

## DISCLOSURES BY BOARD OF DIRECTORS AS PER REGULATION 14 OF SECURITIES AND EXCHANGE BOARD OF INDIA (SHARE BASED EMPLOYEE BENEFITS) REGULATIONS, 2014

### A. Disclosures in terms of the 'Guidance note on accounting for employee share-based payments' issued by ICAI or any other relevant accounting standards as prescribed from time to time.

The Shareholders of the Bank had approved an ESOP plan Phase I in November 2005, enabling the Board and /or the Nomination Committee to grant such number of equity shares and/or equity linked instruments, including options of the Bank not exceeding 4% of the Issued Capital or 60,00,000 Equity Shares of the Bank. The Shareholders, at the Annual General Meeting held on September 11, 2006 had approved an additional 3% of the Issued Capital, aggregating the total Equity Share Capital reserved for all ESOPs to 7% of the Issued Capital from time to time. As the shares of the Bank were subsequently listed, confirmation of shareholders was obtained at the Extraordinary General Meeting held on December 15, 2006 in line with the guidelines of the Securities & Exchange Board of India. Pursuant thereto, during the year the Nomination Committee of the Bank granted the following options.

Date	Price	Sub Plan 1	Sub Plan 2
April 14, 2015	114.95	500,000	-

Under the stock option scheme options vest in a graded manner over a 5 year period from the date of grant, the details of which are set out below:

End of the Year	For Sub Plan 1		For Sub Plan 2
	Till August 16, 2010	From August 17, 2010	
2 <sup>nd</sup>	-	30%	30%
3 <sup>rd</sup>	40%	30%	30%
4 <sup>th</sup>	30%	20%	20%
5 <sup>th</sup>	30%	20%	20%

Any Option granted pursuant to the Plan shall become exercisable in full upon the retirement of the employee.

Mr. Murali M. Natrajan, MD & CEO has been granted 500,000 options duly approved by the Board of Directors which shall vest in accordance with vesting schedule of Sub Plan 1 (from August 17, 2010) as mentioned above.

### Method used for accounting for ESOP

The Bank has applied the intrinsic value method to account for the compensation cost of ESOP to the employees of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the options.

## Activity in options outstanding under Employees Stock Option Plan

Particulars	March 31, 2016		March 31, 2015	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Options outstanding at the beginning of the year	11,035,040	47.29	10,144,425	45.50
Granted during the year	500,000	114.95	2,469,000	55.36
Exercised during the year	2,423,800	29.22	1,255,515	41.56
Forfeited/Lapsed during the year	393,415	74.80	322,870	74.84
Options outstanding at the end of the year*	8,717,825	54.96	11,035,040	47.29
Options exercisable	53,17,025	52.29	6,406,040	46.12

\*Includes 113,250 (Previous year: 67,650) employee stock options exercised, pending for allotment.

The weighted average share price in respect of options exercised during the year ended 31 March, 2016 is ₹ 109.55 (Previous year ₹ 96.93).

Summary of stock options outstanding as on March 31, 2016 is given below:

Range of exercise price (Rupees per share)	Number of shares arising out of options (Number of shares)	Weighted average exercise price (₹)	Weighted average remaining contractual life (Number of years)
₹ 17.00 - ₹ 24.00	146,600	23.58	5.24
₹ 25.00 - ₹ 109.00	7,856,880	50.07	7.09
₹ 110.00- ₹ 200.00	714,345	115.13	8.38

There were 2,423,800 stock options exercised during the year ended March 31, 2016.

Summary of stock options outstanding as on March 31, 2015 is given below:

Range of exercise price (Rupees per share)	Number of shares arising out of options (Number of shares)	Weighted average exercise price (₹)	Weighted average remaining contractual life (Number of years)
₹ 17.00 - ₹ 24.00	1,842,710	23.57	4.91
₹ 25.00 - ₹ 109.00	8,926,785	50.16	7.88
₹ 110.00- ₹ 200.00	265,545	115.52	4.54

There were 1,255,515 stock options exercised during the year ended March 31, 2015.

