



EMPLOYEE STOCK OPTION 2019

Approved on

3rd January 2020

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1. Name, Objectives and Term of the Plan

- 1.1 This Employee Stock Option Plan shall be called the 'ESAF Small Finance Bank Employee Stock Option Plan 2019' ("ESOP 2019" / "Plan"/ "Scheme"). This Plan has been formulated by the Board (as defined below) of ESAF Small Finance Bank Limited, a small finance bank incorporated pursuant to the Reserve Bank of India in-principle approval dated 7 October 2015 and having its registered and corporate office at Building No.VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur 680 651, Kerala, India.
- 1.2 The underlying philosophy of ESOP 2019 is and recognizing the contribution of the employees in the formation of the bank and to create the feeling of inclusiveness and enable the Employees to get a share in the value that they help to create for the organization over a period of time. The Bank strongly believes that an equity component in the compensation goes a long way in aligning the objectives of an individual with those of the Bank. The objectives of ESOP 2019 are, among others, to attract and retain employees with Employee Stock Options as a compensation tool. Through ESOP 2019, the Bank intends to offer an opportunity of sharing the value created with those Employees who have contributed or are expected contribute to the growth and development of the Bank.
- 1.3 The objectives of the ESAF ESOP Plan 2019 are, among others, to attract and retain employees with employee stock options as a compensation tool. Through the ESAF ESOP Plan 2019, the Bank intends to offer an opportunity of sharing the value created with those employees who have contributed or are expected to contribute to the growth and development of the Bank.

The ESOP 2019 is established with effect from the date of its approval by the General Body by way of a Special Resolution and shall continue to be in force until (i) the date on which all of the Employee Stock Options available for issuance under the ESOP 2019 have been issued and exercised, whichever is earlier.

2. Definitions and Interpretations

In this Plan, unless the context clearly indicates a contrary intention, the following words or expressions shall have the meaning assigned herein:

2.1 Definitions

- i. **“Applicable Laws”** means every law relating to Employee Stock Options, to the extent applicable, including and without limitation to the Companies Act, the Banking Regulation Act, 1949 and all relevant tax, securities, exchange control or corporate laws or amendments thereof including any circular, notification issued thereunder, of India or of any relevant jurisdiction. Furthermore, this shall mean to include, the Securities and Exchange Board of India Act, 1992, SEBI SBEBSE Regulations along with any other regulations and rules as may be applicable or circulars, notifications issued thereunder or by any Stock Exchange on which the Shares would be listed or quoted, to the extent applicable.
- ii. **“Bank”** means ESAF Small Finance Bank Limited, a public limited company incorporated under the provisions of the Companies act, 2013 and registered with Reserve Bank of India pursuant to the RBI in-principle approval to establish as a small finance bank on October 7, 2015, registered under Section 22 of Banking Regulation Act, 1949 and having its registered and corporate office at Building Number VII/83/8, ESAF Bhavan, Mannuthy , Thrissur-Palakkad National Highway, Thrissur, Kerala- 680 651, Kerala, India.
- iii. **“Bank Policies/Terms of Employment”** mean the Bank’s policies for employees and the terms of employment as contained in the Employment Letter and any other rules / bye-laws issued from time to time.
- iv. **“Board”** or **“Board of Directors”** means the Board of Directors of the Bank.
- v. **“Companies Act”** means the Companies Act, 2013, furthermore the rules made thereunder, and includes any statutory modifications or re-enactments thereof.
- vi. **“Director(s)”** means the directors on the Board of Directors of the Bank.
- vii. **“Eligibility Criteria”** means the criteria as may be determined from time to time by the Nomination, Remuneration and Compensation Committee of the Board for granting the Employee Stock Options to the Employees.
- viii. **“Eligible Employee”** means employees as defined in Clause 6.1 of the Scheme.
- ix. **“Employee”** means
 - (i) an employee as designated by the company, who is exclusively working in India or outside India; or

