Effect of Risk Management on Financial Stability of Quoted Deposit Money Banks in Nigeria

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ABSTRACT

The study examined the effect of risk management on financial stability of quoted deposit money banks (QDMB) in Nigeria, with particular emphasis on credit risk management and market risk management. Using an ex-post facto research design, secondary data were collected from the thirteen (13) QDMB over the period 2015 – 2024. The study employed a dynamic panel estimation using the Generalised Method of Moments (GMM) to address endogeneity, unobserved heterogeneity, and autocorrelation, ensuring robust and consistent results. The findings revealed that credit risk management has a significant negative effect on financial stability, indicating that higher credit exposures, such as non-performing loans, undermine bank stability. In contrast, market risk management showed a positive but statistically insignificant effect suggesting that while market risk controls are important, they do not directly enhance financial stability under the observed conditions. The study concluded that robust credit risk management is critical for maintaining financial stability and that market risk practices should be integrated with governance mechanisms to maximise their impact. Consequently, it is recommended that banks should encouraged to enhance credit assessment, monitoring, and reporting processes, while regulators should provide clearer disclosure guidelines to improve transparency and strengthen investor confidence in Nigeria's banking sector.

Keywords: Risk Management, Credit Risk Management, Market Risk Management, Financial Stability, DMBs.

INTRODUCTION

The Nigerian banking sector is a critical engine of economic development and financial intermediation, yet it continues to face significant challenges, particularly in the management of risks. Risks are of paramount importance because they not only influence the day-to-day operations and stability of banks but also have a direct impact on their market valuation. Over the past decade, there have been notable shifts in the economic environment, regulatory frameworks, and risk management practices that affect these banks. However, recent global developments indicate that financial stability risks remain elevated. The Global Financial Stability Report (2025) stressed that tightening financial conditions, high interest rates, geopolitical tensions, and persistent inflationary pressures have increased vulnerabilities across global financial markets. Similarly, the International Monetary Fund (IMF, 2025) reported that asset valuations in equity and bond markets remain stretched, while debt levels among governments, households, and corporations have continued to rise, increasing the likelihood of adverse feedback loops between the financial sector and the real economy. These conditions heighten the importance of proactive and adaptive risk management practices capable of anticipating and mitigating potential shocks.

Despite regulatory efforts, maintaining financial stability remains an ongoing challenge due to the persistent exposure of banks to diverse risk categories; credit risk, liquidity risk, operational risk, and market risk which directly influence performance and resilience (Adetayo & Olusanya, 2023). In particular, the effects of credit risk, often measured by the level of non-performing loans (NPLs) and market risk stemming from fluctuations in interest rates, exchange rates, and stock prices on the financial stability of QDMBs have attracted considerable attention from researchers, regulators, and market participants.

The banking sector plays a critical role in economic stability through financial intermediation, risk management, and credit allocation. However, banks are constantly exposed to risks that can significantly affect their financial performance and overall valuation. Two of the most critical risks are credit risk, which arises from borrowers defaulting on loan obligations, and market risk, which stems from fluctuations in interest rates, foreign exchange rates, and asset prices. While regulatory frameworks require banks to disclose these risks transparently, the extent to which credit and market risk management influence bank stability remains a subject of debate. Despite regulatory mandates from the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN), there are persistent concerns about the adequacy and effectiveness of risk management in the Nigerian banking sector. Some banks provide minimal or generalised risk management statements, obscuring the true extent of their financial vulnerabilities, while others engage in information overload, making it difficult for investors to interpret relevant risk data effectively. The inconsistency in risk management raises questions about its reliability and usefulness in determining the true value of Nigerian banks.

Empirical studies have shown that credit risk management significantly influences investor perceptions and market valuation. For instance, Ali and Nasir (2022) investigated the impact of risk management on financial performance and found that higher credit risk management often leads to declining investor confidence, particularly in cases where banks report increasing levels of NPLs. Similarly, Aramide and Bashir (2021) established that Nigerian banks with high exposure to credit risk tend to experience share price declines, as investors react negatively to potential losses arising from bad loans. These findings suggest that inadequate disclosure of credit risk can obscure the true financial health of banks, potentially leading to mispricing in the stock market.

