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EFFECT OF RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

In an increasingly volatile financial environment, effective risk management has become a critical determinant of banks' survival and profitability. This study investigates the effect of risk management on the financial performance of listed deposit money banks in Nigeria, where the banking sector plays a vital role in economic stability and growth. The study used credit risk, liquidity risk, and operational risk as explanatory variables, and financial performance was the explained variable during a ten-year period, from 2013 to 2022. This study primarily focused on addressing gaps in variable and temporal gaps, specifically by examining the role of operational risk and considering a period that allowed the effect of newer regulations and economic events to be assessed. The study used a quantitative approach and correlational research design; data used in the study was extracted from audited financial reports of Deposits Money Banks (DMBs) in Nigeria. Multiple regression analysis was used on the data using STATA software. Based on the findings, the financial performance of Nigeria's listed DMBs is significantly affected negatively by operational risk, while liquidity risk has a positive and significant effect on the bank's financial performance. Based on the results, the study recommended that deposit money banks should prioritize improving their liquidity risk as it has a significant positive impact on return on assets (ROA). This suggests that efficiently converting deposits into loans can enhance profitability. In addition, since operating risk has a significant negative relationship with ROA, banks should implement cost control measures and improve operational efficiency to reduce expenses and increase returns. Therefore, the focus should be on maximizing loan utilization, minimizing operating costs, and continuously monitoring asset quality to sustain profitability.

Keywords: *Financial performance, Risk management, Deposit money banks*

JEL Classifications: G32

1. Introduction

One of the essential components of Nigeria's economic stability is the banking sector, yet it is exposed to numerous risks that threaten financial performance. Despite regulatory efforts to mitigate these risks, most deposit money banks in Nigeria continue to experience significant challenges, such as non-performing loans, liquidity shortages, and operational inefficiencies. Although existing research highlights the impact of liquidity and credit risks on financial performance, the role of operational risk remains underexplored, despite its increasing significance due to technological advancement and fraud incidents. Commercial banks are essential to economic growth because they efficiently finance economic activity and maintain financial stability. By means of credit activity, they can allocate savings and capital to regions where demand and liquidity are lacking (Jamil & Omar, 2021). By deploying financial resources in a variety of areas, banks play a vital role in advancing financial stability and economic advancement worldwide (Accornero et al., 2018). Safeguarding the banking sector is crucial to prevent negative effects on the economy (Ephias, 2020). By serving as middlemen and taking excessive sums from savers and lending to borrowers, commercial banks may receive high interest rates in exchange (Khan et al., 2020).

Furthermore, by providing loans while acting as middlemen, banks tries to enhance their financial performance; nonetheless, banks are exposed to a significant amount of risk (Siddique et al., 2022). In most firms, the general concept of risk management is to lessen the possibility of dangers and lessen the impact of potential losses (Sleimi & Davut, 2015). According to this viewpoint, risk management might have competitive ramifications for businesses. For example, a well-designed risk management techniques lessen any losses while simultaneously giving them a way to take advantage of fresh business opportunities (Sleimi & Emeagwali, 2017). Risks associated with volatile and unpredictable situations include credit risk, interest rate risk, liquidity risk, market risk, exchange risk, and many others (Tan et al., 2017; Sleimi et al., 2018; Muhammad & Yusuf, 2017).

In addition, senior management and decision makers makes profit from sound risk management, as poor risk management could be seen as a step towards failure (M. J. Khan et al., 2016). Finding the greatest value provided to all bank operations is the goal of risk management, a fundamental strategic idea (Soltanizadeh et al., 2016). Risk management increases the possibility of success and decreases the likelihood of failure by helping decision-makers comprehend the positive and negative implications of things in their immediate surroundings (Krause & Tse, 2016). Moreover, credit risk is a problem in Nigeria's banking system. Poor credit risk management can lead to bank failure. Also, poor economic conditions can lead to debt and bank failure, as credit plays a significant role in bank

financial stability. Enhancing bank performance and fostering economic efficiency requires efficient management of non-performing loans. Increasing non-performing loans as a result of poor risk management are having an impact on banks' profitability (Ephias, 2020).

In recent decades, firms and researchers in the field of financial management have acquired an increased interest in bank liquidity. It has been established that banks' liquidity may influence their financial performance. According to recent study, optimum liquidity reserves can improve the financial performance of banks in a variety of countries. Effective liquidity risk management is crucial for commercial banks' financial success, including loan portfolio quality and credit administration programs. Effective liquidity risk management aims to create consistent and growing net interest revenue for banks (Edwin et al., 2023).