- (ii) a director of the company, whether a whole-time director or not, including a non-executive director who is not a promoter or member of the promoter group, but excluding an independent director; or
- (iii) an employee as defined in sub-clauses (i) or (ii), of a group company including subsidiary or its associate company, in India or outside India, or of a holding company of the company, but does not include—
- (a) an employee who is a promoter or a person belonging to the promoter group; or
- (b) a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company
- x. **“Employee Stock Option”** means an option granted to an Employee, which gives such Employee the right, but not an obligation, to purchase or subscribe at a future date Shares underlying such option at a pre-determined price.
- xi. **“Employment Letter”** means a letter appointing a person as an employee and giving out the terms and conditions of such employment.
- xii. **“ESOP 2019”** means the ESAF Small Finance Bank Employee Stock Option Plan 2019/ Plan/ Scheme, as amended, under which the Bank is authorized to grant Employee Stock Options to the Employees.
- xiii. **“Exercise”** of an Option means application i. e. , expression of an intention by an Employee to the Bank to subscribe/ purchase the Shares underlying the Options vested in him, in pursuance of the ESOP 2019, in accordance with the procedure laid down by the Bank for Exercise of such Options.
- xiv. **“Exercise Period”** means such time period after Vesting within which the Employee should exercise the Options vested in him to apply for Equity Shares against the Vested Options in pursuance of the ESOP 2019.
- xv. **“Exercise Price”** means the price as specified under the Sub- clause 8.1 being payable by an Employee in order to exercise the Options granted to him in pursuance of the ESOP 2019,
- xvi. **“Grant”** means the process by which the Bank issues Options to the Employees under the ESOP 2019.
- xvii. **“Independent Director”** means an Independent Director within the meaning of the Companies Act and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

- xviii. **“Listing”** means the listing of the Bank’s Shares on any recognized Stock Exchange as per Applicable Laws.
- xix. **“Market Price”** means the fair market value of a Share, as determined by a Category I Merchant Banker registered with SEBI, based on the Board Approved Financial Statements within 6 months prior to the date of Grant.
- Provided that** upon Listing, the term ‘Market Price’ shall have the meaning as assigned to in the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.
- xx. **“Nomination Remuneration and Compensation Committee”** means the Nomination Remuneration and Compensation Committee of the Board, as constituted or reconstituted from time to time in accordance with the Companies Act and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, to administer and supervise the employee stock option plans of the Bank.
- xxi. **“Option”** means an Employee Stock Option within the meaning of this Plan.
- xxii. **“Option Grantee”** means an Employee who has been granted an Employee Stock Option in pursuance of the ESOP 2019 and shall deem to include nominee/ legal heir of an Option Grantee in case of his/her death to the extent provisions of the Plan are applicable to such nominee/ legal heir.
- xxiii. **“Permanent Disability”** 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 Nomination Remuneration and Compensation Committee based on a certificate of a medical expert identified by the Nomination Remuneration and Compensation Committee.
- xxiv. **“Plan”** means ESOP 2019 as herein defined.
- xxv. **“Promoter”** “promoter” shall have the same meaning assigned to it under the Companies Act 2013 until the Initial Public Offer and thereafter it shall be as per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- xxvi. **“Promoter Group”** shall have the definition as per Securities and Exchange

Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018

- xxvii. “relative” shall have the same meaning as defined under section 2(77) of the Companies Act
- xxviii. “**Retirement**” means retirement as per the rules of the Bank.
- xxix. “**SEBI SBEBSE Regulations**” means the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 as amended and reenacted from time to time and includes any clarifications or circulars issued thereunder.
- xxx. “**Shares**” means equity shares of the Bank having face value of Rs. 10 each and arising out of the Exercise of Employee Stock Options granted under the ESOP 2019.
- xxxi. “**Stock Exchange**” means the National Stock Exchange of India Ltd., BSE Ltd., or any other recognized Stock Exchange in India, which has been granted recognition under section 4 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) on which the Bank’s Shares are listed or to be listed in future.
- xxxii. “**Unvested Option**” means an Option in respect of which the relevant Vesting Conditions have not been satisfied and as such, the Option Grantee has not become eligible to exercise the Option.
- xxxiii. “**Vested Option**” means an Option in respect of which the relevant Vesting Conditions have been satisfied and the Option Grantee has become eligible to exercise the Option subject to fulfillment of Exercise conditions.
- xxxiv. “**Vesting**” means the process by which the Option Grantee becomes entitled to receive the benefit of a Grant made to him/ her under the ESOP 2019.
- xxxv. “**Vesting Condition**” means the condition prescribed, if any, subject to satisfaction of which the Options granted would vest in an Option Grantee.
- xxxvi. “**Vesting Period**” means the period during which the Vesting of the Option granted to the Employee, in pursuance of the ESOP 2019 takes place.

2.2 Interpretation

In this Plan, unless the contrary intention appears:

- a) the clause headings are for ease of reference only and shall not be relevant to

interpretation;

- b) a reference to a clause number is a reference to its sub-clauses;
- c) words the singular or plural number also include the plural or singular, respectively;
- d) words importing a particular gender include any other gender;
- e) any reference to a statute or statutory provision shall be construed as a reference to such statute or statutory provisions as from time to time amended, consolidated, modified, extended, re-enacted or replaced and
- f) a reference to a Schedule includes a reference to any part of that Schedule which is incorporated by reference.

Words and expressions used and not defined here but defined in the Companies Act, Securities Contracts (Regulation) Act, 1956, SEBI SBEBS Regulations, Securities and Exchange Board of India Act, 1992 (15 of 1992), and any statutory modification or re-enactment thereto, shall have the meanings respectively assigned to them in those legislation, as the context requires.

