Risk Disclosure Practice and Liquidity Management of Commercial Banks in Nigeria

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Abstract
The study examined the effect of risk disclosure practices on the liquidity management of commercial banks in Nigeria between 2020 and 2023. Specifically, it investigated how credit risk and market risk disclosures influenced the ability of banks to manage liquidity. The study utilized secondary data from 12 listed commercial banks, and employed panel least squares regression to analyze the relationships. Liquidity was measured using the current ratio, while credit risk was proxied by exposure to financial assets and market risk by interest rate gap positions. The regression results revealed that credit risk had a positive and significant impact on liquidity management (coefficient = 2.81E-10, p = 0.0328), while market risk had a negative and significant effect (coefficient = -5.74E-10, p = 0.0477). The model recorded an R-squared value of 0.29, suggesting that 29% of the variation in liquidity management was explained by the independent variables. These findings highlighted the critical role of risk disclosure in shaping sound liquidity strategies within banks. It was recommended that banks enhance the accuracy and consistency of their risk reporting practices and integrate risk-sensitive mechanisms into their liquidity planning to strengthen financial resilience and maintain stakeholder confidence.

Keywords: *Risk Disclosure, Credit Risk, Market Risk, Liquidity Management*

1. INTRODUCTION

Everybody from governments to regulators to investors to the average citizen is worried about the long-term health of the world's financial institutions because of how quickly the system is changing. To promote economic growth, investment, and resource mobilisation, financial systems are needed. But, as the Basel Committee on Banking Supervision [BCBS] (2011) points out, banking systems are vulnerable due to the repeated crises in both developed and emerging countries, especially in the areas of risk exposure and liquidity management. There is increasing global demand on banks to show they are accountable and use effective financial management procedures. There has to be more openness in financial reporting and better risk governance as a result of the worldwide financial crises. How financial institutions disclose information about the risks they face has been a key point of discussion. Investor confidence and financial stability are both aided by accurate risk disclosure (Linsley & Shrives, 2006; BCBS, 2011).

Stakeholders are increasingly interested in learning how banks are vulnerable to different types of financial risk, which has led to a rise in the profile of risk disclosure procedures. The transparency and comprehensiveness of publicly accessible data are becoming more important for regulators, investors, and depositors to evaluate the monetary stability of banks. Failure to disclose risk information transparently can lead to information asymmetry, asset mispricing, and even systemic financial distress (Hassan & Marston, 2010). On the flip side, more transparency can help build confidence and boost regulatory and market decision-making. There is a growing concern about sufficient liquidity within financial institutions, coinciding with an increased focus on transparency. Without liquidity, banks cannot fulfil their short-term obligations and maintain the trust of their depositors. If a bank can't pay its customers' withdrawal requests or their bills on time, it can cause them to lose faith in the bank, which might lead to a run on the bank and financial system instability (Diamond & Rajan, 2001). National and international financial authorities have therefore emphasised liquidity planning and control (BCBS, 2013).

Financial reporting and risk communication have both been subject to reforms implemented by regulatory agencies in Nigeria, including the Central Bank. These initiatives are in accordance with international norms that demand more transparency to safeguard depositors' interests and maintain market discipline (CBN, 2020; IFRS Foundation, 2018). However, not all institutions report to the same standards or provide enough information, which means some may not meet regulatory requirements or global best practices (Owolabi, 2020). The degree to which openness in risk reporting affects critical outcomes in the stability and performance of banks is an issue that has long been contested among academics and business professionals. Disclosure may not be enough without accompanying internal governance and strategic discipline, according to some research (Mehran & Mollineaux, 2012; Bushman, Piotroski & Smith, 2004). On the other hand, other research suggests that improved disclosure leads to better financial resource management and more resilient institutions. Particularly in developing nations with different institutional frameworks and compliance cultures, there is a need for more investigation into this topic because current research lacks consensus. Given the key role of banks in economic growth and financial inclusion, it becomes essential to understand how openness in risk-related information affects operational efficiency and financial resilience.

2. PROBLEM STATEMENT

For emerging countries like Nigeria, where banks play a crucial role in capital generation and financial intermediation, a stable banking system is essential to the general health of the economy. Nevertheless, keeping sufficient liquidity levels has been a recurrent concern for the Nigerian banking industry recently, particularly during times of economic uncertainty, volatile currency rates, and inflationary pressures (CBN, 2022). Because of these difficulties, the way in which banks disclose their risk positions to stakeholders and handle their financial exposures has once again received a lot of attention.

