

THE FEDERAL BANK LIMITED

EMPLOYEE STOCK OPTION SCHEME 2010

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1. Name, Objective and Term

- 1.1 The Federal Bank - Employee Stock Option Scheme 2010 shall be called the “ESOS 2010”.
- 1.2 The objective of ESOS 2010 is to remunerate/reward the employees of The Federal Bank Limited (the “Bank”) and its subsidiaries, for their service and the expertise brought by them to the Bank and its subsidiaries.
- 1.3 The ESOS 2010 is established with effect from 28-01-2011 and shall continue to be in force until (i) its termination by the Committee (as defined hereinafter) or (ii) the date on which all of the Options Granted under the ESOS 2010 have been Exercised and the Equity Shares underlying the Options have been allotted to the concerned Employees.
- 1.4 The Committee (as defined hereinafter) may subject to compliance with Applicable Laws, at any time alter, amend, suspend or terminate the ESOS 2010.

2. Definitions and Interpretation

2.1 Definitions

- i. **“Applicable Law”** means the legal requirements relating to employee stock options, including, without limitation, the Companies Act, 1956, the SEBI ESOP Guidelines and all relevant tax, securities, exchange control or corporate laws of India.
- ii. **“Board”** means the Board of Directors of the Bank.
- iii. **“Cause”** means (i) act of wilful or gross misconduct or neglect, or (ii) the commission of felony, fraud, misappropriation, embezzlement, breach of trust or an offence involving moral turpitude, (iii) gross or wilful insubordination, or (iv) any other act detrimental to the interest of the Bank.
- iv. **“Companies Act”** means the Companies Act, 1956 and includes any statutory modifications or reenactments thereof.
- v. **“Bank”** means The Federal Bank Limited.
- vi. **“Committee”** means the Nomination, Ethics and Remuneration Committee of the Board (as re-constituted by the Board from time to time) consisting of a majority of Independent Directors and which has been authorised by the Board to function as the ‘Compensation Committee’ as provided under the SEBI ESOP Guidelines and to administer the ESOS 2010.

- vii. **"Director"** means a member of the Board of the Bank and/or any of its subsidiary, whether a whole time director or not.
- viii. **"Equity Shares"** means equity shares of face value of Rs. 10 or such amount as may be fixed from time to time of the Bank.
- ix. **"Eligibility Criteria"** means the criteria as may be determined from time to time by the Committee for granting the employee stock options to the Employees in accordance with SEBI ESOP Guidelines.
- x. **"Employee"** means an employee or Director of the Bank who is eligible for being granted Options under this ESOS 2010.
- xi. **"ESOS 2010"** means The Federal Bank Limited - Employee Stock Option Scheme, 2010 under which the Bank is authorised to Grant Options to the Employees.
- xii. **"Exercise"** of an Option means expression of an intention expressed in writing by an Employee to the Bank, to purchase the Equity Shares underlying the Options vested in him, in pursuance of the ESOS 2010, in accordance with the procedure laid down by the Bank for exercise of Options.
- xiii. **"Exercise Period"** means such time period after Vesting within which the Employee should Exercise the Vested Options in pursuance of the ESOS 2010.
- xiv. **"Exercise Price"** means the price determined by the Committee and payable by an Employee or his/her legal heirs or nominees in case of Employee's death or permanent incapacity in order to Exercise the Vested Options in pursuance of the ESOS 2010.
- xv. **"Fully Diluted Basis"** means that the calculation is to be made assuming that all outstanding convertible preference shares or securities (whether or not by their terms then currently convertible, exercisable, or exchangeable), have been so converted, exercised or exchanged.
- xvi. **"Grant"** means the grant of Options to the Employees under the ESOS 2010.
- xvii. **"Grant Letter"** shall have the meaning ascribed to the term in Clause 6.4.
- xviii. **"Independent Director"** means a director of the Bank, not being a whole time director and who is neither a Promoter nor belongs to the Promoter Group.
- xix. **"Issued and Paid-up Share Capital"** means fully paid –up equity shares, convertible preference shares and any other securities convertible into equity shares and shall include American Depository Receipts (ADRs), Global

Depository Receipts (GDRs) or other depository receipts representing underlying equity shares or securities convertible into equity shares.

