November 17, 2026

Indian Overseas Bank: Rating upgraded to [ICRA]AA+ (Stable)

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial sector regulator#
Basel III Tier II bonds	2,000.00	2,000.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)	SEBI
Total	**2,000.00**	**2,000.00**		

**Instrument details are provided in Annexure I*

#SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI

Rationale

Indian Overseas Bank's (IOB) long-term rating has been upgraded on account of the healthy increase in its profitability, supported by strong loan book growth and controlled slippages, which also led to an improvement in its asset quality metrics and contained its credit costs. Additionally, the rating action considers the bank's enhanced solvency[1] profile, aided by the reduction in legacy stressed assets along with the decline in the fresh non-performing advances (NPA) generation rate.

The rating also continues to factor in IOB's sovereign ownership, with the Government of India's (GoI) track record of infusing capital providing further comfort. The GoI had infused equity capital of Rs. 24,074 crore into the bank during FY2018-FY2022 through recapitalisation bonds. ICRA notes the consistent increase in the bank's internal accrual generation following FY2022 and it also raised capital from external investors, which helped it strengthen its capitalisation profile. Accordingly, ICRA expects IOB to remain sufficiently capitalised with no requirement for regulatory or growth capital in the medium-to-near term. Moreover, the impact of the transition to the expected credit loss (ECL) framework (to be implemented from April 01, 2027) on its capital and profitability levels is expected to be manageable, given the healthy capital and profitability position coupled with the provisioning already made by the bank.

The rating continues to factor in IOB's well-established deposit franchise with a robust current account savings account (CASA) deposit base, which also augments its strong liquidity profile. This leads to a competitive cost of interest-bearing funds for IOB in relation to the public sector banks' (PSB) average.

The rating also takes into consideration the continued moderation in the overall vulnerable/monitorable book (comprising SMA[2]-1, SMA-2 and the standard restructured book). Nevertheless, the bank's ability to control fresh gross slippages and forward flows from its vulnerable book would remain monitorable, given the prolonged geopolitical disruptions with increasing inflationary pressure and supply chain constraints. These factors could adversely affect borrowers' cash flows and debt-servicing ability. In addition, ICRA notes that the bank's profitability has been supported by healthy recoveries from its stressed assets (including written-off accounts) and its ability to maintain the same, while keeping fresh NPA generation in check, will be important for profitability.

The Stable outlook on the rating factors in ICRA's expectation that IOB will be able to maintain a steady credit profile with healthy earnings while ensuring stable asset quality and strong capital cushions.

Key rating drivers and their description

Credit strengths

Sovereign ownership with track record of capital support from GoI – The GoI has a majority equity stake in IOB (92.44% as on September 30, 2026). It had infused equity capital of Rs. 24,074 crore into the bank during FY2018-FY2022 through

[1] Solvency ratio = Net stressed assets/Core capital; net stressed assets include net NPAs (NNPAs), net non-performing investments and net security receipts

[2] SMA is defined as a special mention account; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

recapitalisation bonds, including Rs. 4,100 crore in the form of zero-coupon bonds (ZCBs[3]) in March 2021. This enabled the bank to increase its provision cover on legacy stressed assets, improve its capital ratios above the regulatory levels and exit the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework in September 2021.

Thereafter, IOB's profitability improved and it also raised capital from the market, helping it maintain a healthy capitalisation profile. Hence, ICRA expects that the bank's near-term capital requirements for growth or regulatory purposes will be limited, though support is likely to be forthcoming if required.

Well-developed deposit franchise and strong liquidity position – IOB has a long-standing presence and an established retail franchise in South India with a total branch network of 3,549 as on September 30, 2026. Its steady deposit base is supported by CASA deposits, which accounted for 40.71% of its overall deposits as on September 30, 2026 (40.52% as on September 30, 2025), remaining above the PSB average. Moreover, IOB's cost of interest-bearing funds (annualised) was 4.83% in Q1 FY2027 against the PSB average of 4.85%. Besides the high share of CASA deposits, the share of the top 20 depositors in total deposits remained low at 4.73% as on March 31, 2026. The granular deposit base and the high share of CASA deposits continue to strengthen the bank's resource and liquidity profile.