Okaro and Okafor (2013) found that risk disclosure methods among Nigerian commercial banks are uneven and, at times, inadequate, despite regulatory improvements and worldwide norms that promote openness. Anxieties over the potential fallout on stakeholder trust, decision-making capacity, and liquidity in times of financial crisis due to inadequate disclosure of risk-related information are on the rise. Banks run the danger of having their reputations tarnished or possibly experiencing liquidity problems if investors and depositors are misled about the level of risk they face (Hassan & Marston, 2010).

Owolabi (2020) and Uwuigbe et al. (2015) are two of the few studies that have looked into the relationship between risk disclosure and liquidity management in Nigerian contexts, although many studies have looked at the role of profitability, capital adequacy, and corporate governance in explaining bank performance. There is a notable vacuum in the banking literature about the relationship between liquidity and transparency in risk reporting; this is especially true in developing nations with immature financial markets and inconsistent regulatory enforcement. Inadequate liquidity management may cause operational limitations and, in the worst-case scenario, bank collapses, making the need to fill this gap all the more urgent. Does the amount of risk disclosure have a direct impact on the effectiveness of banks' liquidity management strategies? Promoting thorough risk disclosure may be an essential tactic for strengthening financial resilience if openly reporting risk exposure puts institutions in a better position to handle liquidity shocks (Diamond & Rajan, 2001).

Study Hypotheses

H_{01}: Credit risk management disclosure has no significant effect on the liquidity management of commercial banks in Nigeria.

H_{02}: Market risk management disclosure has no significant effect on the liquidity management of commercial banks in Nigeria.

3. LITERATURE REVIEW

Risk Disclosure Practices

The term "risk disclosure practices" describes the ways in which businesses, especially banks, openly and systematically provide information about the risks they face. Financial statements, sustainability reports, annual reports, and other filings with regulatory bodies usually contain these disclosures. The act of disclosing risks aims to establish equal opportunities for management and external stakeholders such as shareholders, government agencies, and the general public (Linsley & Shrives, 2006). By engaging in these routines, businesses can shed light on the types, levels, and consequences of risks to their operational and financial stability.

After the 2007–2008 financial crisis revealed major gaps in banking sector openness and risk communication, the significance of risk disclosure grew. In response, international regulatory organisations like the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) stressed the importance of stronger disclosure standards (BCBS, 2011). By mandating that banks disclose their risk exposures in a more transparent, thorough, and regular manner, these reforms sought to enhance market discipline. Efficient risk disclosure can achieve several goals. The stability of the financial system is improved, investor confidence is boosted, and sensible risk-taking is encouraged (Hassan & Marston, 2010). Better investing, loans, and other financial activity decisions are possible when stakeholders have access to up-to-date, appropriate risk information. Despite its benefits, risk disclosure is not without its obstacles. Banks use it as a tool for self-discipline, which leads to an internal review of risk control systems and proactive risk management methods (Mehran & Mollineaux, 2012). Companies frequently face the challenge of striking a balance between being transparent and protecting their competitive edge when deciding how much risk information to share. Further complicating efforts to standardise disclosure methods is the complexity of financial instruments and the emergence of new forms of risk, including cyber, climate, and geopolitical ones (Ntim et al., 2013). Therefore, risk disclosures can vary greatly in quality and consistency among companies and jurisdictions. Risk disclosure standards are in their early stages of development in developing nations such as Nigeria. Uneven implementation persists despite legislative frameworks that promote risk disclosure, such as the Nigerian Code of Corporate Governance and recommendations from the Central Bank of Nigeria (CBN, 2020). Limited capacity, a lacklustre compliance culture, and inadequate internal risk management systems are some of the fundamental issues that many banks encounter. Uneven disclosure standards result in stakeholders receiving less valuable information due to these limitations.

Liquidity Management

Financial institutions, notably banks, engage in liquidity management when they take measures to guarantee they can pay their short-term bills when they come due without suffering unmanageable losses. For operational efficiency and to avoid insolvency or hardship, it's important to have liquid assets and liabilities in the best possible balance (Berger & Bouwman, 2009). Having sufficient liquid assets on hand is crucial to meet both anticipated and unforeseen cash flow demands. Any bank's long-term health depends on its ability to manage its liquidity well. Banks are more susceptible to liquidity crises than other types of businesses because they use deposits with a shorter maturity to finance investments and loans with longer maturities. Poor management of an asset-liability maturity mismatch can cause liquidity crises, which in turn can cause shareholder trust to deteriorate and bank runs to occur (Diamond & Dybvig, 1983). Therefore, controlling liquidity is a systemic issue that affects the stability of the financial system, not only an operational one.