- xx. **“Option”** means the option granted under ESOS 2010 to an Employee, which gives such Employee the right to purchase or subscribe at a future date the Equity Shares underlying the Option at a pre-determined price in accordance with the terms of ESOS 2010.
- xxi. **“Option Grantee(s)”** means the Employee(s) who have been granted the Options under ESOS 2010.
- xxii. **“Permanent Incapacity”** means any disability of whatsoever nature, 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 identified and determined by the Committee based on a certificate of a medical expert identified by the Committee.
- xxiii. **“Promoter”** means (a) the person or persons who are in over-all control of the Bank; (b) the person or persons who are instrumental in the formation of the Bank or programme pursuant to which its shares were offered to the public; (c) 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. Where a promoter of the Bank is a body corporate, the promoters of that body corporate shall also be deemed as promoters of the Bank.
- xxiv. **“Promoter Group”** means (a) an immediate relative of the Promoter (i.e. spouse of that person, or any parent, brother, sister or child of the person or of the spouse); (b) persons whose shareholding is aggregated for the purpose of disclosing in the offer document under the heading “shareholding of the promoter group”.
- xxv. **“Retirement”** means retirement as per the rules of the Bank (or its subsidiaries, as relevant), or upon expiry of the term of Employment as per the agreement, if any, entered into between the Bank and the Employee.
- xxvi. **“Subsidiary company”** means any present or future subsidiary company of the Bank, as defined in the Companies Act.
- xxvii. **“SEBI ESOP Guidelines”** means the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 together with all circulars and notifications issued there under, as amended or modified from time to time.

- xxviii. **“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.
- xxix. **“Vesting”** means the process by which the Options granted to an Option Grantee vests with the Option Grantee and the Option Grantee acquires the right to apply for Equity Shares of the Bank against the Options granted to him/her in pursuance of the ESOS 2010.
- xxx. **“Vesting Conditions”** means conditions as may be stipulated by the Committee for Vesting of Options.
- xxxi. **“Vested Option”** means an Option in respect of which the relevant Vesting Conditions have been satisfied and the Employee has become eligible to Exercise the Option.
- xxxii. **“Vesting Period”** means the period during which the Vesting of the Options granted to the Employee, in pursuance of the ESOS 2010 takes place.

2.2 Interpretation

In this ESOS 2010, 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 in singular number include the plural and vice versa;
- d) words importing a gender include any other gender;
- e) a reference to a Schedule includes a reference to any part of that Schedule which is incorporated by reference.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Securities and Exchange Board of India Act, 1992 or the Securities Contracts (Regulation) Act, 1956 or the Companies Act, 1956, SEBI (Disclosure and Investor Protection) Guidelines, SEBI (Employee Stock Option Scheme & Employees Stock Purchase Scheme) Guidelines, 1999, or any statutory modification or re-enactment thereof, as the case may be.

3. Authority and Ceiling

- 3.1 By a special resolution passed by the shareholders of the Bank through postal ballot, the Bank has been authorized to Grant the Options under ESOS 2010 (or any other stock option schemes), in one or more tranches, to the Employees, not exceeding 5% of the Issued and Paid-up Share Capital (at all times) on a Fully Diluted Basis in aggregate (currently equivalent to 85,51,650 Equity Shares (or such adjusted numbers for any bonus, stock splits or consolidation or other re-organisation of the capital structure of the Bank as may be applicable from time to time)), with each such Option conferring a right upon the Employee to apply for one Equity Share of the Bank, in accordance with the terms and conditions of such issue.
- 3.2 The grant of options per employee or director of the Bank (including the Managing Director & CEO) shall be upto 0.5% of the paid-up equity share capital (excluding outstanding warrants and conversions) in a financial year.
- 3.3 The grant of options to all the non-executive directors of the Bank (including the independent directors) shall be upto 1% of the paid up equity share capital (excluding outstanding warrants and conversions) in a financial year and upto 5% of the paid up equity share capital (excluding outstanding warrants and conversions) in aggregate, or such revised limits as may be approved by the shareholders from time to time.

