Financial Risks Management and Financial Performance of Deposit Money Banks in Nigeria

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Abstract
This study evaluates the relationship between financial risk management and financial performance of deposit money banks. The specific objectives are: evaluate the relationship between Market risk management and return on average Asset of Deposit money banks; evaluate the relationship between Liquidity risk management and return on average Asset of Deposit money banks. The study adopted an Ex-post Facto research design Secondary data was used, Pearson correlation coefficient and multiple regression analysis with the aid of Stata12 software was. The study found that, a significant relationship between Market Risk Management and Return on Average Asset of Deposit money banks; a significant relationship between Liquidity Risk Management and return on average Asset of Deposit money banks. The study generally concluded that the relationship between financial risk management and financial performance of Deposit money banks is positive and statistically significant for the period under review. The study recommended that the management of Deposit money banks should ensure that specific loan processing period to meet obligations whenever they fall due in order to maintains adequate liquidity for its day-to-day operations are maintained and to provides regular training before advancing the loans: The study recommended that the management of Deposit money banks should establish sound governance and risk management systems by developing strategies, policies for liquidity management that is well integrated into its risk management practices as well as establish a contingency funding plan to address any liquidity shortfall during periods of stress or emergency while ensuring that active monitoring liquidity funding needs to avert any liquidity challenge that could trigger crisis in the banks is promptly addressed

INTRODUCTION

The complexity of business operation in the modern world is not as simple, because financial institutions are faced with various types of risk that threatened their existence as a result of mismanagement or the poor management of risk which affect financial performance of any financial institution (Paulinus & Jones, 2017). As a developing country, many banks have failed in Nigeria since the inception of banking and financial institutions, and the main problem in the sector has been identified as poor risk management practices. As a result of this, the integration of financial risk management and financial performance has been the subject of unprecedented quantities of empirical research in recent years (Abdullahi &Tela2022; Olufemi, A., &Sunmisola, 2022; Matayo & Muturi, 2018). Since then, a great deal of research

has supported the crucial importance of a country's financial system as the cornerstone of a strong and efficient economic system. A strong banking sector is crucial for an economy's financial system since it serves as the primary participant in the financial intermediation role in emerging countries.

According to Abdullahi and Tela (2022), commercial banks that are unable to pay its debts may be put into liquidation. All banks, including those in Nigeria, operate in a volatile and hazardous environment and are vulnerable to several risks that could lead a commercial bank to fail because it is unable to, in one way or another, pay its debts.
Financial risk is separate from other hazards that DMB faces and is a little bit difficult to handle. According to Muriithi and Muigai (2017), financial risks jeopardize the financial sector's stability and overall financial performance. Olufemi and Sunmisola. (2022) agreed that financial risk is both systemic and asymmetrical, which has an adverse effect on banks' financial and nonfinancial performances, results in substantial financial losses, and undermines investors' and depositors' confidence. In Nigeria, financial risks and firm's financial performance are quite problematic and unresolved, with issues ranging from low and insufficient profitability to sustainability concerns, an inability to create economic value for the shareholders, and meager returns on assets because of inefficient use of the banks' available assets (Clementina & Isu, 2016).

Financial risk is unarguably and undoubtedly inevitable in business, especially the business of banking and has always been there since the inception of banking. Financial risk cannot be eliminated completely, their dimensions will rather be on the increase as long as banking business continues to evolve and competition gets stronger and fierce. New financial risk dimensions will continue to emerge as banking continues to experience paradigm shifts or new normal. This is not unconnected to the fact that banks' operations and business activities are multidimensional and each dimension has risk inherent in it which increases from time to time owing to continuous evolvement in banking business, technologies and operations. For instance, the financial risk dimension experienced since the invention of mobile banking has increased operational risk in banking via technology risk which has resulted in frequent fraudulent mobile transfers, cloning of cards frequent failed POS and ATM transactions and consequently charge backs from POS and ATM transactions, claims and refunds, Banks may not refund some of the claims from this risk but what happens to the bank's reputation? Obviously, reputational risk will crystallize and loss of confidence will ensue.
Financial risk has always been a topic of discussion since the inception of banking business. Many researchers have done good jobs on financial risk matters though not exhaustive. Some risk dimensions that exist now such as internet frauds, were never in existence in the past. Modernization, liberalization and growing competition has increased risk and uncertainties in banking. For instance, technology in banking or the new normal of banking by way of electronic banking has increased fraud and fraud attempts in banking business. Also, harsh economic conditions and insecurity have equally contributed to increase in fraud and fraud attempts in banks. All these constitute serious operational risk which requires mitigation in order to ensure survival and continuity of banks. These, alongside increase in other financial risk dimensions, necessitated the discussion on financial risk management. Financial risk and their dimensions continue to increase as the economy and banking business evolves hence, the need for this research work.
Prior to this regulated era, so many banks collapsed while some others bought over. Surprisingly, during this regulated era, banks still went under and are still going under.

Absorption and takeover, continuous mergers and acquisition here and there,bailout and interventions which has become a norm in recent times seem to be an indicator of poor financial risks management.

CBN by way of regulation has contributed to risk management in banks. Several measures have been put in place by regulations to minimize risk in banking business to ensure banks do not fail. They from time to time issue guidelines to banks to mitigate both existing and emerging risk considering the multiplier effect of bank failure. Every bank claim to have a well-structured risk management strategy and strong internal control system in place. Deposit money banks claim they have strategies to manage their financial risk both existing and emerging, adequately. Despite all these, new dimensions of risk continue to emerge and crystallize, banks are still failing, mergers and acquisitions still taking place, Central Bank of Nigeria (CBN) is still bailing, and the activities of Asset Management Corporation of Nigeria (AMCON) still remain unending. Also, new dimensions of risk continue to rear their ugly heads, despite efforts to manage existing ones thereby increasing risk management responsibility of banks.