The impact of market risk management on bank stability, however, remains inconclusive. Some studies argue that transparent market risk management enhances investor confidence by reducing uncertainty and enabling more informed decision-making (Abraham & Shrives, 2020). However, other scholars contend that investors already factor in macroeconomic conditions and may not be significantly influenced by firm-level market risk management (Bischof & Daske, 2021). In the Nigerian context, Olawale et al. (2022) found that market risk management had an insignificant impact on bank valuation, suggesting that investors may rely more on external economic indicators rather than bank-specific risk reports. This inconsistency in findings highlights the need for further research to determine whether market risk management has a material effect on the valuation of Nigerian banks.

While the CBN's Prudential Guidelines (2022) and the IFRS 7 disclosure requirements mandate financial institutions to report credit and market risk information, Nigerian banks often either fail to provide sufficient details or present risk management in ways that are not easily interpretable by stakeholders. This raises concerns about whether these disclosures genuinely impact investor's decision-making and financial stability or are merely compliance exercises. Moreover, regulatory pressures have increased under the adoption of IFRS 9, which emphasises expected credit loss reporting. The effectiveness of these regulatory reforms in improving transparency and influencing bank valuation in Nigeria remains largely unexamined.

Existing literature on credit and market risk management has primarily focused on developed markets, with limited empirical studies specifically addressing the Nigerian banking sector. Additionally, while some global studies suggest a strong relationship between market risk management and firm value, findings from Nigerian banks have been mixed, necessitating further investigation. Given the importance of risk transparency in maintaining financial stability, understanding the extent to which these disclosures affect bank stability in Nigeria is crucial. This study is justified as it aims to bridge the research gap by providing empirical evidence on the relationship between credit risk management, market risk management, and the financial stability of quoted deposit money banks.

Statement of Hypotheses

$H_0$1: Credit risk management has no significant effect on the financial stability of quoted deposit money banks in Nigeria.

$H_0$2: Market risk management has no significant effect on the financial stability of quoted deposit money banks in Nigeria.

LITERATURE REVIEW

Concept of Bank Stability

The concept of banking stability is approached from two perspectives, the first is the stability approach, and the second is the unstable approach. Moretti et al. (2020) defined financial stability as a steady state in which commercial banks effectively perform their main economic functions, such as resource allocation and risk distribution, as well as payment. On the contrary, banks are in an unstable financial situation. Lee et al. (2013) defined financial stability as the ability of the most important banks in the system to perform their main functions. They also further argued that the stabilisation of the financial system must satisfy two conditions.

Thakor (2000) believed that financial stability is what banks do to maintain prestige and competitive position in the market to maximise market value and increase return on investment. Financial stability can be considered as the ability of banks to efficiently allocate resources in space and time, as well as self-regulating mechanisms (Diaconu & Oanea, 2015). Jahn and Kick (2012) believed that financial instability of commercial banks may arise when banks operate inefficiently, adversely affecting the solvency of the bank or the system. Central banks generally did not declare bankruptcy for administrative reasons, as the definition varied from country to country, and central banks were also reluctant to declare bankruptcy (Uhde & Heimeshoff, 2009).

To determine the probability of bankruptcy, a random method was used. This method had the advantage that all information and market variables were displayed unaffected by accounting principles. The accounting index risk predicted the probability of a crisis for different banks. This method used financial indicators such as Z-score (Beck et al., 2013), a low Z-score indicated that banks are prone to bankruptcy, financial distress, and instability. A high Z-score indicated low tolerance and financial stability.

Concept of Credit Risk Management

Credit risk and credit risk management are key issues for most firms. The possibility that a contractual arrangement is not adhered to means that there is a risk of non-performance. This has the capacity to hurt the objectives of a firm when what it considers will happen, in fact, does not. Money can be lost if the customer fails to pay or if the financial institution in which money is deposited goes bankrupt. Companies with whom the firm has placed order may themselves become insolvent and fail to deliver on their promise. Credit is an indispensable catalyst for financing the movement of commerce and the expansion of the economy. It is the provision of or a commitment to provide funds or substitutes for funds on a secured or unsecured basis to a debtor who is obliged to repay, on demand or at a fixed or determinable future time, the amount borrowed together with fees and or interest thereon (Isyaku, 2024).