3. Authority and Ceiling

- 3.1 The shareholders of the Bank, on the date of approval, by way of a Special Resolution has authorised the Nomination Remuneration and Compensation Committee to grant up to [22,515,552 (Two Crore Twenty Five Lakhs Fifteen Thousand Five Hundred and Fifty Two)] Employee Stock Options to the Employees, in one or more tranches, from time to time under the Plan, being exercisable into not exceeding [22,515,552 (Two Crore Twenty Five Lakhs Fifteen Thousand Five Hundred and Fifty Two)] equity shares of a face value of Rs. 10/- with each such Option conferring a right upon the Employee to be issued one Equity Share of the Bank, in accordance with the terms and conditions of such Grant.
- 3.2 The maximum number of Options that may be granted to each Employee shall vary depending upon the designation and the appraisal/assessment process, however, shall not exceed [2,500,000 (Twenty-Five Lakhs)] in number per eligible Employee per grant. However, the Nomination, Remuneration and Compensation Committee reserves the right to decide the number of Options to be granted and the maximum number of Options that can be granted to each Employee within this ceiling.

Further, the number of Options that may be granted to any specific identified employee under ESOP - 2019 shall not be equal to or exceeding the number of Shares equivalent to 1% of the Issued Capital (excluding outstanding warrants and conversions) of the Company and in aggregate if the prior specific approval from members of the Company through a special resolution to this effect is not obtained.

- 3.3 If an Employee Stock Option expires or becomes un-exercisable due to any other reason, it shall become available for future Grants, subject to compliance with all Applicable Laws.
- 3.4 Where Shares are issued by the Bank consequent upon Exercise of an Employee Stock Option under the Plan, the maximum number of Shares that can be issued in Clause 3.1 above shall stand reduced to the extent of such Shares issued.
- 3.5 In case of a Share split or consolidation, where the current face value of the Shares is reduced or increased, the maximum number of Options available for being granted under ESOP 2019 shall modified accordingly, so as to ensure that the cumulative face value (number of Shares x Face value per share) of the total Shares after such Share split or consolidation remains unchanged.
- 3.6 Prior approval of shareholders by way of special resolution in the general meeting shall be obtained in case the Grant of Options to any identified Employee during any one financial year is equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the Bank at the time of grant of Option.
- 3.7 The maximum quantum of benefits underlying the Options issued to an eligible Employee shall depend upon the market price of the shares as on the date of sale of shares arising out of exercise of Options.

4. Administration

- 4.1 The ESOP 2019 shall be administered by the Nomination Remuneration and Compensation Committee working under the powers delegated by the Board in accordance with Section 179 of the Companies Act. All the functions relating to superintendence and administration of this ESOP 2019 shall stand possessed with the

Nomination Remuneration and Compensation Committee in which case the rights, powers, duties or liabilities of the Board to the extent delegated along with that contemplated under SEBI SBEBSE Regulations shall be discharged by the Nomination Remuneration and Compensation Committee. All questions of interpretation of the ESOP 2019 shall be determined by the Nomination Remuneration and Compensation Committee and such determination shall be final and binding upon all persons having an interest in the ESOP 2019.

4.2 The administration of ESOP 2019 shall include, but not be limited to determination of the following as per provisions of the Plan and Applicable Laws:

- a) The procedure for Option allocation and the specific quantum of Options to be granted under the ESOP 2019 to the Employees, subject to the ceilings as specified in Sub-clauses 3.1 and 3.2 respectively;
- b) The Eligibility Criteria for Grant of Options to the Eligible Employees;
- c) Vesting Schedule of Options granted;
- d) Vesting Condition(s) of Options granted;
- e) The procedure and terms for the Grant, Vesting and Exercise of Employee Stock Option in case of Eligible Employees who are on long leave;
- f) the Exercise Period within which the Eligible Employee can Exercise the Options would lapse on failure to Exercise the same within the Exercise Period;
- g) determine the specified time period within which the Eligible Employee shall Exercise the Vested Options in the event of termination or resignation of the Employee;
- h) the right of the Employee to Exercise all the Vested Options at one time or at various points of time within the Exercise Period;
- i) Determine the procedure for making a fair and reasonable adjustment to the entitlement including 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, the following shall, inter alia, be taken into consideration subject to applicable laws:
 - 1) the number and price of Options shall be adjusted in a manner such that total value of the Options in the hands of the Option Grantee remains the same after such corporate action; and
 - 2) the Vesting Period and the life of the Options shall be left unaltered as far as

possible to protect the rights of the Option Grantees.