Conceptual Framework

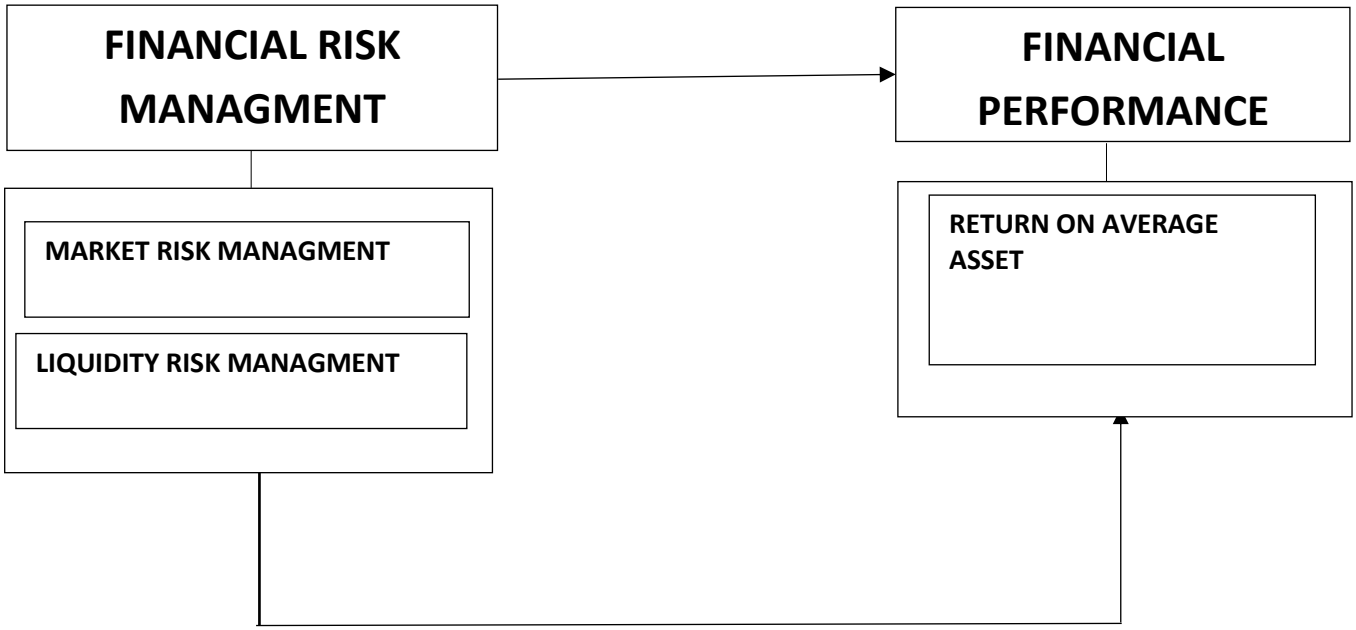

Fig 1.1 Conceptual Frame Work of Financial Risk Management and Financial Performance
SOURCES: Newstyle et al (2024)

Aim and Objectives of the Study

The ultimate aim of this study is to evaluate the relationship between financial risk management and financial performance of deposit money banks. Therefore, the specific objectives of this study are to:

1. evaluate the relationship between market risk management and return on average Asset of Deposit money banks;
2. ascertain the relationship between liquidity risk management and return on Average Assets of Deposit money banks.

Research Questions

In line with the objectives of this research work, the following questions were raised:

1. What is the relationship between market risk management and return on average asset of deposit money banks?
2. What is the relationship between liquidity risk management and return on average asset of deposit money banks?

Research Hypotheses

From the objectives of the study and the resultant research questions, the following research hypotheses emanated:

$H0_1$: Market risk management has no significant relationship with return on average asset of deposit money banks.

$H0_2$: liquidity risk management has no significant relationship with return on average equity of deposit money banks.

LITERATURE REVIEW

Financial Risk Management

Financial hazards have many different root causes, one of which is loan repayment defaults, which result in nonperforming loans (NPL) for banks. "These risks are some of the most significant and challenging ones that banks encounter when carrying out their legally mandated operating responsibilities (Mustafa, 2019). Financial risks include, but are not limited to, those related to credit, liquidity, markets, and insolvency. In a financial transaction, interest rate risk, currency risk, and business risk are additional potential financial problems (Ghenimi et al., 2017). Abdullah (2021) explained that financial risk is any peril connected with borrowing money or making investments. It often has debilitating effects on banks and exposes them to reputational danger in addition to financial losses. Sometimes, it's understood to just refer to risk moving downward. The risk involved in DMBs' regular operations would be referred to as financial risk in an ideal society. Deposit Money Banks (DMBs) must put policies in place to manage the multiple risks that financial organizations like these confront. All of the aforementioned financial risks must be considered by banks, but it seems that credit and liquidity risks are the most important to their regular business operations. This is so that the bank's capacity to maintain its financial stability won't be significantly impacted by the bulk of other risks, which can be shifted to consumers. The links between credit and liquidity issues have a big influence on a bank's bottom line. When a business decides to invest, it exposes itself to a range of financial risks, both commercially and financially. Depending on the kind of financial instrument, these risks are available in various sizes (Agbana,2023). A few possible financial hazards include market volatility, bankruptcy, rising inflation, and recession. The interaction between human factors and specific risk factors, according to Olufemi and Sunmisola (2022), emphasizes the need for close attention to both human factors and the main drivers for risk management: a change driver that derives primarily from the need to comprehend how people behave in dynamic environments and in the presence of risks.

