eF. No. 15/6/2024-BO.I
Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building, 3rd floor
Parliament Street, New Delhi - 110 001
Dated 19th November 2024

To:

1. Chairman, State Bank of India
2. Managing Director and Chief Executive Officers, Nationalised Banks

Subject: Performance Linked Incentive for Whole-Time Directors and Senior Executives of Public Sector Banks – revised scheme

Sir/Madam,

I am directed to convey that, in supersession of this department's letter no. 12/1/2014-BOA, dated 18.08.2015 and all other guidelines in the matter, the Central Government has revised the Scheme for Performance Linked Incentive to Whole-Time Directors and Senior Executives of Public Sector Banks. A copy of the revised scheme is appended for necessary action.

Yours faithfully,

Encl.: as above

(Sanjay Kumar Mishra)
Under Secretary to the Government of India
Tel: 011 – 237487189
Email: bo1@nic.in

Copy for information to:

1. Secretary, Financial Services Institutions Bureau, 4th Floor, Reserve Bank of India, Dr. Anand Rao Nair Marg, Mumbai Central, Mumbai - 400 008.
2. Chief Executive, Indian Banks' Association, World Trade Centre Complex, 6th Floor, Centre 1 Building, World Trade Centre Complex, Cuff Parade, Mumbai - 400005

Appendix to letter eF. no. 15/6/2024-BO.I, 19th November 2024

Scheme for Performance Linked Incentive for Whole-Time-Directors and Senior Executives of Public Sector Banks

S. No.	Main Head	Specific guideline
1	Objective	To offer an enhanced Performance Linked Incentive (PLI) Scheme to suitably reward and motivate employees for significant value creation for various stakeholders.
2	Effective Date	The scheme shall come into force from FY 2023-24.
3	Duration / Termination	The scheme shall be in vogue, till such time any new scheme replaces this scheme or the extant scheme is withdrawn.
4	Governance Assessment	A committee shall assess the Governance Mechanism in the banks for the PLI Evaluation period with respect to occurrences of any major / serious cases of violations, malpractices or those severely impacting bank's credibility and reputation. The committee shall, after assessment, list out the banks which shall be eligible to be considered under the PLI Scheme. The committee may also decide on (in)eligibility of officer(s) for PLI Scheme. The committee, headed by the Secretary (DFS), shall comprise of Additional Secretary (DFS), Joint Secretary (Banking) and Chief Executive of IBA, as its members.
5	Bank Performance Thresholds (eligibility criteria)	For any bank to be eligible to operate the PLI Scheme, at least 3 out of the following 4 criteria# have to be met: (i) RoA positive. (ii) Net NPA at not more than 1.5% or in case if Net NPA is more than 1.5% then reduction of *25bps* or more in opening Net NPA of the financial year. (iii) Cost to Income Ratio at not more than 50% or in case if the CIR is more than 50% then at least *y-o-y* improvement in CIR. (iv) CRAR at Min. Regulatory Requirements* +200bps or more. **excl. any additional requirement due to being D-SIB or G-SIB*

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<table>
<tr><th>S. No.</th><th>Main Head</th><th>Specific guideline</th></tr>
<tr><td></td><td></td><td>(# - Assessment shall be based on the performance of the bank as per its audited figures as on 31st March of the immediately preceding financial year)</td></tr>
<tr><td>6</td><td>Eligibility</td><td>(i) All permanent employees, including lateral hires and officers on deputation, in scale IV and above shall be eligible.
(ii) The PLI Ceiling for each category shall be as follows:
<table>
<tr><th>Grade</th><th>PLI ceiling as % of annual basic pay</th></tr>
<tr><td>EDs and MDs of Nationalised Banks and DMDs, MDs and Chairman of SBI</td><td>100%</td></tr>
<tr><td>Scale VII and Scale VIII</td><td>90%</td></tr>
<tr><td>Scale V and Scale VI</td><td>80%</td></tr>
<tr><td>Scale IV</td><td>70%</td></tr>
</table>
(iii) PLI shall be paid to the eligible officers as per the 'Maximum Permissible PLI Chart' (defined in S. No. 9). Maximum permissible PLI shall be calculated as a function of Bank's overall performance score, Individual's performance and the maximum permissible ceiling in the scale of the executive.
(iv) In order to be paid PLI:
a. an employee must have served for minimum 6 months in at least one of the eligible scales (IV to VIII) and shall be paid pro-rata for the period served in the eligible scale.
b. in case an employee has served in more than one eligible scale (IV to VIII) during the Performance period, the employee shall be eligible for pro-rata pay-out for the period of performance under respective scale(s).</td></tr>
</table>

