

DCB Bank Limited

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Email Id : investorgrievance@dcbbank.com Website : www.dcbbank.com**ESOPs / SARs Disclosure****[Pursuant to Regulation 14 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021]**

The Bank has formulated and adopted the DCB Bank Limited –Employee Stock Option Plan in 2005 approved by shareholders on December 15, 2006 and amended from time to time in order to:

- provide means to enable the Bank to attract and retain appropriate human talent in the employment of the Bank;
- motivate the employees of the Bank with incentives and reward opportunities;
- achieve sustained growth of the Bank and to create shareholder value by aligning the interests of the employees with the long-term interests of the Bank; and
- create a sense of ownership and participation amongst the employees of the Bank. The Employee Stock Options (“ESOPs”) and the Cash Settled Stock Appreciation Rights (“CSARs”) granted to the employees of the Bank currently operate under the following Schemes:
 - i. DCB Bank Limited - Employees Stock Option Plan 2005 (“ESOP Scheme”)
 - ii. DCB Bank Limited -Cash Settled Stock Appreciation Rights Plan 2022 (“CSAR Plan 2022”).

Both, the above Scheme were in force during the financial year 2022-23.

The relevant disclosure of details of the ESOP Scheme 2005 and CSAR Plan 2022, as specified in Part F of Schedule – I of SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 are, as under:

I. DCB Bank Limited - Employees Stock Option Plan 2005 (“ESOP Scheme”)**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 and Remuneration Committee of the Board did not grant any options.

Under the Employees' Stock Options Plan, 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 to December 31, 2020	From January 01, 2021	Till December 31, 2020	From January 01, 2021
1 st	-	-	33.33%	-	33.33%
2 nd	-	30%	33.33%	30%	33.33%
3 rd	40%	30%	33.34%	30%	33.34%
4 th	30%	20%	-	20%	-
5 th	30%	20%	-	20%	-

Method used for accounting for ESOP

RBI, vide its clarification dated August 30, 2021 on Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff, advised Banks that the fair value of share-linked instruments on the date of grant should be recognised as an expense for all instruments granted after the accounting period ending March 31, 2021. Accordingly, the Bank has valued its stock options granted after March 31, 2021 using the fair value method under its Employee' Stock Options Plan. The fair value of the stock options is estimated on the date of grant using Black-Scholes model and is recognised as employee cost over the vesting period.

Activity in options outstanding under Employees Stock Option Plan

Particulars	March 31, 2023		March 31, 2022	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Options outstanding at the beginning of the year	8,651,614	67.43	8,275,840	64.46
Granted during the year	-	-	1,031,524	86.45
Exercised during the year	525,270	54.53	440,350	52.73
Forfeited/Lapsed during the year	205,860	74.61	215,400	74.43
Options outstanding at the end of the year*	7,920,484	68.10	8,651,614	67.43
Options exercisable	6,431,595	66.04	6,077,590	63.21

*Includes NIL (Previous year: 5,000) employee stock options exercised, pending for allotment.

The weighted average share price in respect of options exercised and allotted during the year ended March 31, 2023 is ₹ 109.77 (Previous year ₹ 77.97).

Summary of stock options outstanding as on March 31, 2023 is given below:

Range of exercise price (Rupees per share)	Number of shares arising out of options	Weighted average exercise price (₹)	Weighted average remaining contractual life (Number of years)
₹ 17.00 – ₹ 24.00	400	20.01	0.77
₹ 25.00 – ₹ 109.00	7,396,084	64.39	5.48
₹ 110.00– ₹ 200.00	524,000	120.50	5.38

There were 525,270 stock options exercised during the year ended March 31, 2023.

Summary of stock options outstanding as on March 31, 2022 is given below:

Range of exercise price (Rupees per share)	Number of shares arising out of options	Weighted average exercise price (₹)	Weighted average remaining contractual life (Number of years)
₹17.00 – ₹ 24.00	700	19.49	1.37
₹ 25.00 – ₹ 109.00	8,116,804	63.89	6.90
₹ 110.00– ₹ 200.00	534,110	121.41	6.28

There were 440,350 stock options exercised during the year ended March 31, 2022.