## Fair value Methodology

The fair value of options used to compute proforma net income and earnings per equity share have been estimated using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices.

The various assumptions considered in the pricing model for ESOPs granted during the year ended March 31, 2016 and March 31, 2015 were:

Particular	March 31, 2016	March 31, 2015
Dividend Yield	-	-
Expected Volatility	53%	54% to 55%
Risk Free Interest Rate	7.75%	8.13% to 8.80%
Expected life of options	6 years	5 years

The expected volatility was determined based on historical volatility data; historical volatility includes data since listing.

The weighted average fair value of options granted during the year ended 31 March, 2016 is ₹ 47.04 (Previous year ₹ 28.48).

## Impact of Fair Value Method on Net Profit and EPS

Had the compensation cost for the Bank's stock option plans outstanding been determined based on the fair value approach, the Bank's net profit and earnings per share would have been as per the proforma amounts indicated below:

Particular	March 31, 2016	March 31, 2015
Net Profit (as reported)	194.52	191.18
Add: Stock based compensation expense accounted	0.63	0.70
	195.15	191.88
Less: Stock based compensation expense determined under fair value based method (proforma)	2.93	2.17
Net Profit (proforma)	192.22	189.71

(₹ in crore)

Particular	March 31, 2016	March 31, 2015
Basic earnings per share (as reported)	6.86	7.21
Basic earnings per share (proforma)	6.78	7.15
Diluted earnings per share (as reported)	6.77	7.03
Diluted earnings per share (proforma)	6.69	6.98

- B. Diluted EPS on issue of shares pursuant to all the schemes covered under the regulations shall be disclosed in accordance with 'Accounting Standard 20 - Earnings Per Share' issued by ICAI or any other relevant accounting standards as prescribed from time to time.**

The Bank reports basic and diluted earnings per equity share in accordance with AS-20, "Earnings per Share". The dilutive impact is due to stock options granted to employees by the Bank.

The computation of earnings per share is given below:-

Particulars	March 31, 2016	March 31, 2015
<b>Basic</b>		
Net Profit (₹ in crore)	<b>194.52</b>	191.18
Weighted average number of equity shares outstanding	<b>283,368,146</b>	265,234,120
Basic Earnings per share (₹)	<b>6.86</b>	7.21
<b>Diluted</b>		
Net Profit (₹ in crore)	<b>194.52</b>	191.18
Weighted average number of equity shares outstanding	<b>287,504,472</b>	271,837,554
Diluted Earnings per share (₹)	<b>6.77</b>	7.03
Nominal value per share (₹)	<b>10.00</b>	10.00

Dilution of equity is on account of 4,136,326 (Previous year 6,603,434) stock options.

**C. Details related to Employee Stock Option Scheme ('ESOS')**

- (i) The Bank had in existence only one ESOS during the year viz. DCB Bank Ltd. - Employee Stock Option Plan consisting of Sub- Plans I (MANCO) and Sub-Plan II (Non-MANCO). The general terms and conditions of the same as given below:

Description	Sub- Plans I (MANCO)	Sub-Plan II (Non-MANCO)
(a) Date of shareholders' approval	December 15, 2006	December 15, 2006
(b) Total number of options approved under ESOS	4% of the Issued Capital of the Bank on an ongoing basis.	3% of the Issued Capital of the Bank on an ongoing basis.
(c) Vesting requirements	30%,30%,20% and 20% at end of 2 <sup>nd</sup> ,3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> year respectively from the date of grant subject to the conditions of vesting for death, permanent disability or retirement of an employee.	30%,30%,20% and 20% at end of 2 <sup>nd</sup> ,3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> year respectively from the date of grant subject to the conditions of vesting for death, permanent disability or retirement of an employee.