Also, effective operational risk management is crucial for identifying prohibited actions, minimizing risk exposure, and ultimately reducing operational losses (Falih et al., 2022). In addition, Authorities and bank management have voiced concern about the rise in losses incurred by banks due to inadequate operational risk management techniques, as well as the detrimental impact on banks' financial performance (Olajide & Oye, 2020). Operational risk is one of the hazards that banks face, and it frequently results in loss due to weak or failing internal processes as well as external threats. Common operational risks include fraud and forgery by bank staff, as well as external threats to systems and databases. Banks must take appropriate efforts to limit these risks (Gadzo et al., 2019; Muriithi & Kennedy, 2017). Fraud in Nigeria's banking industry has escalated even after the Central Bank of Nigeria (CBN) cracked down on dishonest bank executives in 2010. The banking sector lost N12.30 billion because of various frauds between 2014 and 2017. 2014 saw 41,461 fraud cases, 2015 saw 10,743; 2016 saw 19,531; and 2017 had 25,043 instances. Due to mobile and payment fraud, the industry lost N6.22 billion in 2014, N2.26 billion in 2015, and N2.19 billion in 2016 (Okogba, 2018). The study was motivated by the importance of risk management in maintaining deposit money banks' profitability and financial stability, particularly in Nigeria's unstable economic climate. The financial performance of many banks is impacted by risks like credit, liquidity, and operational hazards, which are difficult to mitigate despite legislative efforts to improve risk management frameworks. In addition, the recession created a significant economic disruption that occurred within 2013 and 2022, underscoring the significance of sound risk management techniques. Stakeholders, regulators, and legislators can improve the resilience of Nigeria's banking industry by having a better understanding of the connection between these risks and financial performance. The purpose of the study is to address the following research questions:

i. To what extent does credit risk effect the financial performance of listed DMBs in Nigeria?
ii. To what extent does liquidity risk effect the financial performance of listed DMBs in Nigeria?
iii. To what extent does the operational risk effect the financial performance of listed DMBs in Nigeria?

2. Literature Review

In order for creditors, investors, the government, and other stakeholders to make well-informed economic decisions, commercial banks' financial performance is essential (Garcia & Trinidade, 2019; Herciu, 2017) The ratio of a bank's net income to its total assets is known as Return on Assets (ROA) (Cho et al., 2022; Power, 2021; Muhammad & Yusuf, 2017). Risks are unpredictable events, the possibility of danger, loss, harm, or other negative outcomes (Harland et al., 2003). Risk is a crucial element of investment in the financial sector since it is associated with uncertainty about earning and losing money (Bessis, 2002). Risk may negatively impact investment objectives like pricing, quality, timing, and customer happiness, according to financial experts (Marks, 2011). For the purposes of this work, risk management refers to a systematic process that includes measures or activities to lessen the possibility of undesirable events occurring and or to shorten their detrimental effects (Wang & Hsu, 2009). Risk factors for the banking sector include currency rates, economic downturns, monetary policies, and passive interest rate policy (Bessis, 2002).

In addition, banks profit from giving borrowers a lot of credit. However, there is a significant amount of credit risk associated with this activity. Credit risk is the result of borrowers in the banking industry not meeting their loan obligations on time. The profitability of the banking industry is negatively impacted by a significant number of loan defaulters. Without efficient credit risk management, there will be banking instability and a financial disaster. Bank profitability may suffer if lending plans for expansion are not sufficiently examined (Siaw et al., 2014). Credit costs for these bank customers to satisfy depositors' requests to withdraw their funds are determined by liquidity risk (Ali & Oudat, 2020).Meanwhile, a business is exposed to liquidity risk if it lacks the means to fulfil its contractual obligations or expectations within a given time frame (Adusei, 2022). Therefore, businesses with the highest liquidity ratios are regarded as stable, even if companies with high debt-to-liquidity ratios are more likely to default (Jihadi et al., 2021). Banks find it challenging to offer loans for income because of the low liquidity risk (Kesraoui et al., 2022). Therefore, the bank's daily operations would be in danger if it did not have enough liquidity.