Credit risk refers to the risk of financial loss to an entity if a counterparty fails to fulfil its contractual obligations. It arises from the possibility that customers, trading partners, or other counterparties may default on their payment obligations, resulting in potential loss of revenue or inability to recover the full value of assets (IFRS 7). According to Chen and Pan (2012), credit risk is defined as the extent to which the value of loans and derivatives fluctuates due to changes in the credit quality of borrowers and counterparty. Isyaku (2024) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligation in accordance with agreed terms. Coyle (2000) describes it as the loss from the inability or refusal of a customer to pay what he owes. In other words, credit risk is the danger of incurring a monetary loss because of a reduction in the credit worthiness of a counterparty in a financial transaction (Liu et al., 2014).

Credit risk management is widely recognised as a fundamental element of transparency in the banking sector, enabling stakeholders to understand the extent of a bank's credit exposures and the measures implemented to manage potential losses. Different scholars have approached the concept from various perspectives: According to Adegbite and Oyedele (2021), credit risk management refers to the detailed reporting by banks of their credit risk exposures, including the measurement, methodologies and management strategies employed to mitigate

potential losses. Their definition emphasises that such disclosures are critical for reducing information asymmetry between the bank and its stakeholders, thereby fostering investor confidence and improving market valuation.

Building on this, Ogunleye and Fagbemi (2023) define credit risk management as the comprehensive communication of both quantitative and qualitative information regarding a bank's credit risk. This includes not only metrics like the proportion of NPLs and risk provisioning levels, but also a description of the internal frameworks and policies used to manage credit risk. They argue that transparent credit risk management enables stakeholders to better evaluate the adequacy of a bank's risk management practices and assess the potential impact of credit risk on financial performance.

Linsley and Shrives (2006) provide a broader perspective by situating credit risk management within the overall context of risk reporting. They suggest that effective risk management, including that of credit risk, is essential for conveying a bank's risk profile to stakeholders. According to their view, comprehensive disclosure practices help build trust and allow the market to accurately reflect the bank's risk position, which is critical for informed decision-making.

Concept of Market Risk Management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (IFRS 7). It encompasses three main types of risk: interest rate risk, currency risk, and other price risk. Interest rate risk refers to the risk that the value of a financial instrument will be affected by changes in market interest rates. For example, if an entity holds fixed-rate debt and interest rates increase, the fair value of that debt may decrease. Currency risk arises from exposure to fluctuations in foreign exchange rates. Entities with transactions or investments denominated in foreign currencies may be impacted by changes in exchange rates, which can affect their financial results and cash flows. According to Hull (2018), other market risk includes risks related to equity prices, commodity prices, and other factors that can influence the value of financial instruments. For instance, entities holding equity investments may face the risk of changes in stock prices impacting the fair value of those investments.

Market risk refers to the potential for losses due to changes in market conditions, such as fluctuations in interest rates, exchange rates, stock prices, or commodity prices. For companies, especially those in the financial sector, market risk can significantly impact profitability, liquidity, and overall financial stability. Consequently, the disclosure of market risk information is a critical component of financial transparency and risk management. MRID plays a crucial role in enhancing transparency by providing investors with insights into the market risks a company faces and how these risks are managed. Transparent disclosures help reduce information asymmetry between management and external stakeholders, thereby fostering investor confidence and reducing the cost of capital (Healy & Palepu, 2020).

Market risk management refers to the comprehensive reporting by banks and financial institutions of their exposures to market-related risks and the strategies implemented to mitigate these risks. These disclosures typically include both quantitative measures, such as Value at Risk (VaR), sensitivity analysis, and stress testing results, and qualitative information about the risk management frameworks in place to address fluctuations in key market variables such as the interest rates, foreign exchange rates, and equity prices. Beretta and Bozzolan (2004) define market risk management as the process through which financial institutions provide detailed accounts of their exposure to market fluctuations and the corresponding risk management techniques they employ. Their definition emphasises that transparent reporting of market risk is essential to reduce information asymmetry between banks and their stakeholders, thereby fostering investor confidence. In a similar vein, Linsley and Shrives (2006) argue that effective market risk management plays a critical role in communicating the bank's vulnerability to changes in market conditions, which in turn affects the overall assessment of the bank's financial stability and performance.

Further expanding on the concept, Ntim et al. (2019) describe market risk management as the dual presentation of both the quantitative impact of market risks using metrics such as VaR and qualitative insights into the processes and policies that govern risk management. They stress that such disclosures enable stakeholders to

better evaluate a bank's capacity to withstand adverse market movements and to gauge the effectiveness of its risk mitigation strategies.

