A STUDY ON FINANCIAL RISK MANAGEMENT STRATEGIES AT UNION BANK

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ABSTRACT

This study examined the financial risk management strategies adopted by Union Bank of India over the five-year period from FY 2021 to FY 2025. The research objectives focused on identifying key categories of financial risks—credit, market, liquidity, and capital adequacy—and on evaluating the bank's strategies for managing these risks. The study employed a descriptive analytical approach using secondary data extracted from audited financial statements and annual reports. Key financial ratios and indicators were calculated and analyzed through trend analysis, ratio analysis, and graphical representations to assess the bank's risk profile and strategic responses.The findings revealed that the bank had realized significant reductions in non-performing assets, improvements in provision coverage, and enhancements in capital adequacy. Interest income and net profit margins displayed consistent growth, while liquidity indicators reflected a strong deposit base and reduced reliance on borrowings. Based on these results, the study proposed targeted suggestions for further strengthening risk management frameworks. The research concluded that Union Bank of India's integrated approach to financial risk management had effectively enhanced its asset quality, profitability, and resilience, thereby supporting sustainable growth and regulatory compliance.

Key Words: liquidity risk, credit risk, risk analysis, market risk.

I. INTRODUCTION

Financial risk management emerged as a critical discipline within the banking and financial services industry due to the dynamic nature of global markets, increasing regulatory complexities, and evolving customer expectations. The concept of financial risk pertains to the potential loss arising from unexpected fluctuations in financial variables that affect the performance and stability of financial institutions. These risks may emanate from credit defaults, market volatility, liquidity mismatches, or operational inefficiencies. Over the years, the management of such risks has evolved into a structured and strategic process involving risk identification, measurement, monitoring, and mitigation through appropriate control systems. Financial risk management therefore ensures institutional resilience and sustainable financial performance in an uncertain macroeconomic environment.The regulatory reforms introduced by international bodies such as the Basel Committee on Banking Supervision and domestic regulatory authorities have significantly shaped the financial risk management frameworks. These reforms emphasized the need for enhanced capital requirements, improved risk governance, and integrated risk-based supervision. The implementation of Basel II and Basel III norms has underscored the importance of maintaining adequate capital buffers, recognizing risk-weighted assets, and managing off-balance-sheet exposures. The effectiveness of financial risk management lies in aligning the risk appetite of the institution with its strategic objectives, thereby protecting stakeholders' interests and ensuring long-term stability.

II. REVIEW OF LITERATURE

- **Tanbour (2025)** in their study had examined the influence of internal auditing standards on banking risk management during times of crisis by conducting a field survey across multiple banks operating in Palestine. The study had employed a descriptive quantitative design, collecting data from audit reports, management interviews, and structured questionnaires administered to internal audit teams. Statistical analyses, including factor analysis and regression models, had revealed that strict adherence to internal auditing standards significantly enhanced the detection of credit and operational risks, strengthened control environments, and improved banks' resilience during economic downturns. The findings had underscored the critical role of robust internal audit frameworks in mitigating systemic vulnerabilities and promoting stakeholder confidence during periods of financial distress.

