

ESOS DISCLOSURE

Employee Stock Option Schemes (ESOS)

Disclosures with respect to Compliance to section 62 of the Companies Act, 2013 read with Rule 12 of Companies (Share Capital and Debentures) Rules, 2014 and Regulation 14 of the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 on ESOP Disclosures as on March 31, 2022

- A. The information pursuant to the provisions of Securities and Exchange Board of India (Share Based Employee Benefits & Sweat Equity) Regulations, 2021, erstwhile Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 read with 'Guidance note on accounting for Employee share-based payments' issued by ICAI have been provided in this Report
- B. Diluted EPS on issue of shares pursuant to all the schemes covered under the regulations in accordance with 'Accounting Standard 20 - Earnings Per Share' issued by ICAI have been provided in this Report

Details related to ESOS

Sr. No.	Particulars	KVB_ESOS_2011	KVB_ESOS_2018
I. Details of the ESOS that existed anytime during the year			
1	Date of Shareholder's Approval	27th July 2011	24th April 2018
2	Total Number of Options approved under ESOS	2,00,00,000**	79,20,000 (adjusted for Bonus) ***
3	Vesting Requirements	The options have a graded vesting schedule. The first vesting of the stock options shall happen only on completion of one year from the date of grant. Maximum vesting period is three years from the date of Grant	The options have a graded vesting schedule. The first vesting of the stock options shall happen only on completion of one year from the date of grant. Maximum vesting period is three years from the date of Grant
4	Exercise Price or Pricing formula (₹)*	The options will be granted at an Exercise Price which shall not be less than the par value of the equity share of the Bank and shall not be more than Market Price.	The Exercise Price per Option shall be such price as may be determined by the Nomination and Remuneration Committee subject to a maximum of 10% (Ten Percentage) discount from the Market Price of a Share of the Bank as on date of Grant of such Option.

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Sr. No.	Particulars	KVB_ESOS_2011	KVB_ESOS_2018
	“Market Price” means the latest available closing price of Shares on the recognized Stock Exchange on which the Shares of the Bank are listed on the date immediately prior to the meeting of Nomination and Remuneration Committee in which Grant is made.		
5	Maximum term of Options granted (years)	5 years from the date of Grant	5 years from the date of Grant
6	Source of shares (Primary, Secondary or combination)	Primary	Primary
7	Variation in terms of options*	KVB ESOS 2011 & ESOS 2018 scheme were amended to align with new regulations of SEBI (Share Based Employee Benefits & Sweat Equity) Regulations, 2021 as issued by SEBI and no material amendments were carried out	

* Under both the schemes total quantum of discount shall not to exceed 2% (Two Percentage) of the Profit Before Tax of Previous year.

** KVB-ESOS-2011 Scheme was approved for 40,00,000 options of face value ₹ 10/-, the Options pursuant to split of Shares to face value of ₹ 2/- each have become 2,00,00,000 options

*** On 09th August 2018, Shareholders have approved issue of equity shares by way of Bonus in the ratio of 1:10

II. Method used to account for ESOS

The Company has calculated the employee compensation cost using the intrinsic value method of accounting for the Options granted under the Scheme for all employees except Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff. As per the RBI guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff issued on 30th August 2021 the compensation cost for the aforementioned employees is recognized using the Fair value of the options computed using Black Scholes Model.

III. The stock-based compensation cost calculated as per the intrinsic value method for the period April 1, 2021 to March 31, 2022 is ₹ 11,48,221. If the stock-based compensation cost was calculated as per the fair value method prescribed by SEBI, the total cost to be recognised in the financial statements for the period April 1, 2021 to March 31, 2022 would be ₹ 47,48,886. The effect of adopting the fair value method on the net income and earnings per share is presented below:

Pro Forma Adjusted Net Income and Earning Per Share	
Particulars	₹
Net Income as reported	6,73,26,73,583
Add: Compensation Cost*	11,48,221
Less: Fair Value Compensation Cost	47,48,886

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Adjusted Pro Forma Net Income	6,72,90,72,918
Earning Per Share: Basic	
As Reported	8.42
Adjusted Pro Forma	8.40
Earning Per Share: Diluted	
As Reported	8.41
Adjusted Pro Forma	8.40
*Compensation cost is the combination of fair value (booked for Managing Director & CEO/Material Risk Takers) and intrinsic value cost (booked all other employees except for above mentioned).	

IV. Options movements during the year:

Option Movement during the year		KVB_ESOS_2011		KVB_ESOS_2018	
		Numbers	Wt. Avg Exercise Price	Numbers	Wt. Avg Exercise Price
1	Number of Options Outstanding at the beginning of the year	1,26,24,450	₹83.55	47,41,710	₹62.06
2	Number of Options Granted during the year*	0	NA	1,35,710	₹62.06
3	Number of Options Forfeited / Cancelled During the year	86,74,605	₹39.53	20,36,649	₹40.90
4	Options Lapsed during the year	91,799	₹85.45	0	NA
5	Number of Options Vested during the year	12,58,813	38.60	11,86,985	38.60
6	Number of Options Exercised during the year	85,983	NA	6,03,981	NA
7	Total number of shares arising as a result of exercise of options	NA	NA	NA	NA
8	Money realised by exercise of options (Rs.)	NA	NA	NA	NA
9	Number of options Outstanding at the end of the year	37,72,063	₹40.80	22,36,790	₹38.95
10	Number of Options exercisable at the end of the year	12,69,923	₹38.60	4,58,796	₹38.60

