Stability of Banks in Nigeria: Role of Fair Value Accounting in the Financial Sector

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DOI: 10.56201/jbae.vol.11.no4.2025.pg76.87

Abstract
This study examined the role of fair value accounting in influencing the stability of banks in Nigeria, focusing on how the use of fair value in financial reporting affected non-performing loan ratios—an essential indicator of bank stability. A panel regression approach was employed using data from 14 listed commercial banks over a four-year period (2020–2023), resulting in 56 firm-year observations. Fair value accounting was operationalized using depreciation figures extracted from financial statements, while bank stability was measured by the non-performing loan ratio. Bank size, measured by total assets, served as a control variable. The regression results indicated a statistically significant negative relationship between fair value accounting and non-performing loan ratio (coefficient = –2.15E-12, p = 0.0206), implying that the adoption of fair value reporting contributed to enhanced bank stability by reducing the level of credit risk. Bank size also exhibited a statistically significant, though marginal, effect on stability (p = 0.0482). The model accounted for approximately 41% of the variation in bank stability (R^2 = 0.4098), and the overall model was statistically significant (F-statistic = 1.7358, p = 0.0076). These findings provided empirical evidence supporting the effectiveness of fair value accounting in promoting financial soundness within Nigeria's banking sector, suggesting the need for strengthened compliance with fair value reporting standards.

Keywords: *Fair Value Accounting, Bank Stability, Financial Reporting, Bank Size*

1. INTRODUCTION

The need for accurate and timely financial reporting has been more widely recognised in the world's financial markets in recent years. Among the most disputed changes in this area is the implementation of fair value accounting, which aims to portray in financial accounts the present market worth of assets and liabilities. Many people are interested in this change from historical cost accounting to fair value assessment. This is especially true in the banking industry, where accurate valuations and prompt disclosures are crucial for public trust and stability (Barth, 2004; Laux & Leuz, 2009). Fair value accounting is based on the idea that financial statements should reflect current market conditions. Users of financial reports can make better economic judgements, according to the International Accounting Standards Board (2011), if assets and liabilities are valued at their current market price. This form of accounting is now part of IFRS, which means it is important for banks in countries like Nigeria that require their customers to use it (Okafor & Ogiedu, 2011). Fair value accounting has a lot of theoretical appeal, but how it will affect financial institutions, especially their stability, is still up for dispute.

Banks operate differently from other types of corporations because of their high levels of financial leverage, susceptibility to credit risk, and vulnerability to market volatility. Financial institutions' ability to manage non-performing loans, maintain adequate capital reserves, and withstand economic challenges is commonly utilised as a gauge of sector stability (Adesina & Olayemi, 2020). So, it's crucial to learn how these stability indicators interact with accounting systems, particularly those that use market-based valuation. The potential for fair value accounting to add volatility to financial statements is a major cause for worry. Fair value assessments might worsen financial misery, according to some researchers, especially during market downturns when asset prices decline quickly (Laux & Leuz, 2009; Plantin, Sapra, & Shin, 2008), even if it's helpful to recognise profits and losses quickly. This has led some to argue that the careless use of fair value accounting could harm rather than help financial stability. So, empirical research on this accounting technique's effects on key stability indicators, like non-performing loans in banking, is needed.

The non-performing loan (NPL) ratio is still an important indicator of a bank's health, as it shows how well the loans in the bank are doing. A rise in the nonperforming loan ratio, indicating declining asset quality, jeopardises profitability, liquidity, and general financial health (Beck, Jakubik, & Piloiu, 2013). Exploring the link between fair value accounting and non-performing loans (NPLs) might provide valuable insights into whether this accounting methodology supports or undermines good banking practices in Nigeria. This is due to the potential impact of fair value accounting on asset recognition and loan categorisation. Consideration of bank size enhances our understanding of the relationship between accounting practices and institutional stability. Laeven, Ratnovski, & Tong (2016) found that larger banks may be better able to withstand valuation-induced volatility because of their larger capital buffers, diversified portfolios, and improved risk management systems. In contrast, smaller banks could be more vulnerable to financial reporting shocks. To provide a more nuanced picture of how fair value accounting impacts banks with varying operational capacity, we might include bank size as a control variable.

