

CITY UNION BANK EMPLOYEES STOCK OPTION SCHEME - 2008

INTRODUCTION:

The Bank recognizes that in an increasingly competitive environment, rewarding its performing employees is critically imperative to continued success. The Stock Options are recognized as an effective tool to attract, reward, retain and motivate the employees and create a sense of ownership among employees, provide an opportunity to employees to share in the growth of the Bank, create long term wealth in the hands of the employees and also provide performance linked rewards to the employees. In this regard the management of the Bank is keen to offer stock options to eligible employees and Directors.

In furtherance to the above objectives the Shareholders of the Bank approved Employees Stock Option Scheme under the name and style of **"CUB Employees Stock Option Scheme 2008 or CUB ESOS-2008"** vide special resolution in the Extraordinary General Meeting held on 26.04.2008.

DURATION OF THE SCHEME

The City Union Bank Employees Stock Option Scheme 2008 shall come into force on the 26th April, 2008 and is effective from this date and shall continue to be in force until (i) its termination by the Board or (ii) the date on which all the options available for issuance under scheme have been issued and exercised, whichever is earlier.

DEFINITIONS:

- a) "Applicable Laws" means the relevant laws in force for the time being (and as amended from time to time) which govern companies and securities and those which regulate the stock option Scheme of the companies, but without limitation shall particularly include the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, the Income Tax Act, 1961 and Guidelines/ notifications/ circulars issued there under, Companies Act, 1956, Foreign Exchange Management Act, 1999, any stock exchange regulations including the Listing Agreements with stock exchanges and such other guidelines which may be stipulated by Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Government of India, and / or any other appropriate authority. Any term or requirement under the Guidelines not incorporated herein shall be deemed to have been included herein and be applicable and binding on the Bank, the eligible employees and the option holders.
- b) "Bank" mean City Union Bank Limited
- c) "Board" means the Board of Directors of the Bank.
- d) "Companies Act" means the Companies Act, 1956 of India or any statutory modification or re-enactment thereof.
- e) "Compensation Committee" means Committee of the Board of Directors of the Bank constituted by the Board in accordance with the applicable regulations / laws.
- f) "Date of Grant" is the date fixed by the Compensation Committee to be the date, specified in the Letter of Grant, in which CUB ESOS – 2008 is extended to employee.
- g) "Date of Vesting" shall mean the date on which the employee is given a right to apply for shares of the Bank against the options granted to him under this ESOS.

- h) "Director" means a member of the Board.
- i) "Employee" means
- i. a permanent employee of the Bank working in India either on the date of this ESOS Scheme or thereafter
 - ii. a Director of the Bank, whether a whole time director or not but shall exclude:
 - a. an employee who is a promoter or belongs to the promoter group
 - b. an employee/director who holds either by himself or through his relative or through any body corporate, directly or indirectly, more than 10% of the outstanding equity shares of the Bank.
- j) "Employee Stock Option" means the option given to the whole-time Directors, Officers or employees of the Bank which gives such Directors, Officers and employees, the benefit of right to purchase or subscribe at a future date, the securities offered by the Bank at a predetermined price.
- k) "Exercise" means making of an application by the employee to the Bank for issue of shares against option vested in him/her in pursuance of CUB ESOS - 2008.
- l) "Exercise Period" means the time period after vesting within which the employee should exercise his/her right to apply for shares against the option vested in him/her in pursuance of CUB ESOS - 2008.
- m) "Exercise Price" means the price payable by the employee for exercising the option granted to him/her in pursuance of CUB ESOS - 2008.
- n) "Grant" means issue of option to employees under this ESOS.
- o) "Option Grantee" means an employee having right but not an obligation to exercise in pursuance of the ESOS.
- p) "Intrinsic Value" means the excess of the market price of the share under the Scheme over the exercise price of the option (including up-front payment, if any).
- q) "Market Price" means the latest available closing price prior to the date of the meeting of the Board / Compensation Committee in which options are granted on the Stock Exchange (National Stock Exchange of India Ltd / Bombay Stock Exchange Ltd / Madras Stock Exchange Ltd or any other Stock Exchanges where the Shares of the Bank may be listed in future) with highest trading volume of Bank's shares on such date.
- r) "Promoter" means
- (i) the person or persons who are in over-all control of the Bank;
 - (ii) the person or persons who are instrumental in the formation of the Bank or programme pursuant to which the shares were offered to the public.
 - (iii) the person or persons named in the offer document as promoter(s). Provided that a director or officer of the Bank if they are acting as such only in their professional capacity will not be deemed to be a promoter.
- Explanation: Where a promoter is a body corporate, the promoters of that body corporate shall also be deemed to be promoters of the Bank.
- s) "Promoter Group" means

