

VENDOR DUE DILIGENCE

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SECTION 1 VENDOR BACKGROUND

XYZ Federal Credit Union currently contracts with Diebold Monitoring (herein “Diebold”) to provide security services. More particularly, Diebold provides surveillance monitoring of our Main Office facility. Diebold has cameras strategically placed throughout the branch to monitor activity. This activity is electronically recorded using a DVR system which maintains multi-day activity.

SECTION 2 PLANNING

As part of our Third Party Due Diligence program, we believe it is imperative to determine whether the products/services of the vendor are consistent with the Credit Union’s overall business strategy. Likewise, this section outlines our decision to use this vendor as well as identifying the expectations of the vendor.

1) Relation to Strategic Initiatives:

We believe Diebold’s security services are imperative in meeting our Strategic Initiatives. The complexities of technology and increases in criminal acts perpetrated against financial institutions warrant Diebold’s security services.

2) Decision to use Vendor:

We continue to utilize Diebold’s services based on our past relations with the vendor. To date, we have not encountered material disruptions with vendor product or services. Nor has staff complained about Diebold’s service.

3) Expectations of Vendor:

We expect Diebold to continue to provide quality security-monitoring services to the Credit Union. We will measure these expectations through periodic monitoring and oversight of the vendor (See Section 10).

I) Short-Term Goals:

We expect Diebold to continue providing its’ security monitoring services without material incident.

II) Long-Term Goals:

Our Long-Term expectations parallel that of our Short-Term expectations. Whether it is one month or 24 months, we expect the vendor to provide its’ services without material incident.

SECTION 3 VENDOR RISK ASSESSMENT

The Credit Union may perform a “Vendor Risk Assessment” (herein referred to as the Risk Assessment) on each vendor before contracting with the vendor. We believe it is important to weigh the risks and benefits of outsourcing products/services to a third party compared to maintaining the items “in-house.”

This Risk Assessment reviews and weighs several variables in determining the need for the subject vendor. At a minimum, the Risk Assessment for each vendor will encompass the following:

- Criticality of Vendor product/service;
- Impact on Credit Risk;
- Impact on Liquidity Risk;
- Impact on Transaction Risk;
- Impact on Compliance Risk;
- Impact on Strategic Risk;
- Impact on Reputation Risk.

There is no set “formula” for quantifying the need for a vendor. Instead, we believe assessing the above areas will provide us an understanding of the risks involved in using the vendor.

1) Criticality of Vendor Product/Service:

As mentioned in section 1 – *Background*, we believe physical security is crucial to protect our assets, employees, and our members. Our asset size and services dictate a need to have an active security plan. Likewise, NCUA Rules and Regulations §748 mandates the Credit Union to have an active Security Program in place.

We chose to outsource this function because we lacked the resources (financial and human capital) to develop an “in-house” security-monitoring service. Likewise, we believe Diebold provides an objective and independent approach to security.

2) Vendor Impact on Credit Risk:

At this time, Diebold’s products/services have little-to-zero direct impact on Credit Risk. Diebold’s products/services do not directly interact with our lending area.

3) Vendor Impact on Liquidity Risk:

At this time, Diebold’s product/services have little-to-zero direct impact on Liquidity Risk. Diebold’s products/services do not impact our ability to fund obligations as they come due.

4) Vendor Impact on Transaction Risk:

At this time, Diebold's products/services have little-to-zero direct impact on Transaction Risk. Diebold's products/services do not interact with transaction processing.

5) Vendor Impact on Compliance Risk:

We believe Diebold's products/service have some impact on our ability to manage Compliance Risk. Diebold's security services is a product of complying with NCUA Rules and Regulations (R&R) §748 – *Security Program* – Physical Security requirements. Part 748(b)(1) requires a Credit Union's Security Program to contain processes to protect each credit union office from robberies, burglaries, larcenies, and embezzlement. We believe Diebold's product/services directly addresses this requirement.