Financial risk management may be described as a systematic technique for analysing, evaluating, and addressing financial risks. Cohen et al (2017) defined financial risk management as a sequence of four (4) processes: (1) the identification of events into one or more broad categories of market, credit, operational and other risks into specific sub-categories; (2) the assessment of risks using data and risk model; (3) the monitoring and reporting of the risk assessments on a timely basis; and (4) the control of these risks by senior management. Because of the vast diversity in risk that banking institutions take, there is no single risk management guidelines for banking institutions prescribed risk management system

that works for all. This increases the possibility that goals will be achieved and ensures that businesses, people, and communities remain sustainable. It also assists the company in keeping track of new customers. A full comprehension of the relevant dangers, an assessment of their relative importance, and a methodical monitoring and control strategy are necessary for risk management to be successful. To lessen or totally prevent the possible loss, it is vital to recognize potential risks, assess and analyze them, and take precautionary action. The objective of financial risk management is to lower risk. Risk management is defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary (Paulinus & Jones, 2017). Risk management refers to the belief that the likelihood of an event occurring can be reduced or the consequences avoided (Moronfoye, 2023). Risk management is an important tool to mitigate the negative impact of exposure and to gain the best from risky conditions (Mohammed & Knapkova, 2016). Effective risk management is designed to reasonably ensure that the objectives of business enterprises are achieved while keeping risks associated with business activities at bay. Effective risk management regularly evaluates and detects risks, reducing surprises affecting the organization negatively. Risk management that encompasses the whole activities of business organizations is enterprise risk management.

According to Lam. (2017), risk management involves a variety of steps that set the context, recognize and assess deviations, monitor, and alert personnel to risks. Additionally, by taking these steps, decision-making may be continually improved. The primary goals of risk management in the financial sector include developing strategies to lower risk and, more crucially, monitoring the bank's profile (Bello2020). Therefore, both a scarcity of resources and a surplus of underused ones pose a liquidity risk. For gap analysis and management in banks to be effective, a reasonable fit between the average maturities of the sources and uses of funds must be kept (Olufemi&Sunmisola,2022). Risk management is vital in determining the total profitability of banks, according to researchers Oluwafemi et al. (2018), Kambi and Ali (2016), Haliru et al (2024), Lam (2017). A bank's ability to make timely payments on its debts or invest in asset expansion when it is necessary is subject to liquidity risk (Haliru et al 2024). The danger of late loan payments, often known as credit risk, must be managed by banks. Credit risk may arise if a borrower is unable or unwilling to meet its obligations (Anthony & Shanise, 2018).

Market Risk Management

Market risk is all about the uncertainties in the external environment. It is the risk arising from the volatility in the market that affects the bank’s return. It is the risk to an institution emanating from fluctuations in market prices, especially in changes in interest rates, foreign exchange rates, and equity and commodity prices. Equally, market risk can also emanate from where banks accept financial instruments exposed to market price volatility as collateral for loans (Muriithi, et al 2016). These changes in market prices (interest rate, exchange rate, equity and commodity prices) cause uncertainties in the expected bank return Soyemi, et al (2014). Furthermore, market risk is the uncertainty relating to the earnings from the business port-olio of financial institutions (Tehranian et al, 2006). Financial performance has earned varying definitions from various authors. The general idea in all these definitions is that financial performance connotes generation of financial gains from the use of money. According to Udom

and Eze (2018), financial performance is an assessment of the financial conditions or profitability of a bank in order to gain insight into the health of the bank using an index that relates two pieces of financial data called financial ratios. It can be defined as the firm's ability to generate new resources (usually net income and cash from operation) from its day-to-day operations over a specified period of time (Adesugba & Bambale, 2016)

The likelihood of loss of value or financial resources emanating from the banks' holding in stock, equity or interest in other firms. Commodity price on the other hand is the risk of loss in financial value resulting from changes or fluctuations in banks commodity or equity pricing in the banks' product. Competition risk is the likelihood that similar companies in the same industry will offer lower rate on credit facilities and higher rate on deposits to win depositors to their banks. This will result in lower interest income and high interest expenses. The key risk indicator of equity price risk is a decline in the firm's equity price while that of the commodity is an increase in interest rate or unnecessary discount from competition or concessions on pricing. The key risk indicator of competition is high interest expense or Average cost of deposit (ACD) as explained earlier.

Liquidity Risk Management

Liquidity is a financial term that means the amount of capital that is available for investment. Maturing obligations. It is the bank ability to immediately meet cash, cheese, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements. Liquidity has no generally accepted definition. Adler (2014) argued that the lack of a commonly agreed definition is as a result of the concept of liquidity emerging from various economic perspectives. Liquidity is a very demanding factor for the smooth running of banking businesses; expansion and survival of all banks is dependent on Liquidity. The term has divergent definitions to various people and institutions. Liquidity is of greatest relevance, being a fundamental matter of banking (Okeke, 2024). It is the ability to meet maturing obligations in a timely manner.

Liquidity is used to give the description of a business by the value of liquid assets the company has; the more the liquid assets, the higher the liquidity of the company (Mwangi, 2014). According to Olagunju, et al (2011), liquidity was defined as the capability of an entity to settle its short-termed obligations or the ability of an entity to change its assets to cash. Therefore, the liquidity of a bank is the capability of a bank to keep adequate funds in order to pay for its fully-developed commitments at a suitable price. Liquidity has a vital part in the successful operation of a business. Ibe (2013) defined liquidity as the degree of convertibility to cash or the ease with which any asset can be converted to cash. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority (CBN, 2012).