Strong capitalisation and solvency profile – The bank's core equity capital (CET I)/Tier I remained strong at 16.26% as on September 30, 2026. This was supported by the sizeable share of gold loans carrying nil risk weight, which has contained the growth in risk-weighted assets despite the strong expansion in advances. While the capitalisation profile was aided by past infusions, IOB remained profitable during FY2021-H1 FY2027, leading to healthy internal capital generation. With the rise in the provision coverage ratio (PCR) on stressed assets and the increase in CET I due to improved internal capital generation, the solvency level remained strong at 2.19% as on September 30, 2026. Given the high provision cover on legacy stressed assets and the decline in net NPAs (NNPAs), ICRA expects internal capital generation to be sufficient for growth as well as for maintaining strong cushions over the regulatory capital requirements.

The impact of the upcoming shift to ECL-based loan loss provisioning is expected to remain manageable, given IOB's strong capitalisation, improving profitability, and the Rs. 2,700-crore buffer that has already been created for the transition to the ECL framework.

Healthy profitability – With the strong growth in net advances leading to a sustained improvement in the credit-to-deposit ratio, IOB continued to witness a steady rise in its operating profitability from the lows seen a few years ago. It reported healthy operating profitability of 2.18% of average total assets (ATA) in H1 FY2027 (2.23% in FY2026, 2.21% in FY2025). This was also supported by strong recoveries from written-off accounts. While the bank maintains a healthy PCR on stressed assets and has also built up strong standard asset provisions over and above the regulatory levels, incremental credit costs remained lower in FY2026 and H1 FY2027 compared to the high levels witnessed in the past. Accordingly, IOB reported robust return metrics {annualised return on assets (RoA)} of 1.45% in H1 FY2027 (1.21% in FY2026, 0.90% in FY2025). With legacy NPAs largely provided for, ICRA expects profitability to remain healthy on the back of low credit costs amid improved asset quality.

Credit challenges

Asset quality improves but remains monitorable – The annualised fresh NPA generation rate moderated to 0.29% of standard advances in H1 FY2027 from much higher levels in the past (0.57% in FY2026, 1.71% in FY2025, 0.94% in FY2024, 3.19% in FY2023). In addition, healthy recoveries/upgrades and significant write-offs in FY2026 and H1 FY2027 supported the decline in the gross NPA (GNPA) level to 1.19% as on September 30, 2026 from 1.83% as on September 30, 2025. Moreover, the bank's healthy PCR of 86.78% (excluding written-off accounts), as on September 30, 2026, and loan book growth led to an improvement in the NNPA level to 0.16% from 0.28% during this period. Even though the vulnerable book has moderated from the high levels witnessed in the past, IOB's ability to limit slippages from this book will remain monitorable in the near-to-medium term. Also, ongoing geopolitical issues could adversely impact the asset quality metrics.

[3] These ZCBs were issued at face value and are redeemable at face value after the 10-15th year from issuance; accordingly, the fair value is lower than the face value. IOB has accounted for these ZCBs at fair value from its March 2022 financials

Environmental and social risks

While banks such as IOB do not face material physical climate risks, they are exposed to environmental risks indirectly through their asset portfolio. If the entities or businesses to which banks and financial institutions have exposure face disruptions because of physical climate adversities or climate transition risks because of technological, regulatory or customer behaviour changes, this could translate into credit risks for banks. However, such risk is not material for IOB as it benefits from adequate portfolio diversification. Further, its lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as has been seen for other regulated entities in the recent past. Banks, including IOB, also remain exposed to fraud risks, given the operational intensity of the business and the significant level of manpower involved in providing service to the customers. IOB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. IOB has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in these segments compared with its peers.