The third party nature of Diebold's products/services also mandates the Credit Union to perform this due diligence review on the vendor as dictated by NCUA. These requirements include, but are not limited to, NCUA R&R §748 – Appendix A to Part 748; R&R §717.90 - Duties regarding the detection, prevention, and mitigation of identity theft.

Furthermore, Diebold's failure to provide a quality product could result in a negligence action against the Credit Union in the event an employee, member, or other person is impacted by its' failure to provide proper service. This negligence would stem from our duty to provide a sound physical security program as dictated by §748.

6) Vendor Impact on Strategic Risk:

At this time, Diebold's products/services have little-to-zero direct impact on Transaction Risk. Diebold's products/services do not interact with transaction processing.

7) Vendor Impact on Reputation Risk:

We believe Diebold's impact on Compliance Risk would directly impact our ability to manage Reputation Risk. Again, a breakdown in Diebold's security service would have a negative public opinion or perception leading to a loss of confidence and/or severance of relationships.

SECTION 4 ORGANIZATIONAL OVERVIEW

Diebold, Incorporated is an American corporation founded in 1859. Diebold employs more than 17,000 associates with representation in nearly 90 countries worldwide and is headquartered in Canton, Ohio, USA. It is publicly traded on the New York Stock Exchange under the symbol "DBD."

SECTION 5 VENDOR EXPERIENCE

As noted in Section 4, Diebold has been in existence since 1859. It has been working with financial institutions since inception. Likewise, Diebold is cognizant of the regulatory environment surrounding financial institutions.

Many Credit Unions in Luzerne and Lackawanna Counties utilize Diebold security services. To date, we have not received any negative reports from neighboring Credit Unions utilizing Diebold services.

SECTION 6 FINANCIAL CONDITION

1) 2007 Operations:

On March 3, 2008, Diebold, Incorporated (NYSE: DBD) announced that it will be unable to file its 2007 annual report on Form 10-K within the time period prescribed by the Securities and Exchange Commission (SEC). The 2007 annual report, as well as Diebold's quarterly reports on Form 10-Q for the periods ended June 30, 2007 and September 30, 2007, will be filed as soon as possible after completion of the previously disclosed review of accounting items by the company and its audit committee, in consultation with their outside advisors. The company currently anticipates this review will be completed by the end of the second quarter of 2008.

2) 2006 Operations:

Diebold's Accounting firm is KPMG, LLP. KPMG performed the 2006 Financial Statement Opinion Audit.

a) Statement of Income:

Diebold's "*Vendor Management*" package identified a pattern of growth over the prior years. More particularly, Diebold toted their progressive earning components:

Item / Year	2006	2005	2004
Total Sales	\$2,906,232	\$2,587,049	\$2,380,910
Security solutions	328,291	276,509	276,793
Self-service solutions	957,698	879,195	814,234
Service	1,436,982	1,293,630	1,187,751
R&D	70,995	60,409	60,015

(000 omitted)

In 2006, Net Sales increased 12.% while Income from Continuing Operations increased 4.4%. However, overall Net Income declined 10.5%. It appears this decline was attributable to a 42.5% in Depreciation Expense (i.e. non-cash expenses). Also, Included in the decrease in net income is the non-recurrence of income from discontinued operations of \$13,842 in 2005, which resulted from the sale of the campus card systems business.

b) Statement of Financial Condition:

i) “Off-Balance Sheet” arrangements:

A review of Diebold’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (MD&A) identified no “Off-Balance Sheet” arrangements.

ii) Contingent Liabilities:

Pursuant to the Notes to Financial Statements - #14 *Commitments and Contingencies* - the company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the company’s financial position or results of operations. In management’s opinion, the financial statements would not be materially affected by the outcome of any present legal proceedings, commitments or asserted claims.

c) Statement of Cash Flows:

During 2006, the company generated \$250,424 in cash from operating activities, an increase of \$147,710 or 143.8 percent from 2005. Net cash provided by operations during 2006 was positively affected by the \$81,993 decrease in accounts receivable compared with an increase in accounts receivable of \$97,075 in 2005. Cash collections included approximately \$18,505 of past due election receivables from counties in California. Total sales increased by \$319,183 in 2006 versus 2005, while days sales outstanding (DSO) decreased six days over the same time period. DSO was 59 days at December 31, 2006 compared with 65 days at December 31, 2005. The change in certain other assets and liabilities positively affected cash flows from operations by \$71,730 in 2006 as compared with a positive impact of \$40,559 in 2005. The change in certain other assets and liabilities was primarily the result of an increase in estimated income taxes payable.