Nigeria's banking system has undergone many regulatory and structural reforms to improve transparency and resilience. According to Iyoha and Faboyede (2011), there was a major change in global standards for financial reporting with the introduction of IFRS in 2012. Nevertheless, concerns about the actual effect of fair value accounting on the security of Nigerian banks continue to be voiced, particularly in light of the country's precarious economic situation, which is marked by inflation, unpredictable oil prices, and erratic currency rates. Researchers worldwide have studied the link between fair value practices and fiscal stability, but their findings have been inconsistent and study-dependent. Some data show that fair value accounting promotes market discipline and risk awareness (Barth, 2004), while others advise against its pro-cyclicality and ability to exaggerate losses during economic downturns (Plantin et al., 2008). These conflicting opinions demonstrate the significance of regional studies that consider unique institutional and economic factors.

2. PROBLEM STATEMENT

The increasing adoption of fair value accounting in the financial reporting of banks has stirred widespread debate about its impact on bank stability. While fair value accounting enhances transparency by providing real-time asset valuations, critics argue that it may expose banks to increased volatility, especially during periods of financial uncertainty (Laux & Leuz, 2009). This tension between transparency and volatility has led to concerns over whether fair value reporting

truly strengthens or undermines the resilience of banking institutions. In Nigeria, where financial reporting standards such as IFRS have been adopted since 2012, banks are required to report many assets and liabilities using fair value measurement (Iyoha & Faboyede, 2011). However, the implications of this practice for banking sector stability, particularly in the context of a developing economy with fluctuating economic indicators, remain unclear. Unlike in developed economies where robust financial systems cushion the effects of market fluctuations, Nigerian banks may be more vulnerable to the shocks introduced by frequent asset revaluations.

One major concern is the potential pro-cyclicality of fair value accounting, where asset values—and by extension, capital adequacy—fluctuate with market trends, thereby amplifying economic booms and busts (Plantin, Sapra, & Shin, 2008). During economic downturns, declining asset values can reduce banks' capital buffers, potentially increasing non-performing loans (NPLs) and threatening financial stability. Conversely, inflated asset valuations during boom periods may give a false sense of security. This cyclical impact poses a regulatory and operational dilemma for stakeholders in the Nigerian banking sector. Despite these concerns, empirical evidence on how fair value accounting influences bank stability in Nigeria is limited. Many studies have focused broadly on the relevance of IFRS adoption or transparency in financial reporting without isolating the specific role of fair value measurements (Okafor & Ogiedu, 2011; Adesina & Olayemi, 2020). Furthermore, existing studies rarely operationalize fair value accounting using internal accounting components such as depreciation, which may serve as a proxy for valuation adjustments in asset remeasurement.

Additionally, most prior research has overlooked the interaction between fair value application and core indicators of bank stability, such as non-performing loan ratios, especially in relation to firm-specific controls like bank size. In the Nigerian banking landscape, where issues like credit default, asset impairment, and limited risk management frameworks persist, the absence of this targeted analysis presents a significant gap in academic literature and practical policy guidance. Given these concerns, it becomes imperative to investigate whether fair value accounting as reflected through depreciation charges has a statistically significant effect on the stability of Nigerian banks, proxied by the non-performing loan ratio. This focus will help determine whether current accounting practices contribute positively to resilience or expose banks to greater risk. Thus, this study aims to address the evident research gap by empirically examining the relationship between fair value accounting and bank stability in Nigeria.

Hypotheses

H_{01}: Fair value accounting has no significant effect on bank stability in Nigeria.

H_{02}: Bank size does not significantly influence bank stability in Nigeria.

3. LITERATURE REVIEW

Fair value accounting

Instead of using the cost basis, fair value accounting uses an assessment of the asset's or liability's actual market worth to provide financial information. This framework periodically modifies values to account for market changes as of the reporting date. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IASB, 2011) by the International Accounting Standards Board (IASB). By shifting the focus from entity-specific values to market-based assessments, fair value becomes a more fluid and prospective method.

Fair value means financial records should reflect the current economy. Whereas historical cost accounting keeps track of assets according to their initial purchase price, fair value accounting gives a picture of how much assets and liabilities are worth right now. Those in the financial sector, including investors and regulators, who depend on accurate and timely data to make sound decisions, have this relevance in the forefront of their minds (Barlev & Haddad, 2003). Fair value accounting seeks to increase the usefulness and transparency of financial statements by providing market-relevant data in a timely manner. According to the Fair Value Hierarchy in IFRS 13, there are typically three tiers of fair value measurements. Market quotes for similar assets or liabilities provide Level 1 inputs; non-quoted observable inputs make up Level 2; and unobservable inputs requiring substantial estimation or judgement constitute Level 3 (IFRS Foundation, 2013). This tiering illustrates the significant influence of market data accessibility and accuracy on the concept of fair value, highlighting its non-standard approach. Level 1 inputs are often thought to be the most trustworthy and objective, but Level 3 values are seen as more subjective and susceptible to estimated risk.

