Evaluation of Financial Risk Disclosure and Financial Performance of Listed Financial Institutions in Nigeria

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Abstract
This study was prompted by the observed decline in the performance of listed financial institutions in Nigeria. Its primary objective was to assess how disclosing operational risks affects the financial performance of these institutions listed on the Nigerian Exchange Group (NGX). The research employed ex-post facto and panel data research designs, using data extracted from the audited financial statements of listed financial institutions over a ten-year period from 2012 to 2021. The study focused on a population of thirty-four listed financial institutions, including nineteen deposit money banks and fifteen insurance companies on the NGX. A purposive sampling technique was applied, investigating twenty of these firms due to the availability of complete data. The descriptive statistic and panel regression analysis were adopted. The overall results showed that financial risk disclosure had a statistically significant effect on the financial performance of listed financial institutions in Nigeria. It was concluded that financial institutions in Nigeria need to improve their financial performance through reasonable corporate risk disclosure. Financial institutions should consider prioritizing the disclosure of specific risk factors, particularly Currency Risk Disclosure and Capital Management Risk Disclosure, to improve their financial performance. Improved reporting practices in these areas may positively impact the Return on Equity, Return on Assets, and Tobin's Q of these institutions.

Keywords: Risk Management, Financial Risk Disclosure, Financial Performance, Financial Institutions, Nigerian Exchange Group.
JEL Classification Codes: G21, G22, G3

1. Introduction

Over the years, Nigerian financial institutions have experienced a downturn in performance, attributed in part to the array of risks they regularly face (Kadipe et al., 2021). Efficient risk management stands as a crucial aspect for their survival due to the potential negative impact of these risks on their performance, such as diminishing expected profits from loans or investments (Almania, 2019). These institutions serve as key drivers in economic development by enabling the flow of funds, making their financial robustness essential for the nation's advancement. Corporate entities hold the responsibility to present comprehensive disclosures encompassing material information regarding their finances, operations, advantages, and risks (Ogbuga et al., 2022). This transparency ensures a clear and accurate view of their financial status, allowing informed investment decisions by investors. Such disclosure requirements stem from regulatory frameworks, particularly for public entities, ensuring proper transparency, given the public interest in their affairs and the significant role these institutions play in the nation's overall economic advancement (Rahayu et al., 2022).

The Nigerian business environment's volatile nature exposes companies to financial risks that could potentially affect their performance. These risks span economic factors like exchange rates, inflation rates, and interest rates, as well as non-economic elements like natural disasters, governmental instability, and changing stakeholder expectations (Tapang et al., 2022). Risk constitutes an inherent part of company activities and decision-making, and the financial sector's ability to handle risk holds immense importance for economic development.

Hence, a comprehensive risk disclosure should encompass all financial risk aspects to enrich stakeholders' informed decision-making. Investors assess both returns and associated risks while making investment choices (Almania, 2019). Consequently, risk disclosure provides transparency and fosters investor confidence in their investments. Management information about risks is vital for top-tier corporate reporting and performance advancement, particularly in today's uncertain business realm. Nevertheless, certain risks remain beyond management's control and are difficult to objectively measure, making risk disclosure for companies intricate (Agbuta et al., 2021; Apochi et al., 2020).

Earlier studies have revealed discrepancies in scholars' conclusions regarding the impact of financial risk disclosure on firm performance. Some studies (Abubakar et al., 2022; Anetoh et al., 2021; Biswas et al., 2021); Goshu, 2019; Mercial et al., 2021; 2022; Ogbuga et al., 2022; Okpala et al., 2021; Wang, 2020; and Wood and McConney, 2021) have identified a positive but inconsequential effect of financial risk on financial performance, while others demonstrate a significant and positive relationship between financial risk and bank performance. In Nigeria, certain studies have even suggested a negative and inconsequential effect of financial risk on the performance of deposit money banks. Given these diverse findings, this study aims to investigate how financial risk disclosure influences the financial performance of listed financial institutions in Nigeria.

2. Literature Review and Hypotheses Development

2.1 Conceptual Review

The study provides clarifications on the key concepts of the study in this section

2.1.1 Financial risk disclosure

Risk disclosure describes the provision of data that outlines the significant risks faced by firms and their potential economic impact on current and future performance (Apochi et al., 2020). Essentially, it involves communicating details about a firm's strategies, characteristics, operations, and external factors that could influence expected outcomes (Adegoke & Oyedeko, 2018). The global financial crises experienced between 2007 and 2009 raised substantial concerns regarding the aggressive risk-taking behavior of public companies. This led to increased research interest in risk management and disclosure worldwide and prompted regulatory reforms by government agencies and accounting standard setters (Almania, 2019).

Previous studies by Gacheru (2021), Fali et al. (2020), and Maccartthy (2017) have highlighted that corporate risk disclosure has become an essential component of business reporting in developed countries and markets. It enhances transparency and boosts investor confidence. In the United States, the Dodd-Frank Act of 2010 mandates large financial institutions to establish a board-level risk committee responsible for assessing, managing, and disclosing financial risks (Fali et al., 2020). The occurrence of corporate failures and various business and investment risks globally has led stakeholders to demand corporate risk disclosure (Agubata et al., 2021).

2.1.1.1 Credit risk disclosure

Financial institutions must effectively manage credit risk, as it is a fundamental aspect of the banking sector. Credit risk refers to the likelihood of incurring losses on outstanding loans, either partially or entirely, due to borrower default in repayment (Abubakar et al., 2022). Establishing a dynamic credit risk framework is essential for banks to optimize profitability and avoid forced mergers and acquisitions (Anetoh et al., 2021). Credit risk arises when a lender faces the potential for irrecoverable debts from the loan disbursement to the customers or when customers fail to fulfill the repayment of their debt obligations as earlier agreed (Adebayo et al., 2020). Managing credit risk is a vital element of a comprehensive risk management approach and is crucial for the long-term success of financial institutions. It helps mitigate losses and plays an integral role in the loan process. By maintaining credit risk exposure within acceptable limits, credit risk management minimizes risks for financial institutions and adjusts the risk-return profile, safeguarding the financial sector from the adverse effects of credit risk (Biswas et al., 2021).

2.1.1.2 Liquidity risk disclosure

Liquidity risk refers to the potential of inadequate liquid assets to fulfill policy payouts (such as surrenders, expenses, and maturities. It signifies ability of a company to meet its financial responsibilities promptly without disrupting normal business operations (Okeke et al., 2021). Regulators assess liquidity ratios to ensure compliance with legal requirements. A low overall liquidity ratio could indicate financial difficulties for an insurance company, stemming from poor operational, risk, or investment management. On the other hand, a high overall liquidity ratio may not be ideal, especially if current assets account for a significant portion of total assets (Adegoke & Oyedeko, 2018). Liquidity risk encompasses the risk that a firm, despite being solvent, lacks sufficient financial resources to meet obligations as they come due or can only obtain them at excessive costs. It arises when a firm holds more assets than liabilities but those assets are illiquid and not easily convertible into cash. In the context of life insurance, liquidity risk can manifest as a mass surrender of policies due to a loss of confidence in the firm's financial strength (Nwude & