



## REQUEST FOR PROPOSAL (RFP) FOR FINANCIAL AND TAX DUE DILIGENCE OF BANK OF BARODA, DENA BANK AND VIJAYA BANK FOR THE PROPOSED AMALGAMATION OF BANK OF BARODA, DENA BANK AND VIJAYA BANK

We invite request for proposals from Chartered Accountant Firms/Groups for conducting financial and tax due diligence of Bank of Baroda, Dena Bank and Vijaya Bank.

### 1. Proposal

Bank of Baroda would like to undertake a financial and tax due diligence exercise on the proposed amalgamation of Bank of Baroda, Dena Bank and Vijaya Bank.

### 2. Scope of Work

The Selected bidder will be required to conduct a detailed due diligence of Bank of Baroda, Dena Bank and Vijaya Bank for the financial years 2015-16, 2016-17, 2017-18 and April 2018 to Sep 2018 covering

- Financial and Tax Due Diligence.
- Financial Due Diligence which shall include analysis of financial accounting and tax data to identify major issues and risks.
- Tax Due Diligence covering Direct and Indirect Taxes
- Reporting of information.

A Detailed Scope of Work is attached as **Annexure A** to this RFP. Annexure A is just indicative and not exhaustive.

The objective is to conduct a detailed and thorough examination of Bank of Baroda Dena Bank and Vijaya Bank, analyse and verify in terms of correctness of ledgers and financial results presented in the balance sheet with a view to assessing its condition and determining the potential business and various risks.

Assess the consistency of the accounting norms/policies adopted by each of the three Banks and quantify the losses/surplus with regards to credit losses, provisions related to NPA in Fund Based and Non Fund Based facilities and various expenses.

The Due Diligence exercise should also quantify the incremental liabilities and ensure consistency in accounting and provisioning moving forward and wherever required write downs by the three Banks.

However, the activities mentioned is not exhaustive

### 3. Submission of Proposal

The Prospective bidders/s shall submit their Proposal as per the following:

#### i) Sealed Envelope 1 containing the following:

- Cover titled 'BID FOR DUE DILIGENCE OF BANK OF BARODA, DENA BANK AND VIJAYA BANK SUBMITTED BY ..... ' (NAME OF BIDDER)



- Detailed proposal highlighting the credentials in Financial due diligence
- Expertise in the Financial Services sector
- Proposed methodology for the work
- Details of the team members proposed for the transaction.
- Authority letter authorizing the person of the bidder to sign the proposal and other documents;

**ii) Sealed Envelope 2 (Financial Bid)**

- Containing the Financial Bid as a lump sum amount for the entire activity in a sealed envelope. The Financial Bid should be submitted including all out of pocket expenses and any applicable taxes except Goods and Service Tax.

Due to stringent timelines, the proposal can be submitted latest by 1600 hours on 16th October 2018 to the Chief Financial Officer, Bank of Baroda, Baroda Corporate Centre, 2<sup>nd</sup> Floor, C-26, G-Block, Bandra Kurla Complex, Bandra East, Mumbai - 400 051 in hard copies in original, duly signed by the authorized officer of the Bidder. No proposal will be entertained after the appointed time and date. Bank of Baroda or any of its agents will not be responsible for any postal/ courier delay. The proposals received after the appointed time and date will be rejected.

**4. Qualifying Criteria**

Prior experience in Mergers and Acquisitions of Banks in India or Abroad is necessary.

**5. Instructions to Bidders**

- The bidders/s shall bear all the costs associated with the preparation and submission of its bid and the Bank will in no case be responsible or liable for these costs regardless of the conduct or outcome of the bidding process;
- Any inter-lineation, erasures or overwriting shall be valid only if the person(s) signing the bid initial(s) them
- Bank of Baroda reserves the sole right to accept or reject any or all Proposals thus received without assigning any reasons thereof
- At any time prior to the last date and time for submission of bids, the Bank, may, for any reason, modify the Bidding Documents through amendments at the sole discretion of the Bank. All amendments shall be uploaded on the Bank's website and will be binding on all who are interested in bidding. In order to provide specified bidders a reasonable time to take the amendment if any, into account in preparing their bid, the Bank may, at its discretion, extend the deadline for submission of bids.

**6. Procedure for Selection of Consultants**

The proposal for conducting financial and tax due diligence will be reviewed by a committee and the same will be scored based upon the technical capabilities and credential of the bidder. The bidders may be called for presentation and the date for the presentation will be intimated in due course. The Financial bids will be opened and will be scored proportionately, starting with the lowest bidder getting the highest mark. The date of opening of the financial bids will be intimated separately. The final selection of the bidder will be done based on a combined matrix of Technical and Financial Score. The committee will use its prudence in finalizing the appointment so as to maintain independence of bidders appointed by Dena Bank and Vijaya Bank. The decision of the committee on the matter of selection will be final and binding.



**7. Timelines**

As there are stringent timelines, selected bidder should provide sufficient resources to complete the exercise as per discretion of the management.

Place: Mumbai  
Date: 08.10.2018

Subhas Chandra Khandelwal  
Assistant General Manager  
2<sup>nd</sup> Floor, Bank of Baroda,  
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Annexure A

**Financial Due Diligence**

**I. Company Overview, Shareholding and Reporting**

- Details of incorporation and current legal status of the Bank. Brief history and background of the Bank along with details of the lending and financial products offered and the branch network.
- Organisation structure with background and profile of key employees as at latest available date.
- Details of the shareholding structure of the Bank as on 31 March 2016, 31 March 2017, 31 March 2018 and 30 Sept 2018 along with details of changes in the shareholding during the coverage period.
- Details of senior management changes in the loans business over the last two years and any foreseen changes in senior management or organizational structure.
- Overview of Origination, Underwriting, Operations, Collections/ Recoveries, Accounting, HR, IT and key IT systems being used by the Entity.

**II. Accounting and Audit**

- Compare accounting policies with Indian generally Accepted Accounting principles (“ Indian GAAP”) and highlight key differences if any;
- Inquire on major accounting policy changes over the diligence period and understand the impact of changes
- Details of exceptional or non-recurring items together with explanation of their impact on reported results during the period covered
- Copies of management letters and auditors' presentation for the period covered
- Capital adequacy calculations as at September and March every year for the period under coverage.
- All communications with RBI including the returns filed at periodic intervals.
- Asset liability management policy and monthly/quarterly/half yearly asset liability management reports. Please provide both ALM based on contracted maturity.

**III. Management System and Reporting**

- Details of key products offered/ customer segments, corresponding income and cost streams.
- Monthly MIS (branch wise & overall) reports generated and reviewed by the management to evaluate performance on an ongoing basis and reconciliation with financial statement for the period covered.



- Audit committee presentations and management letters issued by the auditors of the company.
- Credit rating reports on the Bank for the period covered
- Note on fraud risk management policy and cases of frauds/ misappropriations identified/ reported to management/ RBI corresponding provisions and basis therefor.
- Scope of internal audit and copies of the internal audit reports presented to Board / audit committee for the period covered
- Minutes of meetings of the board, committees of the board and shareholder's meetings including meetings of the credit committee, audit committee and asset liability

**IV. Regulatory and Compliance**

- Latest compliance reports filed with RBI highlighting key instances of non-compliances, if any
- List of audit certifications submitted to the RBI and underlying workings therefor
- ALM statements as on 30 Sep 18 along with excel workings
- List and summary of all show cause notices / inspection reports received from RBI and management responses to the same. Also provide details of fines / penalties levied by RBI
- Capital adequacy computation as at 30 Sep 18 in compliance with RBI norms

**V. Lending Business**

**a) Portfolio Growth (Operational, Commercial and financial analysis)**

- Latest loan book and understand key parameters captured for the classification of loan assets.
- Growth of the portfolio during diligence period within branches/geographies, customer type, maturity profile and classification with respect to RBI prudential norms.
- Portfolio outstanding and disbursements (count and value with underlying breakdowns) by product, customer segment, geography, credit rating/ grading, collateral/ LTV
- Details of loan approval under process - approved/ sanctioned but not disbursed (count and value with underlying breakdowns) as at the balance sheet dates.
- Details of total loan applications/ logins to approvals to disbursement (count and value with underlying breakdowns) trends for the period covered
- Monthly dues versus collection ratio (with underlying workings) and monthly portfolio reconciliation (Opening + Disbursements - Repayments - Prepayments = Closing)



