

FINANCIAL RISK AND PROFITABILITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examines the impact of financial risk on the profitability of listed deposit money banks in Nigeria. The study used three banks as sample computed using Cochran sample size formula which scientifically suggested 2.6banks which was round up to three banks, hence the choice of the three banks, and the three year was used because the banks were among the old generation banks who have undergone risk mitigating strategies in in the early 2000 ,also there are a lot of works between 2000 to 2021further is relatively calm economically as against our cut off date which faces harsh economic policy changes, and within our cutoff date there are dearth of studies, hence the choice of 2022-2024 period. Secondary data used were collected from banks financial statements. The data was analyzed using panel regression technique. The study found that there exist a positive and significant relation between financial risk and the profitability of deposit money banks in Nigeria. It is recommended that the deposit money banks in Nigeria should embark on efficient and effective risk management so as to enhance their profitability and thereby reduce the risk of losses. Deposit Money Banks also should evolve the enterprise risk management to mitigate and plan for DMBs risks by safeguarding, firm's resources and functions. The study further recommends that proper attention and management should be given to financial risk to increase profitability of deposit money banks in Nigeria.

Key words: Risk, Risk management, Profitability, Non-performing loans, Deposit money banks, Nigeria.

1. Introduction

Banking sector by nature of their business operations faced a lot of risks which in most cases lead some of them to develop distress syndrome, while others close shops. Multiple efforts were made in the past to mitigate the issue of risks among banks, it is therefore, the objective of this study to look in-depth as to what extent can risk affects the banks profitability, especially the old generation banks who have a strong asset/capital base as compared to the new generation banks. Hence the motivation for this study is to document empirical evidence on extent of risks impact on banks profitability and to suggest possible mitigating techniques needed for the sector.

Enterprise risk architecture (ERA) is a risk management technique that examines risk management from the perspective of the entire enterprise or organization. It is a leading approach aimed at identifying, evaluating, and anticipating prospective losses, problems, threats, and other potential sources of damage that may disrupt organizational operations

and goals. Further, enterprise risk architecture can be viewed as a company-wide approach for identifying and mitigating risks to an organization's finances, operations, and objectives. ERA enables managers to mold the company's general risk status by regulating what business sectors to engage in or refrain from participating in certain tasks (Hopkin,2021)

Each project that a Deposit Money Banks (DMBs) undertakes has both internal and external risks. Unfortunately, it is not possible to avoid all these risks. They can, however, be controlled with a well-designed risk management architecture. Conventional risk management usually places decision-making in the hands of department managers. This can result in isolated assessments that fail to consider other sectors. Hence, the need for a well-designed risk management architecture.

The main function of bank is the collection of deposits from those with surplus cash resources and the lending of these cash resources to those with an immediate need for them through credit creation. In performing these activities DMBs face different kind of risk such as credit risk, liquidity risk, market risk, and capital risk and so on.

DMBs plays a vital role in the economic resources' distribution of countries. For survival and growth deposit money banks need to be profitable. Good financial performance promotes high shareholders return, as a result of this, there exists further investment which promotes economic growth. Conversely, poor financial performance of deposit money banks, can lead to failure and financial crunch which has undesirable impact on the economic growth.

Since all activities banks engage in exposes them to various kinds of risk, banks should therefore, adopt adequate risk management measures in order to actualize profit maximization motive and also maintain stability in the financial system of the economy. Based on this, the study aims at determining the effect of financial risk management architecture on deposit money banks in Nigeria and how various risk associated with the activities of the bank can be reduced in order to maximize profit and guard against losses.