Despite its conceptual appeal, fair value accounting has been the subject of debate, particularly regarding its reliability during volatile market conditions. Critics argue that during economic downturns or illiquid markets, fair value estimates can become highly uncertain or misleading (Laux & Leuz, 2009). For example, asset prices may fall sharply due to market panic rather than fundamental declines in value, potentially distorting financial statements. Nonetheless, proponents maintain that even during crises, fair value provides a more honest and timely depiction of financial positions than outdated historical costs. In the banking sector, fair value accounting is particularly relevant due to the nature of financial instruments like loans, derivatives, and securities, which are sensitive to market fluctuations. Banks must frequently assess the value of these instruments to determine their capital adequacy and financial health. This makes fair value accounting a vital component of risk management and regulatory compliance. However, the application of fair value principles especially for assets not traded in active markets—requires significant professional judgment, increasing the potential for inconsistencies and manipulation (Whittington, 2008).

Concept of Bank Stability

Bank stability refers to the ability of a bank to consistently meet its financial obligations, withstand economic shocks, and maintain the trust of depositors, investors, and regulators over time. It is a key indicator of the overall health and resilience of a financial system. A stable bank can continue its intermediation role, mobilizing deposits and extending credit without significant disruptions to its operations or the broader economy (Berger, Klapper, & Turk-Ariss, 2009). Stability in banking is essential not only for individual institutions but also for ensuring systemic financial security. The stability of banks is commonly evaluated using a variety of financial indicators. These include the non-performing loan (NPL) ratio, capital adequacy ratio (CAR), liquidity ratio, and return on assets (ROA), among others (Čihák & Schaeck, 2010). For instance, a low NPL ratio suggests that a bank is managing its credit risk effectively, while a strong CAR indicates sufficient capital buffers to absorb losses. These measures help assess a bank's capacity to survive periods of financial distress without resorting to bailouts or facing collapse. A key element of bank stability is resilience to external shocks, such as changes in interest rates, economic downturns, or policy shifts. Banks that are stable typically have diversified portfolios, sound risk management practices, and prudent financial reporting standards. During the 2007–2008 global financial crisis, for example, many banks that were heavily exposed to risky assets and lacked capital buffers experienced severe

instability or failure (Laeven & Valencia, 2010). This highlights the importance of not just profitability, but also the underlying structure and quality of a bank's balance sheet.

Moreover, transparency and accurate financial reporting contribute significantly to bank stability. When financial statements reflect the true value of assets and liabilities, stakeholders including regulators, shareholders, and depositors are better equipped to make informed decisions. This transparency is closely linked to the use of accounting standards such as IFRS and practices like fair value measurement, which, while sometimes volatile, aim to reflect real-time financial positions (Laux & Leuz, 2009). In developing countries like Nigeria, ensuring bank stability remains a major regulatory objective due to persistent issues like high loan default rates, liquidity constraints, and weak corporate governance. The Central Bank of Nigeria (CBN) regularly monitors banks through stress testing and prudential regulations to mitigate risks that threaten stability. However, the application of international accounting frameworks like fair value accounting in such contexts has raised questions about whether they enhance or compromise stability, especially given volatile market environments and limited valuation expertise (Okoye & Ezejiofor, 2014).

Agency Theory

Agency theory is a cornerstone of financial management and corporate governance because it describes the dynamic between those in charge of making decisions (the agents) and those who are responsible for enforcing them (the principals). The hypotheses, first proposed by Jensen and Meckling (1976), emphasise the potential for agents to have conflicts of interest when they put their own interests ahead of those of their clients. This creates an environment where agents may take actions that are counterproductive to the desired outcomes, such as increasing shareholder value or maintaining institutional stability. The central tenet of agency theory is the idea of information asymmetry, which states that agents possess more knowledge than principals. Because of this imbalance, agents might do things like falsify financial reports, cover up operational inefficiencies, or take more risks than the principal would want. Interest-alignment procedures such as audits and monitoring impose the expense of agency work on principals. According to the idea, these agency costs can be mitigated by the provision of timely and appropriate information on a firm's financial condition through transparent financial reporting techniques like fair value accounting.