According to Olagunju, et al (2011), liquidity refers to the ability of a bank to ensure the availability of funds to meet financial commitments or maturing obligations at a reasonable price at all times. Put differently, bank liquidity means banks having money when they need it particularly to satisfy the withdrawal needs of their customers. The survival of deposit money banks depends greatly on how liquid they are. Since illiquidity, being a sign of imminent distress, can easily erode the confidence of the public in the banking system and results to run on deposit. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2010), adequate level of liquidity is positively related with bank profitability. Thus, banks that maintain adequate levels of liquidity tend to be more profitable. The most common financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposits. Others are cash to deposit

ratio (Ongore& Kusa, 2013). Liquidity is the term used to describe how easy it is to convert assets to cash. The most liquid asset, and what everything else is compared to, is cash. This is because it can always be used easily and immediately. Liquid assets are important to have in times of crisis or emergency because they are easily converted into cash. Without liquidity, money can become tied up in systems that are difficult to cash out of and even more difficult to assess for actual cash value. During times of emergency, large financial institutions shut down, making it difficult for people to access the cash they need to buy essentials like food, gasoline and other emergency supplies. Bowa (2015) opined that a bank needs to hold liquid assets to meet the cash requirements of its customers, if the institution does not have the resources to satisfy its customers; demand, then it either has to borrow on the inter-bank market or the central bank. It follows therefore that a bank unable to meet its customers' demands leaves itself exposed to a run.

The term liquidity is often used in multiple contexts. An assets liquidity can be used to describe how quickly, easily and cost it is to convert that asset into cash (Berger & Bouwman, 2009). Liquidity can also be used to describe a company by the amount of cash or near cash assets a company has; the more liquid assets, the higher a company's liquidity. Financial ratios that measure liquidity are referred to as a company& liquidity ratio. One such ratio is the current ratio which determines a company's ability to pay short term debts as they come due (Henry et al, 2012). Liquidity risk has many definitions but the one that can be derived from the ratio is the probability that a company will not be able to pay its short-term obligations as they come due. This inability can lead a company to face serious financial problems. In addition to this, liquidity risk can also be defined in terms of the counterparty to a transaction. In this sense the term means the risk inherent in the fact that the counterparty may not be able to pay or settle the transaction even if they are in good financial standing, because of a lack of liquidity (Petria & Petria, 2009).

Liquidity risk for a bank is especially prevalent as it is easy for a bank to lose its liquidity because depositors can withdraw funds when they choose. In addition to depositors, banks face another way in which their cash reserves can be strained by fulfilling obligations to companies. These companies have previously established loan commitments, called credit lines that can be borrowed from the bank when needed (Gatev, et al 2009). Historically, runs on banks have shown certain banks predisposition to liquidity risk and the severity of impact this risk can have on the economy. This risk is intricately tied to the nature of banking. This is why banks, governmental entities, and private industry have tried to understand liquidity risk and implement public policy, regulations, and risk assessment policies to mitigate this risk. Liquid assets should be marketable or transferable. This means, they are expected to be converted to cash easily and promptly and are redeemable prior to maturity. Another quality of liquid assets is price stability. Based on this characteristic, bank deposits and short-term securities are more liquid than equity investments due to the fact that the prices of the former are fixed than the prices and value of the later (Choudhary & Limodio 2022) the liquidity in the commercial bank represents the ability to fund its obligations by the contractor at the time of maturity. Which includes lending and investment commitments, withdrawals, deposits, and accrued liabilities (Amengor, 2010). With respect to finance and financial institutions, liquidity may be defined as the banks' ability to meet maturing obligations without incurring unacceptable losses. A study of liquidity is of major importance to both the internal and external environments of a financial institution and analysts because of its close relationship with day to day operations of a business (Bhunia, 2010). According to Edem (2017), liquidity is defined as banks' ability to acquire funds required to meet obligations when due without incurring any substantial losses. Liquidity is a bank capacity to fund increase in assets and meet both expected and unexpected

cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Liquidity is also used to determine the financial health of a business or personal investment portfolio. Three liquidity ratios are used for this purpose, including the current ratio, the quick ratio and the capital ratio. Liquidity not only helps ensure that a person or business always has a reliable supply of cash close at hand, but it is a powerful tool when it comes to determining the financial health of future investments as well (Clementi,2001). Prudent bank management requires that the liquidity position of a bank should be ascertained accurately during operations, in other words, every working day. The liquidity of a firm is measured by liquidity ratios; a class of financial metrics that is used to determine a company's ability to pay off its short-term debt obligations. From regulatory authority point of view, liquidity ratio refers to the reserve requirement which is a bank regulation that sets the minimum reserve each bank must hold. Commonly used liquidity ratios are the current ratio and the quick (or acid test) ratio. Vishnani and Shah (2007) affirmed that the most common measure of liquidity is current ratio and return on investment for profitability. The current ratio is used to test a firm's liquidity, that is, its current or working capital position by deriving the proportion of the firm's current assets available to cover its current liability. A higher current ratio indicates a larger investment in current assets which means, a low rate of return on investment for the firm, as excess investment in current assets will not yield enough return. A low current ratio means smaller investment in current assets which means a high rate of return on investment for the firm, as no unused investment is tied up in current assets. However, there is consensus in theoretical literatures that the higher the ratio, the better. The concept behind this ratio is to ascertain whether a company's short-term assets are readily available to pay off its short-term liabilities (Loth, 2012). In summary, banks face two central issues regarding liquidity. Banks are responsible for managing liquidity creation and liquidity risk. Liquidity creation helps depositors and companies stay liquid, for companies especially when other forms of financing become difficult. Managing liquidity risk is to ensure the banks own liquidity so that the bank can continue to serve its function.