Liquidity position: Strong

IOB's liquidity profile remains strong, supported by its robust retail liability franchise. Moreover, the daily average liquidity coverage ratio stayed comfortable at 138.6% while the net stable funding ratio stood at 128.8% for the quarter ended June 30, 2026, against the regulatory requirement of 100%. Further, the bank can avail liquidity support from the RBI (through repo against excess statutory liquidity ratio (SLR) investments and the marginal standing facility mechanism) in case of urgent liquidity needs. Supported by its sovereign ownership, healthy liabilities profile and excess SLR holdings, ICRA expects IOB to continue maintaining a strong liquidity profile.

Rating sensitivities

Positive factors – IOB's ability to increase its scale of operations meaningfully while maintaining healthy profitability, comfortable solvency and strong capitalisation will be a positive factor.

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership. ICRA could also downgrade the rating on a material deterioration in the asset quality metrics with NNPAs of more than 2.5% or the weakening of the capitalisation profile with the Tier I cushions falling below 2%. Further, RoA of less than 0.5% on a sustained basis will be a negative trigger.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
Parent/Group support	The rating factors in IOB's sovereign ownership and the track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions if required.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of IOB. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiaries.

About the company

Established in 1937, IOB is a public sector bank (PSB) with the GoI holding an equity stake of 92.44% as on September 30, 2026. As on September 30, 2026, the bank had a well-established network of 3,549 branches. Deposits stood at Rs. 4,07,428 crore as on September 30, 2026, reflecting a compound annual growth rate (CAGR) of 10.18% since September 2021, while advances reached Rs. 3,42,061 crore, registering a CAGR of 20.45% during this period. As on September 30, 2026, the bank's share in sector-wide deposits declined to 1.5% from 1.7% in June 2021, whereas its share in total advances improved to 1.5% from 1.2% during the same timeframe.

IOB reported a profit after tax of Rs. 3,572 crore in H1 FY2027 compared to Rs. 2,337 crore in H1 FY2026. Its asset quality indicators, i.e. GNPAs and NNPAs, stood at 1.19% and 0.16%, respectively, as on September 30, 2026 compared to 1.83% and 0.28%, respectively, as on September 30, 2025. The capitalisation metrics, i.e. CET I/Tier I and CRAR, stood at 16.26%[4] and 18.60%, respectively, as on September 30, 2026, compared to 15.53%[5] and 17.94%, respectively, as on September 30, 2025.

Key financial indicators (standalone)

Indian Overseas Bank	FY2025	FY2026	H1 FY2027
Total income	15,911	17,786	10,585
Profit after tax	3,335	5,208	3,572
Total assets* (Rs. lakh crore)	3.91	4.70	5.15
CET I	17.13%	16.32%	16.26%
CRAR	19.74%	19.06%	18.60%
PAT/ATA	0.90%	1.21%	1.45%^
Gross NPAs	2.14%	1.42%	1.19%
Net NPAs	0.37%	0.21%	0.16%

Source: IOB, ICRA Research; Amount in Rs. crore unless mentioned otherwise; All calculations as per ICRA Research
**Total assets exclude revaluation reserves; ^ Annualised*
Total income includes net interest income and non-interest income (excluding trading profit)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2027)			Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
	Type	Amount rated (Rs crore)	November 17, 2026	Date	Rating	Date	Rating	Date	Rating
Basel III Tier II bonds	Long term	1,000.00	[ICRA]AA+ (Stable)	November 19, 2025	[ICRA]AA (Stable)	November 27, 2024	[ICRA]AA (Stable)	November 28, 2023	[ICRA]AA- (Positive)
			-	-	-	-	-	January 03, 2024	[ICRA]AA- (Positive)
		1,000.00	[ICRA]AA+ (Stable)	November 19, 2025	[ICRA]AA (Stable)	-	-	-	-

[4] *Including H1 FY2027 profit*
[5] *Excluding H1 FY2026 profit*

Complexity level of the rated instrument

Instrument	Complexity indicator
Basel III Tier II bonds	Highly Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance / Sanction	Coupon rate	Maturity date^	Amount rated (Rs. crore)	Current rating and outlook	Financial sector regulator#
INE565A08050	**Basel III Tier II bonds**	Mar-24-2023	9.00%	Mar-24-2033	1,000.00	[ICRA]AA+ (Stable)	SEBI
INE565A08068	**Basel III Tier II bonds**	Jan-23-2026	7.80%	Jan-23-2036	1,000.00	[ICRA]AA+ (Stable)	SEBI