**b) Portfolio Quality and Provisioning norms**

- Credit/ underwriting, monitoring, recovery and operations policies relevant to the period covered and summary changes to these policies.
- Details of historical NPA (gross and net) and policy for provisioning for NPA in loans, including workings relating to provisions made during the period covered.
- Details of historical recoveries from NPA and recorded gain / loss.
- Provide details of legal action taken against the NPA cases.
- Details of overdue loan portfolio during the period covered and the process followed for recovery of overdue accounts
- Actual losses booked (provision + write off - recovery) during the period covered
- Details of watch list accounts/ concern accounts and special mention accounts. Details of process for determining the same.
- Details of accounts restructured/ renegotiated any commercial terms during the period covered and the accounting treatment of the same
- Details of returned cheque/ bounce cheque, subsequent follow up action and corresponding adjustment of reported days past due/ overdue status
- Provide details of the Bank's lending to priority sector and the targets achieved therein for the period covered
- Details of securitization / assignment of loan portfolio outstanding and related loss / risk sharing, if any, along with underlying agreements, true sale opinion, credit rating
- Loan credit/ monitoring files and supporting documents for the samples selected (15 sample files)
- Analyse trends in past due loans by ageing bucket and net flow rates (based on information availability) for retail products and programmed based SME lending for the latest period; and provisioning held towards the loan portfolio as at 30 Sept 2018.
- Analyse static pool trends (based on information availability) by disbursement vintage for retail products and programmed based SME lending for the period covered; and provisions held towards the loan portfolio as at 30 Sep 2018.
- Obtain an ageing analysis (branch wise) and discuss recoverability and provisions for uncollectable amounts. Visit 2-3 branches and understand the policies and process for loan origination, disbursements, monitoring and collection process and understand adherence to process.
- Highlight assets not adequately seasoned potentially at risk.



VI. Income Statement Analysis

a) **Interest/ Revenue Statement components**

- Quarterly break down of key revenue streams for each category of income (interest income, delayed payment charges, processing fee under fund based and Non-Fund Based category or any other fee based incomes etc.) disaggregated between:
  - a) Loan product
  - b) Product scheme
  - c) Customer type & account type
- Details of interest rates, quarterly yield (IRR) and net interest margin for the period of coverage by loan product and state along with reasons for quarterly variations exceeding 25bps for each loan product / state. Alternatively, provide quarterly income (by income stream) booked by loan product and daily average outstanding portfolio for the quarter.
- Breakdown of income by recovery in written off accounts and detailed breakup of treasury income.
- Breakdown of other income by nature of income split between income from banking services and income from distribution of other financial products.
- Detailed computation of accrued income by loan product as at period ends. Details of monthly reversals to income on account of non-performing assets.
- Analyse the gross, net yields, NIM, Spreads ROA and ROE by lending portfolio and the Entity.
- Details of the business sourced directly and through third party and total costs paid to direct selling agents by each loan product
- Age analysis of overdue interest income. Policy adopted for with regards to overdue interest income and details of actual collections made related to these income.
- Schedule of income from assignment/ securitization (including loans that have turned into NPA) of loan portfolios during the coverage period.

b) **Cost/Expense Statement components**

- Quarterly breakdown of interest expense by borrowing and deposits product and institution along with reasons for change in cost of funds.
- Detailed breakdown of Depreciation on account of revalued assets.
- Detailed breakdown of operating expenses at quarterly intervals (including commission and incentives, marketing expenses, rent, insurance charges and excluding employee costs) incurred along with reasons for quarter on quarter movement in costs.



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- Details of all branches (including regional branches/offices) operated by the Bank during the coverage period including start date of the branch, closure/merger date (if applicable), products/services offered at the branch
- Quarterly details of operating expenses including allocated HO costs by branch for the period under coverage.
- Details of prior period of one off /non-recurring/ exceptional expenses or revenue earned
- Schedule of office lease agreements by branch highlighting key terms such as escalation clause, tenure, monthly rent, security deposit, lock-in, renewal conditions, etc. along with copies of the lease agreements.
- Quarterly details of outsourced service cost, nature of services outsourced and agreements with service providers and reasons for year on year variations especially with respect to call centres, collections etc.
- Detailed breakdown of legal and professional fees paid (service provider name, amount, nature of service provided)
- Description of employee benefits (bonus, medical assistance, meal, loan, gratuity, leave encashment, etc.), including items which are excluded from the payroll.
- Particulars of temporary as well as contracted employees (number of employees, department and cost), terms and conditions including remuneration structure.
- Details of any trusts created for the retirement benefit of employees along with the financial statements of the trusts (Provident fund, Gratuity, Super annuation, etc.)