Furthermore, operational risk is the term for the financial loss incurred by the company as a result of misconduct or insufficiency and is brought on by outside variables (Falih et al., 2022). Market disruptions, management blunders, transgressions, or outside events can all be concrete examples of operational risk. Operational risk encompasses both planned and unexpected losses and is defined as worldwide economic losses brought on by insufficient internal processes, structures, or external events (Muriithi & Kennedy, 2017). Operational risk is the term used to describe the risks connected to a company's activities. Risk management encompasses the hazards associated with a company's systems, personnel, and procedures. Other categories include fraud, legal problems, and physical and environmental hazards (Mohammed et al., 2021).

Empirical Review

The study reviewed relevant and related literature in relation to the variables under study. Olajide and Peter (2023) investigated the relationship between five Nigerian first-tier banks' financial performance and credit risk management. The study analyzed 15 years of panel data (2005-2019) from the audited financial reports of five first-tier publicly traded banks. Deposit Money Banks (DMBs) listed on the Nigerian Stock Exchange are the only banks used. The study used return on assets (ROA) as a financial performance metric and non-performing loans (NPL) and expected credit loss impairment provisions (ECL) as indicators of credit risk management. NPL significantly and negatively affects ROA in Nigeria. Also, Natufe and Evbayiro-Osagie (2023) investigated the relationship between Nigerian deposit money banks' (DMBs') financial performance and credit risk management. Nigeria's 12 DMBs' full-year published financial statements from 2010–2021. The study conducted a regression analysis using panel data. The study found that credit risk negatively impacts Nigerian DMBs' financial performance.

In addition, Siddique et al. (2022) examined the impact of bank-specific variables and credit risk management on the financial performance of commercial banks in South Asia. Over a ten-year period, from 2009 to 2018, secondary data was gathered from nineteen commercial banks in India and Pakistan. To counteract the impacts of some endogenous variables, the generalized method of moment (GMM) is employed for coefficient estimation. The findings showed a significant inverse relationship between credit risk and financial performance. Lawal et al. (2024) also investigated how liquidity risk affected First Bank PLC, a listed Deposit Money Bank in Nigeria, between 2000 and 2023. Ex-post facto research design was adopted in the study. Both the error correction model and simple least squares were used. Loans and advances to total assets and loans and advances to total deposit were

found to have a negative effect on First Bank PLC's return on assets both in the short and long term. At the 5% level, only loans and advances to total deposit were significant.

Furthermore, Chokri and Osamah (2024) investigates how liquidity risk affects the risk of Iraqi banks' financial performance. General managers, assistant general managers, heads of departments, and divisions were among the 22 Iraqi bank employees selected for the sample. This sample served as the basis for the conclusions. The study discovered a significant relationship between the performance of Iraqi banks and the management of liquidity risk. Similarly, Eyalsalman et al. (2024) examined the impact of liquidity risk on the operations of Jordanian banks. A statistical analysis of data from the 2012–2021 annual reports of 13 Amman Stock Exchange banks was conducted, with an emphasis on profitability metrics such return on assets. The findings indicated the impact of liquidity risk on financial performance is not significant. Moreso, Abubakar et al. (2023) examined the moderating impact of operational risk on performance using panel data from the annual financial statements of 16 Nigerian listed deposit money banks from 2018 to 2022. The research design used was ex-post facto. The calculations were carried out using STATA Software Version 14 and the Generalized Least Squares (GLS) technique of Panel Regression, Fixed, and Random Effects. According to the findings, listed DMBs' performance is significantly affected by operational risk.

In contrast, Yousef et al. (2023) examined the connection between MENA banks' financial performance and operational risk using data from 135 banks across 14 countries between 2015 and 2019. The results showed that operational risk negatively impacts the MENA region's banks' financial performance. Similarly, Falih et al. (2022) investigated the relationship between operational risk management and Iraqi commercial banks' financial performance. Quantitative data was gathered using a five-point Likert scale and a 30-item questionnaire. 126 managers from commercial banks in Iraq participated in the poll. Data processing was done using Smart PLS 3.2.9. Financial success and operational risk management are significantly correlated, according to empirical findings. According to the study, operational risk management has a significant impact on Iraqi commercial banks.