Source: Indian Overseas Bank; ^ Call option can be exercised by the bank at the end of five years after approval from the RBI

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Key features of rated debt instrument

The servicing of the Basel III Tier II bonds is not subject to any capital ratios and profitability. However, these bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. Further, the exercise of the call option on the Basel III Tier II bonds is contingent upon the prior approval of the RBI. Moreover, the bank will need to demonstrate that the capital position will be well above the minimum regulatory requirement following the exercise of the call option.

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership*	Consolidation approach
Odisha Grameen Bank	35.00%	Full consolidation
ACER Credit Rating Pvt. Ltd	26.00%	Full consolidation

*Source: Indian Overseas Bank, ICRA Research; * As on Sep 30, 2026*

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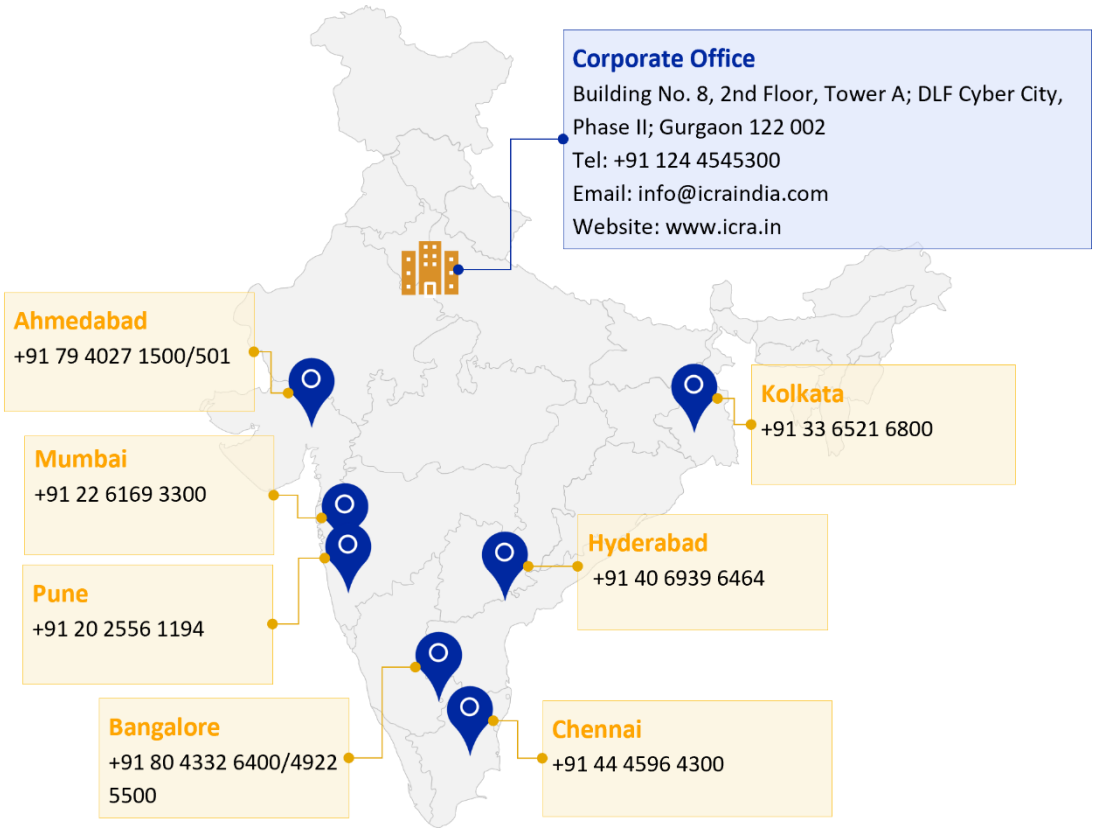
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