4. Administration

- 4.1 The ESOS 2010 shall be administered by the Committee. All questions of interpretation of the ESOS 2010 shall be determined by the Committee and such determination shall be final and binding upon all persons having an interest in the ESOS 2010 or any Option.
- 4.2 Unless otherwise expressly provided in the ESOS 2010 or Applicable Law, all decisions, determinations and interpretations with respect to, connected with, arising out of or in relation to the ESOS 2010 shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all persons including the Bank, Option Grantees, shareholders, employees and directors of the Bank
- 4.3 No member of the Committee shall be liable for any action or determination made in good faith pursuance to the ESOS 2010.
- 4.4 Subject to the provisions of the ESOS 2010 and Applicable Law and in addition to the other express powers and authorizations conferred by the ESOS 2010, the Committee shall have full power and authority to formulate the detailed terms and conditions of the ESOS 2010 including but not limited to:
 - (i) the quantum of Options to be granted under the ESOS 2010 per Employee and in aggregate within the limits approved by the shareholders of the Bank.

- (ii) the Vesting Criteria of the Options including specifying vesting criteria that is linked to the performance of the Option Grantees and/or the Bank
- (iii) the conditions under which Option vested in Employees may lapse in case of termination of employment for Cause or misconduct;
- (iv) the Exercise Period within which the Employee should exercise the Options and that Options would lapse on failure to exercise the Options within the Exercise Period;
- (v) the specified time period within which the Employee shall exercise the vested Options in the event of termination or resignation of Employee.
- (vi) the right of an Employee to exercise all the Options vested in him at one time or at various points of time within the Exercise Period;
- (vii) the procedure for making 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 Committee –
 - a) the number and the price of Options shall be adjusted in a manner such that total value of the Options 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 by the Committee;
 - c) the Vesting Period and the life of the Options shall be left unaltered by the Committee, as far as possible to protect the rights of the Option Grantee(s).
- (viii) the procedure for cashless exercise of Options, if any.

4.5 Subject to the other provisions of ESOS 2010 and Applicable Law and in addition to the other express powers and authorizations conferred by ESOS 2010, the Committee shall have full power and authority to-

- (i) determine, from time to time, Employees who are eligible to participate in the ESOS 2010;
- (ii) determine the number of Equity Shares subject to each Option;
- (iii) alter the Vesting Period and the Exercise Period;

- (iv) prescribe the conditions and procedure for the grant, vest and exercise of Options by Option Grantees including Option Grantees who are on long leave, training or otherwise indisposed;
 - (v) prescribe the conditions of vesting and exercise of Options in the event of Retirement of any Employee;
 - (vi) prescribe the conditions of vesting and exercise of Options in the event of voluntary resignation by any Employee;
 - (vii) establish, amend, suspend or waive such rules and regulations as it shall deem appropriate for the proper administration of the ESOS 2010 but without prejudice to the employees;
 - (viii) interpret any matter with respect to, connected with, arising out of or in relation to the ESOS 2010;
 - (ix) appoint such agents/service provider as it shall deem necessary for the proper administration of the ESOS 2010;
 - (x) determine or impose other conditions to the Grant or Exercise of Options under the ESOS 2010 as it may deem appropriate;
 - (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the ESOS 2010;
- 4.6 The Committee shall frame suitable policies and systems to ensure that there is no violation of :-
- a. Securities and Exchange Board of India (Insider Trading) Regulations, 1992; and
 - b. Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995, by any Employee.