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Description	Sub- Plans I (MANCO)	Sub-Plan II (Non-MANCO)
(d) Exercise price or pricing formula	The Exercise price of the Option shall be at a price related to the Market Price as decided by the Board/ Nomination Committee.	The Exercise price of the Option shall be at a price related to the Market Price as decided by the Board/ Nomination Committee.
(e) Maximum term of options granted	Vesting would be within 5 years from the date of grant and shall be exercised within 8 years from the date of vesting subject to conditions of vesting and exercise for death, permanent disability or retirement of an employee.	Vesting would be within 5 years from the date of grant and shall be exercised within 8 years from the date of vesting subject to conditions of vesting and exercise for death, permanent disability or retirement of an employee
(f) Source of shares (primary, secondary or combination)	Primary	Primary
(g) Variation in terms of options	The exercise period was extended from 5 years to 8 years from the date of vesting for all the un-exercised options in force, as on July 1, 2015.	The exercise period was extended from 5 years to 8 years from the date of vesting for all the un-exercised options in force, as on July 1, 2015.

(ii) Method used to account for ESOS - Intrinsic value.

(iii) Where the company opts for expensing of the options using the intrinsic value of the options:

The difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options. The impact of this difference on profits and on EPS of the company	Had the Bank followed fair value method for accounting the stock options, compensation expense would have been higher by ₹ 2.30 crore. Consequently profit after tax would have been lower by that extent. The basic EPS of the Bank would have been ₹ 6.78 per share and the Diluted EPS would have been ₹ 6.69 per share.
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(iv) Option movement during the year :

Particulars	Details
Number of options outstanding at the beginning of the period	11,035,040
Number of options granted during the year	500,000
Number of options forfeited / lapsed during the year	393,415
Number of options vested during the year	1,334,785
Number of options exercised during the year	2,423,800
Number of shares arising as a result of exercise of options	2,423,800
Money realized by exercise of options (INR), if scheme is implemented directly by the company	70,816,854
Loan repaid by the Trust during the year from exercise price received	Not Applicable
Number of options outstanding at the end of the year	8,717,825
Number of options exercisable at the end of the year	5,317,025

(v) The Weighted-average exercise prices of the Options granted during the year is ₹ 114.95 and the weighted-average fair values is ₹ 47.04.

(vi) Employee wise details (name of employee, designation, number of options granted during the year, exercise price) of options granted to:

(a) senior managerial personnel	Mr. Murali M. Natrajan-MD & CEO, was granted 500,000 Options during the year at the exercise price of ₹ 114.95 per option
(b) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	None
(c) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.	None

(vii) A description of the method and significant assumptions used during the year to estimate the fair value of options including the following information:

(a) the weighted-average values of share price, exercise price, expected volatility, expected option life, expected dividends, the risk-free interest rate and any other inputs to the model;	(i) weighted-average values of share price- ₹ 114.95 (ii) weighted-average exercise price- ₹ 114.95 (iii) expected volatility- 53% (iv) expected option life- 6 years (v) expected dividends- No dividend expected (vi) risk-free interest rate- 7.75%
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<p>(b) the method used and the assumptions made to incorporate the effects of expected early exercise;</p>	<p>The method recognizes that employees' exercise behavior is correlated with the price of the underlying share. Pricing model assumes that option holder voluntarily exercises early if the stock price is greater than the exercise price. To incorporate the effects of expected early exercise, assumptions also include employee exit rate pre-vesting, employee exit rate post-vesting etc.</p>
<p>(c) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and</p>	<p>Expected volatility was determined based on historical volatility data; historical volatility includes data since listing.</p>
<p>(d) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.</p>	<p>As aforesaid, various features were incorporated into the measurement of fair value.</p>

**Disclosures in respect of grants made in three years prior to IPO under the ESOS:**  
All the Options granted in the three years prior to the IPO have either been exercised or have lapsed.