Liquidity management is essential for the outstanding performances of all business entities, particularly to financial institutions due to the fact that customer confidence of the banks is to a large extent dependent on the accessibility of funds in good time. Inadequacy of liquidity can destruct the proper operations of banks even as they might be unsuccessful to meet the financial demands of the customers in time. This would result to tight relationship with their customers, and so it is of vital importance to formulate policies for the efficiency of liquidity management. This is possibly in the form of suitable courses of actions for the evaluation, control and management of liquidity (Okeke,2024). Okeke (2024) opined that liquidity management includes the conservation of adequate cash balance and its corresponding balances to give satisfaction to the needs of the customers at any moment and in addition, making sure that money is also at hand to carry out the day-to-day functions of the bank. In the course of discharging these functions, the banks ought to be able to make profit for all stakeholders who are necessary for its continuous existence and running. Nevertheless, attaining profitability requires the stabilization of liquidity and how it is being managed.

Financial Performance

The word financial performance refers to how well an organization's policies help it to reach its planned financial goal in terms of money. Financial performance is a set of measures used to assess the healthiness of banks including some form of risk assessment and it is used as a key internal performance measure for every bank entity. Financial performance is measured using a firm's revenues, liabilities, and cash flow. Financial performance indicators in the form

of ratios include profitability, liquidity, financial utilisation structure and investment shareholder ratio (Bouteille & Coogan-Pushner, 2021. The measure of profitability is by gross profit margin, the amount of money made after deducting the sales/services direct cost. The operating margin lies between the gross and net profitability measures and net profit margin, including all costs. Liquidity ratios indicate the ability to meet short-term obligations. Efficiency ratios indicate how well the business assets are used (Lam et al., 2018). Financial leverage/gearing ratios indicate the sustainability of the exposure to long-term debt (Lam et al., 2018). Turyahebya (2013) described the financial performance as the capacity to work proficiently and produce profits and in this way can survive, develop, and respond to the surrounding prospects and challenges. Abdullahi and Tela (2022) asserted that a company's ability to maximize the utilization of its resources, overall operational effectiveness, as well as the performance of its management, are all indicators of its financial success. Financial performance entails measuring the results of a firm's strategies, policies and operations in monetary terms. Financial performance provides a subjective measure of how well a bank can use its assets to generate revenues (; Herciu, 2017). More than two or more ratios can be used to determine a company's rate of return and the firm's sustainable growth rate. For a quoted firm, the value of the company's stock is also relevant in determining its performance. There are several elements that influence the advancement of a company's financial performance, and most studies have divided the variables that influence the performance of banks into categories. In addition to the state of various subsidiaries or divisions (for example, small or associated with support units, unit subsidiaries, or numerous divisions), the situation and size of the bank are examples of non-financial aspects to take into consideration.

Bank financial performance is not limited to quantitative measures and can include indicators of customer relations and the quality of its relationships with other financial institutions (Golovkova et al., 2019). The financial output calculation usually is defined by corporate profitability as calculated by an asset ratio, a relation between gross income and total assets, an equity return (ROE), a compare of total revenues with total equity and net profit margin (NPM), and the residual proportion of sales after deductions from salt investments have been produced. In terms of financial perforce, Return on Asset (ROA) and Return on Equity (ROE) are commonly used. ROA illustrates how a bank uses its funds successfully to produce profits. It is the revenue produced by a percentage for each unit of an asset. Return on equity (ROE) is known as the alternate profitability metric and is measured via the distribution of net profits by share. It tests each shareholder's fund unit profits. Haris et al. (2019) claimed that in recent banking literature the ROA is one of the most significant profitability indicators. Study studies like Haris et al. (2019) both took ROA as a rentability indicator. The problem with ROA is to remove the amount of assets from the overall assets that are off balance sheet products. In the end, this condition will establish a positive prejudice under which the ROA in the estimation of bank output is overrated. The shortcoming of this calculation is that heavily leveraged banks appear to achieve a higher ratio. Yet, banks with high financial leverage tend to have higher financial risk and therefore a higher possibility of bankruptcy. However, no studies have examined these issues in a deposit money banks context.

Return on average Assets (ROAA)

Return on average asset is a profitability measure which seeks to ascertain the company’s efficiency in asset utilization (Lydia, 2018). It is a profitability ratio that measures how efficient an organization is in utilizing the company’s assets to generate earnings or profit (Alarussi 2021). Return on average asset therefore is a measure of the contribution of an average asset to

earnings or profit generation. It is a good measure of efficiency (Akani &Ezebunwa, 2021). Organizations may have huge amounts in assets or capital but generate little profit or earnings. Figures of assets or capital of an organization are mere absolute figures or amounts. Translating these figures in a clearer perspective gives a clearer view or understanding of efficiency which is necessary for business decision making (Grimshaw et al 2012). Organizations may be carrying in their books, impaired or obsolete assets that are not adding value to the business but may not expect the figures to be put to test of efficiency like this. Therefore, return on assets is important as it exposes areas of inefficiency and assets that are not adding values (Maditinos et al 2012). Such assets therefore may be subjected to asset impairment and subsequently disposed of and possibly replaced where necessary. This ratio is very important to the board and management who regularly appraise themselves to ascertain how efficient and effective they are. Also, to shareholders who always wish to assess their agents (Board and Management) on efficiency and effectiveness to be rest assured of the continuity of the business investment business growth, wealth and dividend maximization. To potential investors who may wish to assess a company's financial strength and efficiency, this profitability ratio is key.