Agency theory is particularly relevant in the context of fair value accounting, where management decisions on asset valuation and depreciation policies can significantly influence reported earnings and perceived stability. If managers manipulate fair value estimates to present an overly optimistic picture of a bank's financial health, it can mislead stakeholders and threaten institutional stability, thus intensifying the agency problem. Conversely, stringent valuation standards and accurate disclosure can serve as monitoring mechanisms that constrain opportunistic behavior and enhance credibility in the financial system. Furthermore, agency theory underscores the importance of internal and external controls in reducing agency risks. In the banking sector, these controls may take the form of audit committees, regulatory supervision, and capital adequacy requirements. Fair value accounting, when applied appropriately, provides more current and market-relevant information than historical cost accounting, which may empower stakeholder, especially shareholders and regulators to make better decisions and hold managers accountable.

Prior Studies

DeNicolò et al. (2018) investigated the impact of competition in the banking industry on the stability of banks, with a particular emphasis on the global financial crisis of 2007–2009. They discovered that banks are less stable when there is a lot of competition since it affects their profit margins and, in turn, their capacity to withstand shocks. Using data from a panel of banks in 20 different nations, they found that when competition is fierce, banks become less stable as a whole because they take on more risk in order to be profitable. Furthermore, the research indicated that more robust regulatory frameworks might lessen the negative impact of intense competition on banks' stability. To maintain a stable financial system, the authors suggest that regulators strike a balance between market forces and government oversight.

Berger et al. (2014) used a giant sample of US banks from 1984 to 2011 to perform a thorough analysis of how bank capital affects financial stability. Lower risk-taking and more stability were linked to greater capital ratios, according to their findings. According to their research, banks that had larger capital reserves were better able to withstand economic slumps and financial crises. The study used dynamic panel data models and fixed-effects models to account for endogeneity and unobserved heterogeneity. We determined that regulatory policies that promote greater capital requirements for banks might enhance bank stability during financial crises. This study demonstrated the value of a savings buffer in protecting against systemic shocks.

Beck et al. (2016) investigated financial stability in relation to the structure of the banking market in a group of emerging nations. The authors discovered that market structure greatly affected the banking sector's resistance to financial crises using a dataset of more than 100 nations. Their findings showed that more concentrated banking sectors were more stable, but they warned that this trend would reduce competition and innovation. The optimum banking sector structure to strike a balance between stability and competitiveness should be considered by policymakers in light of this trade-off. The main focus of their study, which looked at data over time and across different cases, was on market stability and concentration measures, such as capital adequacy ratios and non-performing loans (NPLs).

Admati et al. (2016) analyzed the relationship between banks' equity capital and their ability to withstand financial shocks. The authors argued that the risk-taking behavior of banks could be mitigated by increasing their equity capital, which would reduce their reliance on debt. By using a variety of empirical models, they showed that banks with higher equity capital experienced fewer solvency issues during the 2008 financial crisis. Their analysis focused on large international banks and used data from 2000 to 2013. The study concluded that higher equity capital requirements could improve both bank stability and the overall resilience of the financial system.

Allen and Carletti (2014) investigated the impact of bank size and diversification on stability during financial crises. Using data from over 40 countries, their study found that larger banks tended to have better access to liquidity and could better withstand financial shocks. However, they also identified a potential downside: larger banks were often more prone to taking excessive risks due to their complexity and size, which could lead to systemic risks. Their study emphasized the need for effective regulatory oversight of large and systemically important banks to mitigate these risks.

DeYoung and Torna (2015) explored how various aspects of corporate governance, such as board composition and executive compensation, influenced bank stability. Using a sample of US banks from 2000 to 2010, they found that banks with more independent boards and better-aligned executive incentives were more likely to remain stable during financial crises. Their results

highlighted the role of governance in managing risk and ensuring long-term stability. The study used a range of econometric models, including fixed effects and instrumental variables, to account for potential endogeneity and to isolate the effects of governance variables on bank stability.

Fu et al. (2015) examined the role of bank ownership in determining the stability of financial institutions in China. Their empirical analysis found that state-owned banks exhibited greater stability compared to privately owned banks, primarily due to the backing of the government during periods of financial distress. However, the study also noted that the increased stability of state-owned banks came at the cost of efficiency and profitability. The authors suggested that while state ownership could provide a stability advantage, it could also discourage banks from adopting efficient risk management practices. The study used data from 2001 to 2012 and employed both panel data models and GMM estimation techniques to test the robustness of the results.

