

VR/03/2020-21

June 11, 2021

**Mr. V. Ramesh**

CFO & Company Secretary  
City Union Bank Limited  
149, T.S.R. Big Street,  
Kumbakonam – 621 001

Dear Sir,

**VALUATION OF EMPLOYEE STOCK OPTIONS**

Please refer my engagement letter dated May 10, 2021 engaging me for valuation of stock options granted by City Union Bank (hereinafter referred as "the client" or "the Bank") during the Financial Year 2020-21 under City Union Bank Employees Stock Option Scheme 2017 and computation of Employee Compensation Cost for stock options issued under CUB ESOS Scheme 2008, in terms of SEBI (Share Based Employee Benefits) Regulations, 2014. I herewith enclose my Valuation Report and Employee Compensation Cost Computation

Thanking you,

**Yours faithfully,**

MUTHAIA ALAGAR  
Digitally signed by  
MUTHAIA ALAGAR  
Date: 2021.06.11  
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**M. Alagar****Registered Valuer****R. No. IBBI/RV/03/2018/1022**

**STOCK OPTION VALUATION REPORT**

**OF**

**CITY UNION BANK LIMITED**

**Done by**

**M.ALAGAR**

**Registered Valuer**

**IBBI Registration No. IBBI/RV/03/2018/10227**

No.21-B, 1<sup>st</sup> Floor, ARK Colony,

Eldams Road, Alwarpet,

Chennai 600018

M: 9003199947

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## **I. TERMS OF REFERENCE**

- a) "City Union Bank Limited (hereinafter referred as "**the Bank**" or "**the Client**") has implemented employee stock option scheme **CUB ESOS Scheme 2017'** for granting upto 3 crores option which was approved by the shareholders vide Annual General Meeting held on August 23, 2017. Further, we understand that Board of Directors vide its meeting held on June 18, 2020 granted 34,62,000 stock options to the eligible employees under the **CUB ESOS Scheme 2017'**.
- b) For the purpose of disclosure of diluted earnings per share and disclosure of difference in employee compensation cost using "Intrinsic Value" method and "The Fair Value" method in the Company's Directors Report for the year ending March 31, 2021 as per SEBI (Share Based Employee Benefits) Regulations, 2014, the Bank has appointed me vide engagement letter dated May 10, 2021 for valuation of stock options issued during the year 2020-21.

## **II. INFORMATION RELIED UPON BY US**

- a) I have prepared our Valuation Report on the basis of the following information:
- i. City Union Bank Employee Stock Option Scheme 2017
  - ii. Historical financials provided to us by the bank.
  - iii. Bank Website.
  - iv. Stock Price (on the **NSE**) performance over the last 1 year one day preceding the date of grant.
  - v. Yield on the Government of India (GOI) notes.
  - vi. Details of stock options outstanding provided by the Bank.
  - vii. Copy of resolutions pertaining to options exercised under CUB ESOS 2008 and options granted under CUB ESOS 2017
  - viii. Discussions with and explanations given by the management / senior executives of City Union Bank on various issues.

### **III. METHODS OF VALUATION**

There are two principal methods for valuing options:

- a) Black-Scholes Model
- b) Binomial Model

Each of the above two methods has its suitability, depending upon the facts of the case and the objectives of the valuation. However, for the purpose of ready reference, these methods are explained below in brief.

#### **a) Black-Scholes Model**

The Black-Scholes model is a single formula with six fixed input factors that computes an estimate of an option's fair value. The factors are, Exercise Price of the option, Market Price of the underlying share on the date of issue, Expected Term of the option, Expected Volatility of the price of the underlying share for the expected term of the option, Expected dividends on the underlying share for the expected term of the option and Risk-free interest rate for the expected term of the option

It assumes that option exercises occur at the end of an option's contractual term, and that expected volatility, expected dividends, and risk-free interest rates are constant over the option's term.

#### **b) Binomial Model**

The Binomial Model incorporates multiple and variable assumptions of expected volatility and dividends over the option's contractual term, and estimates of expected option exercise patterns during the option's contractual term, including the effect of blackout periods.