Ukamaka and Amaechi (2024) defined return on assets as a financial ratio that indicates how profitable a company is in relation to its total assets.

Return on assets x-rays the amount of profit earned by a firm in comparison to its total value of assets. The higher the return on asset (ROaA), the better the firm, as a lower ROaA rate may mean lower asset productivity and wastage. It is an expedient indicator of asset intensity. An ideal return on asset figure is a function of the company and industry it operates in. However, a return on assets of 5% or higher is good. It is important for firms that are highly competitive like banks to always watch this ratio. It is therefore important to carry out both vertical and horizontal analysis of this likewise other ratios. In other words, it is important to have a trend analysis to compare it year on year. It is important also to compare it with that of similar firms in the same industry as well as company average. All these will help guide managers and directors.

Empirical Review

Kumshe et al (2024), examined the effect of risk management on the financial performance of listed DMBs in Nigeria. Adopting correlation research design, the target population was all the listed DMBs in Nigeria as at 31st December, 2022 and were nineteen (19) in number. Out of the 19 banks, 16 were purposively selected as sample based on the criteria that, the bank must have been listed before 31st December 2017 and also have complete annual report and account over the period of five years from 2018-2022. The study used descriptive statistics and panel regression analysis to analyze the data collected, and the results of the analyses revealed that, credit risk management, market risk management and capital adequacy risk management have positive and significant effect on the financial performance of the listed DMBs in Nigeria over the period of the study. However, liquidity risk management was found to have negative but insignificant effect on the financial performance of the banks. Hence, the study concluded that; effective risk management have positive and significant effect on the financial performance of listed DMBs in Nigeria. Based on these findings, this study recommends that; the management of listed DMBs in Nigeria should improve and strengthen their liquidity management strategies, while keeping adequate watch on credit risk, market risk, and capital adequacy risk to further improve their financial performance. Therefore, further studies could look into the effect of effective risk management process (risk identification, assessment, monitoring, and controlling process) on the financial performance of DMBs. Also, future studies could consider

the impact of the adoption of IFRS on risk management and financial performance of listed DMBs in Nigeria.

Adeyinka and Henry (2024), investigated the relationship between risk management and financial performance of deposit money banks in Nigeria. The researcher developed four specific objectives, four research questions and four hypotheses that guided the study. The study employed ex-post-facto research design. This design is selected and implemented due to the researcher's lack of control over the various elements of the design. The data for this study is preexisting, therefore it is utilized for a secondary data analysis. The study's population comprised twenty-two (22) designated deposit money banks in Nigeria. This study employed the judgmental sampling technique. The sample size is made up of two (2) DMBs which includes United Bank for Africa Plc, Fidelity. The data for this study were obtained from the published financial statements of the chosen publicly traded deposit money banks in Nigeria. This study employed an estimated technique that involved the use of descriptive statistics and Ordinary Least Squares (OLS) regression analysis. The E-view-9 software was utilized to carry out the analysis. The study specifically concluded that loan loss provision is not statistically significant and does not appear to have a significant effect on operating income. The researcher suggested that Banks should continuously monitor the financial health and business performance of borrowers to identify early warning signs of distress. Banks should establish a specialized LLP management team that can work closely with delinquent borrowers to restructure loans, offer alternative payment plans, or collaborate on asset sales to recover funds.

Onyegiri et al (2024), examined the effect of risk management strategies on the financial performance of deposit money banks in Nigeria. Specifically, this study examined the how credit risk, liquidity risk, operational risk, and capital adequacy risk have significantly affected and explained the changes in return on assets, return on equity, and yield on earnings assets. The study used the ex post facto research design and applied the Auto-regressive Distributive Lag (ARDL) technique to estimate the models and also covered a period of twenty nine (29) years, from 1994 to 2022, using data that were obtained from Central Bank of Nigeria Banking Supervision Reports and Nigeria Deposit Insurance Corporation (NDIC) Annual Reports from 1994 to 2022. The findings revealed that Credit risk (ratio of non-performing loans to total loan and ratio of non-performing loans to shareholders' fund) has not significantly explained and affect the changes in return on assets; Liquidity risk (average liquidity ratio, and loan to deposit ratio) has not significantly explained and affect the changes in return on equity; Operational risk (fraud and operating cost) has significantly explained and affect the changes in return on assets; Capital adequacy risk has significantly explained and affect the changes in yield on earning assets. Consequently, this study concludes that financial performance of deposit money banks in Nigeria would be sustain by effective and efficient operational risk and capital adequacy risk management practice. The study recommends that banks should adhere strictly to the rule that guides credit grant to clients. In addition, banks should abide by the credit risk management guidelines as spelt out in the prudential guideline of the Central Bank of Nigeria.