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S. No.	Main Head	Specific guideline
		c. Executives elevated to the position of WTDs shall be eligible for PLI of their respective previous scale / position, irrespective of the number of months served during the year, on pro-rata basis. (v) Employees punished with dismissal/removal/termination from service shall not be eligible for PLI. Employees punished with major penalty will not be eligible for the Rigor period. (vi) In the cases of resignation or termination, the amount of award not paid out will stand forfeited and lapsed.
7	Bank Performance	(i) Bank performance shall be evaluated based on <u>an Evaluation Matrix</u> comprising of 4 equally weighted <u>Evaluation Parameters</u> - Efficiency (25%), Business (25%), Asset Quality (25%) and Financial Inclusion (incl. EASE reforms) (25%). The first three parameters are further divided into 12 sub parameters viz., Operating profit to total assets, Return on Risk Weighted Assets (RoRWA), Net Interest Margin (NIM), Cost to Income Ratio (CIR), Current Account and Savings Account Deposit (CASA), Deposit Growth, RAM Advances Growth, Standard Advances Growth, Net NPA to Net Worth, Total SMA to Standard Advances, Recovery and Upgradation ratio and Slippage Ratio thereby capturing important financial indicators. (ii) The performance evaluation on these sub-parameters shall be made using four different <u>Evaluation Methodologies</u>, defined as under: a. **M1:** Captures variance in performance along with impact of base effect *(for efficiency related parameters and*

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Internal

<table>
<tr><th>S. No.</th><th>Main Head</th><th>Specific guideline</th></tr>
<tr><td></td><td></td><td>some other parameters, i.e. Operating profit to assets, RoRWA, NIM, CIR, CASA and Net NPA to Net-Worth).
b. M2: Scoring vis-à-vis SCBs' average performance (for business growth parameters primarily, i.e. Standard Advances, RAM Advances and Deposits growth).
c. M3: Scoring vis-à-vis PSBs' average performance (for asset quality parameters primarily, i.e. SMA to Standard Advances, Recovery and Upgradation Ratio and Slippage Ratio).
d. M4: Performance in respect to allocated targets (for financial inclusion and Government sponsored schemes based parameters, i.e. PMSVANidhi, PMMY, Housing, Education, Stand-up India, Agri Infra Fund, PM Surya Ghar Bijli Yojana, KCC, etc.)
(iii) The details of Evaluation Matrix, Evaluation Parameters and Evaluation Methodology are given at Annexures I, II and III respectively.</td></tr>
<tr><td>8</td><td>Periodic revision of evaluation matrix, methodology and table</td><td>A committee headed by the Secretary (DFS) shall periodically review and update the Evaluation Matrix, Evaluation Parameters and Evaluation Methodology, as per evolving requirements, priority/thrust areas of the Government, focused priority sector / Government sponsored schemes in the banking sector etc.,</td></tr>
<tr><td>9</td><td>Maximum Permissible PLI Chart (incentive structure/package /amount)</td><td>
<table>
<tr><th rowspan="2">Bank Score</th><th rowspan="2">WTDs and DMD, SBI</th><th colspan="5">Officers from Scale IV to VIII</th></tr>
<tr><th>Top 20%</th><th>Top >20%-≤40%</th><th>Top >40%-≤60%</th><th>Top >60%-≤80%</th><th>Remaining</th></tr>
<tr><td>>80%</td><td>100%</td><td>100%</td><td>80%</td><td>60%</td><td>40%</td><td>0%</td></tr>
<tr><td>≥60%-<80%</td><td>80%</td><td>80%</td><td>70%</td><td>50%</td><td>30%</td><td>0%</td></tr>
</table>
</td></tr>
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<table>
<tr><th>S. No.</th><th>Main Head</th><th>Specific guideline</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><td>≥40%-<60%</td><td>60%</td><td>60%</td><td>50%</td><td>40%</td><td>20%</td><td>0%</td></tr>
<tr><td><40%</td><td>0%</td><td>0%</td><td>0%</td><td>0%</td><td>0%</td><td>0%</td></tr>
</table>
(i) The percentages above shall be subjected to the PLI Ceiling mentioned under the 'Eligibility' Main head (refer S. No. 6)

(ii) Banks' board shall frame a transparent, non-discretionary, non-discriminatory policy for identification of officers in different brackets (top 20%, 20%-40%, 40%-60%, 60%-80%) in each scale.