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 for options granted upto March 31, 2021. The Bank estimated the volatility based on the historical share prices.

The fair value of the stock options granted after March 31, 2021 is estimated on the date of grant using Black-Scholes model and is recognised as employee cost over the vesting period. Accordingly, the Bank has recognised ₹ 1.88 crore during the financial year 2022-23 (Previous year ₹ 0.42 crore).

There were no options granted during the year ended March 31, 2023.

The various assumptions considered in the pricing model for ESOPs granted during the year ended March 31, 2022 were:

Particular	March 31, 2022
Dividend Yield	1.16%
Expected Volatility	38.85% to 41.32%
Risk Free Interest Rate	5.47% to 6.15%
Expected life of options	3.77 to 5.77 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 March 31, 2022 was ₹ 33.49.

In computing the above information, certain estimates/assumptions have been made by the Bank's management which have been relied upon by the auditors.

Impact of Fair Value Method on Net Profit and EPS

Had the compensation cost for the Bank's stock option plans on outstanding ESOPs granted upto March 31, 2021 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	(₹ in crore)	
	March 31, 2023	March 31, 2022
Net Profit (as reported)	465.56	287.50
Add: Stock based compensation expense accounted	(0.01)	(0.01)
	465.55	287.49
Less: Stock based compensation expense determined under fair value based method (proforma)	0.67	1.26
Net Profit (proforma)	464.88	286.23

Particular	March 31, 2023	March 31, 2022
Basic earnings per share (as reported)	14.96	9.26
Basic earnings per share (proforma)	14.94	9.21
Diluted earnings per share (as reported)	14.79	9.19
Diluted earnings per share (proforma)	14.77	9.15

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, 2023	March 31, 2022
Basic		
Net Profit (₹ in crore)	465.56	287.50
Weighted average number of equity shares outstanding	311,156,253	310,638,511
Basic Earnings per share (₹)	14.96	9.26
Diluted		
Net Profit (₹ in crore)	465.56	287.50

Weighted average number of equity shares outstanding	314,679,498	312,826,393
Diluted Earnings per share (₹)	14.79	9.19
Face value per share (₹)	10.00	10.00

Dilution of equity is on account of 3,523,245 (Previous year 2,187,882) 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- Plan I (MANCO) and Sub-Plan II (Non-MANCO). The general terms

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 nd ,3 rd , 4 th and 5 th year respectively for the Options granted till December 31, 2020 and 33.33% at the end of 1 st year ,33.33% at the end of 2 nd year and 33.34% at the end of 3 rd year for the Options granted on or after January 1, 2021, subject to the conditions of vesting for death, permanent disability or retirement of an employee.	30%,30%,20% and 20% at end of 2 nd ,3 rd , 4 th and 5 th year respectively for the Options granted till December 31, 2020 and 33.33% at the end of 1 st year , 33.33% at the end of 2 nd year and 33.34% at the end of 3 rd year for the Options granted on or after January 1, 2021, subject to the conditions of vesting for death, permanent disability or retirement of an employee.
(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 10 years from the date of vesting subject to conditions	Vesting would be within 5 years from the date of grant and shall be exercised within 10 years from the date of vesting subject to conditions of vesting and exercise for death,

	of vesting and exercise for death, permanent disability or retirement of an employee.	permanent disability or retirement of an employee
(f) Source of shares (primary, secondary or combination)	Primary	Primary
(g) Variation in terms of Options	No	No

(ii) Method used to account for ESOS – Intrinsic value method up to March 31, 2021 and Fair Value method after March 31, 2021

(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 shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed.