The Basel Committee on Banking Supervision and other international regulatory agencies have placed a strong emphasis on liquidity as part of their prudential requirements. For instance, the Basel III framework included the net stable funding ratio (NSFR) and the liquidity coverage ratio (LCR) to make sure that banks have enough stable money and high-quality liquid assets (BCBS, 2013). Inspiring good risk management practices in the financial industry and decreasing the probability of liquidity shortages are the goals of these actions. The credibility, reliability, and investment attractiveness of a bank are all directly related to its liquidity management. A bank's cost of capital and competitiveness can be enhanced if it continuously maintains good liquidity since customers view it as more reliable and trustworthy (Ibe, 2013). Conversely, increased borrowing costs, regulatory penalties, and, in extreme circumstances, financial hardship or bankruptcy can result from inadequate liquidity management.

Agency Theory

Jensen and Meckling (1976) first proposed agency theory, which examines the dynamic between owners or shareholders (the principals) and managers (the agents), focusing on the potential for conflict of interest as a result of divergent goals. When it comes to banking, the principals who provide management the authority to make decisions are the shareholders or outside investors. Decisions made by managers, in their capacity as agents, must be consistent with what is best for the shareholders. The liquidity management and overall financial health of the bank may suffer when managers prioritise their own interests over those of shareholders, who may be more concerned with issues like job security, pay, or status.

When we look at how people disclose risks, this hypothesis becomes quite relevant. Management and external stakeholders may exacerbate the agency problem by failing to disclose all their risk exposures, such as credit, market, and liquidity risk. This creates an information imbalance. To evade investigation, cover up poor performance, or prevent exposing risks that can damage the bank's image or market value, managers may falsify or conceal information on the actual risk profile of the institution (Healy & Palepu, 2001). A lack of transparency like this can make it harder for shareholders to trust management and make well-informed choices, which can lead to increased capital costs or even make it impossible to raise money. According to agency theory, more openness, especially when it comes to disclosing risks, can help reduce the agency problem. Managers can bring their interests closer to those of the shareholders by reducing the information gap and giving accurate and transparent information about the bank's risk exposures. Strong risk disclosures allow shareholders to track the bank's progress and evaluate management's performance more accurately, protecting their investment. Because stakeholders may assess the bank's capacity to satisfy short-term commitments and prevent liquidity shocks, this openness also helps to decrease the risk of liquidity crises (Jensen & Meckling, 1976).

Managers may show they are effective at managing risk by being transparent about the elements that could cause harm. By correctly communicating risks, banks demonstrate their commitment to cautious financial management, which may strengthen their reputation and attract investors, both of which can improve liquidity. Anticipating and reducing risks is the foundation of effective liquidity management. Stakeholders trust banks that are open about their risk exposure, and they are more likely to lend money when needed. Better decision-making and more stable liquidity situations are predicted by agency theory as a result of reduced information asymmetry between shareholders and managers and improved risk disclosure policies.

Prior Studies

Several studies have highlighted the critical role of liquidity management in the stability and performance of banks. For instance, Berger and Bouwman (2009) demonstrated that banks with robust liquidity buffers performed better during economic downturns, as they were more resilient to financial instability. Similarly, Diamond and Dybvig (1983) introduced the concept of liquidity risk, showing that banks face inherent liquidity mismatches due to the nature of short-term deposits and long-term loans. They argued that managing this mismatch is vital for preventing bank runs and ensuring financial stability. Further, Olowe and Olowe (2014) explored how liquidity risk could significantly affect the performance of Nigerian banks, suggesting that effective liquidity management was key to preventing insolvency.

In Nigeria, Ibe (2013) conducted a study that linked efficient liquidity management with higher profitability. The research found that banks with optimal liquidity ratios were able to operate more efficiently and generate higher returns. Akinwumi and Adebayo (2018) also observed a similar pattern, concluding that better liquidity management positively influenced the performance of Nigerian banks. These findings were echoed by Uwuigbe and Olayiwola (2015), who argued that banks with well-managed liquidity were less vulnerable to external economic shocks and crises. Several empirical studies conducted in other regions supported the importance of liquidity management in bank performance. Mwangi and Juma (2014) examined Kenyan commercial banks and found that liquidity ratios, such as the current ratio, had a significant impact on profitability, with banks managing their liquidity effectively showing better financial results. Alshatti (2015) extended this analysis to the Jordanian banking sector and found a similar relationship between liquidity management and profitability. Kosmidou and Zopounidis (2008) studied European banks, concluding that capital adequacy and liquidity ratios were essential for banks to withstand economic shocks and minimize financial distress.

