

Name _____

Navigating Risk in Banking: The Art of Risk Management

Short Answer Key

1. One type of risk is credit risk, where borrowers may not repay loans. Banks can mitigate it by conducting thorough credit assessments, setting aside provisions for potential losses, and diversifying their loan portfolios.
2. Risk management is essential for protecting depositors' funds because it helps banks identify and mitigate risks that could lead to financial losses. By managing risks effectively, banks ensure that depositors' money is safe and secure.
3. Risk management helps maintain financial stability by identifying and addressing potential risks that could destabilize individual banks or the entire financial system. It ensures that banks have the necessary safeguards in place to withstand economic downturns and unexpected events.
4. Transparent reporting is crucial in the risk management process because it allows banks to communicate their risk exposure and management efforts to stakeholders, including regulators and shareholders. It provides transparency and builds trust.
5. It is crucial for banks to communicate their risk exposure to stakeholders because it promotes transparency and helps stakeholders make informed decisions. Regulators, shareholders, and the public need to understand the risks banks face and how those risks are managed to ensure the safety and soundness of the banking system.