- **Tata (2025)** in their monograph had provided a comprehensive guide to managing interest rate risk in the banking book for practitioners, regulators, and supervisors within the European Union. The work had systematically reviewed regulatory frameworks, particularly the Basel III interest rate risk in the banking book (IRRBB) guidelines, and had presented practical methodologies for gap analysis, duration analysis, and economic value of equity (EVE) assessments. Through case studies of EU-based banks, the author had demonstrated how scenario analysis and stress testing had informed strategic asset-liability management decisions. The guide had concluded that integrated ALM committees, rigorous governance structures, and transparent reporting processes were imperative for safeguarding banks against adverse interest rate movements.
- **Wang (2025)** in their research had investigated the interplay between FinTech innovations, risk management practices, and the proliferation of banking green credit. The study had applied a mixed-methods approach, combining econometric modeling of financial data from commercial banks with interviews of senior risk officers. Results had indicated that FinTech-enabled platforms improved risk assessment accuracy, facilitated real-time monitoring of environmental criteria, and accelerated loan disbursement for green projects. Furthermore, the adoption of dynamic credit scoring algorithms had reduced default rates and enhanced banks' capacity to align lending strategies with sustainable development objectives. The study had thereby illustrated that FinTech integration was instrumental in advancing both financial performance and environmental stewardship.
- **Halim (2025)** in their article had explored how effective risk management practices optimized the financial performance of Sharia-compliant banking business units. Utilizing panel data from multiple Islamic banks, the study had measured financial efficiency by employing Data Envelopment Analysis (DEA) and had assessed risk governance through composite indices encompassing credit, market, and operational risk controls. The analysis had revealed that institutions with integrated Sharia-compliant risk frameworks had achieved superior cost-income ratios and higher returns on equity compared to peers with fragmented practices. The research had highlighted that embedding risk management within the Sharia governance structure had enhanced transparency, reduced non-performing financing, and contributed to sustainable profitability in the Islamic banking segment.

NEED AND IMPORTANCE

The study of financial risk management strategies held critical relevance in the context of the rapidly transforming financial sector where institutions faced heightened uncertainties due to economic disruptions, policy changes, and evolving market structures. Understanding the nature, sources, and impact of financial risks became indispensable for ensuring institutional sustainability, safeguarding stakeholders' interests, and achieving strategic objectives. This study assumed significance in assessing how effectively financial institutions identified and managed key risk areas including credit, market, liquidity, and solvency risks, which directly influenced their operational and financial outcomes. The need to evaluate such mechanisms also stemmed from the rising incidence of asset quality deterioration, regulatory scrutiny, and pressure to optimize capital usage.

SCOPE OF THE STUDY

The scope of the study encompassed a comprehensive analysis of financial risk management strategies employed by a selected banking institution over a defined period. The study covered core areas of financial risk such as credit risk, market risk, liquidity risk, and capital adequacy risk, based on the bank's audited financial statements and regulatory disclosures. It focused on identifying the magnitude of these risks using quantitative indicators and evaluating the risk containment mechanisms as reflected in provisioning policies, asset-liability structures, and capital buffers. The temporal scope of the study was limited to a five-year period to allow trend analysis and ensure consistency in data interpretation. The study excluded non-financial risks such as reputational or strategic risks and concentrated solely on measurable financial exposures and risk governance practices in line with regulatory guidelines. The analysis relied on secondary data sourced from publicly available financial reports, which ensured transparency and reliability of the data inputs.

OBJECTIVES OF THE STUDY

1. To identify the major types of financial risks faced by Union Bank of India.
2. To examine the strategies adopted by Union Bank of India to manage credit risk.
3. To evaluate the effectiveness of market risk management practices in the bank.
4. To analyze the liquidity risk at Union Bank of India.

DATA SOURCES

The primary data for this study referred to the quantitative financial parameters extracted from the published financial statements and annual reports of the selected bank over a five-year period. The indicators considered under this category included the Gross NPA ratio, Net NPA ratio, Provision Coverage Ratio (PCR), and total advances for assessing credit risk; investment composition and trading book exposure for market risk; liquidity ratios such as the Liquidity Coverage Ratio (LCR), current ratio, liquid assets to total assets, and dependency on short-term borrowings for evaluating liquidity risk; and the Capital Adequacy Ratio (CAR) for examining capital adequacy and solvency risk. These financial variables were extracted for each of the five financial years from 2020–21 to 2024–25 and were subjected to frequency and descriptive statistical analysis using MS Excel and SPSS.

III. RESEARCH METHODOLOGY

The research methodology adopted in this study was descriptive and analytical in nature, grounded entirely in secondary data analysis derived from the audited financial statements of the selected banking institution. The study was designed to assess financial risk management strategies by evaluating key financial ratios and indicators over a defined temporal frame. The methodology facilitated a systematic examination of various categories of financial risks, including credit risk, market risk, liquidity risk, and capital adequacy, by employing appropriate statistical tools and visual data representation techniques. The structured methodological framework enabled precise identification, quantification, and interpretation of financial risks, thereby aligning with the defined research objectives and ensuring the factual rigor and reliability of the analysis.