- j) The conditions under which the Options granted in Employees may lapse in case of misconduct, whether resulting in termination of employment or not, or commission of act on part of Option Grantee resulting in adverse impact on the Bank;
- k) Mode of payment of the Exercise Price (cheque, demand draft, deduction from salary, or any other mode);
- l) The procedure for cashless Exercise of Employee Stock Options, if required, in accordance with Applicable Law;
- m) Forms, writings and/or agreements for use in pursuance of the ESOP 2019; and
- n) The Grant, Vesting and Exercise of Options in case of employees who are on long leave;
- o) the procedure for funding the Exercise of Options;
- p) the procedure for buy-back of specified securities issued under SEBI SBEBSE Regulations, if to be undertaken at any time by the Bank, and the applicable terms and conditions, including: (i) permissible sources of financing for buy-back; (ii) any minimum financial thresholds to be maintained by the Bank as per its last financial statements; and (iii) limits upon quantum of specified securities that the Bank may buy-back in a financial year;
- q) Any other matter for the implementation of the plan

4.3 The Nomination Remuneration and Compensation Committee shall ensure that there is no violation of securities laws, as amended from time to time, including Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003 by the Bank and the Employees, as applicable.

4.4 Options lapsed or cancelled due to any reason including the reason of lapse of exercise period or due to resignation of the employees or otherwise, would be available for being re-granted at a future date. The Board is authorized to re-grant such lapsed / cancelled options as per the Plan.

5. Grant and Acceptance of Grant

5.1 Grant of Options

- (i) Each Grant of Option under the ESOP 2019 shall be made in writing by the Bank to the eligible Employees in a letter of Grant as may be approved under ESOP

2019 from time to time.

- (ii) Grants contemplated under the Plan shall be made as decided by the Nomination Remuneration and Compensation Committee at its discretion.
- (iii) There will be two types of grants:
 - a) **Loyalty Grant**, is issued to reward eligible Employees for their contributions in the past and continued employment in the Bank, which is a one-time grant.
 - b) **Performance Grant**, is issued to eligible employees on the basis of their annual appraisals for their future performance and continuity of services. Performance Grant is issued on an annual basis. This is an annual grant which would vest as per the Vesting Schedule.

5.2 **Acceptance of the Grant**

- a) Any Employee who wishes to accept the grant made under this Plan must deliver to the Bank a duly signed acceptance of the letter of Grant on or before the date which shall not be more than 60 days from the date of the Grant ("**Closing Date**"), as specified in the letter of Grant. On receipt by the Bank of the signed acceptance, the Employee will become an Option Grantee.
- b) Any Employee who fails to deliver the signed acceptance of the letter of Grant on or before the Closing Date stated above shall be deemed to have rejected the Grant unless the Nomination Remuneration and Compensation Committee determines otherwise.
- c) Upon acceptance of the Grant in the manner described above, the Employee henceforth as an Option Grantee, shall be bound by the terms, conditions and restrictions of the Plan and the letter of Grant. The Option Grantee's acceptance of the Grant of Options under the ESOP 2019, within the time period provided, shall constitute an agreement between the Option Grantee and the Bank, to the terms of this Plan and the Grant document.

6. **Eligibility and Applicability**

6.1 Only Employees are eligible for being granted Employee Stock Options under ESOP 2019. The specific Employees to whom the Options would be granted and their Eligibility Criteria would be determined by the Nomination Remuneration and Compensation Committee. The Grants to be made to the Directors shall be determined by the Nomination Remuneration and Compensation Committee and, where appropriate, would be sent to the Reserve Bank of India for its approval.

Type of Grant	Eligible Employee
Loyalty Grant	Employees on services till 7 th October 2015 on the payroll of the Promoter Company of the Bank (ESAF Financial Holdings Private Limited formerly known as ESAF Microfinance and Investments Private Limited) and in employment with the bank as on the date of the grant. The Nomination Remuneration and Compensation Committee of the Board is authorized to grant the Loyalty Grant such other employees as the Nomination Remuneration and Compensation Committee may think eligible, with in the overall limit.
Performance Grant	Employees who have completed one year of service as on the date of grant and new hires at the discretion of the Nomination Remuneration and Compensation Committee.

6.2 The Plan shall be applicable to the Bank, and any successor company/ bank thereof.

6.3 The Employee Stock Options granted to an Employee shall be subject to the terms and conditions set forth in this Plan and letter of Grant.

7. Vesting Schedule/ Conditions

Options granted under ESOP 2019 shall vest within the minimum period of One (1) year and maximum period of Four (4) years from the date of Grant of such Options as indicated in the letter of grant. Provided further that in the event of death or permanent incapacity of an employee, the minimum vesting period of one year shall not be applicable.

Provided that in case where Options are granted by the Bank under the Plan in lieu of

options held by a person under a similar plan in another company (Transferor Company) which has merged or amalgamated with the Bank, the period during which the options granted by the Transferor Company were held by him may be adjusted against the minimum Vesting Period required under this Sub-clause.

