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BASIC PRINCIPLES OF RISK MANAGEMENT IN BANKING

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Abstract. *In this article, the main principles, processes, and tools of risk management in banking activities are discussed, with an emphasis on ensuring financial stability, transparency in risk governance, and regulatory compliance. The necessity of improving risk management systems under conditions of macroeconomic instability, war, rising regulatory requirements, and the digitalization of financial processes is substantiated. Key types of risks that banks consider significant are identified: credit, liquidity, interest rate, market, operational (including ICT, information security, legal and modeling), compliance, reputational, regulatory, geopolitical, and ESG risks. The concept of a three-level risk management system is highlighted: first line (business units and management), second line (risk management and compliance), third line (internal audit), which ensures independence, comprehensiveness, and effectiveness of controls. The principles of risk management (proportionality, transparency, accountability, effectiveness, professionalism, comprehensiveness, stress resilience, and risk governance culture) and the main functions: identification, measurement, control, and monitoring of risks are presented. Recommendations are provided for implementing effective risk management systems in banking divisions, taking into account adaptation to Basel norms.*

Keywords: *risk, risk management, principles, functions, commercial bank, methods of assessing bank risks.*

In this article, the fundamental principles, processes, and instruments of risk management in banking activity are defined and substantiated, with an emphasis on ensuring resilience and regulatory accountability, and modern approaches to their evaluation are outlined. The risk management process is disclosed: methods for risk assessment, internal control, a monitoring and reporting system, as well as recommendations regarding the implementation of effective risk management systems in banking divisions. The content of risk management as a system of processes, methods, and instruments through which the bank identifies, assesses, and controls risks to ensure financial stability, business longevity, and compliance with regulatory requirements is revealed. An effective risk management

system enables balancing the pursuit of profitability with the need to mitigate potential losses.

It is established that the innovative approach to bank risk management consists in creating a transparent and adaptive risk management system that integrates data, modern technologies, and a risk-oriented culture. The key components and principles of such an approach should include: the use of a data-processing platform in real time with integration with operating systems; automatic collection, cleansing, and consolidation of data from internal and external sources, data quality monitoring; alert signals and the ability for operational reaction; leveraging artificial intelligence capabilities; predictive risk assessment (PD/LGD/EAD) using dynamic market factors and customer behavioral characteristics; automatic categorization by potential losses and probability, designation of responsible parties, and scoring for new portfolios; fraud and malicious activity detection through contextual analytics; decision-making supported by ML/AI; stress testing and scenario analysis with the ability to rapidly adapt policies.

Practical recommendations for banks, assuming the construction of an effective risk management system, include establishing clear risk tolerances and risk metric boundaries for each line of business; developing and implementing a unified risk data management system with high data quality; regular stress tests with model updates and action plans based on the results; strengthening internal control and independent risk management assessment; continuous staff training and the development of a culture of risk responsibility; ensuring adequate capital and liquidity under a variety of market scenarios; interaction with regulators and compliance with international standards at the local level.

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