approval by a higher expenditure approval authority accordingly.</p>
Project Manager and/or Business Owner	Running and managing all related processes in full compliance with this policy.
Manager Sourcing Procurement & Vendor Management	Responsible for the maintenance, institutionalization and implementation of this policy throughout the Group. Assigns a responsible Sourcing Procurement Analyst for each case. Follows up and monitors the execution.
Sourcing Procurement Analyst	Responsible for guiding the Project Manager and/or Business Owner and exercising controls throughout the execution of the procurement process. Manages any interaction with the prospective suppliers. Participates in the tenders' evaluation teams (when this is required) and enforces compliance with this policy. Presents the evaluation report/proposal to the Tenders Committee. Updates the Tenders Archive, with the particulars of each case under their responsibility.
All members of staff	Sufficient awareness of their responsibilities within the framework of this policy, thereby nurturing a culture of compliance.

## 6. Supporting Documentation

Templates and checklists were developed to ensure consistent execution of processes and compliance with policies and legislative obligations. This “toolset” of checklists and templates is part of the Procurement process.

Closed invitation to tender is applied for the request of tenders (regardless of cost or type) for the purchase of goods or services provided by a limited number of capable suppliers, or sole representatives / distributors, or holders of intellectual rights (oligopolistic or monopolistic markets). As a result, only one or more specific suppliers will be invited to submit written proposals. An adequately justified list of suppliers/OSPs or a single supplier (in the case of a monopoly) should get the approval of the competent Director or sponsor in collaboration with SPVM before the invitation to tender. The above information must be recorded clearly in the tender evaluation report for examination by the approving authority.

**General procurement of supplies** (this applies to the purchase of goods with fixed standardized specifications, e.g., consumables). In these cases, the lowest tender that meets the requirements will be accepted:

- (i) Written Tender (under the supervision and validation of SP&VM)

After obtaining approval from the authorized person (competent department manager or sponsor), written tenders must be requested from at least five (5) suppliers, including the successful supplier during the last similar tender (provided that the products or services met fully the Group’s requirements).

- (ii) Verbal request for prices

For efficiency, oral requests for prices/costs from not less than two (2) suppliers may be used for the procurement of various materials or services costing less than €200 (including taxes). The responsible officer must maintain a record of the verbal offers for consideration and official confirmation.

All purchases must follow and comply with existing procedures and policies. Exemption is permitted only in extra-ordinary circumstances (emergency requirements, or in cases of force majeure) – exceptions will be granted with special approval from the Competent Approving Authority.

### **Procurement Planning: -**

Each Division is required to prepare an Annual Procurement Plan which should incorporate the details of the expenditure requirements as budgeted for the year. SP&VM allocates support resources accordingly.

Careful planning of BOC’s procurement needs will provide visibility and means to follow up progress with our related responsibilities, minimizing the risk of project delays or penalty premiums connected with overdue payments, as well as mitigating the risks associated with the inconsistent and haphazard application of the procurement process. Timely allocation of resources will ensure consistency as far as the procurement process is concerned and accurate procurement planning and execution will lead to undisputed choices / recommendations best satisfying our business / operational requirements.

**Performance/Risk Monitoring: -**

Actions in this context should not be focused exclusively on compliance of the supplier, but also on rewarding through the development of a successful business relationship, serving the mutual interest. The guiding principle should be to optimize the business relationship and facilitate smooth service in the most efficient manner. For these objectives to be achieved any subversive causes on both sides must be identified and remedied.

The management of a supplier is at the same time a tool to ensure the correctness of the choice, with the provision that if there are irreconcilable differences and irregularities in the execution of an agreement; this may lead to the review and termination of the contract.

The responsibility for managing each supplier rests with the competent/involved division (BO, PM) making the request, and is performed in conjunction with SP&VM. Depending on the circumstances, contact with suppliers should be made by people with specialist duties (relevant to the case), who will present empirical evidence and recommendations. For this reason, the division should keep detailed performance data on each individual supplier. This information should be available when meeting with the supplier.

Any decisions and relevant agreed actions should be recorded and subject to monitoring and confirmation of implementation by a responsible person of the competent business unit (PM or M-BU). SP&VM will facilitate the process.

Vendor management is a controlled activity, and it is carried out under relevant institutionalized or contractual procedures. All necessary details and evidence in relation to every action or decision arising must therefore be retained in order that reporting, monitoring, and auditing can be done when required.

**Negotiations: -**

Negotiation with suppliers takes place in cooperation with SP&VM. The objective is not for negating the result of the tender evaluation process, but to achieve optimization of the preferred option in mind. In addition, it is a tool to ensure the correctness of the first choice, with the provision that if there are irreconcilable differences during negotiation; it may lead to a review of the second choice and so on.

At least two (2) authorized people from the Group take part in the negotiation, one of whom is a specialist from SP&VM. It is recommended that the second person is a representative of the division, function, unit, or project requesting the purchase.

Where a contract is awarded for Outsourcing or for the Purchase of Products or Services, all disputed terms must be negotiated to a final agreement (the involvement of Legal Services at this stage is necessary) before the contract is signed. If during the negotiation risks are evident, they shall be escalated to Risk management for further handling. In the case of renewal of an existing contract, efforts are made to negotiate improvements in terms and conditions, including the scope, cost and service level and manage non-initially identified risks that arose during the contractual period. Any changes affecting the Legal framework of a contract under renewal must be reviewed by Legal Services advisors.

In the case of simple purchases which do not require complicated agreements, the main guiding negotiation factors provided scope and specifications have been agreed, are cost and delivery terms.



Important points to be considered: -

- Excellent knowledge of the negotiation framework. Knowing exactly what is and isn't negotiable results in very effective negotiation.
- Honesty, with the objective of "win-win". Honesty allows the negotiators to understand the true respective needs of the counterparties, leading to a successful "win-win" agreement (the ultimate goal of every negotiation).
- Creative flexibility. Going into a negotiation with multiple options helps both sides achieve their goals.
- Rejection doesn't mean confrontation. Not being afraid to say "no" to something which isn't right or acceptable, adds value to the negotiation and benefits those who know when to use it.
- Familiarity with the Law and regulations. Ignorance of the Law does not justify non-compliance. Where there is doubt on a negotiation issue, regarding the legislation or regulations which have to be complied with, prior detailed examination must be carried out enlisting the help of experts on the specific issue.
- Negotiation does not always have to lead to an agreement. When it comes to effective negotiations, some of the best agreements ever made are those which never came to fruition.
- Compliance with Conflict of Interest and Anti-bribery policies (refer to Group Compliance Division's Policies).

**Reciprocity: -**

Supplier evaluation should be executed as part of the procurement activities leading to the purchase of goods and services, including Outsourcing. Specific reciprocity criteria must be included when compiling/reviewing the Suppliers Catalogue, and relevant weights applied to them, to ensure process consistency and transparency.

Actions in this context should not exclusively aim to penalise or to exclude a supplier as retribution, but to reward through the development of a successful, mutually beneficial business relationship. One of the main guiding principles is the optimization and capitalization on existing healthy business relationships. At the same time, equally important is the quest for new profitable relationships founded upon a sound business framework.

To ensure objective judgment in this respect, any relevant numerical indicators available via measurement tools of the Group's Finance Division should be used.

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