

## KOTAK MAHINDRA BANK LIMITED

### ESOPs / SARs Disclosure (For FY 2016-17)

#### **[Pursuant to Regulation 14 of the SEBI (Share Based Employee Benefits) Regulations, 2014]**

The shareholders of the Bank at its Annual General Meeting held on 29<sup>th</sup> June 2015 approved a new Scheme under the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, for the purposes of granting options and stock appreciation rights to the employees of the Bank, its subsidiaries and its associate companies, as applicable, viz. Kotak Mahindra Share Based Employee Benefit Scheme 2015 comprising of:

- Kotak Mahindra Equity Option Scheme 2015 and
- Kotak Mahindra Stock Appreciation Rights Scheme 2015

Further, pursuant to the Scheme of Amalgamation of ING Vysya Bank (IVBL) with the Bank approved by the shareholders of the Bank at the Extraordinary General Meeting held on 7<sup>th</sup> January 2015, the ESOP Schemes of the erstwhile IVBL have been renamed and adopted by the Bank, as given below:

- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2005,
- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2007,
- Kotak Mahindra Bank Ltd. (IVBL) Employee Stock Option Scheme 2010, and
- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2013

During the year 2016-17, the following Schemes were in operation:

- Kotak Mahindra Equity Option Scheme 2007 (**'KMBL – ESOP Scheme 2007'**)
- Kotak Mahindra Equity Option Scheme 2015 (**'KMBL – ESOP Scheme 2015'**)
- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2007 (**'KMBL (IVBL) Scheme 2007'**)
- Kotak Mahindra Bank Ltd. (IVBL) Employee Stock Option Scheme 2010 (**'KMBL (IVBL) Scheme 2010'**)
- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2013 (**'KMBL (IVBL) Scheme 2013'**)
- Kotak Mahindra Stock Appreciation Rights Scheme 2015 (**'SARs Scheme 2015'**)

**A. Relevant 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.**

Details provided in note 11 of Schedule 17 - Notes to Accounts of the Consolidated financial statements and note 8 of Schedule 18B - Notes to Accounts of the Standalone financial statements in the Bank's Annual Report 2016-17.

**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 diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with AS-20 is ₹26.86 (Consolidated) and ₹18.55(Standalone)

### C. Details related to Employee Stock Option (ESOP) Schemes

#### ESOPs granted under KMBL Schemes

Particulars	KMBL - ESOP Scheme 2007	KMBL - ESOP Scheme 2015
<b>(i) Description of each ESOP that existed at any time during the year</b>		
Date of shareholders' approval	5 <sup>th</sup> July 2007 as amended on 21 <sup>st</sup> August 2007	29 <sup>th</sup> June 2015
Total number of options approved	8,00,00,000 (post-split & bonus adjusted number)	3,64,00,000 (post bonus adjusted number)
Vesting requirements	Graded / Cliff vesting	Graded / Cliff vesting
Exercise price or pricing formula	<p>Exercise Price shall be a price, as may be determined by the Board / ESOP / Compensation Committee, equivalent to or discounted up to 50% of the 'Average Market Price'. The 'Average Market Price' for this purpose would mean the average of the closing price of Equity Shares of the Bank, during two weeks period prior to the date of the meeting of Board / ESOP / Compensation Committee at which 'Plan Series' under the Scheme is approved, on the Stock Exchange, where there was highest trading volume during the said two week period, on which the Equity Shares of the Bank are listed.</p> <p>'Plan Series' means a documented plan framed by Board / ESOP / Compensation Committee for each tranche of grant of Options, to all Eligible Employees, at a specific Exercise Price (which is determined by the Board / ESOP / Compensation Committee for the purpose of that particular Plan Series) and other terms and conditions as mentioned in that Plan Series.</p> <p>The Board / ESOP / Compensation Committee under special circumstances decides that the Exercise Price shall be ₹ 5 per share. In such cases, the immediately succeeding Directors' Report / Corporate Governance Report shall carry details of the same.</p>	<p>Exercise Price' shall be a price, as may be determined by the Board / Compensation Committee, payable by the employee for exercising Options granted in pursuance of the Scheme, which will not be less than market price on the day prior to the Grant Date; In case of Whole-time Directors, the Exercise Price may be equivalent to or discounted up to 50% of the Average Market Price with a cap of 2,00,000 Options for each Whole-time Director in a financial year.</p> <p>The 'Average Market Price' would mean the average of the closing price of equity shares of the Bank during two weeks period prior to the date of the meeting of Board/Compensation Committee at which Plan Series under the ESOP Scheme 2015 is approved, on the Stock Exchange on which the equity shares of the Company are listed. In case the equity shares of the Company are listed on more than one Stock Exchange than the closing price at the Stock Exchange where there was highest trading volume during the said two week period shall be considered for determining the Average Market Price.</p> <p>Plan Series' means a documented plan framed by the Board or the Compensation Committee for grant of Options at a specific Exercise Price in one or more tranches, which shall be determined by the Board or the Compensation Committee for the purpose of that particular Plan Series and as per the other terms and conditions as mentioned in that Plan Series.</p>
Maximum term of options granted	Vesting period upto 4.14 years from the Grant date.	Vesting period upto 4.02 years from the Grant date.