### VII. Balance Sheet

- Perform an analytical review of the key components of the Balance Sheet. If required and applicable, a net debt adjustment schedule to be prepared to identify potential items that might have an impact on the valuation.
- Analyse the terms of statutory reserves. For all reserves understand the purpose and movements during historical period. Analyse whether 25% profit has been transferred to the statutory reserve fund as per RBI requirements.

#### a) Share Capital

- Details of any shares which have been issued for consideration other than cash in last 2 years.
- Shareholder agreements and other similar agreements and information regarding shareholding of institutional shareholders.





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- Details of share options, rights or commitments made to employees or other third parties for issue of shares.
- Any options, debt instruments, agreements or other documents relating to or contemplating the issuance of additional share capital.
- Details of any special voting rights, dividend, borrowing, share transfer or other rights, arising from the Memorandum and Articles, shareholder agreements, etc.

**b) Fixed Assets**

- Fixed assets register with details of tangible fixed assets by branch - cost, depreciation, location including listing of idle and obsolete assets and non-operating assets.
- Details of assets on lease/hire purchase by branch and copies of lease/hire purchase agreements.
- Details of capital work in progress and capital commitments. Details of cost to be incurred to complete the capital work in progress.
- Copies of reports of physical verification of fixed assets.
- Details / copies of insurance policies on fixed assets
- Details of charges or lien created against any fixed assets through guarantees or loan arrangements

**c) Investments**

- Details of investments held by instrument i.e. government securities, money market instruments, corporate debt and equity shares along with their classification i.e. Trading, AFS and HTM including cost of purchase of the individual tranche.
- Valuation policies for investments, detailed bases for the valuation of the individual investment and any diminution in the value of investment.
- Details on the maturity profile of the investments along with quarterly details of modified duration on the debt securities during the period under coverage.
- Details of purchase / sale of investment during the period under coverage by category of investments along with details of the gain / loss on sale of investments – alternately
- Detailed breakdown of investment in security receipts issued by ARC's post sale of loans along with quarterly communication received from the ARC on the resolution performance of the individual loan and consequent valuation of the security receipts.



**d) Other Current Assets**

- Details of accrued interest on loans (and underlying workings) as at 30 Sep 18. Break down and details of other current assets (with corresponding ageing and underlying basis of quantification/ provisioning) as at 30 Sep 18

**e) Receivables**

- Receivables ledger and aging analysis (0-30 days, 30-60 days, 60-90 days, 90-120 days, 120-150 days, 150-180 days, 180-270 days, 270-365 days, 365 days +).
- Details of provision made for any debts and details of movement in the provision for bad debts during the period of coverage
- Receipts from debtors subsequent to balance sheet date.

**f) Cash and Bank Balance**

- List of accounts operated with RBI, other banks (including overseas) as at 31 March 2018, 30 June 2018 and 30 Sept 2018.
- Bank Reconciliation Statements in respect of operating bank accounts as at 30 Sept 2018 including Nostro and Vostro accounts.
- Detailed breakdown of cash collateral placed by tranche of assets securitized along with quarterly details of drawdown from the individual cash collateral account.

**g) Borrowings/ Deposits**

- Yearly schedule of borrowing segregated by product - long term loans as also by source i.e. from other banks, financial institutions, NCD's etc.
- Details of trends in deposits by product (current/ savings/ term), currency, customer segment, geography and corresponding interest costs for the period covered
- Monthly / quarterly CASA ratio for the period covered
- Ageing of deposits and maturity profile on quarterly basis
- Particulars for each loan -purpose of borrowing, name of lender, date on which loan was received, repayment schedule, rate of interest, details of security and margin, date of payment of interest / instalment, headroom available, penalties for non-payment, any penalties already imposed, etc.
- Copies of loan agreements and other agreements regarding financing arrangements.
- Details of securities given for the loans, including guarantees given by the parent bank
- Note on restrictive covenants contained in financing agreements, if any, with respect to change in ownership patterns



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- Monthly/ quarterly drawdown of loans by lender during the coverage period.
- Monthly average outstanding of borrowing by loan from 1 April 2016 to 30 Sept 2018.
- Monthly details of movement of deposits by type of deposits (current, savings and term deposits, FCNR) including opening balance, deposits mobilized, deposits repaid and closing deposits - the information is required by branch - alternately you can provide us the deposits tape for the period under coverage.
- Details of term deposits mobilized by type of customer - Individuals/HNI/NRI/Corporates/AMCs during the coverage period
- Details of term deposits by range of contracted interest and tenure for the period ended 31 March 2016, 31 March 2017, 31 March 2018 and 30 Sept 2018.
- Details of term deposits held by customer as at 30 Sept 2018 (names of the customers can be concealed)