Empirical Review

Ogunleye and Fagbemi (2023) explored a similar theme, examining how credit risk management practices influence bank stability within the Nigerian banking sector. Covering the period from 2015 to 2021, the study was designed to capture the effects of contemporary risk management practices and evolving regulatory demands. The study adopted a mixed-method approach; they conducted regression analyses on quantitative data obtained from the banks' annual reports and supplemented this with a qualitative content analysis to assess the depth of credit risk management. The results of their analysis suggested that banks with more robust and detailed credit risk management tend to exhibit higher market valuations, indicating that effective communication of credit risk reduces information asymmetry and bolsters investor confidence. Despite its strengths, the study was critiqued for not fully controlling external macroeconomic variables such as fluctuations in oil prices or shifts in monetary policy, which might also influence bank stability. Additionally, the relatively short study period may limit the generalizability of the findings, suggesting that a longer-term analysis might yield more comprehensive insights.

Eze and Okonkwo (2022) examined the relationship between market risk management and bank stability among Nigerian deposit money banks. The main objective of their study was to determine whether transparency in disclosing market risks, such as interest rate fluctuations, foreign exchange risks, and liquidity risks, had a measurable impact on the market valuation of banks. Covering the period from 2015 to 2021, the study adopted a panel data regression model, using market risk management scores obtained through content analysis of annual reports. The findings suggested a positive and significant relationship between market risk management and bank stability, as measured by Tobin's Q and Return on Assets (ROA). Their study concluded that banks that provided more detailed market risk management enjoyed higher investor confidence, leading to better market valuation. However, a key critique of their work was the reliance on content analysis, which, despite its robustness, carries the risk of subjective bias in scoring disclosure quality. Furthermore, the study did not control for firm-specific factors such as corporate governance structures that might also influence the relationship between disclosure and bank stability.

Adegbite and Oyedele (2021) set out to investigate the impact of credit risk management on bank stability among Nigerian deposit money banks. The study spanned several years, providing a historical perspective on how these disclosures have affected bank stability over time. To achieve their objective, the researchers employed panel regression analysis, using a content analysis index derived from the annual reports of the banks to quantify the extent of credit risk management. The findings indicated a significant positive relationship between comprehensive credit risk management and higher bank stability, as measured by market capitalisation and Tobin's Q. However, while the study offers valuable quantitative evidence linking disclosure practices to bank stability, it is not without limitations. For example, the period under review may not fully capture the effects of more recent regulatory changes, such as those introduced under IFRS 9, and the reliance on content analysis, though robust, introduces a degree of subjectivity in the coding process. Consequently, future research could benefit from incorporating additional control variables and extending the study period to include more recent data.

Adebayo and Yusuf (2021) investigated the role of market risk management in enhancing bank stability and value within Nigeria's financial sector. Their study spanned the period from 2013 to 2020 and employed a mixed-method approach, combining quantitative regression analysis with qualitative interviews from key financial analysts. The results indicated that banks with higher levels of market risk management tended to have more stable share prices and higher market valuations, suggesting that transparent reporting reduced investor uncertainty and enhanced confidence. However, the study faced limitations in terms of generalizability, as it focused only on a subset of listed banks, excluding smaller financial institutions that might also be affected by market risks. Additionally, the study did not fully address external macroeconomic factors such as inflation and monetary policy that could influence both market risk management practices and bank valuation.

Ibrahim et al. (2020) explored the effect of risk management, particularly market risk, on the valuation of banks in emerging economies. The study covered financial data from 2010 to 2019 and utilised the Generalised Method of Moments (GMM) estimation to control for potential endogeneity issues. Their results showed that banks with higher levels of market risk management experienced lower cost of equity and higher market capitalisation, confirming the theory that increased transparency leads to reduced information asymmetry and enhanced investor trust. While the study provided valuable insights, it was critiqued for not considering the role of regulatory changes in shaping disclosure practices. Additionally, the exclusion of qualitative aspects such as how market risk information is perceived by investors meant that the study lacked a behavioural perspective on the subject.