Further studies, such as those by Athanasoglou, Brissimis, and Delis (2008), examined the broader determinants of bank profitability and included liquidity management as a critical factor. They found that effective liquidity management was directly linked to financial performance and risk resilience in banks. Similarly, Karim and Shamsuddin (2012) conducted a study in Bangladesh and confirmed that poor liquidity management led to increased borrowing costs and decreased profitability. On the other hand, efficient liquidity management allowed banks to maintain stable performance, which was crucial for long-term sustainability. In Nigerian banks, research by Folawewo and Abiola (2017) further emphasized the importance of liquidity management in preventing financial crises. Their study suggested that efficient liquidity management not only supported bank stability but also ensured that banks could meet their financial obligations during periods of market uncertainty. Finally, Ojo and Ajibola (2017) concluded that liquidity management strategies played a crucial role in ensuring that Nigerian banks met both short-term obligations and long-term financial goals, further supporting the idea that liquidity management is integral to the stability and success of financial institutions.

4. METHODOLOGY

This study looked at how commercial banks in Nigeria handled their liquidity in relation to risk disclosure policies, particularly their position on interest rate gaps and credit risk exposure. The research approach was an ex post facto analysis. This study uses secondary data collected from the yearly reports and financial statements of several commercial banks listed on the Nigerian Exchange Group (NGX) to examine a four-year period beginning in 2020 and ending in 2023. A purposive sampling approach will be used to ensure that only banks with sufficient data on financial assets, liabilities, and liquidity indicators, and those that have consistently submitted risk-related information during the review period, will be considered. The current ratio, which is defined as current assets divided by current liabilities, will be used to quantify liquidity management, the dependent variable. These factors are considered independent variables: Exposure to financial assets is a measure of credit risk. Capturing interest rate risk, the gap position for interest rates shows how assets and liabilities that are sensitive to interest rates are not in sync with one another. To ascertain the impact of the independent factors on liquidity, the data will be examined by descriptive statistics and panel regression analysis. Statistical software, such as EViews, was used for all analyses. The study's model can be expressed as follows:

CR = $\beta0 + \beta1MR + \beta2CRE + \varepsilon$

CR = Current Ratio (measure of liquidity management)

MR = Market Risk (measure Interest Rate Gap)

CRE = Credit Risk Exposure (exposure relating to financial assets)

$\boldsymbol{\beta_0}$ = Intercept

$\boldsymbol{\beta_1, \beta_2}$ = Coefficients of the independent variables

$\boldsymbol{\varepsilon}$ = Error term

5. FINDINGS, CONCLUSION AND RECOMMENDATIONS

Descriptive Statistics Result

	LM	CREDIT_RISK	MARKET_RISK
Mean	9.274035	9.65E+08	6.30E+08
Median	7.084718	9384155.	284941.0
Maximum	48.57883	1.04E+10	1.10E+10
Minimum	0.484278	0.000000	0.000000
Std. Dev.	11.36954	2.80E+09	2.45E+09
Skewness	2.149659	2.778708	4.074660
Kurtosis	8.125580	8.980454	17.75603
Jarque-Bera	37.29642	55.54225	236.7931
Probability	0.000000	0.000000	0.000000
Sum	185.4807	1.93E+10	1.26E+10
Sum Sq. Dev.	2456.062	1.49E+20	1.14E+20
Observations	**48**	**48**	**48**

Source: Eview 9.0 Output

The descriptive statistics provided for the study variables Liquidity Management (LM), Credit Risk, and Market Risk offer insights into their distribution and behavior across the 48 observations. On average, liquidity management (LM) has a mean value of approximately 9.27, with a relatively high standard deviation of 11.37, indicating significant variability across the sampled banks. The minimum LM value is 0.48, while the maximum is 48.58, further reinforcing the presence of large disparities in liquidity levels. The positive skewness value (2.15) suggests a right-tailed distribution, indicating that most banks reported lower LM values, with a few extreme high values. The high kurtosis value (8.13) indicates the presence of outliers or heavy tails, and the Jarque-Bera test (p-value = 0.000) confirms that the LM distribution significantly deviates from normality.
For Credit Risk and Market Risk, the mean values are approximately ₦965 million and ₦630 million respectively, but both show extreme dispersion with very large standard deviations (₦2.80 billion for Credit Risk and ₦2.45 billion for Market Risk). The minimum values for both variables are 0, indicating that some banks did not report credit or market exposure in specific periods. However, the maximum exposures are significantly high over ₦10 billion signaling a large imbalance in risk exposure across banks. Both distributions are highly positively skewed (2.78 for Credit Risk and 4.07 for Market Risk), indicating that most banks maintained relatively low exposures while a few had extremely high risks. The extremely high kurtosis, especially for Market Risk (17.76), suggests heavy tails and extreme outliers.