The banking industry in Nigeria started during the colonial era with the establishment of colonial banks, with the primary aim of meeting the commercial needs of the colonial government. The system under went multiple reforms, until when the first domestic bank in Nigeria was established in 1929 the industrial and commercial bank which was liquidated a year after and was replaced by mercantile bank in 1931 however, the African continental bank was created in 1949 as the only sustainable indigenous bank after the liquidation of the industrial and commercial bank. The banking system in Nigeria is regulated through the central bank of Nigeria. This apex bank started operation on July 1, 1959. (Osagie & Natufe, 2023)

The universal banking model in 2010, permits commercial banks to operate in other non-core banking services either directly or indirectly. The introduction of this scheme classifies banking license into commercial, merchant and specialized/development bank.

In 2004, there was another major reform which focused on bank consolidation through the mechanism of merger and acquisition. This resulted in rebasing the banks' capital and reducing its number to 25 then. The Nigerian banks have different authorization: Commercial banks with international authorization, those with national authorization, those with regional authorization, non-interest banks, and Merchant banks.



The concern for adequate financial risk management in deposit money banks has been on the increase as a result of the increase in the activities engaged in by the banks which exposes them to various kind of risks. The Nigeria banking sectors in recent years has undergone series of financial distress and operational failures. Banks previously performing well suddenly disclosed huge financial issues as a result of unfavorable credit exposures that was supposed to reduce statement of financial position (balance sheet) risk. It is hoped that adequate financial risk management is a parameter that can be used to avoid the collapse of DMBs in future (Osagie & Natufe, 2023)

The main objective of the study therefore, is to examine the effect of financial risk management on financial performance of deposit money banks in Nigeria. The specific objectives of the study are to: Examine the relationship between cash to deposit ratio and profitability of DMB's; Examine the relationship between credit to private sectors and profitability of DMB's and to Examine the relationship between liability to total assets ratio and profitability of DMB's in Nigeria. To test these objectives three hypotheses were developed in null form, and will be presented under discussions and analysis.

It is hoped that this study will be of benefit to the Deposit Money Banks by enabling the various DMBs to give proper attention on the adequate management of financial risk (using suitable risk management architecture) as risk is inherent in their business activities, and also know the various ways such risks can be mitigated so as to increase the DMBs profitability and sustainability.

2. Review of Related literatures

Risk is the probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that maybe avoided through preemptive action (Bebeji, 2018). It is the probability that an actual return on an investment will be lower than the expected return. these definitions of risk point to a particular direction which is loss. With respect to this research work we express risk as the likelihood of financial loss.

Deposit money banks are faced with different types of risk because of the nature of its business. These includes; credit risks, market risk/capital risks, operational risk, moral hazard, liquidity risk, reputational risk, systematic risks, and business risks as said earlier on. Generally, banks should have a sound process for identifying, measuring, monitoring and controlling liquidity risk. However, the risk management architecture can be employed.

Capital is one of the bank specific factors that influence the level of bank profitability. It is the amount of funds available to support the bank's business and act as a buffer in cases of adverse situations (Athanasoglou et al 2009). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to banks runs and it reduces the chance of financial distress. However, its drawbacks are that it induces weak demand for liability as the cheapest sources of fund. The amount of capital banks should possess i.e. capital adequacy is measured by capital adequacy ratio (CAR) which shows the internal strength of the bank to withstand losses during crisis. The ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky portfolio but profitable ventures or areas.



The sources of bank capital which are classified in to three bases which are: First, period basis /sources - which includes long-term, medium and short-term sources. Second, ownership basis which covers owner's fund, borrowed funds and thirdly, generation basis sources which includes internal sources of funds, and external sources. Profitability on the other hand is the ability of a company to use it resources to generate revenues in excess of it expenses. Every business should earn sufficient profit to survive and grow over a long period of time. It is the index to the economic progress, improve national income and raising standard of living. It should be noted that "profitability" is not synonymous with the term "efficiency". However, profitability is an index of efficiency and is regarded as a measure of efficiency and management guide to greater efficiency. It is the primary goal of all business ventures because, without profitability the business will not survive in the long run.

Therefore, the main aim of management of a bank is to maximize expected profit taking into account its risks. This calls for an active management, therefore attempts to reduce the vitality of profit which has the potential of lowering the value of shareholders.