(iii) At the beginning of the period for which performance has to be assessed, the employees in each of the eligible hierarchical scales (scale IV to scale VIII) shall be separated into two distinct pools viz., (a) non-revenue generating functions and (b) revenue generating function. Banks shall ensure that of the employees eligible for PLI, atleast 50% of them are from revenue generating functions.
</td></tr>
<tr><td>10</td><td>Cost threshold</td><td>(i) Cost threshold for PLI (maximum admisible PLI) shall be calculated in line with the Department of Public Enterprises (DPE) guidelines for performance related pay (PRP) in Public Sector Enterprises (PSEs), as revised from time to time by the DPE (presently DPEs OM No W-02/0028/2017-DPE(WC)-GL-XIII/17 dated 03.08.2017).

"65% of total PLI to be given from 3% of Profit Before Tax (PBT) of previous year and remaining 35% of PLI to be given from 10% of incremental PBT of the previous year over the year before, with overall payout ceiling of 5% of PBT of the previous year."

[Note: Previous year refers to the year to which the PLI pertains.
</td></tr>
</table>

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S. No.	Main Head	Specific guideline
		Example for payment of PRP as issued by DPE vide O.M. NO.W-02/0004/2018-DPE (WC)-GL-X/2, dated 1.7.2020] (ii) In case of any reduction in the cost threshold for PLI, there will be a proportionate reduction in the corresponding PLI payment of all eligible officers (Scale IV to WTDs)
11	Payments Schedule / Mode	(i) The PLI shall normally be paid in a single tranche. (ii) Entire payment of PLI shall be in cash.
12	Governance	(i) Banks to frame a board approved policy, within the overall framework of the scheme, for implementation of the PLI scheme in repsect to officers in Scale IV to VIII. The scheme shall cover, *inter alia,* the following: a. define revenue generating and non-revenue generating roles in each eligible scale. b. outline a transparent, non-discretionary, non-discriminatory process for identification of officers in different brackets (top 20%, 20%-40%, 40%-60%, 60%-80%) in each eligible scale. c. define other necessary conditions with respect to the operation of the PLI scheme. d. approve payment of PLI to eligible officers in Scale IV to VIII. (ii) Banks shall also: a. Obtain all the necessary approvals from the concerned regulatory bodies and comply with all the extant guidelines, in respect to the payment of PLI. b. Create due awareness of the policy among employees at regular intervals.

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S. No.	Main Head	Specific guideline
		c. Ensure fair and transparent framing and implementation of the policy in respect of officers in Scale IV to VIII..
13	Other issues	(i) This scheme shall be the only PLI scheme applicable to all the employees of Scale IV and above and the WTDs. (ii) Any discrepancy impacting profitability, that may figure in RBI audit shall be netted/adjusted in the next year's PLI ceiling amount of 5% of PBT. (iii) Ratios may be calculated till third point of decimal with automatic rounding-off further to ascertain the values as more than / less than / equal to. (iv) This scheme shall replace the existing PLI scheme for Whole Time Directors of Public Sector Banks. (v) If the PLI payment for FY 2023-24 is already done, then the revised PLI scheme shall be applicable from FY 2024-25.
14	Approval of PLI	Approval of PLI payment shall be done by: (i) The Government for Whole-Time directors; (ii) The board of the bank for officers in Scale IV to VIII. Note: In respect of Financial Inclusion parameters, the banks shall take data / input from the banking division of DFS

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Annexure I

Evaluation Matrix

S. No.	Parameter			Weightage	Methodology
A. Efficiency				**25%**	
i.	Operating Profit to total assets			6.25%	M 1
ii.	Return on Risk Weighted Assets (Net Profit to RWA ratio)			6.25%	M 1
iii.	Net Interest Margin (Domestic)			6.25%	M 1
iv.	Cost to Income Ratio			6.25%	M 1
B. Business				**25%**	
i.	CASA deposits ratio			6.25%	M 1
ii.	Growth of total deposits			6.25%	M 2
iii.	Growth of RAM advances			6.25%	M 2
iv.	Growth of standard advances			6.25%	M 2
C. Asset Quality				**25%**	
i.	Net NPA to Net-Worth ratio			6.25%	M1
ii.	Total SMA to Standard Advances ratio			6.25%	M3
iii.	Recovery and Upgradation Ratio			6.25%	M3
iv.	Slippage Ratio			6.25%	M3
D. Financial Inclusion				**25%**	
i.	PM SVANidhi	ii. Stand Up India	iii. PM Surya Ghar Muft Bijli Yojana	15%	M4
iv.	PMMY	v. PM Vishwakarma	vi. Weaver Mudra Scheme		M4
vii.	Education loans	viii. PMAY	ix. PM Suraksha Bima Yojana		M4
x.	Agri Infra Fund	xi. Kisan Credit Card	xii. PM Jeevan Jyoti Bima Yojana		M4
xiii.	EASE/PSBs' reforms agenda			10%	From IBA