7.1 Vesting of Options would be subject to continued employment with the Bank and has not served any notice of resignation. In addition to this, the Nomination Remuneration and Compensation Committee may also specify certain performance criteria subject to satisfaction of which the Options would vest.

7.2 The specific Vesting schedule and Vesting Conditions subject to which Vesting would take place would be outlined in the document(s) given to the Option Grantee at the time of Grant of Options.

7.3 Vesting of Options in case of Employees on long leave
 The period of leave shall not be considered in determining the Vesting Period in the event the Employee is on a sabbatical. In all other events including approved earned leave and sick leave, the period of leave shall be included to calculate the Vesting Period unless otherwise determined by the Nomination Remuneration and Compensation Committee.

7.4 Vesting and Exercising
 Following table shall be applicable in case of various scenarios (during employment) for vesting and exercising*:

S. No.	Separations	Vested Options	Unvested Options
1	Resignation / Termination (other than due to misconduct or breach of Bank Policies/Terms of Employment)	All Vested Options as on date of submission of resignation or date of termination shall be exercisable by the Option Grantee on or before the last working day in the Bank.	All the Unvested Options on the date of submission of resignation / date of termination shall stand cancelled with effect from that date.
2	Termination due to misconduct or due to breach of Bank Policies/ Terms of Employment	All the Vested Options which were not exercised at the time of such termination shall stand cancelled with effect from the date of such termination.	All the Unvested Options on the date of such termination shall stand cancelled with effect from the termination date.

3	Retirement / early Retirement approved by the Bank	All Vested Options as on date of retirement shall be exercisable during the exercise period even after retirement or superannuation	All the Unvested Options shall continue to vest in accordance with the vesting schedules even after retirement or superannuation
4	Death	All Vested Options as on date of death shall be exercisable by the nominee or legal heirs of the Option immediately after the date of death of the Option Grantee.	All the Unvested Options as on the date of death shall vest immediately and may be exercised by the Option Grantee's nominee or legal heir in the manner prescribed for the Vested Options.
5	Permanent Disability	All Vested Options as on date of incurring the Permanent Disability shall be exercisable by the Option Grantee immediately after the date of permanent disability of the Option Grantee.	All Unvested Options as on the date of incurring Permanent Disability shall vest immediately and may be exercised by the Option Grantee in the manner prescribed for the Vested Options.
6	Abandonment	All the Vested Options shall stand cancelled with effect from the date of abandonment as determined by the Nomination Remuneration and Compensation Committee.	All the Unvested Options shall stand cancelled with effect from the date of abandonment as determined by the Nomination Remuneration and Compensation Committee.
7	Termination due to any other reason apart from those mentioned above	The Nomination Remuneration and Compensation Committee shall decide whether the Vested Options as on that date can be exercised by the Option Grantee or not, and such decision shall be final.	The Nomination Remuneration and Compensation Committee shall decide whether to cancel any Unvested Options as on that date, and such decision shall be final.
8	Any other reason not specified above	The Nomination and Remuneration of the Board shall decide whether the Vested Options as on that date can be exercised by the Option Grantee or not, and such decision shall be final.	All Unvested Options on the date of separation shall stand cancelled with effect from that date.

Note: In case of any regulatory changes warranting any change in vesting schedule/ conditions/exercise period in any of the above separation conditions, the provisions of such

change shall apply.

The Board/NRCCB, at its sole discretion shall decide the date of cancellation of Option's and such decision shall be binding on all concerned. Provided that, in accordance with Applicable Law, notwithstanding anything to the contrary contained herein, the Bank shall not vary the terms of the ESOP 2019 in any manner which may be detrimental to the interests of the Employees.

8. Exercise

8.1 Exercise Price and Pricing Formula

"Exercise Price" means the price at which the Option grantee is entitled to acquire the equity shares pursuant to the options granted and vested in him/her under the ESOP 2019 scheme.

The Exercise Price shall be as may be decided by the Committee as is allowed under the Companies Act / SBEB and Sweat Equity Regulations which in any case will not be lower than the face value of the equity shares of the Company on the date of such grant. Further the Exercise Price can be different for different set of Employees for Options granted on same / different dates. The same shall be subject to any fair and reasonable adjustments that may be made on account of corporate actions of the Company in order to comply with the applicable laws.

No amount shall be payable by the option grantee at the time of grant and hence no amount is required to be forfeited, even if any employee(s) does not exercise the options within the exercise period and accordingly no adjustment is required to be made for the same.

The exercise price shall be the price as approved by the Board based on the recommendation of the Nomination, Remuneration and Compensation committee of the Board, which will not be less than face value and not more than Fair Market Value.