	Exercise period upto 1.08 years from the Vesting date.	Exercise period upto 0.50 years from the Vesting date.
Source of shares (primary, secondary or combination)	Primary	Primary
Variation in terms of options	-	-
<b>ii) Method used to account for ESOP – Intrinsic or fair value</b>		
Method used to account for ESOPs	Intrinsic	Intrinsic
<b>iii) Where the company opts for expensing of the options using the intrinsic value of options</b>		
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.	Refer Note 1	
<b>iv) Option movement during the year (For each ESOP) @</b>		
Number of Options outstanding at the beginning of the period	87,43,098	14,000
Number of options granted during the year	0	38,82,470
Number of options forfeited/ lapsed during the year	4,28,616	1,14,740
Number of Options vested during the year	41,10,330	3,500
Number of options exercised during the year	50,86,246	3,500
Number of shares arising as a result of exercise of options	50,86,246	3,500
Money realized by exercise of options (INR), if scheme is implemented directly by the company	₹ 1,98,89,46,934.50	₹ 24,15,000.00
Loan repaid by Trust during the year from exercise price received	NA	NA

Number of options outstanding at the end of the year	32,28,236	37,78,230						
Number of options exercisable at the end of the year	3,30,038	-						
<b>v) Weighted-average exercise prices and weighted –average fair value of options</b>								
Weighted – average exercise prices and weighted – average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	* The weighted average price of the stock options exercised is ₹391.04.	* The weighted average price of the stock options exercised is ₹690.00 and The weighted average fair value of the options granted is ₹201.36						
<b>vi) Employee wise details of options granted during the year to</b>								
(i) Senior management personnel	Nil							
		<table border="1"> <thead> <tr> <th></th> <th>Name</th> <th>No. of options granted</th> <th>Exercise Price</th> </tr> </thead> <tbody> <tr> <td>ESOP Scheme 2015 Series 04</td> <td>Mr. Dipak Gupta (JMD)</td> <td>71,430</td> <td>₹550 per share</td> </tr> </tbody> </table>		Name	No. of options granted	Exercise Price	ESOP Scheme 2015 Series 04	Mr. Dipak Gupta (JMD)
	Name	No. of options granted	Exercise Price					
ESOP Scheme 2015 Series 04	Mr. Dipak Gupta (JMD)	71,430	₹550 per share					
(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year	Nil	Nil						
(iii) 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 Company at the time of grant	Nil	Nil						
<b>vii) A description of the method and significant assumptions used to estimate fair value of options</b>								
A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following	<p>A. Stock price It is the closing market price on the National Stock Exchange of India Limited prior to the meeting of the Board in which the options are granted.</p> <p>B. Volatility</p>							

<p>weighted – average information:</p>	<p>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>Accordingly, daily volatility of the Bank’s stock price on the NSE for the period corresponding to the respective expected live of the different vesting, prior to the grant date has been considered.</p> <p>C. Risk free interest 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-coupon yield curve for Government Securities as on the date of the respective grant.</p> <p>D. Time to Maturity/Expected Life of options The minimum life of a stock option is the vesting period and the maximum life is vesting period plus the exercise period. The Expected life of the options has been calculated as the average of the two extremes – the minimum life and the maximum life. Since each vest has been considered as a separate grant, the expected life has been calculated for each vesting separately.</p> <p>E. Dividend yield The dividend yield for each grant has been derived by dividing the dividend per share by the market price per share.</p> <p>Weighted average information in respect of above assumptions has been provided in note 11 of Schedule 17 of the notes to accounts to the Consolidated financial statement in the Bank’s Annual Report 2016-17.</p> <p>Weighted average information in respect of above assumptions has been provided in note 8 of Schedule 18B of the notes to accounts to the Standalone financial statement in the Bank’s Annual Report 2016-17.</p>
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ESOPs granted under KMBL (IVBL) Schemes

Particulars	KMBL (IVBL) Scheme 2007#	KMBL (IVBL) Scheme 2010#	KMBL (IVBL) Scheme 2013#
Number of Options outstanding at the beginning of the period	4,07,684	13,92,986	12,82,136
Number of options granted during the year	0	0	0
Number of options forfeited/ lapsed during the year	0	6	28
Number of Options vested during the year	0	0	0
Number of options exercised during the year	2,51,662	6,76,002	4,97,649
Number of shares arising as a result of exercise of options	2,51,662	6,76,002	4,97,649
Money realized by exercise of options (INR), if scheme is	₹ 9,73,53,493.00	₹ 18,24,01,272.00	₹ 19,25,94,075.50

implemented directly by the company			
Number of options outstanding at the end of the year	1,56,022	7,16,978	7,84,459
Number of options exercisable at the end of the year	1,56,022	7,16,978	7,84,459
Weighted – average exercise prices and weighted – average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	* The weighted average price of the stock options exercised is ₹386.84	* The weighted average price of the stock options exercised is ₹269.82	* The weighted average price of the stock options exercised is ₹387.01
Method used to account for ESOPs	Intrinsic		
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.	Refer Note 1		