5. Eligibility and Applicability

The following persons shall be eligible for being granted Options under ESOS 2010:

- (i) a permanent employee of the Bank working in India or out of India; or
- (ii) a director of the Bank, whether a whole time director or not.

The specific Employees to whom the Options would be granted and their eligibility criteria would be determined by the Committee. However, the following persons shall not be entitled for being granted Options under ESOS 2010:

- (i) an employee who is a Promoter or belongs to the Promoter Group;
- (ii) a director who either by himself or through his relatives or through anybody corporate, directly or indirectly holds more than 10% of the outstanding Equity Shares of the Bank.

6. Grant of Options

- 6.1 The Option shall be granted in accordance with the recommendations of the Committee to the present/future Employees, in one or multiple tranches.
- 6.2 The Options would be granted directly by the Bank in accordance with the provisions of the SEBI ESOP Guidelines.
- 6.3 The appraisal process for determining the eligibility of the Employees will be decided by the Committee from time to time. The employees would be granted options under the ESOS 2010 based on various parameters such as scale, designation, work performance, grades, period of service, annual fixed pay, Bank's performance and such other parameters as may be decided by the Committee from time to time in its sole discretion.
- 6.4 The Grant of the Options by the Committee to the Employees shall be made in writing and communicated to the Employee by way of a notice in relation to such Grant (the "**Grant Letter**"). Such a Grant shall state the number of Options Granted, the Vesting Conditions as determined by the Committee, the Vesting Period, the Exercise Price, the closing date of accepting the Grant, and any other terms and conditions in relation to the Options as may be specified by the Committee.
- 6.5 The closing date shall be the date falling 60 (sixty) days from the date of Grant ("Closing Date").
- 6.6 Any Employee who wishes to accept the Grant made, must signify his acceptance on the Grant Letter, duly completed as required therein to the Committee on or before the Closing Date stated in the Grant Letter. Any Employee, who fails to communicate his /her acceptance before the Closing Date, is deemed to have rejected the Grant.

7. Vesting

- 7.1 The Options Granted under the ESOS 2010 shall vest in one or more tranches.
- 7.2 The Options granted under ESOS 2010 would vest after the expiry of one year from the date of Grant of the Options.

- 7.3 The Vesting Period shall be determined by the Committee on the date the Options are granted and shall be mentioned in the Grant Letter.

8. Exercise

a) Exercise Price per Option:

The Exercise Price shall be determined by the Committee on the date the Options are granted subject to compliance with the provisions of the SEBI ESOP Guidelines. The Exercise Price shall be mentioned in the Grant Letter.

The Committee may re-price the Options which are not exercised if Options are rendered unattractive due to fall in the price of the Equity Shares in the market, subject to approval of the shareholders of the Bank. Provided that such re-pricing shall not be detrimental to the interest of Option Grantees and provided that such re-pricing is in conformity with the Applicable Laws.

b) Exercise Period:

The Exercise period would commence from the date of Vesting and will expire on completion of five years from the date of Vesting of Options. The Equity Shares arising out of Exercise of Vested Options would not be subject to any lock-in period after such Exercise.

The Options Granted under the ESOS 2010 would be exercisable by the Employee by making an application to the designated person in the Bank, in such manner, on execution of such documents and on such terms as may be decided by the Committee. The Options will lapse if not Exercised within the specified Exercise Period and will be considered as Options that have not been granted. Such Options can be re-granted to Employees in the future.