Stulz (2015) suggested reasons why managers should concern themselves with the active management of risk in their organizations. Financial risk management also ensures the desire to shoulder lower tax burden to seek for reduced vitality (risk) of profits. The most compelling reason for managers to engage in risk management with the aim of reducing the variability of profits are the cost of possible financial distress. Significant loss of earnings can lead to stakeholders losing confidence in the bank's operations, loss of strategic position in the industry, withdrawal of license and even bankruptcy. The costs associated with the bank will cause managers to avoid them by embarking on activities that will help avoid low realizations.

Risk management helps firms to avoid low profits which force them to seek external investment opportunities. When this happens, it results in suboptimal investments and hence lower shareholders' value since the cost of such external finance is higher than the internal funds due to capital market imperfections. The level of profitability is very significant for shareholders of a bank because it shows how effective management have utilized their investments. In determining the financial strength of DMB, the level of profitability is predominant. Return on Assets (ROA), Return on Equity (ROE) and Capital Adequacy Ratio (CAR) are used as main profitability measures in most of the organizations including banks and financial institution.

The study was anchored on the following theories the portfolio theory which has it that Since the 1980s, companies have successfully applied modern portfolio theory to market risk as the theory involves periodically evaluating the quality of credit exposures, applying a credit risk rating, and aggregating the results of an analysis to identify a portfolio's expected losses (Markowitz, 1952). While, the new institutional economic theory posits that risk management practices may be determined by institutions or accepted practice within a market or industry. Further, the theory links security with specific assets purchase, which implies that risk management can be important in contracts which bind two sides without allowing diversification, such as large financing contract or close cooperation within a supply chain (Williamson,1998).

Froot and Stein (1991), opines that if external sources of funds are more closely to a firm than internally generated funds, then the firm could benefit from using derivatives in particular firms can hedge cash flows to avoid a shortfall in funds that may require a costly visit to the capital



markets and at the same time derivatives are positively related to measures of the firm's investment opportunity.

Under the anticipated income theory bank's management can plan its liquidity based on the expected income of the borrower and this enables the bank to grant a medium and long-term loans, in addition to short-term loans as long as the repayment of these loans are linked by the borrowers expected income to be paid in the period and regular premiums, and that will enable the bank to provide high liquidity, when the cash inflows are regular and can be expected.

DMB's can manage its liquidity through appropriate credit management that is directing of granted loans, and ensuring that these loans are collected as at when due in a timely manner and minimize the possibility of delays in repayment maturity date (Okoh, Nkechukwu & Ezu 2016). This study therefore was anchored on portfolio and anticipated income theory.

Empirical Reviews

Bello, Isah & Salihu (2024). The paper assesses the influence of financial risk on profitability of listed Nigerian Deposit Money Banks. The variables used are ROA, Liquidity risk, Interest rate risk and operational risk. 12 out of 14 deposit money banks as at December, 2022 forms the target population. Secondary data was used and was analyzed using Correlational research design. Period covered 2013-2022. Descriptive statistics, correlational analysis and panel corrected standard error were used. Findings shows that liquidity risk have and operational risks have positive and significant relationship with profitability of deposit money banks, while interest rate risk have positive insignificant relationship with profitability. No recommendations were made.

Odigie, and Chidiebere (2024). The study examined the relationships between risk management and performance of deposit money banks (DMBs) in Nigeria moderated by environmental turbulence. The study adopted the Cross-sectional survey design. The primary data was generated through instrumentation of the questionnaires population of the study comprises of 24 DMBs in Nigeria and census was used. To test the reliability of the instrument Cronbach Alpha coefficient was used. It was found that there is a significant relationship between risk management and performance of DMBs in Nigeria. It was recommended that DNBs should conduct regular and through risk assessment to identify potential risks that could impact the banks operations and performance.