The company used \$182,080 for investing activities in 2006, an increase of \$75,818 or 71.4 percent over 2005. The increase over the prior year was largely the result of higher payments for acquisitions, which increased by \$34,455, moving from \$27,701 in 2005 to \$62,156 in 2006. The company also had net payments for investments in 2006 of \$45,152 compared to \$20,829 in 2005, a \$24,323 increase.

These were both offset by the non-reoccurrence of proceeds from the sale of its campus card system business in 2005.

Cash used by financing activities was \$24,062 in 2006 compared to cash provided of \$27,220 in 2005, a \$51,282 increase in cash used in financing activities. The overall negative impact of cash flow from financing activities was the result of decreased net borrowings of \$44,136, moving from \$214,541 in 2005 to \$170,405 in 2006, and an increase of \$9,849 in common shares repurchased, moving from \$138,208 in 2005 to \$148,057 in 2006.

SECTION 7 OPERATIONAL REVIEW

This section addresses several key areas of the vendor's operations which we believe are important in sustaining the ongoing relationship with the vendor. These areas include:

- Internal Controls;
- Disaster Recovery Program;
- Security Program;
- Identity Theft;
- Record Retention.

In some cases some vendors may not have established policies, procedures, or programs to address these areas. As such we will consider mitigating factors to ensure the vendor has sufficient resources to sustain the relationship.

1) Internal Controls:

Diebold's accounting firm, KPMG, audited management's assessment on Internal Control Over Financial Reporting based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG's Opinion Letter stated that Diebold maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

2) Disaster Recovery Program (DRP):

Diebold's "*Vendor Management*" package provided a summary of its' DRP. According to this section, the vendor's DRP acknowledged:

- Back-up facilities;
- Supplier DRPs;
- Customer Recovery Programs;
- Customer Response Center;
- Event Monitoring;
- Disaster Recover Teams with pre-defined action plans;

- IT Recovery Plan; and
- Avian Flu Pandemic.

3) Security Program:

Vendor did not provide a Security Program.

Mitigating Factor:

We concluded vendor's products/services does not warrant a security program. Diebold does not handle confidential member information.

4) Identity Theft:

Vendor did not provide a Identity Theft Program.

Mitigating Factor:

We concluded vendor's products/services does not warrant a Identity Theft Program. Diebold does not handle confidential member information.

5) Record Retention:

Vendor did not provide us a Record Retention program.

Mitigating Factor:

We believe Diebold's DRP references acceptable processes for capturing and retaining information we provide to the vendor.

SECTION 8 LEGAL REVIEW

1) Legal Counsel:

Pursuant to Diebold's "Vendor Management" package, Diebold has "in-house" corporate counsel. Corporate Counsel's office number is 330-490-4506.

2) Litigation Statement:

Diebold's "Vendor Management" package acknowledged that Diebold has various litigation matters from time to time. Any material lawsuits were listed in their Annual Report.

As noted in its' 2006 Annual Report, the company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material.

SECTION 9 VENDOR CONTRACTUAL RELATIONS

As noted, the Credit Union has a contractual relationship with Diebold. This relationship was entered into before this formal Due Diligence review.

SECTION 10 MONITORING & OVERSIGHT OF VENDOR

As noted above, XYZ FCU maintained a third-party vendor relationship with Diebold. This Third Party Vendor review was a product of our commitment to review and monitor our vendor relations.