Exercise period in case of Employees' Separations

Separations	Unvested options	Vested Options
Resignation	Cancelled	Right to exercise will be similar to normal cases
Retirement	Unvested Options may Vest, as in normal cases and right to exercise will also be similar to normal cases	Right to exercise will be similar to normal cases
Death	The Options granted to the concerned Employee as of the date of his/her death shall Vest in the legal heirs or nominees of the deceased Employee. The Committee at its sole discretion would decide the period within which the options could be exercised.	Right to exercise will be similar to normal cases
Permanent Incapacity	All Options granted to such Employee as on the date of the permanent incapacitation shall Vest in him. The Committee at its sole discretion would decide the period within which the options could be exercised.	The Committee at its sole discretion would decide the period within which the options could be exercised.
Termination without Cause	Cancelled	The Committee at its sole discretion would decide the period within which the options could be exercised.
Termination with Cause	Cancelled	Cancelled
Voluntary Retirement	Cancelled	Right to exercise will be similar to normal cases
Any other event not specified above	The Committee at its sole discretion would decide the treatment of unvested options and such decision shall be final and binding.	The Committee at its sole discretion would decide the treatment of the vested options and such decision shall be final and binding.

Notwithstanding anything contained in the above table but subject to the Applicable Law, the Committee shall have the authority to determine the treatment of Options (whether vested or unvested) including their Vesting, Exercise and Exercise Period in the event of death, permanent incapacity, Retirement, resignation, termination with Cause, termination without Cause etc, on a case-by-case basis.

9. Other Terms and Conditions

- 9.1 The Employee shall not have a right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of Options granted, till Equity Shares underlying such Options are allotted on Exercise of such Option by the Employee in accordance with the terms of ESOS 2010.
- 9.2 Nothing herein is intended to or shall give the Employee any right or status of any kind as a shareholder of the Bank in respect of any Equity Shares covered by the Option

granted unless the Employee Exercises the Option and becomes a registered holder of the Equity Shares of the Bank in accordance with the terms of ESOS 2010.

- 9.3 If the Bank issues bonus or rights shares, the Employee will not be eligible for the bonus or rights shares in the capacity of a holder of Options, except that the entitlement to the number of Options will be adjusted in terms of [clause 4.4(vii)]. Only if the Options are Vested and Exercised and the Employee is a valid holder of the Equity Shares of the Bank, the Employee would be entitled for bonus or rights Equity Shares of the Bank.
- 9.4 Options shall not be transferable to any person except in the event of death of the Employee, in which case clause 8(b) would apply.
- 9.5 No person other than the Employee to whom the Option is granted shall be entitled to Exercise the Option except in the event of the death of the Employee, in which case [clause 8(b)] would apply.
- 9.6 The Options shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

10. Grants to be made to New Hires /Joiners

In case of grant of Options to the new hires/joiners, their participation in ESOS 2010 shall begin with a first regular Grant after their joining date.

11. Minimum Lock-In prior to Vesting

There shall be a minimum lock-in period of one year between the date of Grant of the Options and the Vesting of the Options. The Equity Shares arising out of Exercise of Vested Options would not be subject to any lock-in period after such Exercise.

12. Change in control/ management

In the event of any change of Control of the Bank, the Options Granted herewith shall Vest forthwith subject to the minimum time for Vesting prescribed under SEBI ESOP Guidelines. In such an event the Committee would have the authority to alter all or any of the terms relating to the Grant or this ESOS 2010 in general and would also have the authority to do all such acts, deeds, matters and things as it may deem fit in its absolute discretion and as permitted under Applicable Law, so as to ensure that the benefits under the Grant are passed on to the Employees.

13. Deduction of Tax

The Bank shall have the right to deduct from any dues owed to the Employee (including his/her salary), any of the Employee's tax obligations arising in connection with the Employee Stock Option or the Equity Shares acquired upon the Exercise thereof. The Bank shall have no obligation to deliver Equity Shares until the Bank's tax deduction obligations, if any, have been satisfied by the Option Grantee.

14. Authority to vary terms of ESOS 2010

Any term(s) of ESOS 2010 can be varied by the Committee at its sole discretion. The variation should be in the interest of the Employees. If the variation is detrimental to the interests of the Employees, the variation shall be subject to the consent of affected Employee(s) and approval of the shareholders of the Bank by way of a special resolution in a general meeting. The special resolution for the variation shall disclose the details of the variation, the rationale therefore and details of the Employees who are beneficiaries of the same.