Theoretical Framework

Signalling Theory: Signalling theory, as introduced by Michael Spence in 1973, explains how information asymmetry between two parties, such as managers and investors, can be mitigated through the transmission of credible signals. In financial markets, firms possess internal information that is not readily available to investors. This creates an imbalance in knowledge, which can affect investor decision-making. To bridge this gap, firms voluntarily disclose relevant information, such as financial risks, earnings projections, and governance practices, to signal their quality and reliability to the market. According to Spence (1973), effective signals must be costly and difficult to imitate by low-quality firms; otherwise, they lose credibility. In the context of financial reporting, market risk management serves as a credible signal to investors about a bank's risk exposure and management practices. Higher levels of transparency in risk reporting suggest that the bank is well-managed and financially stable, leading to increased investor trust and higher firm valuation (Bergh et al., 2014).

Signalling theory is relevant to this study because it explains why banks engage in market risk management and how such disclosures influence their bank stability. In the banking sector, where risk exposure is a major concern, transparent reporting of market risks such as interest rate risks, foreign exchange risks, and liquidity risks reduces uncertainty and enhances investor confidence. Empirical studies (Hassan et al., 2022; Eze & Okonkwo, 2022) confirm that banks that provide more detailed risk management tend to have higher stock prices and lower capital costs. This aligns with the argument of Spence (1973) that firms signal their quality through disclosure mechanisms, ultimately improving their market valuation.

Agency Theory: Agency theory, introduced by Jensen and Meckling (1976), addresses conflicts of interest between principals (shareholders) and agents (managers). The theory posits that managers may not always act in the best interests of shareholders, leading to agency problems. These conflicts arise because managers often have access to private information that investors do not, allowing them to act in self-serving ways, such as engaging in excessive risk-taking or withholding crucial risk information. One of the primary ways to mitigate agency conflicts is through increased transparency and disclosure. By providing comprehensive market risk management, banks can reduce information asymmetry and assure investors of their financial stability and governance practices (Fama & Jensen, 1983). Moreover, regulatory frameworks such as the Basel Accords emphasise the importance of risk management to improve market discipline and corporate governance (Basel Committee on Banking Supervision, 2019).

Agency theory supports this study by explaining why banks may choose to disclose or withhold market risk information. Given that managers may have incentives to downplay risk exposure to maintain investor confidence, stringent disclosure regulations help align managerial actions with shareholder interests. Studies by Ibrahim et al. (2020) and Olawale & Adekunle (2019) show that firms with stronger risk management practices tend to have higher market valuations, as investors perceive them as being more transparent and less prone to financial instability. Furthermore, the Nigerian banking sector has experienced several crises due to inadequate risk management and poor disclosures, leading to regulatory interventions (CBN, 2021). This highlights the need for effective market risk management as a tool to enhance investor trust and bank valuation.

METHODOLOGY

This study adopted an ex-post facto research design, analysing pre-existing data from the thirteen (13) QDMBs in Nigeria to provide a comprehensive examination of the population. Dynamic panel regression analysis was

employed to assess the significance of each independent variable on financial stability, with the hypotheses and variables incorporated into a functional model to illustrate these relationships.

$$FS_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 \text{CRISKM}_{it} + \beta_3 \text{MRISKM}_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Where:

FS = Financial Stability

CRISKM = Credit Risk Management

MRISKM = Market Risk Management

Table 1: Variable Measurement

Symbol	Definition	Measurement	Sources
FS	Financial Stability		Beck, Demirguc-Kunt & Levine, (2007); Demirguc-Kunt, Detragiache& Tressel, (2008); IMF (2014); Rahman (2014); Laeven& Levine (2009); Pathan (2009); Rachdi& Ameur (2011); World Bank, (2015)
CRISKM	Credit Risk Management	Credit Risk Management Disclosed Index	Arora, Saggar and Singh (2021) Kwashie et al., (2021) Beasley et al., (2005)
MRISKM	Market Risk Management	Market Risk Management Disclosed Index	Raithatha (2021)

Source: Researcher Compilation, 2026

RESULTS AND DISCUSSION OF FINDINGS

Table 2: Descriptive Statistics

	Mean	Max	Mini	Std. Dev.	Skew	Kurt	Obs
FS	0.458631	42.01532	0.000122	1.838003	21.49582	485.8018	130
CRISKM	4.633333	5.000000	3.000000	0.557293	-1.21496	3.490153	130
MRISKM	5.868519	6.000000	3.000000	0.490475	-4.16484	20.75518	130