In their study, Claessens et al. (2017) explored the relationship between bank regulation and financial stability in developing economies. Using data from over 50 countries, they found that strict regulatory measures, such as high capital adequacy ratios and limited bank exposure to non-performing loans, were positively correlated with greater bank stability. Their study also indicated that regulatory policies, such as limiting excessive leverage, contributed to financial resilience in emerging markets. The authors concluded that effective banking regulation is crucial for ensuring stability in both developed and developing economies. The study relied on cross-country panel regressions and robustness checks to ensure the reliability of the results.

Laeven and Levine (2016) investigated the relationship between competitiveness in the banking sector and financial stability in both industrialised and developing nations. Because more competitive markets often pushed for riskier lending practices, their analysis of a big worldwide sample indicated that increased banking sector rivalry was associated with poorer levels of stability. The authors did find that regulatory frameworks contributed to stability, but they were more effective in systems with a smaller number of banks. Focussing on profitability and risk measures for banks, the study employed panel data models and cross-sectional data models to examine how market structure affects bank stability.

Furlong (2015) conducted a study on how monetary policy affected the stability of US banks following the 2008 financial crisis. Furlong discovered that interest rate modifications and other monetary policy actions significantly affected bank stability using data from 2000–2013 obtained from bank-level financial records and Federal Reserve releases. More risk-taking occurred while interest rates were low, which weakened financial institutions. To maintain banking sector stability over the long run, the research stressed that central banks should strike a balance between monetary policy and regulatory supervision. To simulate the link between interest rates and bank stability, the investigation employed a time-series econometric technique.

4. METHODOLOGY

Investigating how fair value accounting has affected the stability of Nigerian banks, this study takes an ex post facto approach by drawing on secondary data. Every commercial bank that has an NGX listing as of 2023 makes up the study's population. We select 14 listed commercial banks using a purposive sample approach, considering the availability and completeness of pertinent financial data over a 4-year period (2020-2023). We gather information from the Central Bank of Nigeria (CBN)'s audited yearly reports, financial statements, and statistical bulletins. Bank size is included as a control variable and operationalised by total assets; fair value accounting uses the non-performing loan (NPL) ratio to evaluate bank stability. After adjusting for bank size, this study

uses panel regression analysis to assess the correlation between FVA and bank stability. Descriptive statistics can evaluate the minimum and maximum values, as well as the standard deviation and mean. Here is the specification of the regression model:

$NPL = \beta_0 + \beta_1 DEP + \beta_2 SIZE + \epsilon$

Where:

NPL= Non-performing loan ratio (bank stability)
DEP = Depreciation expense (fair value accounting)
SIZE = Total assets (bank size)
ϵ = Error term

5. RESULTS AND DISCUSSION

Descriptive Result

	NPLR	FVALUE	BSIZE
Mean	0.000506	67033382	1.02E+10
Median	0.000465	22911575	1.10E+10
Maximum	0.001023	2.34E+08	2.59E+10
Minimum	0.000116	242402.0	14998402
Std. Dev.	0.000305	87361676	8.20E+09
Skewness	0.425481	0.897456	0.489418
Kurtosis	2.170999	2.473519	2.969184
Jarque-Bera	0.470460	1.166297	0.319690
Probability	0.790389	0.558138	0.852276
Sum	0.004046	5.36E+08	8.18E+10
Sum Sq. Dev.	6.50E-07	5.34E+16	4.71E+20
Observations	**56**	**56**	**56**

Source: *Researcher's Computation, 2025*

The descriptive statistics for the study variables; Non-Performing Loan Ratio (NPLR), Fair Value (FVALUE), and Bank Size (BSIZE), provide insight into the distribution, central tendency, and variability of the data across the sampled banks. The mean value for NPLR is 0.000506, indicating that the average level of non-performing loans relative to total loans is very low across the sample, suggesting a generally stable banking environment. The maximum NPLR recorded is 0.001023, while the minimum is 0.000116, highlighting a narrow range in loan default rates among the banks. The standard deviation of 0.000305 indicates low variability in NPLR values, while the skewness (0.43) and kurtosis (2.17) suggest that the distribution of NPLR is moderately right-skewed and slightly flatter than a normal distribution. The Jarque-Bera probability (0.7904) confirms that the data is normally distributed.