Kumshe, Umar and Modibbo (2024) examines the effect of risk management on the financial performance of listed deposit money banks in Nigeria. From a population of 19 DMBs, 16 banks were purposively selected as sample. The study adopted correlational research design and the research covered 2018 to 2022 period. Descriptive statistics and panel regression was used. It was found that credit risk, market risk and capital adequacy risk management have positive and significant effect on the financial performance of the listed DMBs in Nigeria, during the study period and that liquidity risk management was found to have negative but insignificant effect on the financial performance of listed DMBs in Nigeria. It was recommended that the management of DMBs in Nigeria should improve and strengthen their liquidity management strategies, watching credit risk closely along with market, capital adequacy risk to further improve their financial performance.

Olalade, Salawu and Olatunji (2023). This study examines the effect of risk management on the performance of deposit money banks (DMBs) in Nigeria. A sample of eight DMBs was

picked purposively out of 12 DMBs listed. Panel data analysis was adopted to analyze the secondary data. The study finds that both liquidity and capital risk exert a negative but insignificant effect on performance. However, credit risk drives performance of the banks positively and significantly, while only management quality (control variable) has a significant influence of the performance of the selected DMBs. It was concluded that credit risk and management quality significantly and positively drive performance among DMBs in Nigeria.

Abdulrauf (2021). Studied risk management and bank profitability; evidence from Nigerian Deposit Management Banks and the study seeks to assess the impact of risk management on banks profitability in Nigeria over Six-year period 2012-2017 using 12 DMBs as sample. The variables used includes the risk management the independent variable proxied as non-performing (NPLR), capital adequacy ratio (CAR) and loan to deposit (LTD) while for the dependent variable profitability was measured using return on asset (ROA). The study used panel random effects regression. It was found that NPL ratio has a negative effect and it is statistically significant at 5% on banks profitability. Loan to deposit ratio is also statistically significant at 5% and have positive effects on banks profitability; while capital adequacy ratio is insignificant. It was concluded that risk management in terms of NPL and loan to deposit ratios has significant effect on banks profitability. The study recommends that banks management should do more in the area of controlling the rate at which subprime loans are given out in order to mitigate the risk of future loss on NPL. Further banks should create more policies that will support increased lending to customers to enhance return and performance.

Emeka, Mohammed, and Aliyu (2021). The study examines the effect of risk management on financial performance of deposit money banks in Kaduna state. Primary data was used and it was analyzed using smart PLS-SEM. The variables and proxies used where risk management as the independent variable was proxied by credit risk, liquidity risk, operating risk and interest rate risk, while performance represents the dependent variable. It was found that credit risk, liquidity risk and interest rate risk significantly and positively effects banks performance, while operating risk has a negative and insignificant effect on the performance of DMBs in Kaduna state. It is recommended that banks should encourage an increase in the loans and advances as it will enhance bank profitability and also have a mechanism for monitoring market movement of interest rate.

3. Methodology

Population and Sample Size

The population of the study is 27 listed banks in Nigeria. Three banks were scientifically selected using Cochran sampling size formula which is a two- stage formula thus:

Stage one:

$$n = \frac{N}{1 + \left[\frac{no-1}{N} \right]}$$

where: n=sample size, N=Population, no=Cochran recommended sample size

Stage 2:

The stage two requires the determination of (Cochran recommended sample size = n_0) in the above formula as follows thus:

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where: e =margin of error @ 5%, p =estimated proportion of the population =20%, $q= 1-P=1-0.20=0.80$, Z = critical value of the normal distribution at the required confidence level of 95% which is 1.96

$$\text{Therefore, } n_0 = \frac{(1.96)^2(0.20)(0.80)}{(0.05)^2} = 245.86$$

Hence applying the Cochran formula:

$$n = \frac{N}{\left(1 + \frac{n_0 - 1}{N}\right)} = \frac{27}{\left(1 + \frac{245.86 - 1}{27}\right)} = 2.6812 \text{ banks (or) 3banks.}$$

Therefore, this forms the basis for our choice of the 3 banks as sampled banks and First bank of Nigeria Plc., United Bank for Africa Plc., and Access Banks Plc. were purposively selected, being one of the first-generation banks with high strong asset base. Also, the cut -off period chosen (i.e. 2022-2024) suffered high inflation rate up to two digits and suffered the impact of other harsh multiple macro-economic policies which naturally impede performance, as against 2018 - 2021 which appears to be fairly stable, because the economy is less volatile, and running on a single digit inflation factor.