The design of the binomial model requires more inputs and judgments to be made by management, but may more fully reflect the substantive characteristics of a particular employee share option or similar instrument.

The binomial model also requires extensive calculations, which require very complex computer-based models.

The Binomial model is both time-consuming and costly. Many public companies find it difficult to perform binomial calculations without external assistance and many do not have the required data, at least initially, needed for inputs into a binomial model. Hence many companies choose the Black-Scholes model as it easy to use and less time consuming. Owing to its inherent benefits we have used the Black-Scholes model to value the options of City Union Bank.

#### IV. METHOD ADOPTED FOR VALUATION OF STOCK OPTIONS

I have adopted Black-Scholes Model to arrive fair value of stock options granted during the year 2020-21 using the following formula and based on following assumptions;

Formula:

$$C = \eta(SN(\eta d1)e^{-qt} - Ke^{-rt}N(\eta d2))$$

Where,

C = theoretical value of an option

S = price of the underlying

K = exercise price

t = time to expiration in years

$\sigma$  = annual volatility in percent

r = risk free interest rate

q = continuous dividend yield

e = base of the natural logarithm

ln = natural logarithm

$N(x)$  = cumulative normal distribution function

$N'(x)$  = normal density function

$\eta$  = positive one for call options and negative one for put options

$$d1 = \frac{\ln(S/K) + ((r-q) + 1/2 \sigma^2)t}{\sigma\sqrt{t}}$$
$$d2 = d1 - \sigma\sqrt{t}$$

#### **Assumptions & Values**

- i. Risk Free Rate – Yield on the appropriate period Government Securities has been considered as the risk-free rate as on date of grant.
- ii. Expected Volatility – Standard Deviation of the stock returns of City union Bank over the trailing one year period from the date of grant of options has been considered.
- iii. Expected Dividend – Based on the last annual dividend payout by the Bank

## V. VALUATION OF OPTIONS

- a. During the Financial Year 2020-21, the Bank has granted stock options to its employees under ESOS 2017 as detailed below;

Particulars	ESOS 2017
Date of Grant	June 18, 2020
No. of Options Granted	34,62,000
Vesting Period	5 Years
Exercise Price	Rs.132.95
Market Price at the time of grant	Rs.132.95
Expected Life	5 Years
*Risk Free Rate (5 years G Sec rate)	5.47
Expected Dividend (annualized)	0.75%
Annualized Standard Deviation (Stock Variance)	22%

\*Source: [www.marketwatch.com](http://www.marketwatch.com)

- b. We hereby certify that as per Black-Scholes Model option pricing model, fair value of options granted during the Financial Year 2020-21 are as follows;

Particulars	ESOS 2017
Fair value of option	Rs.38.50 per option
*Intrinsic Value of option	Nil

\*Difference between market price and grant price at the time of grant.

## VI. NOTICE

- a. This Report is furnished solely for purpose of disclosure of diluted earnings and disclosure of difference in employee compensation cost using "Intrinsic Value" method and "The Fair Value" method in the Company's Directors Report for the year ending March 31, 2021 as per SEBI (Share Based Employee Benefits) Regulations, 2014.
- b. The Bank shall not use this report for any other purpose other than stated above.

- c. The report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- d. My work does not constitute an audit or certification of the subject Bank's financial. Accordingly, I am unable to and do not express any opinion on the accuracy of information referred to in this report. I assume no responsibility for any errors in the information submitted by the management and their impact on the present exercise.
- e. This valuation report is issued on the understanding that the Bank has drawn my attention to all the relevant matters, of which it was aware, concerning the Bank's financial projection and business which may have an impact on my Report.