While these studies provide valuable insights, several gaps remain. First, most prior research in Nigeria has focused on individual risks (credit, liquidity, or operational) in isolation, with limited attention to their simultaneous or interactive effects on bank performance. Secondly, although some studies incorporate governance or board characteristics, there is a notable lack of integrated frameworks that combine agency theory (for operational risk), credit risk theory (for credit risk), and shiftability theory (for liquidity risk) to explain their joint influence on financial performance. The present study addresses these gaps by empirically investigating the combined effects of credit risk, liquidity risk,

and operational risk on the financial performance of listed Nigerian DMBs, using a theoretical framework that integrates Credit Risk Theory, Shiftability Theory of Liquidity Management, and Agency Theory. This approach not only bridges the fragmented literature but also provides a holistic understanding of risk management dynamics in Nigeria's banking sector, thereby contributing to both theory and policy

Theoretical Framework

Agency Theory

Agency Theory, propounded by Jensen and Meckling in 1976, provides a foundational framework for understanding conflicts of interest and information asymmetries between principals and agents. These agency problems arise when managers pursue personal objectives such as stock options, salary increases, or enhanced prestige at the expense of shareholder interests, potentially leading to suboptimal decisions and elevated risks. In the banking context, agency theory underpins the relationship between operational risk and financial performance by framing operational risk (losses from inadequate processes, people, systems, or external events) as a manifestation of unresolved agency conflicts. When managers, acting as agents, fail to implement robust internal controls or prioritize short-term gains over long-term stability, asymmetric information can conceal vulnerabilities, such as high operational exposures, ultimately contributing to financial distress or bankruptcy. The theory posits that effective corporate governance mechanisms serve as agency cost-reducing tools to align interests and mitigate operational risk. Agency theory explains the inverse link between operational risk and financial performance, advocating incentive aligned structures and strong governance to minimize agency costs, lower operational vulnerabilities, and enhance profitability and stability.

Credit Risk Theory

Credit Risk Theory, originally propounded by Harry M. Markowitz in his seminal 1952 portfolio theory framework, emphasizes the importance of diversification and risk assessment in managing exposures to potential losses. In the banking context, this theory underscores credit default where borrowers fail to repay loans as a primary challenge that threatens financial stability (Coyle, 2000). Under credit risk theory, high credit risk manifests through elevated non-performing loans, increased provisioning expenses, and diminished net interest margins, ultimately leading to lower return on assets, return on equity and overall profitability. To mitigate these adverse effects, banks are compelled to charge higher interest rates on riskier loans (Owojori et al., 2011), while adhering to central bank directives, sanctions, and corporate governance standards that enforce robust credit risk protocols

(Almustafa et al., 2023). These regulatory measures aim to safeguard financial stability and ensure compliance with covenants. The theory posits that proactive credit risk management through tools like credit scoring, stress testing, and portfolio diversification directly enhances financial performance by minimizing defaults, reducing loss provisions, and boosting investor confidence. Thus, credit risk theory provides a robust underpinning for the inverse relationship between credit risk and financial performance, highlighting that effective risk management not only preserves capital but also sustains profitability and resilience.

Shiftability Theory of Liquidity Management

Shiftability Theory, propounded by Harold G. Moulton in 1915, provides a key framework for understanding liquidity management in banking. The theory asserts that a bank's liquidity does not primarily depend on holding large cash reserves or short-term self-liquidating loans, but rather on its ability to hold high quality, marketable assets that can be quickly and reliably "shifted" or sold to other institutions or the central bank with minimal loss in value during periods of stress (Bhattacharyya, 2011; Deger & Adem, 2011). Under this theory, liquidity risk is the danger of being unable to meet obligations when they fall due without incurring unacceptable losses arises when banks lack sufficient shiftable assets. Therefore, banks that maintain portfolios of liquid, transferable securities (e.g., government bonds or commercial paper) can rapidly convert these assets into cash, thereby reducing liquidity risk and avoiding forced sales of illiquid loans at discounted prices. Shiftability Theory directly underpins the relationship between liquidity risk and financial performance by positing that effective liquidity management through shiftable assets enhances profitability and stability. Low liquidity risk enables banks to invest in higher yielding, longer term assets while retaining flexibility, leading to improved net interest margins, higher returns on assets and returns on equity.

3. Methodology

The research design used in this study is correlational. This study design was selected because it demonstrates the relationship between two or more variables and what they have in common, and predicts a specific outcome based on the information presented (Salkind 2012). The goal is to minimize errors in data analysis while providing appropriate accurate and reliable information. Deductive reasoning was used to reach conclusions after analyzing facts based on pre-existing theories. Secondary data from the banks' annual reports was used in the study. A balanced data research design was employed in the study. To incorporate the effect of risk management in DMBs in Nigeria, a sample of thirteen (13) listed banks was employed throughout a ten (10) year period from 2013 to 2022.