STATISTICAL TOOLS AND TECHNIQUES

Since the nature of the study was analytical and based on secondary financial data, conventional sampling methods were not applicable. The study did not involve respondents or survey-based sampling. Instead, it utilized purposive selection of financial variables directly related to financial risks, as disclosed in the audited financial statements of the bank. A non-probabilistic and judgment-based approach was employed to extract relevant financial indicators over a five-year period, allowing for consistency in temporal analysis and thematic alignment with the research objectives. Therefore, the sample comprised structured time-series financial data without reliance on probabilistic sampling.

LIMITATIONS OF THE STUDY

1. The study was limited to one banking institution, which restricted the generalizability of the findings across the banking sector.
2. The research exclusively relied on secondary data, thereby lacking insights from internal management perspectives or primary field responses.
3. The analysis was confined to a five-year financial period, which may not capture long-term trends or macroeconomic shocks.
4. The study focused only on financial risks, excluding operational, strategic, or reputational risks which may also impact financial performance.

IV. DATA ANALYSIS

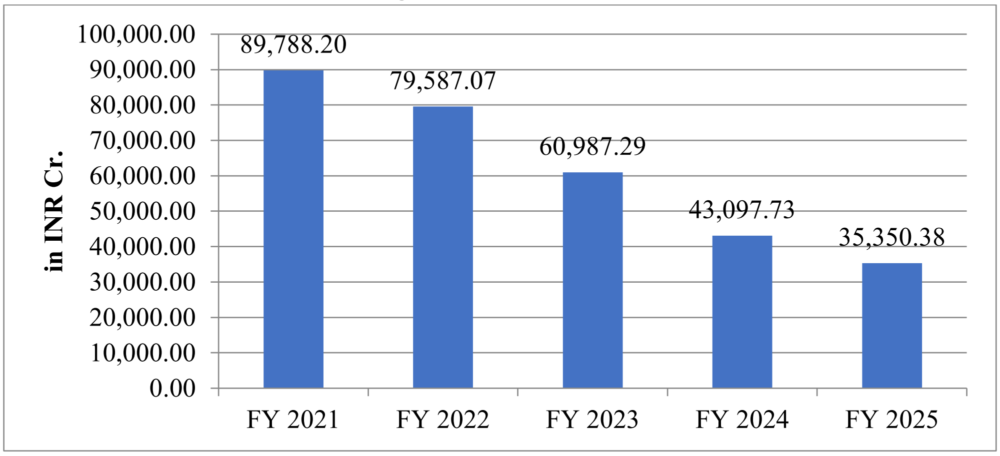
Assessing Credit risk of Union Bank of India (UBI)

Gross NPA of UBI

Table 2: Gross NPA

Financial Year	Gross NPA (INR Cr.)
FY 2021	89,788.20
FY 2022	79,587.07
FY 2023	60,987.29
FY 2024	43,097.73
FY 2025	35,350.38