Thanking you,

Yours faithfully

MUTHAIA ALAGAR Digitally signed by  
MUTHAIA ALAGAR  
Date: 2021.06.11  
11:11:10 +05'00'

**M. Alagar**  
**Registered Valuer**  
**M. No. IBBI/RV/03/2018/10227**

**Date: June 11, 2021**  
**Place: Chennai**



**ANNEXURE I**

**City Union Bank Limited Stock Options - Computation of employees compensation cost for FY 2020-2021**

<b>Computation of impact on profits of the Company - ESOS 2008 - FY 20-21</b>							
<b>Date of grant</b>	<b>06.12.08</b>	<b>25.05.10</b>	<b>05.10.10</b>	<b>29.07.13</b>	<b>24.01.15</b>	<b>21.09.15</b>	<b>15.12.18</b>
No of options granted in force as on 01.04.2020	0	0	0	226696	2288832	801505	4141375
<b>Add:</b> Options granted during the year due to corporate action	0	0	0	0	0	0	0
<b>Less:</b> Options Lapsed during the year	0	0	0	18149	69642	22205	83025
<b>Options granted and in force (net of employee separation) as on 31.03.2021 (A)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>208547</b>	<b>2219190</b>	<b>779300</b>	<b>4058350</b>
Less: Options exercised during the year	0	0	0	75870	1164715	255255	7050
<b>Options Outstanding as on 31.03.2021</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>132677</b>	<b>1054475</b>	<b>524045</b>	<b>4051300</b>
Vesting Period	5 Years - 15%, 15%, 15%, 25% and 30%						
Market Price at the time of grant (B)	13.00	32.00	47.00	46.95	93.20	88.05	179.00
Exercise Price (C)	13.00	32.00	47.00	46.95	93.20	88.05	179.00
Intrinsic Value (B-C=D)	0	0	0	0	0	0	0
Fair value of stock options (as per Black-Scholes - Model (E))	10.71	6.95	12.15	9.88	29.99	22.83	53.56
<b>Employee Compensation Cost using Intrinsic Value of Option</b>							
Amortised ECC for FY 20-21, over relevant vesting period	0	0	0	0	0	0	0
Less: Credit provided for lapsed options	0	0	0	0	0	0	0
Net impact on profits, for FY 20-21	0	0	0	0	0	0	0
<b>Total impact on profits, for FY 20-21</b>	<b>0</b>						
<b>Employee Compensation Cost using Fair Value of Option</b>							
Amortised ECC for FY 20-21, over relevant vesting period	0	0	0	0	0	5337426	32548144
Less: Credit provided for lapsed options	0	0	0	179312	2088564	354858	667023
Net Impact to the profits for FY 20-21	0	0	0	-179312	-2088564	4982568	31881121
<b>Total impact on profits, for FY 20-21</b>	<b>34595813.25</b>						

**ANNEXURE II**  
**City Union Bank Limited Stock Options - Computation of Weighted Average Information**  
**FY 2020-21**

<b>Date of Grant</b>	<b>06.12.08</b>	<b>25.05.10</b>	<b>05.10.10</b>	<b>29.07.13</b>	<b>24.01.15</b>	<b>21.09.15</b>	<b>15.12.18</b>
Total number of options granted (Including additional grant upon rights issue & bonus issue)	22781250	370071	3168056	4678936	10945549	1755378	4609500
Less: Options lapsed (Cumulative for all years)	1930342	87771	911007	1058462	1576440	109389	316025
Less: Options exercised (Cumulative for all years)	20850908	282300	2257049	3487797	8314634	1121944	242175
<b>Total Options outstanding as on 31.03.2021</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>132677</b>	<b>1054475</b>	<b>524045</b>	<b>4051300</b>
Cumulative Options outstanding	5762497						
Market Price as on date prior to the date of grant	13.00	32.00	47.00	46.95	93.20	88.05	179.00
<b>Weighted Avg Market Price</b>	<b>151.99</b>						
Exercise price as on date of grant	13.00	32.00	47.00	46.95	93.20	88.05	179.00
Weighted Exercise Price	0	0	0	6229185.15	98277070.00	46142162.25	725182700.00
Cumulative Weighted Exercise Price	875831117.40						
<b>Weighted Avg Exercise Price</b>	<b>151.99</b>						
*Risk free interest rate (%)	4.51	7.20	7.20	7.44	7.80	7.70	7.35
<b>Weighted Avg Risk Free Interest Rate</b>	<b>7.47</b>						
**Expected stock volatility, based on historical deviation (%)	0.035	0.0195	0.040	0.0035	0.0438	0.0036	0.0022
<b>Weighted Avg Stock Volatility</b>	<b>0.0100</b>						
Fair Value as on date of grant (in Rs)	10.71	6.95	12.15	9.88	29.99	22.83	53.56
Weights	0	0	0	1310848.76	31623705.25	11963947.35	216987628.00
Cumulative Weights	261886129.36						
<b>Weighted Avg Fair Value</b>	<b>45.45</b>						