Multiple regression models were provided for the panel data to reflect the data set's peculiarities. As a result, the functional form of the following is the study's model:

$ROA_{it} = \alpha_{it} + \beta_1 CRR_{it} + \beta_2 LDR_{it} + \beta_3 OPR_{it} + E_{it}$

Where, ß0 = Constant, β1 to β3 = Coefficient of the independent variables, ROA, Ratio of net income to total asset, CRR = Ratio of non-performing loans, LDR = Loan to deposit ratio, OPR= ratio of operating cost to operating ratio, it = Panel indicator. The variables of the study are measured as follows:

Table 1: Variable Measurement

Variables	Variable Types	Measurements	Sources
Financial performance	Dependent variable	Ratio of net income to total assets	(Yousef et al., 2023)
Credit Risk	Independent Variable	Ratio of non-performing loans	(Omorokunwa & Ogbeide, 2018)
Liquidity Risk	Independent Variable	Loan to deposit ratio	(Hacini et al., 2021)
Operational Risk	Independent Variable	Ratio of operating cost to operating income	(Abubakar et al., 2023)

Source: Compiled by Author (2024)

4. Results and Discussions

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
ROA	130	0.0379	0.0993	-0.0953	1.0018
CRR	130	0.0605	0.0851	-0.0073	0.6200
LDR	130	0.6369	0.1525	0.0816	0.9915
OPR	130	0.0501	0.0205	0.0128	0.1562

Source: STATA Output, (2024)

The average financial performance (ROA) value is ₦0.0379 million for the entire DMBs and a standard deviation of 0.0993, which shows high variation among the firm's financial performance during the period of study. The maximum value for the DMBs financial performance was 1.0018,

while the minimum value was -0.0953. This shows that some banks in the industry outperform others during the period under investigation. The financial performance patterns of banks in the industry vary, as evidenced by the high standard deviation value and the wide dispersion between the minimum and maximum values. Similarly, credit risk has a mean value of 0.0605 and a standard deviation of 0.0851, confirming high variations among these firms. Many Nigerian banks are confronted with credit risk management challenges. In other words, the Nigerian banking industry's credit risk liabilities exceed its financial performance. The maximum and minimum value are 0.62 and 0.0073, respectively. The maximum value shows that some banks face more credit risk than others.

Furthermore, the average liquidity risk value is 0.6369 and a standard deviation of 0.1525 which shows a low variation among the DMBs during the period of study. With the maximum value of 0.9915 and a minimum of 0.0816. In addition, the average value of operational risk was 0.0501 and a standard deviation of 0.0205 which shows a low variation among these firms. With a maximum value of 0.1562 and a minimum of 0.0128. The maximum value indicates that some banks in the industry face higher operational risks than the reported mean value.

Table 3: Correlation Matrix

Variables	ROA	NPL	LDR	CIR
ROA	1.0000			
CRR	-0.086	1.0000		
LDR	0.0302	0.1402	1.0000	
OPR	-0.037	0.1023	-0.013	1.0000

Source: STATA Output, (2024)

Based on the information in Table 3, none of the independent variables in the study had a correlation of more than 0.70 (70%). The findings confirm that the investigation's independent variables did not have a presence of multi-collinearity. According to Pallant (2010), a correlation of 0.8 or higher is frequently used to indicate a multicollinearity concern among the variables under investigation. The Variance Inflation Factor (VIF) and Tolerance Value approach were used in the study to show and support the absence of multicollinearity among the independent variables. The VIF of credit risk, liquidity risk and operating risk are 1.03, 1.02 and 1.01, respectively. The mean VIF was 1.02 which further confirms the absences of multi collinearity among the independent variables used in this study. Tolerance levels more than 0.10 and VIF values less than 10 are typically signs of absences of multicollinearity (Gujarati & Porter, 2009). This is consistent with the normal regression model's assumption that the independent variables in the model do not have too close correlations with one another. Furthermore, heteroskedasticity develops when the error terms' variances are not constant. Correcting this issue is required to prevent making statistically significant variables appear

insignificant on occasion and estimating coefficients inaccurately (Gujarati, 1988). The results showed that the test is significant at 1% with a p-value of 0.000. The existence of heteroskedasticity was confirmed by the Breusch-Pagan test, which produced a p-value less than 0.05. Therefore, to account for heteroskedasticity and possible serial correlation within panels, all fixed effects estimations use cluster-robust standard errors.

Regression Results

A p-value of 0.000, which is significant at the 1% level, was also obtained from the Hausman specification test. The fixed effects model is preferred because this result strongly refutes the null hypothesis that the random effects model is consistent. Consequently, the study adopts the fixed effects regression with cluster-robust standard errors, ensuring both appropriate model specification and robust inference.

