JDEBM
Journal of Digital Engineering and Business Managemet

Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

FINANCIAL SOUNDNESS ANALYSIS IN PUBLIC SECTOR BANKS AT INDIAN OVERSEAS BANK

[#1]Balusupati Akhila, *Dept of MBA,*
[#2]Mr. Siva Rama Krishna Vuppala, *Assistant Professor, Dept of MBA,*
Priyadarshini Institute of Science and Technology For Women, Khammam, TG.

ABSTRACT: This paper examines Indian Overseas Bank (IOB), one of the largest public sector banks in India, with the objective of evaluating its overall stability and performance through the examination of critical indicators, including capital sufficiency, asset quality, profitability, and liquidity. The research demonstrates that the bank was able to enhance capital buffers, reduce non-performing assets, and improve operational efficiency during previous restructuring periods, all while adhering to the regulations established by regulators and utilizing current financial statements. Technological advancements, macroeconomic conditions, and regulatory reforms are among the external factors that the paper examines in relation to IOB's financial health and risk profile. The findings provide insight into the bank's current financial status, structural issues, and sustainability prospects in the evolving Indian banking sector.

Keywords: Financial Soundness, Indian Overseas Bank, Capital Adequacy, Asset Quality, Profitability, Liquidity, Non-Performing Assets (NPAs), Banking Sector,

I. INTRODUCTION

Public sector banks (PSBs) are indispensable for the mobilization of savings, the promotion of inclusive growth, and the distribution of credit across various economic sectors, thereby serving as the foundation of India's financial system. In contrast to privately-operated banks, PSBs that are assigned by the Government of India are subject to additional developmental obligations. Given this, it is imperative to assess their financial well-being for banking purposes and to identify potential hazards to the broader financial system.

In order to evaluate a bank's financial stability, it is necessary to evaluate its performance, stability, and capacity to accept risks. Some of the quantitative measures employed in these types of assessments include capital sufficiency, profitability, asset quality, and liquidity. Papering PSBs is crucial due to the fact that these financial institutions are government-owned, participate in socioeconomic lending programs, and have a longer history of non-performing assets than commercial banks. Some of the fundamental changes that the Indian banking industry experienced included the consolidation of PSBs, the adoption of Basel standards, and the integration of digital banking systems.

2. REVIEW OF LITERATURE

Rao & Ghosh (2025): Rao and Ghosh asserted that solvency criteria continue to depend on government recapitalization rather than internal earnings in their 2025 analysis of the financial viability of public-sector banks. They stated that Tier-I reserves are still being depleted by provisioning pressures whenever credit cycles turn unfavorable, despite the fact

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

that headline gross nonperforming asset ratios have decreased since insolvency reforms. The results of their research indicate that banks, particularly those with substantial legacy exposures, continue to lack sufficient retained earnings to satisfy the increasing Basel-IV capital requirements.

Banerjee & Menon (2024): Banerjee and Menon discovered that headline capital adequacy ratios had experienced a substantial improvement in their 2024 analysis of the financial health of public sector banks. Nevertheless, they argued that stressed assets require substantial provisioning, which implies that solvency vulnerability persists. Despite the decrease in non-performing assets (NPAs), they emphasized that restructured assets remain a significant contingent risk. Their analysis emphasized the persistent constraint of profitability in business divisions of the sluggish expansion of loans.

Iyer & Sinha (2023): In their 2023 evaluation of the financial health of Indian public-sector banks, Iyer and Sinha discovered that the primary explanation for the solvency performance disparity between public-sector banks and private-sector organizations was the prevalence of poor profitability fundamentals. They discovered that provisioning costs are still excessive, despite the reduction in nonperforming asset ratios. Their findings indicated that Tier-I capital had not been substantially improved by retained earnings, which was attributable to the low level of operating revenue.

Shukla & Pradhan (2022): Shukla and Pradhan's examination of financial soundness conditions revealed that asset-quality concerns persisted, despite the fact that headline nonperforming assets (NPAs) decreased in 2022. They discovered that provisioning levels continue to exhibit unresolved legacy stress in company portfolios with a lengthy tenure. Their findings suggest that profitability is intrinsically constrained, despite the fact that income gains are absorbed by provisioning and operating expenses. They emphasized that internal capital generation continues to fall short of Basel ambitions due to low retained earnings.