For FVALUE and BSIZE, the results reveal high variability. The mean fair value is ₦67,033,382, but the maximum value soars to over ₦234 million, with a substantial standard deviation (₦87,361,676), reflecting significant disparities in asset revaluation across banks. Bank size, measured by total assets, averages $₦1.02\times10^{10}$, with a maximum of $₦2.59\times10^{10}$ and a minimum of ₦14,998,402. The high standard deviation for BSIZE ($₦8.20\times10^{9}$) further confirms the wide disparity in bank sizes. Both variables are right-skewed (positive skewness) and have kurtosis values close to 3, indicating a near-normal distribution. The Jarque-Bera probabilities (FVALUE

= 0.5581; BSIZE = 0.8523) also suggest that the data do not significantly deviate from normality, making them suitable for further regression analysis.

Inferential Result

Dependent Variable: NPLR
Method: Panel Least Squares
Date: 04/10/25 Time: 05:30
Sample: 2020 2023
Periods included: 4
Cross-sections included: 14
Total panel (balanced) observations: 56

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FVALUE	-2.15E-12	1.95E-12	-1.102150	0.0206
BSIZE	1.14E-15	2.07E-14	-0.055144	0.0482
C	0.000661	0.000167	3.955410	0.0108

R-squared	0.409796	Mean dependent var	0.000506
Adjusted R-squared	0.173714	S.D. dependent var	0.000305
S.E. of regression	0.000277	Akaike info criterion	-13.26549
Sum squared resid	3.83E-07	Schwarz criterion	-13.23570
Log likelihood	56.06197	Hannan-Quinn criter.	-13.46642
F-statistic	1.735823	Durbin-Watson stat	2.016582
Prob(F-statistic)	0.007612		

Source: *Researcher's Computation, 2025*

The regression result investigates the impact of fair value accounting (FVALUE) and bank size (BSIZE) on bank stability, proxied by the non-performing loan ratio (NPLR). The coefficient of FVALUE is negative (–2.15E-12) and statistically significant at the 5% level (p = 0.0206), indicating that an increase in fair value measurements is associated with a decrease in NPLR. This suggests that higher reliance on fair value accounting may enhance bank stability by reducing loan defaults. Conversely, the coefficient of BSIZE is extremely small and statistically significant (p = 0.0482), though the effect appears negligible due to its near-zero magnitude (1.14E-15), implying that while size may have a significant statistical association with NPLR, its economic influence is marginal.

The model has an R-squared value of 0.4098, meaning approximately 41% of the variation in NPLR is explained by changes in FVALUE and BSIZE combined. The adjusted R-squared is lower at 0.1737, which could be due to the limited number of observations or possible omitted variables. The F-statistic (1.7358) with a p-value of 0.0076 indicates that the overall model is statistically significant at the 1% level. The Durbin-Watson statistic of 2.0166 suggests there is no autocorrelation in the residuals, supporting the reliability of the regression results.

Test of Hypotheses

H_{01}: Fair value accounting has no significant effect on bank stability in Nigeria.

Since the p-value (0.0206) is less than 0.05, we reject H_{01}. There is sufficient evidence to conclude that fair value accounting has a significant effect on bank stability in Nigeri**a.**

H_{02}: Bank size does not significantly influence bank stability in Nigeria.

Since the p-value (0.0482) is slightly less than 0.05, we reject H_{02}. There is enough evidence to suggest that bank size significantly influences bank stability in Nigeria, although the effect is marginal in size.

Conclusion

The findings of the study reveal that fair value accounting has a statistically significant impact on bank stability in Nigeria, as measured by the non-performing loan ratio. This suggests that increased use of fair value measurements may contribute to enhancing financial soundness and reducing credit risk in the banking sector. Additionally, although bank size also shows a statistically significant relationship with bank stability, its effect is marginal in magnitude.

Recommendations

The following recommendations were made for the study;

1. **Strengthen Fair Value Reporting Standards:** Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) should enforce stricter compliance with fair value accounting standards among banks. Enhanced transparency and consistency in asset valuation can improve investor confidence and contribute to greater financial stability by ensuring timely and accurate reflection of asset quality in financial statements.
2. **Monitor the Growth of Large Banks:** While bank size has a significant but marginal effect on stability, regulators should continue to monitor the expansion of large banks to ensure that growth is accompanied by robust risk management frameworks. Policies that encourage healthy growth while maintaining credit quality can help mitigate systemic risks associated with the size and interconnectedness of big banks in the Nigerian financial system.

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