The study used secondary data obtained from the annual reports of these deposit money banks for 2022 -2024. The proxy used to represent financial performance (profitability) is the ROA. While measures for financial risk used is total capital to risk weighted assets, current ratio; cash to deposit ratio and non-performing loans (NPL). Statistical package for social science (SPSS) was used for data analysis and we employ Multiple regression analysis model to quantify the relationship among variables and its predictive power capability.

Model specifications

In this model financial performance (profitability) which is the dependent variable will be measured using ROA (Net Income/Total Assets). The study has four independent variables i.e. capital risk as measured by total capital to risk weighted assets, liquidity risk as measured by liquidity ratio (current ratio and cash to deposit ratio) and nonperforming loans ratio (non-performing loans/total loans) which are the indicators of financial risk management which affect profitability of DMB's.

The multiple linear regression will be of the form.

$$Y = B_0 + B_1x_1 + B_2x_2 + B_3x_3 + B_4x_4 + B_5m + e$$

Where: Y = Financial performance as measured by ROA

B_0 = Constant term

B_1 - B_4 = Regression coefficient of the independent variables to be determined

x_1 =Capital risk as measured by total capital to risk weighted assets,



x2 = Liquidity as measured by current ratio

x3 = Cash to deposit ratio

X4 = Non performing loans as measured by non-performing loans/total loans

m = bank size as measured by natural logarithm of bank total assets

e = error term

The researcher adopted secondary data (financial statement) because it is the most viable sources of relevant data for the purpose of this research. linear regression analysis was adopted because it best shows the relationship among variables expressed through an equation for predicting typical values of one variable given to value of other variables, with aid of SPSS tools for analysis.

4.0 Data Presentation and Analysis

Here we present data collected on the financial risk management and how it affects Profitability of Deposit Money Banks (DMBs) in Nigeria. The sample of the study consist of three (3) selected banks for the period of 3 years from 2022– 2024. The panel data for independent-dependent variable were extracted from banks annual audited financial statement for the same period, which has a fairly unstable, highly volatile economic environment due to harsh macro-economic policies in introduced during the cut-off date. The data was analyzed, hypothesis tested and findings reported.

4.1 Descriptive Statistics

To assess the financial performance (profitability) of the DMBs one model was developed that consists of one dependent variable and four identical independent variables. In designing the models with the help of SPSS 17, ROA was used as an internal profitability indicator.

Appendix 1 shows the total assets of the 3 banks which grew by 29% from 2022-2024. The growth of banks assets was largely due to the growth in credit facilities/loan which also grew to 14%. The total capital to total risk weighted assets ratio stood at 20.34% above the statutory minimum requirement of 12% then.

Table 1 Indicators of Measuring Financial Risk on Profitability of DMBs

Year	2022	2023	2024
ROA	2.30	2.17	2.40
Total capital/total risk weighted assets	20.34	20.80	22.34
Gross net non-performing loans/gross loans	9.20	8.0	5.25
Current ratio	72%	77%	80%
Cash to deposit ratio	10.14%	11.45%	14%
LOG (Assets)	8.52	8.17	9.96

Source: Researchers' Computation

The total of the 3 banks assets quality improved. The level of non-performing loans (NPLS) reduced by 3.95 percent between 2022-2024 resulting in the NPL ratio dropping to 5.25 percentage in 2024 from 9.20 percent in 2022 (Table 1).