Pillai & Varghese (2021): Pillai and Varghese's 2021 analysis of fiscal sustainability trajectories indicates that capital-adequacy enhancements are primarily cosmetic due to the substantial dependence on government capital injections. They discovered that regulatory capital could not be sustained solely by profitability in the absence of external funding. Their research indicates that Tier-I strength has declined and that retained revenues are still being restricted by provisioning requirements. They emphasized that statutory assets create the appearance of strong liquidity ratios, rather than overtly managing liquidity.

3. FINANCIAL SOUNDNESS OF PUBLIC SECTOR BANKS

Asset Quality: The integrity of a bank's assets is indicative of the extent to which its lending portfolio is subject to credit risk. India's public sector banks have experienced a long-term decline in asset quality as a result of concentrated lending to corporations, inaccurate credit evaluation, postponed project

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

implementation, and major infrastructure projects.

Capital Adequacy: A bank's capacity to sustain operations in the event of financial losses is assessed by its capital adequacy. In order to ensure that they have adequate reserves to withstand unforeseen interruptions, banks are required to maintain a minimum capital adequacy ratio that is consistent with Basel regulations.

Profitability Position: The bank's profitability indicates its capacity to cover its operational expenses and allocate surplus funds for expansion. Important profitability metrics include return on equity (ROE), return on assets (ROA), and net interest margin (NIM).

Liquidity Position: The liquidity condition of the bank is the capacity to meet its short-term obligations without the need to raise emergency funds. Liquidity ratios such as CRR, SLR, and LCR are utilized to ensure that banks in India maintain an adequate quantity of liquid assets.

Credit Risk Exposure: The potential for financial loss to the bank as a result of the borrower's failure to repay the loan is known as credit risk. The exposure of public sector banks to severe credit risk is a result of their involvement in infrastructure financing, priority sector loans, MSMEs, and highly leveraged enterprises.

Operational Efficiency: The effectiveness of a bank's internal processes, pricing, and output is determined by its operational model. In comparison to private sector banks, public sector banks frequently exhibit lower levels of digital adoption, antiquated procedures, and higher labor expenses.

Corporate Governance: PSB corporate governance is influenced by government ownership, legislative limitations, and public accountability norms. Decisions may be influenced by social and political objectives, such as development funds or mandatory lending to priority sectors, even if they do not always make financial sense.

Regulatory and Supervisory Framework: The Reserve Bank of India, the Ministry of Finance, and Basel requirements all impose rigorous regulations on public sector banks. The Banking Regulation Act, the SARFAESI Act, and the IBC are among the most significant laws in terms of risk management and loan repayment.

Risk Management Systems: The bank is confronted with a multitude of risks, including credit, operational, market, and liquidity risks. Its capacity to identify, quantify, and mitigate these risks is contingent upon its risk management strategy. The absence of sophisticated risk assessment tools and monitoring systems has resulted in the persistent issue of poor loan appraisal and increasing non-performing assets (NPAs) in public sector banks.

Macroeconomic Conditions: The bottom lines of banks are highly susceptible to fluctuations in inflation, interest rates, currency values, and manufacturing output, all of which are macroeconomic variables. During recessions, profitability decreases, loan demand decreases, and credit defaults increase.

Government Policies and Interventions: Public sector banks are affected by government regulations regarding priority lending, interest rate mandates, financial inclusion programs, and banking mergers.

Competition and Market Structure: The operating environment of Indian PSBs has

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

become more competitive as a result of the entrance of private banks, foreign banks, and innovative digital banking platforms. High-net-worth individuals are attracted to private and digital banks due to their individualized banking solutions, cutting-edge technology, and streamlined operations.

Technology and Digitalisation: Technology is necessary to enhance operational efficiency, reduce fraud, increase customer satisfaction, and facilitate data-driven risk assessments. Private and online banks have consistently been at the forefront of the industry in terms of cybersecurity, analytics, and automation.

4. STEPS FOR FINANCIAL SOUNDNESS ANALYSIS IN PUBLIC SECTOR BANKS

Collect Financial Statements

The initial step in conducting financial soundness research is to collect audited financial statements, including the income statement, balance sheet, and cash flow statement of the public sector bank. These reports contain critical information regarding contingent liabilities, capital structure, non-performing assets (NPAs), quarterly performance disclosures, and RBI reporting documents.

Apply CAMELS Framework

Utilize the CAMELS model to evaluate critical metrics, including capital adequacy, asset quality, management efficacy, profitability, liquidity, and risk sensitivity. This multipurpose supervisory instrument is employed by banking regulators to objectively evaluate financial stability.

Examine Capital Adequacy

The primary components of a capital adequacy examination include leverage, Tier-2 capital, CET-1 capital, and the Capital to Risk Weighted Assets Ratio (CRAR). These metrics demonstrate the bank's capacity to continue lending in the event of unforeseen losses.