8.2 Exercise Period

(a) While in employment/ service

The Exercise Period in respect of a Vested Option shall be a maximum of **One (1) year**, from the Vesting date.

(b) Exercise Period in case of separation from employment/ service:

Please refer to Clause 7.4 above for the separation clause.

- 8.3 The Bank may frame an appropriate policy with respect to the death or permanent incapacity of an employee, subject to compliance with applicable laws.
- 8.4 The Options shall be deemed to have been exercised when an Option Grantee makes an application in writing to the Bank or by any other means as decided by the Nomination Remuneration and Compensation Committee, for the issuance of Shares against the Options vested in him, subject to payment of Exercise Price and compliance of other requisite conditions of Exercise such as tax amount.
- 8.5 After the Listing, the exercisability of all Vested Options, including the Exercise Period, shall be governed as per provisions of the Sub-clause 8.2 above.
- 8.6 The Options not exercised within the Exercise Period shall lapse and the Employee shall have no right over such lapsed or cancelled Options.
- 8.7 The amount payable by the employee, if any, at the time of grant of option, -
- (a). may be forfeited by the company if the option is not exercised by the employee within the exercise period; or
 - (b). may be refunded to the employee if the options are not vested due to non-fulfilment of conditions relating to vesting of option as per the ESOS.

9. Right to prescribe for cashless Exercise of Options

- 9.1 Notwithstanding anything contained in the foregoing provisions relating to Exercise of Options, the Board is entitled to specify such procedures and mechanisms for the purpose of implementing the cashless Exercise of Options as may be necessary and the same shall be binding on all the Option Grantees, subject to compliance with Applicable Law. The procedure may inter alia require the Option Grantees to authorize any person nominated by the Bank to deal with the Options on the Option Grantees' behalf till the realization of sales proceeds.

10. Lock-in

- 10.1 The Shares issued upon Exercise of Options shall be freely allotted/transferable and shall not be subject to any lock-in period restriction after such Exercise.

Provided however that subsequent to Listing, the Shares allotted on such Exercise cannot be sold for such period from the date of allotment in terms of Code of Conduct for Prevention of Insider Trading of the Bank, if any, read with Securities Exchange Board of India (Prohibition of Insider Trading), Regulations, 2015, as amended or such other period as may be stipulated from time to time in terms of such Code.

11. Other Terms and Conditions

- 11.1 Nothing herein is intended to or shall give the Option Grantee any right or status of any kind as a shareholder of the Bank (for example, bonus shares, rights shares, dividend, voting, etc.) in respect of any Shares covered by the Grant until the Option Grantee exercises the Employee Stock Option and becomes a registered holder of the Shares of the Bank.
- 11.2 If the Bank issues bonus or rights Shares, the Option Grantee will not be eligible for the bonus or rights Shares in the capacity of an Option Grantee. However, an adjustment to the number of Options or the Exercise Price or both would be made in accordance with Sub-clause 4.2(f) of ESOP 2019. Only if the Employee Stock Options are vested and exercised and the Option Grantee is a valid holder of the Shares of the Bank, the Option Grantee would be entitled for bonus or rights Shares as shareholder of the Bank.
- 11.3 Options are not transferrable unless in case of Death of an Option Grantee in which case, Clause 8.2 (b) will be referred to for the purpose of Exercise. No person other than the Employee to whom the Employee Stock Option is granted shall be entitled to exercise the Employee Stock Option except in the event of the death of the Option Grantee.
- 11.4 The Employee Stock Option shall not be transferred, pledged, hypothecated, mortgaged or otherwise alienated in any other manner.
- 11.5 An employee may surrender his/her vested /unvested options at any time during / post his employment with the company. Any employee willing to surrender his/her Options shall communicate the same to the Board or Committee in writing.
- 11.6 Vested Options lapsed due to non-exercise, surrender and/or unvested Options that gets cancelled due to resignation or any other separation conditions of Option

grantees, surrendered or otherwise, would be available for being re-granted at a future date. The Board is authorized to re-grant such lapsed / cancelled / surrendered options as per the provisions of Plan.

- 11.7 The ESOP 2019 scheme will involve only new issue of shares by the Bank.
- 11.8 The equity shares to be allotted pursuant to the exercise of the stock options under ESAF ESOP PLAN – 2019, shall be listed on BSE Limited and National Stock Exchange of India Limited.

12. Deduction of Tax

- 12.1 The liability of paying taxes, if any, in respect of Employee Stock Options granted pursuant to this Plan and the Shares issued pursuant to Exercise thereof shall be entirely on Option Grantee and shall be in accordance with the provisions of Income Tax Act, 1961 read with rules issued thereunder and/or Income Tax Laws of respective countries as applicable to eligible Employees working abroad, if any.
- 12.2 The Bank shall have the right to deduct from the Option Grantee's salary or recover any tax that is required to be deducted or recovered under the Applicable Laws. In case of non-continuance of employment, the outstanding amount of the tax shall be recovered fully on or before full and final settlement.
- 12.3 The Bank shall have no obligation to deliver Shares until the Bank's tax deduction obligations, if any, have been satisfied by the Option Grantee in full.

