

VR/01/2022-23

June 15, 2022

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

Dear Sir,

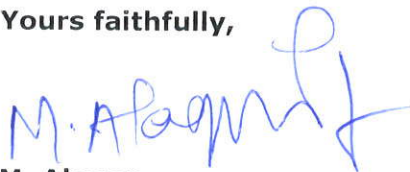
VALUATION OF EMPLOYEE STOCK OPTIONS

Please refer my engagement letter dated May 22, 2022 engaging me for valuation of stock options granted by City Union Bank (hereinafter referred as "**the client**" or "**the Bank**") during the Financial Year 2021-22 under City Union Bank Employees Stock Option Scheme 2017 and computation of Employee Compensation Cost for stock options issued under CUB ESOS Scheme 2008 & CUB ESOS Scheme 2017, in terms of Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

I herewith enclose my Valuation Report and Employee Compensation Cost Computation.

Thanking you,

Yours faithfully,



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



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, 1st 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 up to 3 crore options which was approved by the shareholders vide Annual General Meeting held on August 23, 2017. Further, I understand that Board of Directors vide its meeting held on February 4, 2022 granted 5,12,800 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 Board's Report for the year ending March 31, 2022 as per Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the Bank has appointed me vide engagement letter dated May 22, 2022 for valuation of stock options issued during the year 2021-22.

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's 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) bonds.
 - 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.



Client has been provided with the opportunity to review the draft Report (excluding the recommended Fair Value) as part of my standard practice to make sure that factual inaccuracy/ omissions are avoided in our final Report.

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 2021-22 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

σ = 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

η = 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 2021-22, the Bank has granted stock options to its employees under ESOS 2017 as detailed below;

Particulars	ESOS 2017
Date of Grant	February 4, 2022
No. of Options Granted	5,12,800
Vesting Period	5 Years
Exercise Price	Rs.144.80
Market Price at the time of grant	Rs.144.80
Expected Life	5 Years
*Risk Free Rate (5 years G Sec rate)	6.19
Expected Dividend (annualized)	0.35%
Annualized Standard Deviation (Stock Variance)	7.11%

*Source: www.investing.com

- b. I hereby certify that as per Black-Scholes Model option pricing model, fair value of options granted during the Financial Year 2021-22 are as follows;

Particulars	ESOS 2017
Fair value of option	Rs.36.31 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 Board's Report for the year

ending March 31, 2022 as per Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

- 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. Financial statement and other related information provided by the company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the company's business conditions and operating results for the respective periods, except as specifically noted herein.
- e. Public information and industry and statistical information, directly used for this valuation and for arriving at appropriate estimations, have been obtained from sources which are considered to be reliable.
- f. I am not responsible for arithmetical inaccuracies/logical inconsistencies of any financial model or business plan or other information / data provided by the Company and used in connection with this Report. Also, I have been given to understand that it has not omitted any relevant and material factors and that it has checked out relevance or materiality of any specific information to the present exercise with main case of any doubt. I assume no responsibility for any errors in the information furnished and their impact on the present exercise.
- g. This Report and opinions contained herein have been prepared by me, inter alia, on the basis of information and documents available in the public domain, information provided by the company, data available on the company website.
- h. In rendering this Report, I have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly I do not assume any responsibility or liability in respect thereof.
- i. Valuation is an economic concept and various valuation approaches provide only an estimate of value based on the assumptions involved. It is pertinent to note that



valuation, being a highly subjective exercise dependent on assumptions, is a matter of individual perception, and hence may vary from valuer to valuer.