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V. Weighted average price of Options granted during the year		
	Weighted average exercise price of Options granted during the year whose	
(a)	Exercise price equals market price	₹ 46.00/-
(b)	Exercise price is greater than market price	-
(c)	Exercise price is less than market price	-
	Weighted average fair value of options granted during the year whose	
(a)	Exercise price equals market price	₹ 12.03/-
(b)	Exercise price is greater than market price	-
(c)	Exercise price is less than market price	-

VI. Employee-wise details of options granted during the financial year 2021-22 to:				
	Senior managerial personnel:			
(i)			Number of Options granted during the year	Exercise price ₹
	Name of Employees	Designation		
	B Ramesh Babu#	Managing Director & CEO	73913	47
	J Natarajan*	President & COO	61,797	47
	<p>#ESOPs are granted to Mr. B Ramesh Babu, MD & CEO for performance period FY 2020-21 as a part of variable pay in terms of his compensation structure as approved by Reserve Bank of India.</p> <p>*NRC has annulled 5,70,053 stock option granted to Shri J Natarajan, President & COO during Fy 2020-21 and granted 61,797 options during the year under KVB ESOS 2018 Scheme as a part of his non-cash component - variable pay for the performance period FY 2020-21.</p>			
(ii)	Employees who were granted, during the year, options amounting to 5% or more of the options granted during the year:			
	Name of Employees	Designation	Number of Options granted during the year	Exercise price
(iii)	Identified employees who were granted option, during the year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant:			
	Name of Employees	Designation	Number of Options granted during the year	Exercise price

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VII. Method and Assumptions used to estimate the fair value of options granted during the year:

Sr. No	Particulars	KVB ESOS 2011	KVB ESOS 2018
1.	Risk Free Interest Rate	No Options Granted during the year	4.79%
2.	Expected Life		2.00
3.	Expected Volatility		43.90%
4.	Dividend Yield		1.09%
5.	Price of the underlying share in market at the time of the option grant (₹)		46.00

Assumptions:
<p>Stock price: We have taken the Closing "market price" means the latest available closing price, prior to the date of the meeting of Nomination and Remuneration Committee in which options are granted/shares are issued, on the stock exchange on which the shares of the company are listed. i.e. Market Price as on 04th March, 2022 i.e. INR 47.00 on National Stock Exchange (NSE).</p> <p>Exercise price: The price at which ESOP can be exercised. It has been represented by the management of the Company that the proposed Exercise price per option is INR 47.00.</p> <p>Time to Maturity/Exercise Period: Time to Maturity / Expected Life of options is the period for which the Company expects the options to be live. The minimum life of a stock option is the minimum period before which the options cannot be exercised and the maximum life is the period after which the options cannot be exercised.</p> <p>According to SEBI Guidelines, the expected life of an award of stock options shall take into account the following factors –</p> <ol style="list-style-type: none"> I) The expected life must at least include the vesting period. II) The average lengths of time of similar grants have remained outstanding in the past. If the company does not have a sufficiently long history of stock option grants, the experience of an appropriately comparable peer group may be taken into consideration. III) The expected life of stock options should not be less than half of the exercise period of the stock options issued until and unless the same is supported by historical evidences with respect to stock options issued by the company earlier. <p>The management expects the employees to exercise the options immediately post vesting and therefore the expected life considered is same as the vesting period. A weighted average of vests has been calculated to arrive at the value of the options granted.</p> <p>Expected Volatility: Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black-Scholes option pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time.</p> <p>The period to be considered for volatility has to be adequate to represent a consistent trend in the price movements. It is also important that movements due to abnormal events get evened out. The volatility has been adjusted to even out the abnormal event (Ind AS para B25) of Covid-19</p>

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Assumptions:

pandemic.

There is no research that demonstrates conclusively how long the historical period used to estimate expected long-term future volatility should be. However, Guidance note on Accounting for Employee Share-based Payments issued by the Institute of Chartered Accountants of India recommends including the historical volatility of the stock over the most recent period that is generally commensurate with the expected life of the option being valued.

Accordingly, since each vest has been considered as a separate grant, we have considered the volatility for periods, corresponding to the expected lives of different vests, prior to the grant date. Volatility has been calculated based on the daily closing market price of the Company's stock price on NSE over these years. Further we have excluded the period starting from Feb 2020 till April 2020, to even out the abnormal event of COVID pandemic.

The fair value of an option is very sensitive to this variable. Higher the volatility, higher is the fair value. The rationale being, the more volatile a stock is, the more is its potential to go up (or come down), and the more is the probability to gain from the movement in the price. Accordingly, an option to buy a highly volatile stock is more valuable than the one to buy a less volatile stock, for the probability of gaining is lesser in the latter case.

Risk Free Rate: The risk-free interest rate being considered for the calculation is the interest rate applicable for maturity equal to the expected life of the options based on the zero-yield curve for Government Securities.

Dividend Yield: Expected dividend is computed basis the dividend declared by the company for last one financial year.

The dividend yield has been derived by dividing the dividend per share for the year by the market price per share.