- (i) an immediate relative of the promoter (i.e. spouse of that person or any parent, brother, sister or child of the persons or of the spouse);
 - (ii) persons whose shareholding is aggregated for the purpose of disclosing in the offer document under "shareholding of the promoter group".
- t) "Permanent incapacity" means any disability of whatsoever nature be it physical, mental or otherwise, which incapacitates or prevents or handicaps an employee from performing any specific job, work or task which the said employee was capable of performing immediately before such disablement, as determined by the Compensation Committee based on a certificate of a medical expert identified by such Committee.
 - u) "Shares" mean equity shares of the Bank
 - v) "Scheme" means CUB Employees Stock Options Scheme 2008 / CUB ESOS 2008
 - w) "Vesting" means the process by which the employee is given the right to apply for shares of the Bank against the option granted to him/her in pursuance of CUB ESOS - 2008.
 - x) "Vesting Period" means the period during which the vesting of the option granted to the employee in pursuance of ESOS takes place.

DETAILS OF THE SCHEME:

GRANT OF OPTIONS & GRANTING PROCEDURE

1. Total number of options to be granted under the scheme shall not exceed 5,00,00,000.
2. Options under CUB ESOS - 2008, will be offered through a Letter of Grant containing, among other things, the following details:
 - a. No of options being offered;
 - b. Exercise price;
 - c. Vesting Period and
 - d. Exercise period
3. One option entitles the option grantee to apply for one equity share of the Bank.
4. While granting option the Bank shall make to the employees disclosures as specified in Schedule IV of SEBI (ESOS & ESPS) Guidelines 1999.

ELIGIBLE EMPLOYEE

5. Employees would be granted stock options based on performance linked parameters such as value creation, leadership, work performance, technical knowledge, period of service, designation and such other parameters as may be decided by the Board/Compensation Committee from time to time.
6. No employee shall be entitled to get more than 1% of the total outstanding shares of the Bank at the time of granting under the CUB ESOS - 2008.
7. Maximum number of options that can be granted to non-executive Directors including independent Director in any financial year shall not exceed 5,00,000 per director and in aggregate shall not exceed 10% of total option granted under the scheme.

VESTING OF OPTIONS:

8. There shall be minimum lock-in period of one year between the grant of options and vesting of options and the options shall vest as follows;

Vesting Period	Vesting Details in %
At end of one year from the date of grant	15% of the option
At end of 2 nd year from the date of grant	15% of the option
At end of 3 rd year from the date of grant	15% of the option
At end of 4 th year from the date of grant	25% of the option
At end of 5 th year from the date of grant	30% of the option

EXERCISE PRICE OF OPTIONS:

9. The exercise price will be decided by the Board on the date of grant of option.

EXERCISE OF OPTIONS:

10. The exercise period will commence from the vesting date and shall expire at the end of 3 years from the date of vesting.
11. The option grantee may exercise at his/her discretion all vested options at one time or at various points of time within the exercise period, provided that each exercise shall not be for less than 1000 options or the balance of his/her holding, whichever is less
12. The options will be exercisable by the employees by written application to the designated officer of the Bank to exercise the options, in such manner and on execution of such documents, as may be prescribed by the Board/Compensation Committee under this Scheme.
13. The options will lapse if not exercised within the exercise period specified above.

TERMINATION OF RELATIONSHIP AS AN EMPLOYEE:

14. In the event of death of employee while in employment, all the option granted to him till such date shall vest in the legal heirs or nominees of the deceased employee and the same may be exercised within the last date of the exercise period, by such nominee(s) or in the absence of a valid nomination, by the legal heirs.
15. In case the employee suffers a permanent incapacity while in employment, all the option granted to him as on the date of permanent incapacitation, shall vest in him on that day and the same may be exercised within the prescribed exercise period under the Scheme.
16. In case of superannuation of an Employee, all the options which are granted to the employee up to the date of superannuation, shall vest on the date of the superannuation, and the employee shall exercise the vested options, before the expiry of 12 months from the date of superannuation or the prescribed exercise period for such options, whichever is earlier.
17. In the event of resignation of the employee, all options not vested at the date of such resignation shall expire and the employee shall exercise his/her vested options, before the expiry of 3 months from the date of resignation or the prescribed exercise period for such options, whichever is earlier.