Thanking you,
Yours faithfully



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



Date: June 15, 2022
Place: Chennai

ANNEXURE I

City Union Bank Limited Stock Options Scheme 2008 - Computation of employees compensation cost for FY 21-22

Computation of impact on profits of the Company - ESOS 2008								
Date of grant	06.12.08	25.05.10	05.10.10	29.07.13	24.01.15	21.09.15	15.12.18	
No of options granted in force as on 01.04.2021	-	-	-	1,32,677	10,54,475	5,24,045	40,51,300	
Add: Options granted during the year due to corporate action	-	-	-	-	-	-	-	
Less: Options Lapsed during the year	-	-	-	24,805	1,20,603	14,943	2,73,000	
Options granted and in force (net of employee separation) as on 31.03.2022 (A)	-	-	-	1,07,872	9,33,872	5,09,102	37,78,300	
Less: Options exercised during the year	-	-	-	83,672	2,94,389	1,53,241	-	
Options Outstanding as on 31.03.2022	-	-	-	24,200	6,39,483	3,55,861	37,78,300	
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)	-	-	-	-	-	-	-	
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	
Employee Compensation Cost using Intrinsic Value of Option								
Amortised ECC for FY 21-22, over relevant vesting period	-	-	-	-	-	-	-	
Less: Credit provided for lapsed options	-	-	-	-	-	-	-	
Net impact on profits, for FY 21-22	-	-	-	-	-	-	-	
Total impact on profits, for FY 21-22								0
Employee Compensation Cost using Fair Value of Option								
Amortised ECC for FY 21-22, over relevant vesting period	-	-	-	-	-	-	3,03,54,862	
Less: Credit provided for lapsed options	-	-	-	2,45,073	36,16,884	3,41,149	43,86,564	
Net Impact to the profits for FY 21-22	-	-	-	-2,45,073	-36,16,884	-3,41,149	2,59,68,298	
Total impact on profits, for FY 21-22								2,17,65,192



ANNEXURE II

City Union Bank Limited Stock Options Scheme 2008- Computation of Weighted Average Information

Date of Grant	06.12.08	25.05.10	05.10.10	29.07.13	24.01.15	21.09.15	15.12.18
Total number of options granted (Including additional grant upon rights issue & 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
Less: Options lapsed (Cumulative for all years)	19,30,342	87,771	9,11,007	10,83,267	16,97,043	1,24,332	5,89,025
Less: Options exercised (Cumulative for all years)	2,08,50,908	2,82,300	22,57,049	35,71,469	86,09,023	12,75,185	2,42,175
Total Options outstanding as on 31.03.2022	-	-	-	24,200.00	6,39,483.00	3,55,861.00	37,78,300.00
Cumulative Options outstanding	47,97,844.00						
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
Weighted Avg Market Price	160.15						
Exercise price as on date of grant	13.00	32.00	47.00	46.95	93.20	88.05	179.00
Weighted Exercise Price	-	-	-	11,36,190.00	5,95,99,815.60	3,13,33,561.05	67,63,15,700.00
Cumulative Weighted Exercise Price	76,83,85,266.65						
Weighted Avg Exercise Price	160.15						
*Risk free interest rate (%)	4.51	7.20	7.20	7.44	7.80	7.70	7.35
Weighted Avg Risk Free Interest Rate	7.44						
**Expected stock volatility, based on historical deviation (%)	0.04	0.02	0.04	0.00	0.04	0.00	0.00
Weighted Avg Stock Volatility	0.01						
Fair Value as on date of grant (in Rs)	10.71	6.95	12.15	9.88	29.99	22.83	53.56
Weights	-	-	-	2,39,096.00	1,91,78,095.17	81,24,306.63	20,23,65,748.00
Cumulative Weights	22,99,07,245.80						
Weighted Avg Fair Value	47.92						
*5 years G.Sec rate at time of every grant of stock options							
**Expected stock volatility, based on one year share price movement preceding every grant							



ANNEXURE III

City Union Bank Limited Stock Options Scheme 2017 - Computation of employees compensation cost for FY 21-22