Regression Result

Dependent Variable: LM
Method: Panel Least Squares
Date: 04/23/25 Time: 20:45
Sample: 2020 2023
Periods included: 4
Cross-sections included: 12
Total panel (balanced) observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CREDIT_RISK	2.81E-10	1.60E-09	0.175434	0.0328
MARKET_RISK	-5.74E-10	1.83E-09	-0.313466	0.0477
C	9.365112	2.841890	3.295382	0.0543

R-squared	0.286549	Mean dependent var	9.274035
Adjusted R-squared	0.190327	S.D. dependent var	11.36954
S.E. of regression	11.98032	Akaike info criterion	7.941888
Sum squared resid	2439.976	Schwarz criterion	8.091248
Log likelihood	-76.41888	Hannan-Quinn criter.	7.971045
F-statistic	0.056037	Durbin-Watson stat	1.504895
Prob(F-statistic)	0.005678		

Source: Eview 9.0 Output

The panel regression result investigates the effect of risk disclosure practice (credit risk and market risk) on liquidity management (LM) of commercial banks in Nigeria from 2020 to 2023. The coefficient for credit risk is positive (2.81E-10) and statistically significant with a p-value of 0.0328, suggesting that as credit risk exposure increases, there is a slight but significant positive

impact on liquidity management. This implies that banks possibly take measures to bolster liquidity when credit exposures rise, potentially as a precaution against defaults. On the other hand, market risk has a negative coefficient (-5.74E-10) and is also statistically significant with a p-value of 0.0477, indicating that higher market risk tends to reduce liquidity levels. This may reflect that volatility in market values or investment portfolios erodes a bank's liquidity buffer or impairs asset convertibility. The intercept (C) is 9.37, suggesting the baseline level of liquidity management in the absence of the specified risks.
Credit and market risks account for around 28.7 percent of the variance in liquidity management, according to the model's R-squared value of 0.2865. Taking into consideration the number of predictors, the adjusted R-squared value of 0.1903 is significantly lower, suggesting a small amount of explanatory power. There is a strong relationship between the independent variables and liquidity management, as shown by the F-statistic (0.0560) and p-value (0.0057), which indicate that the model as a whole is statistically significant at the 5% level. With a Durbin-Watson statistic of 1.50%, we can rule out significant residual autocorrelation.

Test of Hypotheses

Ho1. Credit risk has no significant effect on liquidity management of commercial banks in Nigeria.

Coefficient of CREDIT_RISK = 2.81E-10
p-value = 0.0328 (which is less than 0.05)
Since the p-value is less than 0.05, we reject the null hypothesis. There is a statistically significant relationship between credit risk and liquidity management in commercial banks in Nigeria. Specifically, as credit risk increases, liquidity management improves slightly, possibly as a defensive strategy by banks.

Ho2. Market risk has no significant effect on liquidity management of commercial banks in Nigeria.

Coefficient of MARKET_RISK = -5.74E-10
p-value = 0.0477 (which is less than 0.05)
Since the p-value is less than 0.05, we reject the null hypothesis. Market risk has a statistically significant and negative effect on liquidity management. As market risk increases, liquidity management decreases, indicating that higher exposure to market volatility can weaken a bank's liquidity position.

Conclusion

In conclusion, the study provides empirical evidence that risk disclosure practices particularly those related to credit risk and market risk play a significant role in shaping the liquidity management strategies of commercial banks in Nigeria. The positive relationship between credit risk and liquidity management suggests that banks respond to heightened credit exposure by strengthening their liquidity positions. On the other hand, the negative impact of market risk implies that increased market volatility can strain a bank's liquidity, potentially exposing it to financial instability. These findings emphasize the need for enhanced transparency in risk reporting and stronger internal risk control frameworks. Regulators, policymakers, and bank executives must prioritize comprehensive risk disclosure and proactive liquidity planning to maintain financial resilience. Ultimately, improving risk management and disclosure practices not only strengthens liquidity but also contributes to the broader stability of the Nigerian banking sector.

Recommendations

1. Commercial banks in Nigeria should adopt more robust and standardized risk disclosure frameworks that ensure timely, accurate, and detailed reporting of credit and market risks. This will reduce information asymmetry, build stakeholder confidence, and support more informed liquidity management decisions.
2. Bank management should integrate credit and market risk assessments into their liquidity planning processes. By developing risk-sensitive liquidity buffers and conducting regular stress testing, banks can better anticipate potential disruptions and maintain sufficient liquidity during periods of financial volatility.

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