Source: Eviews Output, 2026

The descriptive statistics in Table 2 provide an overview of the distribution and variability of Financial Stability (FS) and risk management practices among the sampled banks. The FS has a mean of 0.4586, with a wide range from 0.0001 to 42.0153 and a high standard deviation of 1.8380. The extremely high skew (21.496) and kurtosis (485.802) indicate a highly right-skewed and leptokurtic distribution, suggesting that while most banks have moderate stability, a few banks exhibit exceptionally high FS. This highlight significant disparities in bank resilience, implying that investors and regulators need to monitor outlier banks closely, as extreme variations could signal both strong performance and potential systemic risk.

Credit Risk Management (CRISKM) shows a high mean of 4.6333 on a 3–5 scale, with a relatively low standard deviation of 0.5573 and a negative skew (-1.215), indicating that most banks disclose CRISKM practices above the mean. The moderate kurtosis (3.490) suggests few extreme values. Financially, this implies that Nigerian banks generally adopt robust CRISKM practices, which can reassure investors and reduce potential losses from NPLs, though occasional lapses may still pose risks.

Market Risk Management (MRISKM) has an even higher mean of 5.8685 on a 3–6 scale, a very low standard deviation of 0.4905, and a strongly negative skew (-4.165) with extremely high kurtosis (20.755). This indicates that most banks report near-maximum MRISKM, reflecting a sector-wide emphasis on controlling exposure to interest rate, foreign exchange, and investment portfolio risks. Financially, this suggests that banks are largely aligned with regulatory expectations and market best practices, which enhances confidence among stakeholders and reduces the likelihood of valuation shocks due to market fluctuations.

The descriptive statistics reveal that while market and credit risk practices are consistently high, FS varies widely across banks. This highlights the importance of integrating effective risk management with strong governance to ensure that high-quality risk practices translate into sustained stability, thereby safeguarding investor confidence and promoting systemic resilience in Nigeria's banking sector.

Table 3: Variance Inflation Factor (VIF)

	Coefficient	**Centred**
Variable	**Variance**	**VIF**
CRISKM	0.022198	1.095830
MRISKM	0.027776	1.062121
C	1.507034	NA

Source: Eviews Output, 2026

In Table 3, the Variance Inflation Factor (VIF) values for CRISKM and MRISKM are well below the conventional threshold of 10, indicating that multicollinearity is not a concern. Specifically, the VIF for CRISKM is 1.096, suggesting it is largely independent of other explanatory variables, allowing its effect on corporate bank stability to be interpreted reliably. Similarly, MRISKM has a VIF of 1.062, confirming minimal correlation with other variables and supporting the independent assessment of its impact on financial stability.

The low VIF values ensure that the regression coefficients for CRISKM and MRISKM are not inflated or biased, allowing for accurate estimation of how these risk management practices influence bank stability. From a financial perspective, this strengthens confidence in the results, indicating that banks' credit and market risk disclosures can be evaluated without distortion from overlapping risk factors. Accurate modelling of these variables also reinforces the importance of transparent reporting, as emphasised in IFRS 7, which mandates clear disclosure of financial risks to stakeholders (IASB, 2023).

The low multicollinearity among these key risk variables highlights that credit and market risk management practices can be reliably linked to corporate bank stability, providing accounting professionals and regulators with actionable insights to monitor, report, and improve risk governance in the Nigerian banking sector.

Table 4: Results of the Analysis

Dependent Variable: **FS**				
Method:	**Panel GMMs**			
Transformation:	**First Differences**			
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
FS (-1)	-0.000309	0.000149	-2.075182	0.0428

CRISKM	-0.037158	0.012400	-2.996678	0.0041
MRISKM	0.008100	0.009580	0.845452	0.4017
Sum squared resid	3598.580	J-statistic	J-statistic	32.35888
Instrument rank	39	Prob(J-statistic)	Prob(J-statistic)	0.596263

Source: Eviews Output, 2026

The dynamic panel results presented in Table 4 provide insights into the relationship between key risk management practices –CRISKM) and MRISKM – and the FS of QDMBs in Nigeria. The analysis was conducted using the GMM, a robust estimation technique suitable for dynamic panel data, which accounts for endogeneity, autocorrelation, and unobserved heterogeneity (Arellano & Bond, 1991; Baltagi, 2021). The first-differenced GMM transformation ensures that the lagged dependent variable does not bias the coefficient estimates, providing a reliable basis for interpretation.