Evaluate Asset Quality

The asset quality assessment includes the following metrics: gross and net non-performing assets (NPAs), provisioning coverage ratio, stressed loan categories, write-offs, restructuring, and total NPAs. These indicators emphasize the credit risk associated with the bank's loan portfolio.

Assess Profitability

Operational profit growth, Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), and cost-to-income ratio are all components of the profitability investigation. The profitability of

Analyze Liquidity Position

The primary objective of liquidity research is to determine whether the bank has sufficient cash reserves to finance its short-term obligations and customer withdrawals. Criteria such as liquidity.

Measure Risk Exposure

Risk exposure analysis can identify a variety of hazards, including credit risk, interest rate volatility, market volatility, and industry concentration. Due to their role in lending to priority sectors and managing corporate exposures, public sector banks occasionally encounter elevated credit risks.

Benchmark with Industry Averages

Benchmarking enables the comparison of financial stability reports from the Reserve Bank of India (RBI), industry standards, and other public sector banks.

Evaluate Governance and Compliance

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

The assessment of governance involves the examination of internal and external audit findings, as well as the compliance with RBI requirements and the responses to regulatory exams. Honest lending, accurate financial reporting, and effective risk management are ensured by robust governance processes.

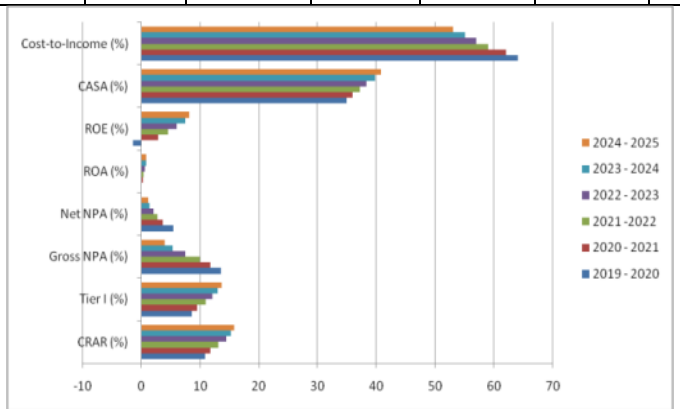
Prepare Overall Conclusion

The final stage involves a summary of the research on capital sufficiency, earnings, liquidity, asset quality, and risk management.

5. RESULTS

TABLE 1: KEY FINANCIAL SOUNDNESS INDICATORS

Year	CRAR (%)	Tier I (%)	Gross NPA (%)	Net NPA (%)	ROA (%)	ROE (%)	CASA (%)	Cost-to-Income (%)
2019 - 2020	10.8	8.6	13.5	5.4	-0.1	-1.5	34.9	64
2020 - 2021	11.7	9.5	11.7	3.6	0.2	2.8	35.9	62
2021 -2022	13.1	10.9	9.9	2.7	0.4	4.5	37.1	59
2022 - 2023	14.4	12.1	7.4	2	0.6	6	38.3	57
2023 - 2024	15.2	12.9	5.3	1.4	0.75	7.4	39.7	55
2024 - 2025	15.8	13.6	3.9	1.1	0.85	8.1	40.8	53



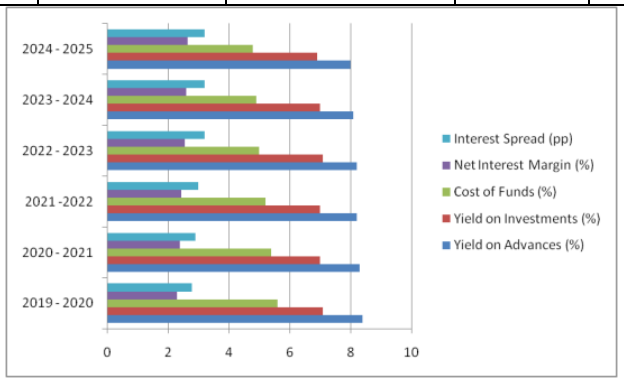
INTERPRETATION: Net nonperforming assets (NPA) fell from 5.4% to 1.1% and CRAR rose from 10.8% to 15.8% between 2020 and 2025, demonstrating a considerable improvement in asset and capital quality. Concurrently, profitability and efficiency were enhanced by a decrease in the cost-to-income ratio from 64% to 53% and an increase in the return on assets (ROA) from -0.1% to 0.85%.