Computation of impact on profits of the Company - ESOS 2017		
Date of grant	18.06.2020	04.02.2022
No of options granted in force as on 01.04.2021	34,62,000	-
Add: Options granted during the year	-	5,12,800
Less: Options Lapsed during the year	1,35,675	-
Options granted and in force (net of employee separation) as on 31.03.2022 (A)	33,26,325	5,12,800
Less: Options exercised during the year	2,31,500	-
Options Outstanding as on 31.03.2022	30,94,825	5,12,800
Vesting Period	5 Years - 15%, 15%, 15%, 25% and 30%	
Market Price at the time of grant (B)	132.95	144.80
Exercise Price (C)	132.95	144.80
Intrinsic Value (B-C=D)	0	0
Fair value of stock options (as per Black-Scholes - Model (E))	38.5	36.31
Employee Compensation Cost using Intrinsic Value of Option		
Amortised ECC for FY 21-22, over relevant vesting period	-	-
Less: Credit provided for lapsed options	-	-
Net impact on profits, for FY 21-22	-	-
Total impact on profits, for FY 21-22	0	0
Employee Compensation Cost using Fair Value of Option		
Amortised ECC for FY 21-22, over relevant vesting period	1,78,72,614	27,92,965
Less: Credit provided for lapsed options	-	-
Net Impact to the profits for FY 21-22	1,78,72,614	27,92,965
Total impact on profits, for FY 21-22	2,06,65,579.58	2,06,65,579.58



ANNEXURE IV

**City Union Bank Limited Stock Options Scheme 2017 - Computation of Weighted Average Information
FY 2021-22**

Date of Grant	18.06.2020	04.02.2022
Total number of options granted (Including additional grant upon rights issue & bonus issue)	34,62,000	5,12,800
Less: Options lapsed (Cumulative for all years)	1,35,675	-
Less: Options exercised (Cumulative for all years)	2,31,500	-
Total Options outstanding as on 31.03.2022	30,94,825	5,12,800
Cumulative Options outstanding		36,07,625.00
Market Price as on date prior to the date of grant	132.95	144.80
Wiegthed Avg Market Price		134.63
Exercise price as on date of grant	132.95	144.80
Weighted Exercise Price	41,14,56,984	7,42,53,440
Cumulative Weighted Exercise Price		48,57,10,424
Weighted Avg Exercise Price		134.63
*Risk free interest rate (%)	5.47	6.19
Weighted Avg Risk Free Interest Rate		5.57
**Expected stock volatility, based on historical deviation (%)	0.05	0.01
Weighted Avg Stock Volatility		0.04
Fair Value as on date of grant (in Rs)	38.5	36.31
Weights	11,91,50,763	1,86,19,768
Cumulative Weights		13,77,70,530.50
Weighted Avg Fair Value		38.19
*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 - V
ANNEXURE TO BOARD'S REPORT

Regulation 14 of Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 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	5,00,00,000	3,00,00,000
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 for a period of three (3) years from the 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 Compensation and Remuneration Committee of Directors / Board of directors approving and granting the options.	
Maximum term of options granted	5 years	
Source of shares (Primary, Secondary or Combination)	Primary	
Method used to account for ESOS - Intrinsic or Fair Value	Intrinsic Value Method	
Black-Scholes model has been employed to arrive value of options granted under ESOS 2008 & 2017 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	2,27,81,250	3,70,071	31,68,056	46,78,936	1,09,45,549	17,55,378	46,09,500



rights & bonus issue)								
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 01.04.2021	-	-	-	1,32,677	10,54,475	5,24,045	40,51,300	
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	24,805	1,20,603	14,943	2,73,000	
No of options exercised during the year	0	0	0	83,672	2,94,389	1,53,241	0	
No. of shares arising as a result of exercise of option during the year	0	0	0	83,672	2,94,389	1,53,241	0	
Variation in terms of Options	Not Applicable							
Vesting Period	1 st year - 15%, 2 nd year - 15%, 3 rd year - 15%, 4 th year - 25% and 5 th year - 30%.							
Money realized by exercise of Options during the year	0	0	0	32,46,474	2,26,76,785	1,11,51,348	0	
Loan repaid by the Trust during the year from the exercise price received	Not applicable							
Total Number of Options outstanding at the end of the year 31.03.2022	0	0	0	24,200	6,39,483	3,55,861	37,78,300	
Employee wise details of Options granted								