\*5 years G.Sec rate at time of every grant of stock options

\*\*Expected stock volatility, based one year share price movement preceding every grant

## ANNEXURE TO DIRECTOR'S REPORT

### Disclosure pursuant to Regulation 14 of Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 as on March 31, 2021

Particulars	CUB ESOS 2008	CUB ESOS 2017
Date of shareholders' approval	April 26, 2008	August 23, 2017
Total number of options approved under ESOS	5 crores	3 Crores
Vesting requirements	There shall be a minimum period of one year between the grant of options and vesting of options. The vesting shall happen in one or more tranches under each series, subject to the terms and conditions of vesting as may be stipulated by the Board which may include satisfactory performance of the employees. Each tranche shall be open for exercise to employees with a period of three (3) years from date of vesting	
Exercise price or pricing formula	The latest available closing price on the National Stock Exchange of India Limited (NSE prior to meeting of the Nomination and Remuneration Committee of Directors (NRC)/ Board of directors approving and granting the options	
Maximum term of options granted	5 years	
Source of shares (primary, secondary or combination)	Primary	
Variation in terms of options	No	

**The Company has adopted Black-Scholes model to arrive value of options granted under ESO based on the following assumptions.**

1. Risk Free Rate – Yield on the appropriate period Government Securities has been considered as the risk-free rate.
2. Expected Volatility – Standard Deviation of the stock returns of City Union Bank over the trailing one year period prior to the date of grant of options has been considered.
3. Expected Dividend – Based on the last dividend pay-out by the Bank.

Particulars	ESOS 2008						
	Series I	Series II	Series III	Series IV	Series V	Series VI	Series VII
Total number of options granted (Including additional grant upon rights & bonus issue)	2,27,81,250	3,70,071	31,68,056	46,78,936	1,09,45,549	17,55,378	46,09,500
Pricing Formula	Rs. 11.60	Rs. 29.60	Rs. 41.60	Rs. 46.95	Rs. 93.20	Rs. 88.05	Rs.179.00
Revised price due to rights & bonus issue	Rs.10.55	Rs.26.91	Rs.37.82	Rs.42.68	Rs.84.73	Rs.80.05	--
No of options outstanding as on 01.04.2020	0	0	0	2,26,696	22,88,832	8,01,505	41,41,375
No of additional options granted pursuant to Bonus Issue during the year	0	0	0	0	0	0	0
No. of fresh options granted during the year	0	0	0	0	0	0	0
No of options lapsed during the year	0	0	0	18,149	69,642	22,205	83,025
No of options exercised during the year	0	0	0	75,870	11,64,715	2,55,255	7,050
No of shares arising as a result of exercise of option during the year	0	0	0	75,870	11,64,715	2,55,255	7,050

Variation in terms of Options	Not Applicable						
Vesting Period	1 <sup>st</sup> year - 15%, 2 <sup>nd</sup> year - 15%, 3 <sup>rd</sup> year - 15%, 4 <sup>th</sup> year - 25% and 5 <sup>th</sup> year - 30%.						
Money realized by exercise of Options during the year	0	0	0	29,43,756	8,97,17,996	1,85,74,906	12,61,950
Loan repaid by the Trust during the year from the exercise price received	Not applicable						
<b>Total Number of Options outstanding at the end of the year 31.03.2021</b>	0	0	0	1,32,677	10,54,475	5,24,045	40,51,300
<b>Employee wise details of Options granted</b>							
i) Senior Management Personnel	NIL						
ii) Any other employee who received a grant in any one year of the options amounting to 5% or more of the options granted during the year	NIL						
iii) Identified employees who were granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding	NIL						