Newstyle *et al* (2024), evaluated the effect of financial risk management on financial performance of listed deposit money banks in Nigeria. Specifically, the study evaluated the effect of credit risk management, liquidity risk management, credit risk management and operational risk management on return on average assets of listed deposit money banks in Nigeria, and finally, evaluate the extent to which firm size moderate the relationship between total financial risk management and returns on average assets of listed deposit money banks in Nigeria. The study adopted an ex-post facto research design. The population of the study was

fourteen (14) listed deposits money banks in the Nigerian Exchange Group and nine (9) was used as sample size employing purposive sampling technique. The data used in the study was sourced from annual reports and statement of accounts of the selected firms between 2013 and 2022. The study adopted descriptive statistics, unit root test, diagnostics test, Hausman test and Panel Least Square of multiple regression techniques with the help of Eview 10 and Statistical Package for Social Science (SPSS v 20) for the purpose of Moderated Multiple Regression (MMR) technique. The study result disclosed that the effect of market risk management on return on average assets of listed deposit money banks in Nigeria is not significant, the effect of liquidity risk management on return on average assets of listed deposit money banks in Nigeria is not significant, the effect of credit risk management on return on average assets of listed deposit money banks in Nigeria is significant, the effect of operation risk management on return on average assets of listed deposit money banks in Nigeria is significant, and the moderating effect of firm size on the relationship between total financial risk management and returns on average assets of listed deposit money banks in Nigeria is not significant. Therefore, the study generally concluded that the effect of financial risk management on financial performance of listed deposit money banks in Nigeria is positive and statistically not significant for the period 2013 - 2022. The study recommends amongst others that since increase in market risk management increase financial performance in tern of return on assets of listed deposit money banks, the financial institutions should establish sound market risk committee that would evaluate market investment activities within the firm before investing.

Okeke (2024), investigated the effect of liquidity management on financial performance of deposit money banks in Nigeria. Utilizing secondary data and an ex post facto approach, the study investigates the relationship between liquidity indicators and key profitability metrics. Findings indicate that while liquidity management does not significantly influence profitability and return on assets, it does exhibit a notable impact on Union Bank Plc's return on equity. The study concludes that maintaining adequate liquidity is crucial for banking stability, but its effect on shareholder returns is a more nuanced consideration. To optimize return on equity while ensuring sufficient liquidity, the study recommends several strategies for commercial banks in Nigeria. These include: enhancing operational efficiency, driving innovation, adopting customer-centric approaches, implementing dynamic risk management frameworks, and tailoring lending practices to better serve customer needs.

Methodology

The study adopted ex-post facto research design based on the fact that the study relies on historical accounting data obtained from annual reports and accounts of the selected banks. This design seeks to identify antecedents of a present situation. The targeted population of this study consists of thirteen (13) listed banks in the Nigerian Exchange Group (NGX) and the time frame considered for this study was 2014-2023 for the purpose of secondary data collection. This study uses convenient method and selected 10 banks.

Data Analysis

4.2.1 Descriptive analysis

A descriptive statistic is a summary statistic that quantitatively defines features of a group of information. In this study the descriptive statistics was applied to appraise the nature of the data so collected. Table 4.2 below describes the descriptive statistics of the study.

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
mrm	100	7.358974	2.00511	1.666667	12
Lrm	100	88.55229	48.04241	17.49111	343.09
roaa	100	0.0673004	0.0833043	-0.1965952	0.3152346

Source Output from STATA version 12.

The table above showed that the average mean of Market Risk Management (MRM) is 7.358974 with a minimum of 1.666667 and maximum of 12and a standard deviation of 2.00511. Table 4.2 also revealed that Liquidity Risk Management has an average mean value of 88.55229 with a standard deviation of 48.04241 and a minimum and maximum value of 17.49111 and 343.09 respectively. This shows that a large proportion of the liquidity risk management impacted on financial performance.
Furthermore, table above showed that the average mean of the Return on Average Asset (ROAA) was 0.0673004, with a minimum of -0.1965952 and maximum of 0.3152348, and a standard deviation of 0.0833043.

Bivariate analysis
Table below explained the bivariate correlation of the variables of the study.

Bivariate correlation of the variables

	lrm	mrm	roaa
lrm	1.0000		
mrm	0.7130*	1.0000	
roaa	0.6896*	0.9961*	1.0000

Source Output from STATA version 12.
* Correlation is significant at the 0.5 level
Table above showed that Liquidity Risk Management and Market Risk Management are positive and significantly correlated with Return on Average Asset (0.6896*, and 0.9961*).

Analysis of multi-collinearity
Before conducting regression analysis, multi-collinearity needs to be patterned. Multicollinearity is a statistical concept where several independent variables in a model are correlated. Two variables are considered to be perfectly collinear if their correlation coefficient is +/- 1.0. Multicollinearity among independent variables will result in less reliable statistical inferences. This study employed the Variance Inflation Factor (VIF) methodinordertodeterminethepresenceofmulti-collinearityamongindependentvariables. VIF value greater than10callsforconcern. While the normality is the assumption that the underlying residuals are normally distributed, or approximately so. The null hypothesis states that the residuals are normally distributed, against the alternative hypothesis that they are not normally-distributed.

Test of Multi-Collinearity

Variable	VIF	1/VIF
mrm	13.30	0.075195
lrm	1.51	0.661246
Mean VIF	9.25	

Source Output from STATA version 12.

The test of multicollinearity among the independent variables in Table above revealed that a variance inflation factor value of 9.25 which is below10. Therefore, independent variables used in this study do not suggest multicollinearity problem.

Regression Result

Table 4.5 Multiple regression results with ROAA as dependent variable

$ROAA_{it} = \beta_0 + \beta_1 MRM_{it} + \beta_2 LRM_{it} + \varepsilon_{it}$ … (1)

Linear regression

Number of obs	100
F(4, 95)	598.20
Prob > F	0.0000
R-squared	0.9886
Root MSE	5411

roaa	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
lrm	-2.349398	1.243479	-1.89	0.076	-4.972909	.2741141
mrm	69.48867	11.06868	6.28	0.000	46.13581	92.84154
_cons	1812.13	1848.998	0.98	0.341	-2088.915	5713.176

Source Output from STATA version 12.