18. During the period of suspension of an employee and/or during the pendency of any domestic enquiry for any cause, all options vested but not exercised and options not vested shall stand suspended. In case the employee is found not guilty or the punishment awarded is only censor / warning, all such options shall revert back to the employee. If the employee is found guilty and a punishment other than censor / warning is awarded all such options shall stand lapsed.
19. All options vested but not exercised and not vested shall remain suspended during the pendency of an unauthorized absence of the employee. In case the absence without sanction of leave exceeds a continuous period of one year all such options shall stand lapsed.
20. In case an employee goes on leave for over 60 (sixty) calendar days during the vesting period, then the Compensation Committee reserves the right to extend the vesting period by a period not exceeding the leave period.

NON-TRANSFERABILITY OF OPTIONS:

21. Option granted to an employee shall not be transferable to any person.
22. No person other than the employee to whom the option is granted, subject to clause 14 of this Scheme, shall be entitled to exercise the option.
23. The option granted to an employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

CASHLESS EXERCISE OF OPTIONS:

24. The Board may introduce a cashless system of exercise. The Bank may itself fund or permit the empanelled stock brokers to fund the payment of exercise price which shall be adjusted against the sale proceeds of some or all the shares, subject to the provision of the Companies Act.

VALUATION METHOD:

25. The Bank shall calculate the employee compensation cost using intrinsic value of the stock options and shall make disclosures in the Director's Report as required by SEBI (ESOS & ESPS) Guidelines, 1999.

TERMS AND CONDITIONS OF THE SHARES:

26. The employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him, till shares are issued on exercise of option.
27. There shall be no lock in period for the shares issued pursuant to exercise of options.
28. The shares issued under the scheme shall rank *paripassu* with the other shares issued by the Bank.
29. The Bank shall take steps to list the shares issued under the scheme in all stock exchanges, where the shares of the Bank are already listed.
30. The Board / Compensation Committee shall make a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the Compensation Committee.

- (a) The number and the price of ESOS shall be adjusted in a manner such that total value of the ESOS remains the same after the corporate action.
- (b) for this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad shall be considered.
- (c) the vesting period and the life of the options shall be left unaltered as far as possible to protect the rights of the option holders.

AMENDMENT AND TERMINATION OF THE SCHEME:

31. Amendment and termination of the ESOS Scheme

- a. The Board / Compensation Committee may at any time vary, modify, withdraw, suspend, review, or terminate the Scheme, to an extent, subject to and after compliance with requirements of applicable laws, provided that the Bank shall not vary the terms of Scheme in any manner which may be detrimental to the interests of the employees;
- b. The Bank may re-price, with approvals of shareholders in General Meeting, the options which are not exercised, whether or not they have been vested, if ESOSs were rendered unattractive due to fall in the price of the shares in the market, provided that the re-pricing is not detrimental to the interest of employees.

GENERAL:

- 32. The employee shall ensure complete confidentiality in respect of all documents and matters and discussions related to the scheme. Any violation will be treated as a misconduct necessitating domestic enquiry against the employee.
- 33. The Bank shall have the right to deduct and / or recover from the employee any / or all taxes including FBT payable directly or indirectly by the Bank relating to or in connection with all grants.
- 34. The existence of the scheme and the grants made hereunder shall not in any way affect the right or the power of the Board of Directors or the shareholders or the Bank to make or authorize any change in capital structure; including any issue of shares, debt or other securities having any priority or preference with respect to the shares or the rights thereof.
- 35. The Bank shall frame suitable policies and systems to ensure that there is no violation of;
 - (i) Securities and Exchange Board of India (Insider Trading) Regulations, 1992; and
 - (ii) Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trading Practice relating to the Securities market) Regulations, 1995 by any employee.
- 36. Nothing contained in the scheme shall be construed to prevent the Bank from taking any corporate action which is deemed by the Bank to be appropriate or in its best interest, whether or not such action would have an adverse effect on the scheme or any grant made under the scheme. No employee or other person shall have any claim against the Bank as a result of such action.
- 37. Participation in this Scheme shall not be construed as any assurance of any form whatsoever including any guarantee of return on the equity investment. Any risks associated with the investment are that of the eligible employee alone.

38. This Scheme shall be subject to all applicable laws, rules, regulations, notifications and to such permissions, sanctions and approvals by any governmental agencies or shareholders, as may be required. In case of any contradiction between the provisions of this Scheme and any applicable laws, rules, regulations etc, the provisions of law shall override the provisions of this Scheme. The Grant of Options under this Scheme shall entitle the Bank to require the eligible employee to comply with such requirements of law as may be necessary in the opinion of the Bank.
39. If the exercise of options within the exercise period, is prevented by any law or regulation in force, defer or not to permit the exercise of options till such time as it is prohibited by the applicable laws or regulations and in such an event of the Bank shall not be liable to pay any compensation or similar payment to the employee for any loss suffered due to such refusal.
40. In the event of any interpretation of the scheme, the decisions of the Board / Compensation Committee shall be final and binding.