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Annexure II

Evaluation Parameters

A. Efficiency

(i) Operating Profit to total assets (*M1*)

Operating Profit to Total Assets (slab on previous year)	**Increase in bps** (over previous year positive base) **to achieve maximum marks**
<= 1.0%	30
>1.0% - <=1.5%	20
>1.5% - <=2.0%	10
>2.0%	Retain above 2%

Where, operating profit for the FY as disclosed in annual audited financial statement and total asset is simple average of opening and closing total assets of the financial year as disclosed in the annual audited financial statement.

Rationale: Operating profit to total assets of PSBs was in the range of 1% to 2.25% in FY2022 and FY2023.

(ii) Return on Risk weighted assets (RoRWA) (*M1*)

RoRWA (slab on previous year)	**Increase in bps (over previous year positive base) to achieve maximum marks**
<=0.25%	15
>0.25%- <=0.75%	10
>0.75%- <=1.25%	5
>1.25%	Retain at >1.25%

The ratio is, net profit divided by risk weighted assets, where net profit and risk weighted assets are what reported in the annual audited financial statements and to RBI.

Rationale: RoRWA of PSBs was in the range of 0.25% to 2.5% in FY2022 and FY2023.

(iii) Net Interest margin (Domestic) (*M1*)

Net Interest margin (Domestic) **(slab on previous year)**	**Increase in bps (over previous year) to achieve maximum marks**
<=2.50	30
>2.50 <=2.75	20
>2.75 <=3.00	10
>3.00	Retain >3%

NIM (D) as reported to RBI.

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Rationale: NIM (D) of PSBs was in the range of 2.45% to 3.60% in FY2022 and FY2023.

(iv) Cost to income ratio *(M1)*

Cost to income (slab on previous year)	Reduction in bps (over previous year) to achieve maximum marks
≤40%	Retain below 40%
>40% - ≤45%	25
>45% - ≤50%	50
>50%	75

The ratio is operating expenses divided by sum of net interest income and other income. The numbers as disclosed in annual audited financial statements.

Rationale: Cost to Income Ratio of PSBs was in the range of 40% to 65% in FY2022 and FY2023.

B. Business

(i). Current Account and Savings Account Deposit (CASA) *(M1)*

CASA Ratio (slab on previous year)	Increase in bps (over previous year) to achieve maximum marks
<40%	50
≥40% <45%	25
≥45% <50%	10
≥50%	Retain above 50%

Where current account deposit is balance in current accounts, savings account deposit is balance in savings accounts carrying interest lower than 6-months term deposit rate of the bank. The ratio to be calculated as, domestic CASA deposit divided by gross domestic deposit. Quarterly average value (4 quarters of the year) of CASA deposit and gross domestic deposit to be taken from the annual audited financial statements or data reported to RBI.

Rationale: Cost to Income Ratio of PSBs was in the range of 30% to 60% in FY2022 and FY2023.

(ii). Growth of Total Deposit *(M2) (X is SCBs Deposit Growth)*

Growth of Total Deposit	Marks
<75% of X	0
≥75% - <90% of X	50%
≥90% - <100% of X	75%
≥100% of X	100%

Total deposit excluding any bulk deposit (deposit more than or equal to Rs. 100 crore of any single customer on a single date). Data of bulk deposit to be taken from certified statement of Central

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Statutory Auditor. Data to be taken on quarterly average basis from the audited financial statements.

(iii). **Growth of RAM advances** *(M2) (X is SCBs RAM advances Growth)*

Growth of RAM advances (slabs)	Marks
<75% of X	0
≥75% - <90% of X	50%
≥90% - <100% of X	75%
≥100% of X	100%

Where RAM advances are, advances reported as personal loans, Agriculture and allied activities and MSME to RBI. The data to be taken as 12-month average of data reported to RBI on last reporting Friday of the month.