15. Miscellaneous

15.1 Government Regulations

This ESOS 2010 shall be subject to all Applicable Laws and approvals from governmental authorities. The approval of the shareholders of the Bank, by means of a special resolution, is required for this ESOS 2010. The Grant and the issue of Equity Shares under this ESOS 2010 shall also be subject to the Bank requiring Employees to comply with all Applicable Laws.

15.2 Inability to obtain authority

The inability of the Bank to obtain authority from any regulatory body having jurisdiction, or under any Applicable Laws for the lawful issuance and sale of any Equity Shares hereunder shall relieve and wholly discharge the Bank of any and all liability in respect of the failure to issue or sell such Equity Shares.

15.3 The grant of an Option does not form part of the Employees' entitlement to compensation or benefits pursuant to his/her contract of employment nor does the existence of a contract of employment between any person and the Bank, give such person any right, entitlement or expectation to have an Option granted to him in respect of any number of Equity Shares or any expectation that an Option might be granted to him whether subject to any condition or at all.

15.4 Neither the existence of this ESOS 2010 nor the fact that an individual has on any occasion been granted an 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 ESOS 2010 by being granted an Option on any other occasion.

15.5 The rights granted to an Employee upon the Grant of an Option shall not afford the Employee 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.

15.6 The Employee 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 Option in whole or in part 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 Employees shall maintain the utmost confidentiality regarding the contents of the ESOS 2010 and benefits there under at all times and shall not make any announcement to the public or to any third person regarding the arrangements contemplated by the ESOS 2010 and the benefits there under except to the extent as may be required by Applicable Law.
- 15.8 The equity shares issued pursuant to any Option shall rank *pari passu* with all the other equity shares of the Bank for the time being issued and outstanding.
- 15.9 No Employee shall have any claim to be granted any Option, and there is no obligation on the part of the Bank for uniformity of treatment of Employees or holders or beneficiaries of Options. The terms and conditions of Options need not be the same with respect to each Option Grantee.
- 15.10 The Option Grantee shall do all acts necessary and execute all such deeds and documents as may be deemed necessary by the Committee to give effect to the terms of the ESOS 2010.

16. Consequence of failure to Exercise Option

The amount payable by the Employee, if any, at the time of Grant of Option:

- a. may be forfeited by the Bank if the Option is not exercised by the Employee within the Exercise Period; or
- b. the amount may be refunded to the Employee if the Options are not Vested due to non-fulfillment of any Vesting Conditions.

17. Notices

All notices of communication required to be given by the Bank to an Employee by virtue of this ESOS 2010 shall be in writing and shall be sent to the address of the Employee available in the records of the Bank and any communication to be given by an Employee to the Bank in respect of ESOS 2010 shall be sent to the address mentioned below:

The Company Secretary
Secretarial Department
The Federal Bank Limited
Federal Towers
Aluva

18. Governing Law and Jurisdiction

- 18.1 The terms and conditions of the ESOS 2010 shall be governed by and construed in accordance with the laws of India.
- 18.2 The Courts of Kerala, shall have jurisdiction in respect of any and all matters, disputes or differences arising in relation to or out of this ESOS 2010.

18.3 Nothing in the above clause will however limit the right of the Bank to bring proceedings against any Employee in connection with this ESOS 2010:

- (i) in any other court of competent jurisdiction; or
- (ii) concurrently in more than one jurisdiction.

19. Income Tax Rules

The applicable Income Tax Laws and Rules as in force will be applicable.

20. Accounting Policies

The Bank shall comply with the accounting policies specified in the SEBI ESOP Guidelines.

21. Certificate from Auditors

The Board shall at each annual general meeting of the Bank, place before the shareholders a certificate from the auditors of the Bank that the ESOS 2010 has been implemented in accordance with the SEBI ESOP Guidelines and in accordance with the resolution of the Bank in the general meeting.