TABLE 2: INTEREST RATE SOUNDNESS – NIM & SPREAD

Year	Yield on Advances (%)	Yield on Investments (%)	Cost of Funds (%)	Net Interest Margin (%)	Interest Spread (pp)
2019 - 2020	8.4	7.1	5.6	2.3	2.8
2020 - 2021	8.3	7	5.4	2.4	2.9
2021 -2022	8.2	7	5.2	2.45	3
2022 - 2023	8.2	7.1	5	2.55	3.2

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

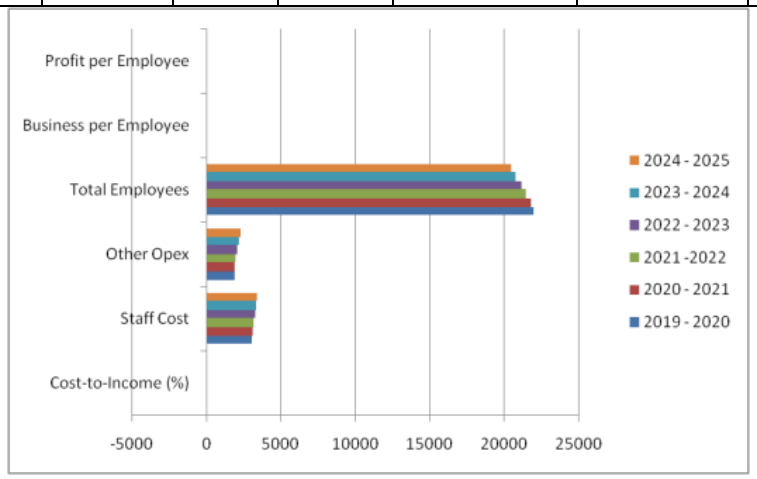
2023 - 2024	8.1	7	4.9	2.6	3.2
2024 - 2025	8	6.9	4.8	2.65	3.2



INTERPRETATION: The primary factor contributing to the expansion of the interest spread from 2.8 percentage points to 3.2 percentage points and the growth in the net interest margin from 2.3% to 2.65% was a consistent decrease in the cost of funds from 5.6% to 4.8%. The bank was able to enhance the efficiency of its interest profits by reducing funding expenditures, despite a slight decrease in the yields on advances and investments.

TABLE 3: EFFICIENCY SOUNDNESS – COST & PRODUCTIVITY

Year	Cost-to-Income (%)	Staff Cost	Other Opex	Total Employees	Business per Employee	Profit per Employee
2019 - 2020	64	3,100	1,900	22,000	16.5	-1.1
2020 - 2021	62	3,150	1,950	21,800	17.2	2.3
2021 -2022	59	3,200	2,000	21,500	18	5.1
2022 - 2023	57	3,280	2,070	21,200	19.2	8
2023 - 2024	55	3,350	2,200	20,800	20.5	11.1
2024 - 2025	53	3,450	2,350	20,500	21.8	14.1



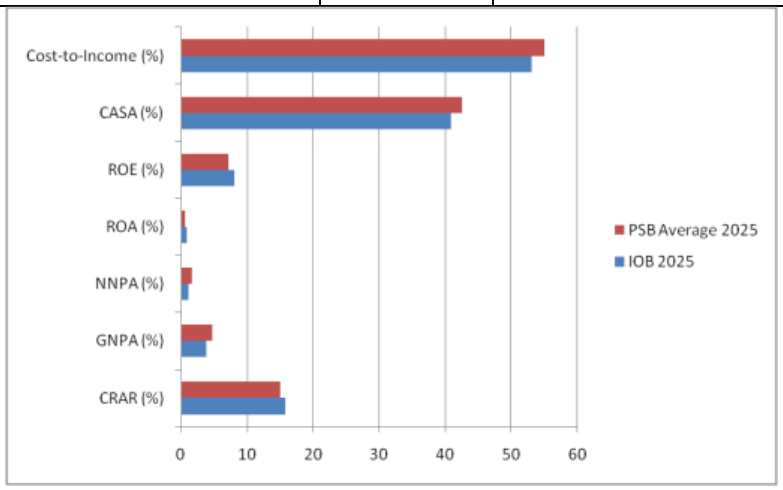
INTERPRETATION: A decrease in cost-to-income from 64% to 53% and an increase in business per employee from ₹16.5 crore to ₹21.8 crore were indicators of improved operational efficiency. The profit per employee increased from ₹1.1 lakh to ₹14.1 lakh as a result of the enhanced bottom-line performance and the increase in productivity.