(iv). **Growth of Standard advances** *(M2) (X is SCBs Standard Growth)*

Growth of Standard advances (slabs)	Marks
<75% of X	0
≥75% - <90% of X	50%
≥90% - <100% of X	75%
≥100% of X	100%

Where standard advances are, gross global advances net of gross global NPAs. Data to be taken on quarterly average basis from the audited financial statements.

C. Asset Quality

(i) **Net NPA/Net-worth** *(M1)*

Net NPA/ Net worth as a %age of mathematical average value of Net NPA/Net worth of PSBs	Marks
<25%	25
≥25% <50%	250
≥50% <75%	500
≥75%	750

Net NPA and Net-worth as reported in annual audited financial statement at the end of the financial year.

Rationale: Net NPA to Net Worth Ratio of PSBs was in the range of 3% to 50% in FY2022 and FY2023.

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(ii) Total SMA/Standard Advances *(M3) (Y is PSBs' SMA/Standard Advances)*

Total SMA/Standard Advances (slabs)	Marks
<75% of Y	100%
≥75% - <90% of Y	75%
≥90% - <100% of Y	50%
≥100% - <125% of Y	25%
≥125% of Y	0%

Data of SMA to be taken from certified statement of Central Statutory Auditor. Data of standard advances to be taken from the audited financial statements. Data to be taken on quarterly average basis.

(iii) Recovery and upgradation Ratio *(M3) (Y is PSBs' Recovery and upgradation ratio)*

Recovery and upgradation Ratio (slabs)	Marks
<75% of Y	0
≥75% - <90% of Y	25%
≥90% - <100% of Y	50%
≥100% - <110% of Y	75%
≥110% of Y	100%

Recovery and upgradation ratio is total recoveries and upgradations divided by opening gross NPA. Data of total recoveries, upgradations and opening gross NPA to be taken from the annual audited financial statements. The recoveries and upgradations to include only cash portion any sale to ARCs. Information in this regard to be taken on the basis of certified statement of Central Statutory Auditor.

(iv) Slippage Ratio *(M3) (Y is PSBs' Slippage Ratio)*

Slippage Ratio (slabs)	Marks
<75% of Y	100%
≥75% - <90% of Y	75%
≥90% - <100% of Y	50%
≥100% - <110% of Y	25%
≥125% of Y	0%

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Slippage ratio is fresh slippages divided by opening standard advances. Data of fresh slippages and opening standard advances to be taken from the annual audited financial statements. The fresh slippages to exclude any debits to existing NPA accounts but to include any slippages on account of conversion of non-funded liability to funded NPA liability. Information in this regard to be taken on the basis of certified statement of Central Statutory Auditor.

D. Financial Inclusion

(i). Achievement of target (**M4**) in–

a) PM SVANidhi
b) Stand Up India
c) PM Surya Ghar Muft Bijli Yojana
d) PM MUDRA Yojana
e) PM Vishwakarma Scheme
f) Weaver Mudra Scheme
g) Education loan
h) Housing loan (Priority)
i) PM Suraksha Bima Yojana
j) Agri Infra Fund
k) Kisan Credit Card
l) PM Jeevan Jyoti Bima Yojana

(ii). Performance in EASE/PSBs' reforms agenda *(as per scores received by the banks from IBA).*

Note: If not specified, global data shall be used for calculations.

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Annexure III

Evaluation Methodology

M1: Matrix: Scoring will be done based on year-on-year variance (upward movement) in any particular parameter. If we consider the variance only, then banks having better performance during the previous years may suffer due to existing higher base effect.

Therefore, to capture variance along with the base effect, parameters are divided into slabs and the scoring criteria is different for different slabs.

M2: Benchmarking against SCBs: Performance in parameters will be evaluated against benchmark performance of scheduled commercial banks (SCBs) during the year of reckoning. Scoring will be done based on the performance in particular parameter by a bank *vis-a-vis* SCBs' growth during the same period.

M3: Benchmarking against PSBs: Performance in parameters will be evaluated against benchmark performance of public sector banks (PSBs) during the year of reckoning. Scoring will be done based on the performance in particular parameter by a bank *vis-a-vis* PSBs' growth during the same period.

M4: Target achievement: Scoring will be done based on the achievement of target during the financial year.

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