### **h) Sundry Creditors and Provisions**

- Listing of all vendor contracts with copies of key contracts
- Breakdown of other liabilities as at historic balance sheet dates
- Details of provisions for employee benefits (e.g. gratuity, leave encashment, etc.). Copies of actuarial valuation certificates for gratuity and leave encashment liability as at historic balance sheet dates
- List of accrued expenses/liabilities as at historic balance sheet dates
- Details of provision against the legal disputes.
- Details and computation of liability for unamortized income.
- Details of fraud and provisions held towards held for frauds in advances account and other accounts.

### **i) Contingent Liabilities and Off Balance Sheet Items**

- Details of claims against the Bank not acknowledged as debt, if any
- Details of outstanding bank guarantees, LC's, derivative contracts. Details of BG's invoked as at date included settlement of invoked BG's. Details of MTM valuation of derivative contracts at 31 March 2018 and 30 Sept 2018.
- Details of capital commitments, non-cancellable operating lease and other commitments and contingencies
- Details of litigation against the Bank, directors.
- List and details of any existing and potential lawsuits/claims - cause, amounts involved, latest provisions, etc.



- Disputes/claims with respect to employees, ex-employees, customers, vendors, etc.

**VIII. Related Third Party Transactions**

- List of all related party transactions including list of entities in which directors are interested, nature and details of transactions during the period covered and outstanding balances as at 31 Mar 18 / 30 Sep 18

**IX. Management and Employees**

- Understand Terms of employment of key employees and obtain agreements for these employees (KMPs/Management Team) including directors compensation and including contracts incentive plans if any;
- Employees of the Entity and their cost structure
- Understand broad scheme of employee benefits (i.e employee retirement benefits such as provident fund, NPS, superannuation fund, family pension fund, ESIS, gratuity, leave encashment and other employee benefits if any)
- Analyse attrition rates during the period recovered.
- Understand the terms of ESOPs if any;
- Understand the basis of provision for gratuity, leave encashment and other employee benefits and obtain the computation of provision/actuarial valuation at latest date.

**Tax Due Diligence**

**I. Direct Taxes**

The following direct tax laws may be covered:

- a) Income Tax Act 1961, and Income Tax Rules, 1962
- b) Wealth Tax Act, 1957 and Wealth Tax Rules, 1957

**Following services to be offered**

- Obtain and read relevant documents including the Income-tax returns filed along with computation of income for the period covered.
- Understand the advance tax workings for the period covered.
- Obtain and comment on pending assessments and pending tax litigation and report on any pending/ outstanding issues. Based on the above, and on specific inquiries, comment on the status of assessments/ litigation. Also comment on pending assessments/ tax litigation and report on any pending/ outstanding issues where the tax impact in respect of such issues is considerable.
- Comment on contingent liabilities arising due to issues under appeal/ pending assessment
- Year wise detailed breakup of provision for taxation, advance tax , TDS deducted on Bank's income, disputed tax etc



- Default under TDS compliance and management's comments on the same.

## II. Indirect Taxes

The following indirect tax laws may be covered:

- a) GST and any other indirect tax
- b) Service tax, VAT and any other tax

### **Following services should be offered**

- Discuss tax positions adopted and Target management's perception on related exposures (for key business transactions identified by the Target management) and comment on the likely potential exposure, if any, on such tax positions for the period covered.
- Pending assessments, litigations, appeals preferred, rectifications and demands and replies to such demands in connection with indirect tax regulations and comment on significant matters affecting the Company as at 30 Sept 2018.
- Discuss management's perception of the likely outcome of tax related disputes and comment on contingent liabilities potentially arising through issues under appeal/ pending assessments/ litigations as at 30 Sept 2018.
- Contingent liabilities disclosed in the financial statements with respect to the above indirect taxes as per latest audited financial statements.
- Last audit report, if any, issued by the indirect tax authorities for any one major location.
- Read a sample service tax return and a sample GST return for a major state for the period covered and comment on any significant ineligible input tax credit availed in the sample returns and/ or any significant mismatch in the disclosures in the sample returns.
- Status of GST implementation and compliance with regards to system and procedures.