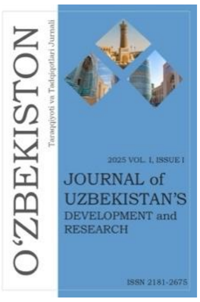

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ACTIVE RISK MANAGEMENT AND BANK STABILITY

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KEYWORDS

Risk management, banks' and financial institutions' stability, credit risks, operational risks, market risks, liquidity risks, corporate governance, strategic strength, and compliance with regulatory requirements.

ABSTRACT

This research examines the critical role played by proactive risk management in supporting stability and resilience at banking institutions in a changing financial landscape. It highlights the interlinked character of different risk types—i.e., credit, market, operational, and liquidity risks—and emphasizes the need for an integrated and systematic risk identification, analysis, and mitigation strategy. The research findings reveal that robust risk management not only prevents financial crises from occurring but also improves decision-making, fosters investor confidence, and ensures long-term sustainability at institutions. By embracing risk-based thinking and building a risk-conscious culture, financial institutions are better able to improve governance, maintain regulatory compliance, and gain a competitive advantage in the market.

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The edifice of contemporary financial institutions hinges critically on the meticulous orchestration of risk management protocols, which serve as the linchpin for maintaining equilibrium within the banking ecosystem and ensuring its resilience against a myriad of potential upheavals. Banks, by their very nature, operate within an environment fraught with inherent risks, stemming from the vicissitudes of financial transactions, operational intricacies, and the ever-present specter of systemic failures (AL-kiyumi et al., 2021; Ogundele & Nzama, 2025). Consequently, a sound and all-encompassing risk-based composite measure becomes indispensable for bridging existing gaps in risk assessment methodologies (Jayasekara et al., 2020). Risk management is propelled to the forefront as a critical element, catalysing amplified interest due to escalating competition among organisations, coupled with the myriad opportunities and challenges encountered across

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national and international boundaries (Ogundele & Nzama, 2025). At its core, risk embodies the uncertainty surrounding the future outcomes of events (Ogundele & Nzama, 2025). Starting a business is inherently considered a risk-laden endeavor for its proprietor (Ogundele & Nzama, 2025).

The ramifications of inadequate risk management can precipitate a cascade of adverse effects, potentially culminating in financial instability and operational disruptions, thereby underscoring the imperative of robust risk mitigation strategies (Ogundele & Nzama, 2025). Within the banking domain, institutions confront a spectrum of risks, each demanding meticulous attention and tailored management approaches (Qazi et al., 2022). These encompass credit risk, encapsulating the potential for borrower default; market risk, reflecting the volatility of financial markets; operational risk, emanating from internal process failures or external events; and liquidity risk, concerning the ability to meet short-term obligations. Financial risks command considerable attention due to their far-reaching consequences, arising from diverse sources such as market undulations, policy alterations, or managerial deficiencies (Sun, 2024). Thus, businesses must holistically evaluate and adeptly manage these risks to secure enduring stability and expansion (Sun, 2024).

The essence of risk management resides in the systematic identification, assessment, and mitigation of potential threats that could impede an organisation's objectives (Gleißner & Berger, 2024; Krasnova et al., 2022). The primary objective of risk management is to proactively forestall crises and minimise the impact of unforeseen events (Settembre-Blundo et al., 2021). A well-structured risk management framework empowers financial institutions to make informed decisions, optimise resource allocation, and safeguard their capital base. Effective risk management serves as a proactive mechanism for businesses to seize opportunities and mitigate negative influences, ultimately conserving time and resources (Hải et al., 2023). It operates as a holistic approach, encompassing risk identification, assessment, and response, fostering stakeholder trust in corporate governance (Ak, 2021). Moreover, it facilitates informed decision-making, bolsters investor confidence, and enhances the institution's overall resilience in the face of adversity (Ostapenko & Kholboeva, 2021).

At its core, risk management embodies a cyclical process, encompassing the meticulous documentation of information, implementation of stringent controls, establishment of early risk detection mechanisms, and a commitment to continuous improvement (Ostapenko & Kholboeva, 2021). It is imperative for organisations to cultivate a risk-aware culture, fostering transparency, accountability, and proactive engagement from all stakeholders (Smith & Merritt, 2020). By integrating risk management into their overarching strategy, organisations can adeptly navigate the intricate landscape of financial markets, fostering resilience and long-term sustainability (Dorozik et al., 2020; Jarašūnienė et al., 2024). Enterprises can navigate the intricacies of financial markets by incorporating risk management into their overarching approach, promoting long-term viability and flexibility. The capacity of organizations to attain planned objectives across economic, social, and environmental dimensions is significantly enhanced by managing risk and planning the continuity of operations (Wysokińśka-Senkus & Górna, 2021).