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 warrants and conversions) of the Bank at the time of grant	NIL						
Allotment of shares made during the Financial Year under ESOS							
Employee wise details of the shares allotted to							
i) Senior Managerial Personnel							
	1	2	3	4	5	6	7
Ramesh V	-	-	-	-	-	3,630	-
Ganesan V	-	-	-	-	7,260	-	-
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
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Particulars	ESOS 2017	
	Series I	Series II
Total number of options granted(Including additional grant upon rights & bonus issue)	34,62,000	5,12,800
Pricing Formula	Rs.132.95	Rs.144.80
Revised price due to rights & bonus issue	--	--
No of options outstanding as on 01.04.2021	34,62,000	NA
No of additional options granted pursuant to Bonus Issue during the year	-	-
No. of fresh options granted during the year	-	5,12,800
No of options lapsed during the year	1,35,675	-
No of options exercised during the year	2,31,500	-
No. of shares arising as a result of exercise of option during the year	2,31,500	-
Variation in terms of Options	Not Applicable	
Vesting Period	1 st year - 15%, 2 nd year - 15%, 3 rd year - 15%, 4 th year - 25% and 5 th year - 30%.	
Money realized by exercise of Options during the year	3,07,77,925	NA
Loan repaid by the Trust during the year from the exercise price received	Not Applicable	
Total Number of Options outstanding at the end of the year 31.03.2022	30,94,825	5,12,800
Employee wise details of Options granted		
i) Senior Management Personnel		
Mohan S	10,000	-
Sridhar K P (Retired on 30-06-2020)	50,000	-
Lakshminarayanan R	10,000	-
Rajam S	10,000	-



Sankaran G	10,000	-
Gopalakrishnan V	10,000	-
Jayaraman K	10,000	-
Ganesan V	20,000	-
Balaji R	20,000	-
Uma R	10,000	-
Venkatesan S	20,000	-
Ramaswamy J	10,000	-
Ganesan C	10,000	-
Gurumurthy V (Retired on 31-03-2021)	10,000	-
Chandrasekar J (Retired on 30-06-2020)	20,000	-
Ravi V (Retired on 30-06-2020)	20,000	-
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	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	Nil
Allotment of shares made during the Financial Year under ESOS		
Employee wise details of the shares allotted to		
i) Senior Managerial Personnel		
Mohan S	1,500	
Sridhar KP (Retired on 30-06-2020)	50,000	
Lakshminarayanan R	1,500	
Uma R	1,500	
Gurumurthy V (Retired on 31-03-2021)	10,000	
Chandrasekar J (Retired on 30-06-2020)	20,000	
Ravi V (Retired on 30-06-2020)	20,000	
Sankaran G	1,500	
Jayaraman K	1,500	
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 2021-22 is Nil for the stock options granted under ESOS 2008 and ESOS 2017. If the Employee compensation cost was calculated as per fair value method as prescribed under Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2011, the total cost to be recognized in the financial

statement for the Financial Year 2021-22 would be Rs.3,96,37,806/-. Consequently, net profit would have been reduced by Rs.3,96,37,806/- and EPS would have been reduced by Re. 0.0536/- per share.

Weighted Average Details

	ESOS 2008	ESOS 2017
Weighted Avg Market Price (In Rs.)	160.15	134.62
Weighted Avg Exercise Price (In Rs.)	160.15	134.63
Weighted Avg Risk Free Interest Rate (%)	7.44	5.57
Weighted Avg Stock Volatility	0.01	0.04
Weighted Avg Fair Value of Options (In Rs.)	47.92	38.19