As a consequence of the overall improvement in loan quality, banks were also to reduce their loan loss reserves. Which reflects a prudent approach to credit risk management. The total return of assets increased from 2.30 percent to 2.40 percent which shows an increase in banks profitability.

Inferential Statistics

Table 2 Model Summary

Model	R	R Square	Adjusted R. Square	Std. Error of the Estimate
1	0.825(9)	0.757	0.567	.69750%

A predictor: (Constant), m, x4, x3, x2, x1

Source: Research Findings

The model summary in (table 2) shows a significant relationship between financial risk and profitability of deposit money banks in Nigeria. The R-square indicate that 75.7% of ROA are explained by the financial risk. The adjusted R-square of 56.7% also confirms the same. This means that there is a positive impact of financial risk on the profitability of deposit money banks in Nigeria.

Table 3 Correlations Matrix

	X1	M	X2	X4	X3	ROA
X1	1	.144	.694	-.798	.973	-.168
		.785	.126	.057	.001	.750
	6	6	6	6	6	6
M	.144	1	.658	-.045	.998	-.725
	.785		.155	.932	.706	.103
	6	6	6	6	6	6
X2	.694	.658	1	-.571	.687	-.660
	.126	.155		.237	.132	.154
	6	6	6	6	6	6
X4	-.798	-.045	-.571	1	-.664	-.203
	.057	.932	.237		.151	.699
	6	6	6	6	6	6
X3	.979	.198	.687	-.664	1	-.300
	.001	.706	.132	.151		.563
	6	6	6	6	6	6
ROA	-.168	-.725	-.660	-.203	-.300	1
	.750	.103	.154	.699	.563	
	6	65	6	6	6	6

Source: Researchers Computation using SPSS

X1 = Capital risk as measured by total capital to risk weighted assets

X2 = Current ratio

X3 = Cash to deposit ratio



X4 = Non performing loans

M = Bank size as measured by natural logarithm of bank’s total assets

A positive correlation revealed between current ratio and cash to deposit ratio which was not significant as noted 0.132 at 10% significant level the cash deposit ratio had a strong positive relationship with total capital to risk weighted asset which was significant at 0.05 level, on the other hand there seem to have a negative relationship which was strong between capital to risk weighted assets and non-performing loan ratio, Pearson correlation was – 0.798.

Table 4 Coefficients ^a

	Unstandardized Co-efficient		Standard Coefficient	T	P. Value
	B	Std Error	Beta		
Constant	-17.534	4.481			
X1	1.253	0.322	6.365	3.42	0.02
X2	3.083	0.087	1.170	3.098	0.05
X3	0.459	0.04	5.309	2.956	0.06
X4	-0.055	0.015	-0.695	-4.522	0.02
M	0.075	0.011	0.213	1.570	6.125

Source: Researchers Computation (2025)

From the coefficients (table 4) we find a strong positive correlation between the dependent variable ROA and the independent variable bank size measured by the logarithm of total asset of about (0.075).

A positive correlation was found between ROA and current ratio (3.083), cash to deposit ratio was found to positively correlated with ROA (0.459) and a negative correlation with non-performing loans od (-0.055).

A negative correlation was found between ROA and current ratio (-3.087) cash to deposit ratio was found to positively correlated with ROA (0.494) and a negative correlation with non-performing loan ratio.

Thus, average ROA can be predicted with about 57% explanatory power by the following model:



$$ROA = -17.534 + 1.253x_1 + 3.083x_2 + 0.459x_3 + -0.055x_4 + 0.075m$$

Testing of Hypothesis

Table 5 summary of correlation matrix model one regression

Variable	Co-efficient	P. value	Decision Rule	Conclusion
Cash to deposit ratio	+ 0.459	0.06	< 0.05 <0.05	Significant
Non-performing loans	-0.055	0.02	<0.05	Significant
Current ratio	+3.083	0.05	<0.05	Significant

Decision Rule: Accept if p. value less than 5%

Source: Extract from correlation matrix.