Figure 2: Gross NPA



Interpretation

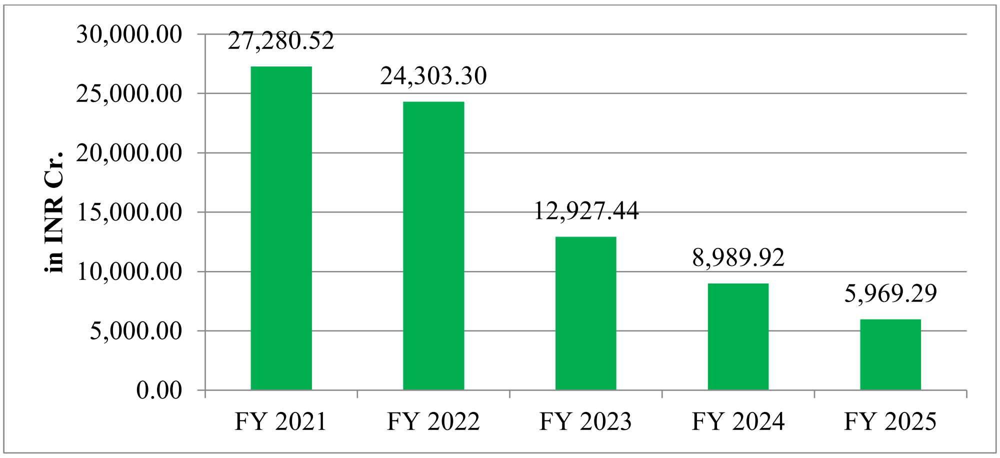
Union Bank of India exhibited a significant decline in gross non-performing assets (NPA) from ₹89,788.20 crore in FY 2021 to ₹35,350.38 crore in FY 2025, denoting a reduction of approximately 60.6%. This notable improvement reflects the bank's enhanced asset quality, successful recovery strategies, and robust credit appraisal mechanisms. The consistent decline in gross NPAs also suggests effective implementation of risk mitigation frameworks, timely identification of stressed assets, and potentially aggressive provisioning practices.

Net NPA (in INR Cr.)

Table 3: Net NPA

Financial Year	Net NPA (INR Cr.)
FY 2021	27,280.52
FY 2022	24,303.30
FY 2023	12,927.44
FY 2024	8,989.92
FY 2025	5,969.29

Figure 3: Net NPA



Interpretation

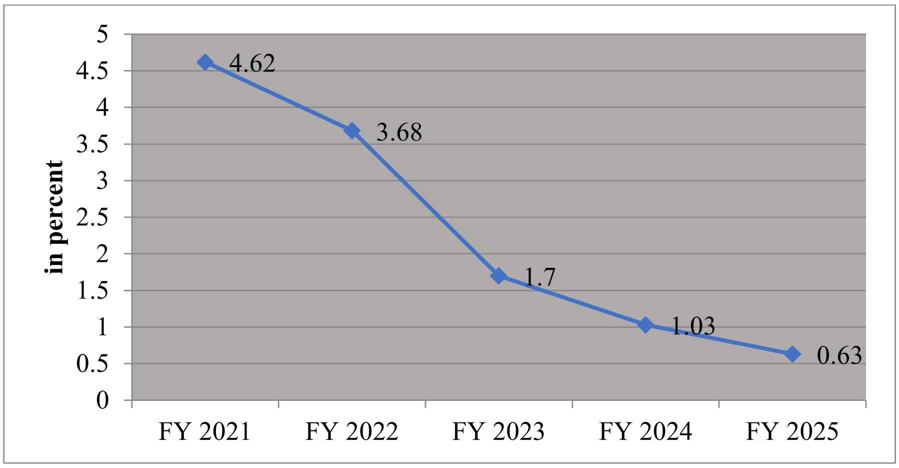
Net NPAs at Union Bank of India experienced a remarkable reduction from ₹27,280.52 crore in FY 2021 to ₹5,969.29 crore in FY 2025, reflecting a decline of approximately 78.1%. This downward trend indicates successful provisioning against gross NPAs and a proactive approach in resolving bad debts. The reduced net NPAs imply an enhanced quality of earning assets and improved recoverability of dues, both of which are vital for long-term profitability and regulatory compliance.

Net NPA (%)

Table 4: Net NPA

Financial Year	Net NPA (%)
FY 2021	4.62
FY 2022	3.68
FY 2023	1.70
FY 2024	1.03
FY 2025	0.63