The integration of risk-based thinking into management systems is paramount for mitigating undesirable effects and fostering continuous improvement, particularly within higher education (Jasmine, 2020). By embracing risk management principles, these institutions can safeguard their educational activities and ensure the delivery of high-quality learning experiences (Memon et al., 2021). An integrated approach to risk management, coupled with project integration management, is essential, especially considering the complexity of investment projects and the multitude of identified risks (Zholonko et al., 2021). Furthermore, the implementation of risk management principles should be guided by adept leadership, ensuring that decisions are aligned with the organisation's values and objectives (Jasmine, 2020). By prioritising risks according to their potential impact and feasibility, leaders can effectively allocate resources and implement proactive strategies to mitigate potential threats (Jasmine, 2020).

In essence, risk management serves as the bedrock of stability for financial institutions, enabling them to navigate the complexities of the modern financial landscape with prudence and resilience. Moreover, the role of regulatory bodies in ensuring the stability and soundness of the financial system cannot be overstated ("INVESTIGATING RISK MANAGEMENT IN MUNICIPALITIES IN UNITED ARAB EMIRATES (UAE): AN EMPIRICAL RESEARCH," 2020). By establishing robust risk management standards and guidelines, regulators provide a framework for institutions to identify, assess, and mitigate potential risks, thereby fostering confidence and stability in the financial system (Ariyantho & Sutjipto, 2024). Effective risk management and legal compliance programs are advocated, incorporating elements such as legal audits, employee training, and adherence to evolving regulations (Ramesh, 2022). In the financial services sector, characterised by continuous economic unpredictability and heightened competitiveness, credit risk management has assumed paramount importance (Agbana et al., 2023). This underscores the necessity for robust risk management structures and strategies that can navigate the intricacies of contemporary banking operations (Accastello et al., 2022; Tae et al., 2020). As stakeholders place increasing pressure on Higher Education Institutions, risk management has garnered substantial attention, prompting these institutions to devise strategies for handling emerging operational challenges (Sityata et al., 2021).

The adoption of risk management practices is not merely a regulatory obligation but a strategic imperative that can significantly enhance an organisation's financial performance (Abu-Rumman, 2021; Khaidar et al., 2021). Systemic project risk management has a substantial impact on project success, highlighting a strong correlation between the extent of risk management efforts and the level of project success (Appiah, 2020). By proactively addressing potential risks, organisations can minimise disruptions, optimise resource allocation, and improve their overall efficiency. Risk management practices have rapidly gained prominence, evolving into a mainstream business discipline. Rather than aiming to minimise total risk, the goal of risk management is to identify the optimal level of risk to maximise shareholder value (Abeyrathna et al., 2021). Risk management is also a continuous learning process that seeks to improve practices and enhance the efficiency of dealing with risks in construction projects, thereby ensuring their successful execution (Appiah, 2020). Moreover, by prioritising risk management, financial institutions can foster a culture of continuous improvement, enabling them to adapt to changing market conditions and maintain a competitive edge (Appiah, 2020; Musarat et al., 2024).

For small and medium-sized enterprises operating within a competitive and rapidly evolving technological landscape, the implementation of effective risk management strategies is of paramount importance (Demertzis & Vatalis, 2021). While larger enterprises often have dedicated risk management departments, SMEs often overlook the need to integrate risk management into their overall business strategy due to limited resources (Παπαθανασίου et al., 2024). This deficiency in strategic risk management can impede business development and hinder their transition to medium-scale enterprises (Baloyi & Ozumba, 2020). Enterprise Risk Management serves as a strategic tool, structured to assist management in responding to impending risks and managing uncertainties through an integrated and all-inclusive approach (Abeyrathna et al., 2021). Effective risk management becomes strategic when it encompasses the culture, leadership styles, and is reinforced by strategic responsiveness (Syrová & Špička, 2022). By adopting a holistic approach to risk management, SMEs can make informed decisions, optimise resource allocation, and mitigate potential threats to their long-term sustainability. The challenges encountered by SMEs in construction, which affect project delivery, are often linked to strategic risk management and can be mitigated by implementing appropriate strategies (Baloyi & Ozumba, 2020).

Risk management should be viewed as a mindset that prioritises the preservation of key assets, the creation of competitive advantages, and the development of local talent and expertise (Moschella et al., 2022). While alternative frameworks aim at improving risk management, they often focus on existing risks and potential mitigations, overlooking how strategic decisions alter a company's risk exposure (Gleißner & Berger, 2024). Moreover, efficient and easily accessible procedures should be established to enhance efficiency and accessibility in documenting risk management activities and decisions, ensuring clarity for stakeholders (Παπαθανασίου et al., 2024). By viewing risk management as an ongoing process of learning and improvement, organisations can build resilience, foster innovation, and enhance their ability to navigate the challenges of a dynamic business environment. Strategic flexibility enables companies to expand quickly and adapt to change for risk management (Alzahrani et al., 2023). Regular reviews and updates to the risk identification process empower organisations to remain vigilant and responsive to emerging threats within their operational constraints (Παπαθανασίου et al., 2024).

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