H₀₁: Cash to deposit ratio has no positive significant relationship with profitability of DMBs in Nigeria. Cash to deposit ratio has a positive co-efficient of +0.459 and a p. value 0.06 which is greater than 0.05. Therefore, the null hypothesis should be rejected and the alternate accepted.

H₀₂: Credit to private sector has no positive significant relationship with profitability of DMB's in Nigeria. Non-performing loans has a negative co-efficient of -0.055 and a p. value 0.02 which is less than 0.05. Therefore, the null hypothesis should be accepted.

H₀₃: Liability total asset/current ratio as no positive significant relationship with profitability of DMB's in Nigeria. Current ratio has a positive co-efficient +3.083 and a p. value of 0.05 which is equal to 0.05 therefore the null hypothesis should be rejected and the alternate accepted.

Findings

The study found that there is a significant relationship between financial risk and profitability of deposit money banks in Nigeria. The R-square in table 3 indicate that 75.7% of ROA are explained by the financial risk. The adjusted R-square of 56.7% also confirms the same. This means that there is a positive impact of financial risk on the profitability of deposit money banks in Nigeria.

Table 1 shows that total assets of the 3 banks grew by 29% from 2022 – 2024 which was as a result of the growth of credit facilities which was 14%. Proper management of credit risk can lead to increase in profitability, but if not properly managed it will result to non-performing loans which has a negative impact on profitability as revealed by the test of hypothesis 2 table 5

The study also found that the total Returns on Assets increased from 23% to 24% table 2 which is an indicator of increase in profitability. Cash deposit ratio had a strong positive relationship with total capital to risk weighed asset which was significant at 0.05 level which means for banks profitability to increase total deposit must increase because these deposits in turn are given out as credit facilities which yields interest to the bank thereby increasing profitability.

5. Conclusions

The study revealed a significant and positive relationship between financial risk management and banks profitability. This is in line with the findings of Odigie, and Chidiebere (2024). This



suggests that effective and efficient risk management strategy plays a determinant role in DMB's profitability in Nigeria. Hence, improvement in risk management practice will yield increase returns for the banks thereby increasing Deposit Money Banks Profitability. Where a bank does not successfully control its risks, its performance will be unsteady. The study also showed that deposit money banks are faced with various types of financial risk which includes liquidity, credit, market risk and so on. therefore, all these financial risks must be given proper attention to and management to avoid the bank's liquidation in the long-run.

DMBs may experience several risks as they render services to their customers. To mitigate and plan for these risks, businesses are moving towards adopting a more streamlined enterprise risk management.

An ERA is a modern risk assessment and planning strategy that helps corporations anticipate potential risks and develop strategies to deal with them. The primary goal of ERA is to safeguard a firm's resources and functions, staying prepared for future challenges.

Recommendations

In line with the findings of the study the following recommendations are made:

- i. i., Management needs to be alert in setting up a credit strategy that will not negatively affects lending risk management of the banks. Banks should also scrutinize the financial ability of borrowers to repay before advancing loans to them to avoid default which result to increase in non-performing loans.
- ii. ii. The banks management needs to know how credit and liquidity policy affect the operation of the banks to ensure judicious utilization of deposits and maximization of profit. Banks also needs to raise liquid holdings in order to reduce liquidity risk.
- iii. For policy purposes the central bank of Nigeria should frequently evaluate the lending behavior of financial institution.
- iv. Deposit money banks in Nigeria should augment their capacity in financial risk management while the regulatory bodies should pay more attention to bank's compliance to regulation of the bank and other financial institutions prudential guidelines.
- v. Strengthening the security market will have a positive impact on the overall development of the banking sector by increasing Competiveness in the financial sector. As a result, banks remain under some pressure to improve the financial soundness.
- vi. Deposit Money Banks should also evolve the enterprise risk architecture (ERA) to mitigate and plan for DMBs risks by safeguarding firms.



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