13. Malus/ Clawback

- 13.1 Subject to compliance of the Applicable Laws and directions laid down by the RBI in this regard, from time to time, the Bank reserves the right of executing malus/ clawback arrangements with respect to options already granted.
- 13.2 A malus arrangement permits the Bank to prevent Vesting of all or part of the Options granted to an Option Grantee. However, the malus arrangement shall not reverse the Vestings of already Vested Options.

- 13.3 A clawback, on the other hand, is a contractual agreement between the Option Grantee and the Bank, being evidenced on the acceptance of the Grant, in which case the Option Grantee shall relinquish any benefit that accrued to or return any benefit that is received by such Option Grantee to the Bank under circumstances specified at the time of Grant of Options.

14. Authority to vary terms

The Nomination Remuneration and Compensation Committee may, if it deems necessary, vary the terms of ESOP 2019, subject to the Applicable Laws and the conditions of the shareholders' approval by way of a special resolution in such manner which is not detrimental to the interest of employee. However, the Bank shall be entitled to vary the terms of the scheme to meet any regulatory requirements.

Upon Listing of Equity Shares of the Bank, the Bank may by special resolution of its shareholders vary the terms of the schemes offered pursuant to an earlier resolution of the general body but not yet exercised by the employees, if such variation is not prejudicial to the interests of the employees. However, the Board of Directors/ Nomination Remuneration and Compensation Committee shall be entitled to vary the terms of the schemes to meet any regulatory requirement without seeking shareholders' approval by special resolution.

15. Miscellaneous

15.1 Government Regulations

This ESOP 2019 shall be subject to all Applicable Laws, and approvals from governmental authorities.

15.2 Foreign Exchange Laws

In case any Options are granted to any Employee being resident outside India, belonging to the Bank, working outside India, the provisions of the Foreign Exchange Management Act, 1999 and rules or regulations made thereunder as amended and enacted from time to time shall be applicable and the Bank has to comply with such requirements as prescribed from time to time in connection with Grant, Vest and Exercise of Options thereof.

15.3 Inability to obtain authority

The inability of the Bank to obtain authority from any regulatory body having jurisdiction over the Bank, or under any Applicable Laws, for the lawful issuance and sale of any Shares hereunder shall relieve and wholly discharge the Bank of any and all liability in respect of the failure to issue or sell such Shares. It is clarified that the Bank shall not be obligated to ensure tradability of the Shares upon Listing and the same may be subject to further requirement under Applicable Laws.

15.4 Unless otherwise intended, the Grant of an Employee Stock Option does not form part of the Option Grantee's entitlement to compensation or benefits pursuant to his contract of employment nor does the existence of a contract of employment between any person and the Bank give such person any right or entitlement to have an Employee Stock Option granted to him in respect of any number of Shares or any expectation that an Employee Stock Option might be granted to him whether subject to any condition or at all.

15.5 Neither the existence of this Plan nor the fact that an individual has on any occasion been granted an Employee Stock Option shall give such individual any right, entitlement or expectation that he has or will in future have any such right, entitlement or expectation to participate in this Plan by being granted an Employee Stock Option on any other occasion.

15.6 The rights granted to an Option Grantee upon the grant of an Employee Stock Option shall not afford the Option Grantee any rights or additional rights to compensation or damages in consequence of the loss or termination of his office or employment with the Bank for any reason whatsoever (whether or not such termination is ultimately held to be wrongful or unfair).

15.7 The Option Grantee shall not be entitled to any compensation or damages for any loss or potential loss which he may suffer by reason of being unable to exercise an Employee Stock Option in whole or in part.

15.8 Participation in ESOP 2019 shall not be construed as any guarantee of return on equity investment. Any loss due to fluctuations in the market price of the Shares and the risks associated with the investments are that of the Employee alone.

15.9 As applicable, before grant of options, the Nomination Remuneration and compensation committee shall frame suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, including Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003.

16. Accounting and Disclosures

16.1 The Bank shall conform to the accounting policies specified in Regulation 15 of the SEBI (SBEB and Sweat Equity) Regulations.