Figure 4: Net NPA



Interpretation

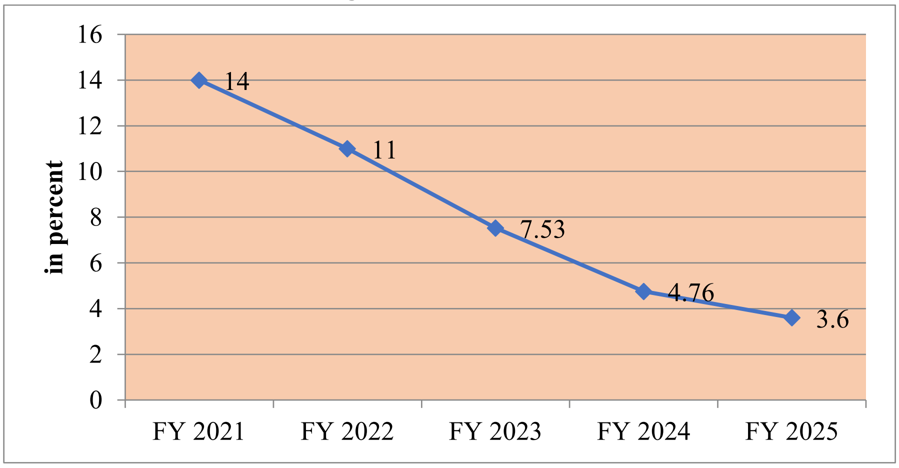
The net NPA ratio of Union Bank of India declined markedly from 4.62 per cent in FY 2021 to 0.63 per cent in FY 2025. This reduction of over 86 per cent evidenced substantial improvement in asset quality after provisioning. The decline indicated that provisioning levels sufficiently covered deteriorating loans and that recoveries and write-offs had been executed effectively. The steadily falling net NPA ratio signified enhanced credit discipline, rigorous monitoring of stressed exposures, and strengthened collection mechanisms, which together contributed to elevating the bank's core earning capacity and reinforcing depositor confidence.

Gross NPA (%)

Table 5: Gross NPA

Financial Year	Gross NPA (%)
FY 2021	14.00
FY 2022	11.00
FY 2023	7.53
FY 2024	4.76
FY 2025	3.60

Figure 5: Gross NPA



Interpretation

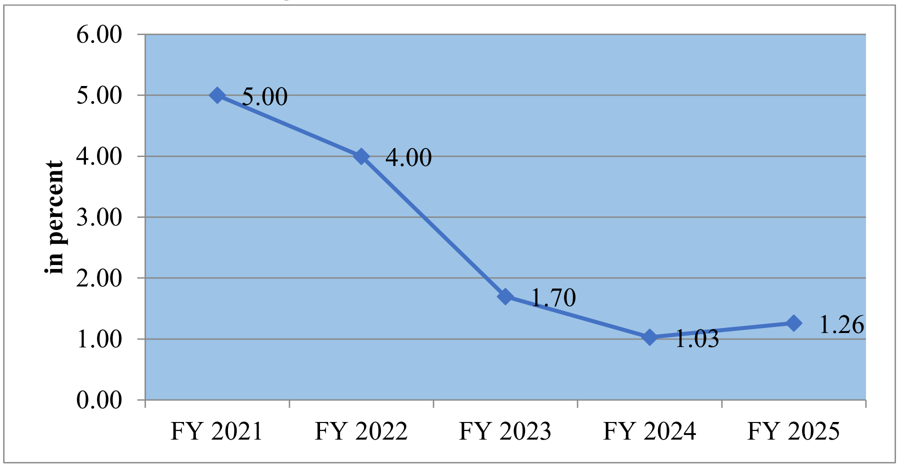
Gross NPA as a percentage of advances contracted substantially from 14.00 per cent in FY 2021 to 3.60 per cent in FY 2025. This 74 per cent reduction reflected rigorous risk assessment at origination, timely identification of non-performing loans, and focused recovery initiatives. The downward trend in gross NPA percentage suggested that the bank's credit appraisal frameworks and sectoral exposure limits had been fine-tuned, leading to lower incidence of delinquency. The pronounced improvement in this metric underscored the institution's effectiveness in maintaining a high-quality loan portfolio and preserving capital resources.