Had the Bank followed fair value method for accounting the stock options, compensation expense would have been higher by ₹ 0.68 crore. Consequently, profit after tax would have been lower by that extent. The basic EPS of the Bank would have been ₹ 14.94 per share and the Diluted EPS would have been ₹ 14.77 per share.

iv) Option movement during the year (For each ESOS):

Particulars	Details
Number of options outstanding at the beginning of the period	8,651,614
Number of options granted during the year	NIL
Number of options forfeited / lapsed during the year	205,860
Number of options vested during the year	770,648
Number of options exercised during the year	525,270
Number of shares arising as a result of exercise of options	525,270
Money realized by exercise of options (INR), if scheme is implemented directly by the company	28,644,249
Loan repaid by the Trust during the year from exercise price received	Not Applicable
Number of options outstanding at the end of the year	7,920,484
Number of options exercisable at the end of the year	6,322,968

(v) The Weighted-average exercise prices of the Options granted during the year: **Not Applicable**

(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	None
(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 Bank at the time of grant.	None

No Options were granted during the year 2022-23.

(vii) A description of the method and significant assumptions used during the year to estimate the fair value of options including the following information: (No Options were granted during the year)

<p>(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;</p>	<p>(i) weighted-average values of share price- N.A (ii) weighted-average exercise price- N.A (iii) expected volatility- N.A (iv) expected option life- N.A (v) expected dividends- N.A (vi) risk-free interest rate- N.A</p>
<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</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.

II. DCB Bank Limited -Cash Settled Stock Appreciation Rights Plan 2022 (“CSAR Plan 2022”).

i) Description of the SAR scheme existed during the year, including the general terms and conditions of each SAR scheme, including -

The Bank, under its above plan/scheme, has granted 11,70,786 CSARs during FY 2022-23. The SARs are settled in cash and vest on the respective due dates in a graded manner as per the terms and conditions of grant. The contractual life of the SARs outstanding range from 1 to 4.6 years under this specific plan. The other particulars are as under:

(a) Date of shareholders' approval	Not Applicable for Cash Settled Stock Appreciation Rights
(b) Total number of shares approved under the SAR scheme	1,00,00,000
(c) Vesting requirements	CSARs shall vest any time after expiry of 1 year from the date of grant as may be determined in the grant letter
(d) SAR price or pricing formula	Appreciation shall be computed by multiplying the total number of vested CSAR with appreciation per CSAR as per the grant series subject to cap on appreciation.
(e) Maximum term of SAR granted	Vesting period of upto 4.6 years from the grant date
(f) Method of settlement (whether in cash or equity)	Cash
(g) Choice of settlement (with the company or the employee or combination)	Company
(h) Source of shares (primary, secondary or combination)	NA
(i) Variation in terms of scheme	

(ii) Method used to account for SAR - fair value based on Black Scholes valuation.

(iii) Where the company opts for expensing of SAR using the intrinsic value of SAR, 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 SAR, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed. **Not Applicable**

(iv) SAR movement during the year (For each SAR scheme):

Particulars	Details
Number of SARs outstanding at the beginning of the year	NIL
Number of SARs granted during the year	11,70,786 CSAR units
Number of SARs forfeited / lapsed during the year	NIL
Number of SARs vested during the year	NIL
Number of SARs exercised / settled during the year	NIL
Number of SARs outstanding at the end of the year	11,70,786
Number of SARs exercisable at the end of the year	NIL

(v) Employee wise details of Cash Settled Stock Appreciation Rights granted during the year to:

(i) Senior management personnel	Sr. No.	Employee Name	CSAR Granted
	1	Murali M. Natrajan	1,31,348
	2	R Venkatesh	2,25,423
	3	Ajit Singh	1,08,362
	4	Praveen Achuthan Kutty	2,63,764
	5	Narendranath Mishra	1,09,460
	6	Abhijit Bose	1,45,073
	7	Sridhar Seshadri	66,010
	8	Jayaraman Vishwanath	1,21,346
		Total	11,70,786
(ii) Any other employee who receives a grant in any one year of amounting to 5% or more of CSAR granted during that year	None		
(iii) Identified employees who were granted CSAR, 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		

Disclosures in respect of grants made in three years prior to IPO under each CSAR scheme:

No CSARs were granted in the three years prior to the IPO