Further, the Bank shall disclose details of grant, vest, exercise and lapse of the employee stock Options in the Directors' Report or in an annexure thereof as prescribed under the Companies Act, 2013 read with rules made thereunder and SEBI (SBEB and Sweat Equity) Regulations, any other applicable laws as may be applicable from time to time. Furthermore, the Bank shall follow the laws/regulations applicable to accounting and disclosure related to employee stock Options, including the Companies Act, 2013 (as amended from time to time) but not limited to SEBI (SBEB and Sweat Equity) Regulations (including disclosure as specified under regulation 15) section 133 of the Companies Act, 2013 as well as the Guidance Notes on accounting for Employee Share-based Payments and/ or any relevant Accounting Standards as may be prescribed by the regulatory authorities from time to time, including the disclosure requirements prescribed therein,.

The Bank shall follow the laws/regulations applicable to accounting and disclosure related to Options, including but not limited to the IGAAP on Accounting for Employee Share-based Payments and/ or any relevant Accounting Standards as may be prescribed by the Institute of Chartered Accountants of India from time to time, including the disclosure requirements prescribed therein.

16.2 Where the existing Guidance Note or Accounting Standard do not prescribe accounting treatment or disclosure requirements for ESOP 2019 then the Bank shall comply with the relevant Accounting Standard as may be prescribed by the ICAI or any other appropriate authority from time to time.

16.3 The Bank follows fair value method for computing the compensation cost, if any, for the Options granted. The Bank will follow IFRS/ IND AS/ any other requirements for accounting of the stock Options as are applicable to the Company for the same. Since the Bank opts

for expensing of share-based employee benefits using the fair value method, the following statement will not be applicable viz.

In case the Bank opts for expensing of share based employee benefits using the intrinsic value, 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, shall be disclosed in the Directors' Report and the impact of this difference on profits and on earnings per share ("EPS") of the Bank shall also be disclosed in the Directors' Report.

- 16.4 The Bank shall make disclosures to the prospective Option Grantees containing statement of risks, information about the Bank and salient features of the ESOP 2019 in a format as prescribed under SEBI SBEBSE Regulations.
- 16.5 The Bank shall give the applicable disclosures in the Directors Report as specified under the SEBI SBEBSE Regulations.

17. Governing Laws and jurisdiction

- 17.1 This Plan and all agreements thereunder shall be governed by and construed in accordance with the Applicable Laws. The terms and conditions of the ESOP 2019 shall be governed by and construed in accordance with the Applicable Laws of India including the Foreign Exchange Laws.
- 17.2 The Courts in Thrissur, India shall have jurisdiction in respect of any and all matters, disputes or differences arising in relation to or out of this ESOP 2019.
- 17.3 Nothing in this Clause shall however limit the right of the Bank to bring proceedings against any Employee in connection with this ESOP 2019:
- (i) in any other court of competent jurisdiction; or
 - (ii) concurrently in more than one jurisdiction.

18. Notices

- 18.1 All notices of communication required to be given by the Bank to an Option Grantee by virtue of this ESOP 2019 shall be in writing and shall be sent to the address of the Option grantee available in the records of the Bank; or Delivering the communication(s) to the

Option Grantee in person with acknowledgement of receipt thereof; or Emailing the communication(s) to the Option Grantee at the official email address provided, if any, during the continuance of employment or at the email address provided by the Option Grantee after cessation of employment.

- 18.2 Any communication to be given by an Option Grantee to the Bank in respect of ESOP 2019 shall be sent at the address mentioned below or e - mailed at:

Head- HR
ESAF Small Finance Bank Limited,
ESAF Bhavan
Email: hrd@esafbank.com

19. Severability

- 19.1 In the event any one or more of the provisions contained in this Plan shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the other provisions of this Plan in which case the Plan shall be construed as if such invalid, illegal, or unenforceable provisions had never been set forth herein, and the Plan shall be carried out as nearly as possible according to its original intent and terms.

20. Confidentiality

- 20.1 An Option Grantee must keep the details of the ESOP 2019 and all other documents in connection thereto strictly confidential and that the Option Grantee cannot reveal/disclose the details with any of his/her peer, colleagues, co-employees or with any employee and/ or associate of the Bank or that of its affiliates. In case Option Grantee is found in breach of this Confidentiality Undertaking, the Bank shall have undisputed right to terminate any agreement/forfeit the Grant and all unexercised Options shall stand cancelled immediately. The decision and judgment of the Nomination, Remuneration and Compensation Committee regarding breach of this Clause on confidentiality shall be final, binding and cannot be questioned by Option Grantee. In case of non-adherence to the provisions of this Clause, the Nomination Remuneration and Compensation Committee shall have the authority to deal with such cases as it may deem fit.

- 20.2 On acceptance of the grant of Option offered by the Bank, it shall be deemed that as if the Option Grantee has authorized the Bank to disclose information relating to the Option Grantee during the process of implementation of the ESOP 2019 or while availing any consulting or advisory services thereof or any other incidental services to its officers, professional advisors, agents and consultants on a need to know basis.

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