Net NPA to Advances (%)

Table 6: Net NPA to Advances

Financial Year	Net NPA to Advances (%)
FY 2021	5.00
FY 2022	4.00
FY 2023	1.70
FY 2024	1.03
FY 2025	1.26

Figure 6: Net NPA to Advances



Interpretation

The ratio of net NPA to advances decreased from 5.00 per cent in FY 2021 to 1.03 per cent in FY 2024, before slightly rising to 1.26 per cent in FY 2025. Overall, the ratio remained well below the initial level, indicating that advances had grown faster than residual bad loans. The slight uptick in FY 2025 mirrored the normalization after aggressive NPA resolution in prior years. This metric confirmed that the bank managed its loan book prudently and maintained strong provisioning buffers, thereby safeguarding its solvency and sustaining credit growth.

V. FINDINGS

- The study revealed that Union Bank of India's gross non-performing assets declined steadily from FY 2021 through FY 2025, indicating marked improvement in asset quality over the five-year period.
- Net non-performing assets exhibited a significant reduction across the period, reflecting successful provisioning policies and enhanced recovery mechanisms.
- The net NPA ratio contracted from over four per cent in FY 2021 to below one per cent in FY 2025, demonstrating rigorous credit discipline and effective write-off strategies.
- Gross NPA as a percentage of advances decreased by more than seventy per cent between FY 2021 and FY 2025, confirming the bank's strengthened credit appraisal processes.
- The provision coverage ratio nearly doubled from FY 2021 to FY 2025, underscoring the institution's commitment to building robust buffers against potential credit losses.

- Total provisions peaked in FY 2023 before declining in subsequent years, suggesting that improved asset quality allowed the bank to release excess reserves.
- Total interest earned increased by more than fifty per cent over the five-year span, indicating successful interest-rate management and expansion of interest-earning assets.
- Investment income displayed a consistent upward trajectory, confirming strategic portfolio rebalancing and optimization of yield on securities.
- Advances grew by over sixty per cent from FY 2021 to FY 2025, evidencing the bank's proactive lending initiatives across retail, MSME, and corporate segments.

VI. SUGGESTIONS

- Strengthen credit appraisal frameworks by incorporating advanced risk-scoring models to further reduce future NPA incidence.
- Maintain elevated provision coverage ratios to safeguard against potential slippages during economic downturns.
- Continue portfolio diversification efforts by increasing exposure to high-grade securities and low-volatility instruments.
- Enhance recovery capabilities through dedicated asset-recovery units and specialized legal support.
- Optimize deposit mix by promoting higher-yield term deposits alongside low-cost current and savings accounts.
- Leverage digital lending platforms to expand outreach to underserved retail and MSME segments.
- Implement dynamic asset-liability committee (ALCO) practices for more agile interest-rate risk management.
- Strengthen liquidity buffers by maintaining a larger stock of high-quality liquid assets in line with regulatory norms.
- Invest in analytics-driven early-warning systems to detect emerging credit and market risks promptly.
- Foster a culture of continuous risk training and awareness among frontline and credit-approval staff.

VII. CONCLUSION

The analysis demonstrated that Union Bank of India had achieved substantial improvement in its credit risk profile through a sustained reduction in gross and net NPAs over the five-year period. Rigorous credit appraisal, proactive provisioning, and effective recovery mechanisms had underpinned the enhancement of asset quality and strengthened stakeholder confidence. The elevated provision coverage ratio further evidenced a prudent approach to loss absorption, contributing to a more resilient balance sheet. Market risk management practices had yielded positive outcomes, as reflected in the notable increase in total interest earned and stable growth in investment income. The bank's strategic development of its interest-earning portfolio, coupled with dynamic asset-liability management, had driven revenue growth and supported profitability. The slight moderation in net interest margin in the final year did not materially detract from the overall upward trend in earnings. Capital adequacy ratios had risen consistently, ensuring compliance with Basel III norms and bolstering the bank's capacity to withstand credit and market shocks. The strengthened capital base had enabled the bank to support robust credit growth without compromising solvency. The reduction in external borrowings and expansion of internal resources had further enhanced financial sustainability.

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