warrants and conversions) of the Bank at the time of grant								
<b>Allotment of shares made during the Financial Year under ESOS</b>								
Employee wise details of the shares allotted to								
<b>i) Senior Managerial Personnel</b>								
Kamakodi N	-	-	-	-	181500	-	-	-
R Venkatasubramanian (retired w.e.f 30.06.2020)	-	-	-	-	8000	-	-	-
K P Sridhar (retired w.e.f 30.06.2020)	-	-	-	-	42350	-	-	-
Maharajan K	-	-	-	-	3630	3630	-	-
Ramesh_V	-	-	-	-	3630	3025	-	-
Mohan S	-	-	-	-	7260	-	-	-
Sridharan J	-	-	-	-	3630	3025	-	-
Rajam S	-	-	-	-	16940	-	-	-
Lakshminarayanan R	-	-	-	-	-	6655	-	-
K Jayaraman	-	-	-	-	16335	-	-	-
Sankaran G	-	-	-	-	12705	-	-	-
V Gopalakrishnan	-	-	-	-	19965	-	-	-
Balaji R	-	-	-	-	9075	-	-	-
Venkatesh S	-	-	-	-	3630	-	-	-
Uma R	-	-	-	-	9075	-	-	-
Venkatesan S	-	-	-	-	9075	-	-	-
Ramaswamy J	-	-	-	-	29948	-	-	-
Subramanian R (retired w.e.f 31.03.2020)	-	-	-	-	6655	6655	-	-
Ravi V (retired w.e.f 30.06.2020)	-	-	-	-	5445	3630	-	-
Ganesan V	-	-	-	-	6050	-	-	-

ii) Any other employee who received a grant in any one year of the options amounting to 5% or more of the options granted during the year	NIL
iii) Identified employees who were granted options 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	NIL

Employee compensation cost calculated as per the intrinsic value method for the Financial Year 2020-21 is Nil. If the Employee compensation cost was calculated as per fair value method as prescribed under SEBI (Share Based Employee Benefits) Regulations, 2014, the total cost to be recognized in the financial statement for the Financial Year 2020-21 would be Rs.3,45,95,813/-. Consequently, net profit would have been reduced by Rs. 3,45,95,813/-and EPS would have been reduced by Re.0.047 per share.

#### Weighted Average Details

Weighted Avg Market Price (In Rs.)	151.99
Weighted Avg Exercise Price (In Rs.)	151.99
Weighted Avg Risk Free Interest Rate (%)	7.47
Weighted Avg Stock Volatility	0.0100
Weighted Avg Fair Value of Options (In Rs.)	45.45

## CUB ESOS Scheme 2017

During the Financial Year 2020-21, the Board of Directors in their meeting held on June 18, 2020 granted 34,62,000 Employee stock options under CUB ESOS Scheme 2017. The option movement since inception of the Scheme is detailed hereunder.

Number of options outstanding at the beginning of the period	NA
Number of options granted during the year	34,62,000
Number of options forfeited / lapsed during the year	NA
Number of options vested during the year	NA
Number of options exercised during the year	NA
Number of shares arising as a result of exercise of options	NA
Money realized by exercise of options (INR), if scheme is implemented directly by the company	NA
Loan repaid by the Trust during the year from exercise price received	NA
Number of options outstanding at the end of the year	34,62,000
Number of options exercisable at the end of the year	NA
Employee wise details (name of employee, designation, number of options granted during the year, exercise price) of options granted	NA

### Weighted Average Details

Weighted Avg Market Price (In Rs.)	132.95
Weighted Avg Exercise Price (In Rs.)	132.95
Weighted Avg Risk Free Interest Rate (%)	5.47
Weighted Avg Stock Volatility	0.22
Weighted Avg Fair Value of Options (In Rs.)	38.50