Table 4.5 above shows the regression model of Return on Average Asset (ROAA) against Liquidity Risk Management (LRM), and Market Risk Management (MRM). The standard robust error in the regression addresses heteroskedasticity. The F statistics in Table above show a that at F (4, 95) = 598.21, Prob>*F* = 0.0000 and that the independent variables statistically and significantly predict the dependent variable. The independent variables in the model explains 99% of the variation in return on average asset.

Test of Hypothesis

Ho_1 There is no significant relationship between Market Risk Management and Return on Average Asset of Deposit money banks.

Regression on the relationship between Market Risk Management and Return on Average Asset of Deposit money banks.

Number of obs = 100
R-squared = 0.9886

ROAA	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
MRM	69.48867	11.06868	6.28	0.000	46.13581	92.84154
cons	1812.13	1848.998	0.98	0.341	-2088.915	5713.176

Source Output from STATA version 12

From table above, the result of the data regress on Market Risk Management and Return on Average Asset shows a positive coefficient of 69.48867 and a p-value (0.000) that is highly significant. This implies that the relationship between Market Risk Management and Return on Average Asset is positive and statistically significant. It means that a 1% increase in Market Risk Management will bring about a 69.49 increase in Return on Average Asset all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore reject the null hypothesis and conclude that There is a significant relationship between Market Risk Management and Return on Average Asset of Deposit money banks.

Ho$_2$ There is no significant relationship between Liquidity Risk Management and Return on Average Asset of Deposit money banks.
Regression on the relationship between Liquidity Risk Management and Return on Average Asset of Deposit money banks.

Number of obs = 100
R-squared = 0.9886

ROAA	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
LRM	-2.349398	1.243479	-1.89	0.076	-4.972909	.2741141
cons	1812.13	1848.998	0.98	0.341	-2088.915	5713.176

Source Output from STATA version 12

From table above, the result of the data regress on Liquidity Risk Management and Return on Average Asset shows a negative coefficient of -2.349398 and a p-value (0.076) that is insignificant. This implies that the relationship between Liquidity Risk Management and Return on Average Asset in Nigeria is negative and insignificant. It means that a 1% increase in Liquidity Risk Management will bring about a 2.349 decrease in Return on Average Asset all other variables are held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that There is no significant relationship between Liquidity Risk Management and Return on Average Asset of Deposit money banks.

Discussion of Findings

Market Risk Management and Return on Average Asset in Nigeria.

The study revealed the existence a positive and significant relationship between Market Risk Management and Return on Average Asset (p-value= 0.000). This finding is in line with the finding of Abubakar (2020) that revealed that that credit risk proxy by capital adequacy ratio (CAR) and market risk, measured by net interest margin (NIM) has a significant and positive effect on the financial performance. Ayman (2021) also revealed a direct relationship between credit, liquidity and market risk and financial performance of banks in Jordan

This finding is in disagreement with the finding of Isedu et al; (2021) who investigated the effects of financial risk on the performance of Deposit Money banks in Nigeria and revealed that Market risk and operational risk do not in any way affect banks' financial performance

Liquidity Risk Management and Return on Average Asset in Nigeria.

The study revealed the existence of a negative and insignificant relationship between Liquidity Risk Management and Return on Average Asset in Nigeria (p-value= 0. 076). This finding is in line with the finding of Amsalu, (2019) who investigated the effect of financial risk on the financial performance of Ethiopian commercial banks and revealed a negative relationship with liquidity risk and financial performance. The study also agreed with Iyinomen et al (2019) carried out a study on Financial Risk and Performance of Deposit Money Banks (DMBs) listed on Stock Exchange of two selected West African countries using a sample of twenty (20) Deposit Money Banks (DMBs). They revealed that Liquidity risk has insignificant effect in both Ghana and Nigeria banks

This finding is in contrast with the work of Ayeni & Emeka (2021) revealed that that leverage risk, liquidity risk, firm size has significant effect on return on asset. Also, it contradicts the finding of Harelimana, (2017) that studied the role of risk management on financial performance of banking institutions in Rwanda with UNGUKA bank Ltd and revealed that there is a strong relationship between liquidity management and financial performance.

Conclusion

Financial risk management is the bedrock of banking as it determines the performance, survival and going concern of banks. It implies performance risk management. It therefore means that financial risk management translates to performance management or performance enhancement. Banks operate in an environment full of uncertainties which creates opportunities and threats called financial risk. Deposit money banks in Nigeria operate in the same market environment (though at different sizes) but report different rate of returns. The magic to the difference in rates of return is in their risk management abilities. Financial risk is the likelihood of losing funds from business and investment activities and it is an unexpected volatility or variability in business parameters that results in loss of funds. It is a charge against earnings and profits of banks which affects other performance parameters within the banking sector. The value of the firm and the shareholder's wealth can be maximized through the firm's profitability via effective and efficient financial risk management. The study generally concluded that the relationship between financial risk management and financial performance of Deposit money banks is positive and statistically significant for the period under review

Recommendations

Based on the summary of findings and conclusions above, the following recommendations were made:

1. The study recommended that the management of Deposit money banks should ensure that specific loan processing period to meet obligations whenever they fall due in order to maintains adequate liquidity for its day-to-day operations are maintained and to provides regular training before advancing the loans.
2. The study recommended that the management of Deposit money banks should establish sound governance and risk management systems by developing strategies, policies for liquidity management that is well integrated into its risk management practices as well as establish a contingency funding plan to address any liquidity shortfall during periods of stress or emergency while ensuring that active monitoring liquidity funding needs to avert any liquidity challenge that could trigger crisis in the banks is promptly addressed.

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