# Pursuant to the Scheme of Amalgamation of the erstwhile ING Vysya Bank Ltd. (eIVBL) with the Bank, the entitlements to receive shares of eIVBL under the former eIVBL ESOP Schemes (now known as 'KMBL (IVBL) Schemes') which were outstanding as on 1st April, 2015 have automatically become the entitlements to receive shares of the Bank, adjusted to reflect the swap ratio. The said KMBL (IVBL) Schemes were adopted and approved by the Board of Directors of the Bank at its meeting held on 3rd April, 2015.

\* Figures are derived by considering the options granted and exercised by employees of the Bank and its subsidiaries.

#### **E. Details related to Stock Appreciation Rights (SARs)**

The Bank and its subsidiaries under its various plans/series have granted 12,52,558 SARs during FY 2017. 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 1.12 to 4.24 years.

Particulars	SARs under various plans/series	SARs under SARs Scheme 2015
SARs outstanding at the beginning of the year	21,68,140	45,214

SARs granted during the year	-	12,52,558
SARs settled during the year	9,75,860	7,725
SARs lapsed during the year	1,04,122	31,620
SARs outstanding at the end of the year	10,88,158	12,58,427

Details of SARs granted under SARs Scheme 2015 are as follows:

Particulars	SARs Scheme 2015
<b>i) Description of each SAR scheme that existed at any time during the year</b>	
Date of shareholders' approval	29th June 2015
Total number of shares approved under the SAR scheme	1,82,00,000 (post bonus adjusted number)
Vesting requirements	SARs shall vest any time after expiry of 1 year from the date of grant as may be determined by the Compensation Committee
SAR price or pricing formula	SAR/Base Price shall be such price as may be determined by the Compensation Committee from time to time at which 'Plan Series' under the Scheme is approved. The Compensation Committee shall formulate various Plan Series based on the recommendation of the management of the Company. Vesting Price means the Market Price as on the Vesting Date. Market Price means latest available closing price on a recognized stock exchange on which the shares of the Company are listed on the date immediately prior to the Vesting Date. If such shares are listed on more than one stock exchange having the highest trading volume shall be considered as the market price. Appreciation means the difference between the Vesting Price and the Base Price multiplied by the number of SARs granted. All SARs awarded shall vest in and be paid as Appreciation.
Maximum term of SAR granted	Vesting period upto 3.57 years from the Grant date.
Method of settlement (whether in cash or equity)	Cash only
Choice of settlement (with the company or the employee or combination)	-
Source of shares (primary, secondary or combination)	-
Variation in terms of scheme	-
<b>ii) Method used to account for SAR – Intrinsic or fair value</b>	
Method used to account for SAR	Intrinsic

<b>iii) Where the company opts for expensing of SAR using the intrinsic value of SAR</b>	
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.	Refer Note 1
<b>iv) SAR movement during the year</b>	
Number of SARs outstanding at the beginning of the year	45,214
Number of SARs granted during the year	Series 4 – 8,38,290 Series 5 – 2,44,620 Series 6 – 1,05,640 Series 7 – 14,080 Series 8 – 49,928
Number of SARs forfeited / lapsed during the year	31,620
Number of SARs vested during the year	7,725
Number of SARs exercised / settled during the year	7,725
Number of SARs outstanding at the end of the year	12,58,427
Number of SARs exercisable at the end of the year	-
<b>v) Employee wise details of SARs granted during the year to</b>	
(i) Senior management personnel	Nil
(ii) Any other employee who receives a grant in any one year of amounting to 5% or more of SAR granted during that year	Nil
(iii) Identified employees who were granted SAR, 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.	Nil

**Note 1:**

- Had the Bank (on Consolidated basis) recorded the compensation cost on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹46.49 crore and the Consolidated profit after tax would have been lower by ₹31.18 crore. Consequently, the basic and diluted EPS of the Bank (Consolidated) would have been ₹26.72 and ₹26.69 respectively.
- Had the Bank (on Standalone basis) recorded the compensation cost computed on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹33.21 crore and the Standalone profit after tax would have been lower by ₹21.72 crore. Consequently, the basic and diluted EPS of the Bank (Standalone) would have been ₹18.45 and ₹18.43 respectively.
- Figures are derived by considering the options granted and exercised by employees of the Bank and its subsidiaries.