The lagged dependent variable {FS(-1)} has a negative and statistically significant coefficient of -0.000309 (t = -2.075, p = 0.0428), suggesting slight negative persistence in FS over time. From a theoretical perspective, this aligns with Financial Intermediation Theory, which posits that a bank's current stability can be influenced by prior financial conditions, reflecting the cumulative effects of risk exposures, capital adequacy, and operational efficiency (Gurley & Shaw, 1960). In practical terms, the finding implies that banks experiencing marginal declines in FS may face compounding challenges if corrective measures are not promptly implemented, emphasising the need for proactive monitoring and risk mitigation by management and auditors.

The CRISKM exhibits a statistically significant negative effect on financial stability (coefficient = -0.037158, t = -2.997, p = 0.0041). This indicates that higher levels of credit risk exposure, possibly due to NPLs, poor credit assessment procedures, or aggressive lending practices, are associated with reduced stability. From an accounting and finance perspective, this is consistent with the recognition that credit losses directly erode bank capital and liquidity, affecting solvency ratios and investor confidence (Imam & Salim, 2022; Ali & Bukhari, 2021). The result also resonates with Credit Risk Theory, which posits that inadequate CRISKM can amplify default probabilities and compromise asset quality, thereby negatively impacting the bank's overall stability. Practically, this underscores the importance of robust credit appraisal processes, frequent monitoring of loan portfolios, and adequate provisioning for expected credit losses in line with IFRS 9 requirements (IASB, 2023). Effective credit risk disclosure can also serve as a signal to investors, consistent with Signalling Theory, ensuring transparency and reducing information asymmetry (Spence, 1973).

MRISKM, however, has a positive but statistically insignificant coefficient (0.0081, t = 0.845, p = 0.4017), suggesting that variations in market risk controls – such as interest rate risk, exchange rate risk, or investment portfolio management – do not have a measurable direct impact on FS within the sampled period. From a theoretical lens, this partially aligns with Agency Theory, which emphasises that managerial decisions regarding market risk might not always translate directly into measurable financial outcomes unless coupled with effective oversight (Jensen & Meckling, 1976). From a practical standpoint, the insignificance may reflect the standardised market risk frameworks already adopted by Nigerian banks, such as Basel II and III capital requirements, which mitigate extreme market exposures and limit the marginal effect of additional market risk management efforts on stability (BIS, 2022).

The model diagnostics show a J-statistic of 32.359 (p = 0.596), indicating that the instruments used in the GMM estimation are valid, and there is no over-identification problem. This reinforces the reliability of the findings and supports the conclusion that credit risk management remains a critical determinant of bank stability, while market risk management, though important, may have a more nuanced or indirect effect.

Financial implications of these findings are substantial: banks must prioritise robust credit risk monitoring and mitigation strategies to safeguard capital and liquidity. Accounting professionals should emphasise accurate

reporting of NPLs and provisioning, while regulators may consider targeted oversight on credit risk practices. Market risk management, although less directly impactful, remains essential for long-term resilience, especially in volatile economic environments, reinforcing the need for integrated risk governance frameworks.

CONCLUSION AND RECOMMENDATIONS

In line with the findings of the study, it is concluded that higher exposure to credit risk, such as poor loan quality or non-performing loans, undermines bank stability. In contrast, market risk management shows a positive but statistically insignificant relationship, indicating that while market risk controls are important, they may not have a measurable direct effect on financial stability under current regulatory and operational conditions. Based on the conclusion of the study, it is recommended that banks should improve credit appraisal processes, monitoring, and provisioning to mitigate NPLs and reduce the negative effect of credit risk on stability. Transparent reporting of credit exposure can reassure investors and align with IFRS 7 and IFRS 9 standards. Although the effect on stability is not statistically significant, banks should continue to manage interest rate, exchange rate, and investment portfolio risks. Combining market risk practices with strong internal oversight may enhance their indirect impact on stability. Regulators should provide guidance on risk management disclosures, focusing on credit risk transparency and market risk monitoring frameworks. This can enhance consistency across banks and strengthen the overall financial stability of the Nigerian banking sector.

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