Table 4: Fixed Effect Robust Regression Results

ROA	Coef.	Std. Err.	Z value	P value
CRR	-0.209	0.2009	-1.04	0.318
IDR	0.0530	0.0242	2.19	0.049
OPR	-1.587	0.2653	-5.98	0.000
cons	0.1561	0.0331	4.72	0.001

No of obs	130.00	**Wald chi**	14.46
Hausman	0.0000	**Adjusted R^2**	0.3108
Hettest	0.0000	**Prob>F**	0.0003

Based on the findings in Table 4; the study's independent variables which include credit risk, liquidity risk, and operational risk explained 31.08% of the variations in the return on assets of listed DMBs in Nigeria using the fixed effect model. The remaining 68.92% are other factors that affects the return on assets of Nigerian listed DMBs but were not included in the model employed in this study are accounted for by the error term.

The results showed that the credit risk regression has a coefficient of -0.209 and the p-value of 0.318. This indicates that credit risk does not have a significant relationship with the financial performance of DMBs in Nigeria. Therefore, we support the null hypothesis which stated that there is no significant relationship between credit risk and financial performance of listed deposit money banks in Nigeria. This study's findings contradict the findings of Natufe and Evbayiro-Osagie (2023), who found a negative and significant link between credit risk and financial performance.

Furthermore, liquidity risk has a coefficient of 0.0530 and a p-value of 0.049 which is significant at 5% level of significance. The results showed that liquidity risk has positive and significant effect on the financial performance of DMBs listed in Nigeria. Therefore, we reject the null hypothesis which

stated that liquidity risk does not have a significant effect on financial performance of listed deposit money banks in Nigeria. This suggests that, while all other conditions remain the same, a 1% rise in liquidity risk will result in a similar rise of 0.0530 rise in the financial performance of listed DMBs in Nigeria. Through efficient asset-liability management, banks can strategically optimize their loan portfolios by allocating funds toward higher-yielding, longer-term loans and investments, while maintaining sufficient liquidity buffers. This deliberate approach allows banks to pursue enhanced returns without excessive exposure, as effective liquidity practices enable greater deployment of funds into profitable, albeit less liquid, assets. Consequently, well-managed liquidity risk viewed as an optimized trade-off rather than undue risk-taking supports improved net interest margins and overall financial performance, clarifying that superior liquidity management contributes to profitability through prudent portfolio composition and maturity transformation. is associated with higher returns and thereby improving their financial performance. This finding contradicts the findings of Lawal et al.'s (2024), who found that liquidity risk had a significant and negative effect on financial performance of firms.

Lastly, the results of the study showed that the operational risk has a coefficient of -1.587, with a significant p-value of 0.000 which is significant at 1%. The results of the study showed that operational risk significantly contributes to the financial performance of DMBs that are listed in Nigeria. Therefore, we rejected the null hypothesis which stated that there is no significant relationship between operational risk and financial performance of listed deposit money banks in Nigeria. This implies that has operational risk increases the financial performance of these banks reduces or vice versa. Furthermore, reducing operational risk is essential to raising the financial performance of Nigerian listed DMBs. Therefore, for Nigerian listed DMBs, operational risk plays a significant role in raising return on assets. This finding is consistent with the research conducted by Yousef et al. (2023), which showed that operational risk has a significant effect on company return on assets.

5. Conclusion and Recommendations

The study concluded that liquidity risk and operational risk have a significant effect of the financial performance of listed firms in Nigeria. Thus, the findings suggested that DMBs should maintain adequate liquidity risk management by implementing effective asset liability management and strengthening their internal controls to help mitigate operational inefficiencies and fraud. This study is significant for policymakers, bank executives, and regulators, as it provides insights into how liquidity risk, and operational risks affects the financial performance of listed DMBs in Nigeria. By

highlighting the areas where risk management practices are most effective or deficient, the findings can guide the development of more robust frameworks to enhance bank stability and profitability.

Nevertheless, the study is constrained by its exclusive emphasis on three risk types, excluding others like market and reputational risks, which may also influence financial performance. Additionally, it does not account for cross-border banking operations or provide a comparative analysis with other banking sectors globally. The study period, while comprehensive, may also miss long-term trends beyond 2022. Future studies could broaden the focus to encompass additional risk elements, examine the role of regulatory changes in mitigating these risks, and explore cross-country comparisons to provide a broader understanding of risk management practices in banking.

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