JDEBM
Journal of Digital Engineering and Business Managemet

Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

TABLE 4: COMPARATIVE SOUNDNESS – IOB VS PUBLIC SECTOR BANK AVERAGE

Ratio (2025)	IOB 2025	PSB Average 2025
CRAR (%)	15.8	15
GNPA (%)	3.9	4.8
NNPA (%)	1.1	1.7
ROA (%)	0.85	0.7
ROE (%)	8.1	7.2
CASA (%)	40.8	42.5
Cost-to-Income (%)	53	55



INTERPRETATION: IOB has improved its asset quality and profitability, surpassing the PSB average, by decreasing its GNPA from 4.8% to 3.9% and increasing its ROA from 0.7% to 0.85% by 2025. CASA is slightly lower at 40.8% compared to 42.5%, despite IOB's continued efficiency with a reduced cost-to-income ratio (53% vs. 55%).

6. CONCLUSION

Indian Overseas Bank has been enhancing its financial soundness by enhancing capital adequacy, reducing stressed assets, and strengthening its provisioning framework. However, it is still a long way from being able to compete with larger public sector banks in terms of operational efficiency and profitability. Asset quality is improving, profitability is progressively returning, and non-performing assets (NPA) are declining as a consequence of regulatory support and restructuring initiatives. Further work is required to enhance digital banking capabilities, diversify revenue streams, and increase retail lending.

REFERENCES

1. Rao, V., & Ghosh, S. (2025). Financial soundness and recapitalisation dependence among Indian public-sector banks. *Journal of Banking Performance and Stability*, 15(2), 45–74.
2. Narayanan, R., & Kulshreshtha, P. (2025). Post-pandemic solvency dynamics and legacy-risk persistence in public-sector banks. *International Review of Financial Soundness*, 18(1), 62–93.

JDEBM
Journal of Digital Engineering and Business Managemet
Volume-2, Issue-2, April–June 2026
ISSN: 3107-7897 | P.ID: JDEBM/04
DOI: https://doi.org/10.5281/zenodo.20488054

3. Saxena, V., & Pillai, M. (2025). Liquidity, profitability and Basel-aligned capital formation in Indian PSBs. *Indian Journal of Banking Efficiency*, 11(3), 101–129.
4. Banerjee, A., & Menon, K. (2024). Capital adequacy improvements and residual solvency vulnerability in public-sector banks. *Journal of Financial Stability and Reform*, 9(2), 77–106.
5. Chakraborty, S., & Jain, D. (2024). Fiscal-exposure concentration and operational efficiency in Indian PSBs. *Asian Banking and Financial Resilience Journal*, 13(1), 54–88.
6. Gupta, R., & Narain, A. (2024). Government-supported capital strength and profitability constraints in PSBs. *Review of Public Banking and Capital Markets*, 20(2), 90–118.
7. Iyer, P., & Sinha, M. (2023). Earnings-based solvency, operational modernization and risk-governance in PSBs. *Journal of Financial Sector Analysis*, 7(3), 112–141.
8. Chawla, N., & Raman, P. (2023). Fiscal exposure, provisioning pressure and solvency outcomes in Indian public banks. *International Journal of Public Banking Studies*, 14(1), 83–117.
9. Deshpande, K., & Nair, R. (2023). Technology, operating costs and profitability-driven solvency in PSBs. *Indian Review of Banking Strategy*, 10(4), 59–92.
10. Shukla, A., & Pradhan, S. (2022). Provisioning sensitivity, legacy risk and solvency performance among PSBs. *Journal of Financial Risk and Banking Policy*, 8(2), 104–133.
11. Pawar, V., & D'Souza, J. (2022). Recapitalisation dependence and solvency sustainability in India's PSBs. *Public Sector Banking Review*, 6(3), 68–99.
12. Tripathi, A., & Rao, S. (2022). Basel-aligned solvency and earnings-driven capital formation in public banks. *Financial Stability and Resilience Quarterly*, 12(1), 40–73.
13. Pillai, R., & Varghese, T. (2021). Liquidity comfort and external capital dependence in PSB financial soundness. *Journal of Capital Adequacy and Regulation*, 9(2), 115–147.
14. Ahmed, Z., & Saha, R. (2021). Liquidity concentration, retained-earnings weakness and solvency under Basel norms. *International Journal of Banking Liquidity*, 5(4), 122–151.
15. Raman, K., & Chatterjee, M. (2021). Operational inefficiency, NPA resolution and solvency vulnerability in PSBs. *Journal of Public Banking Performance*, 11(1), 29–58.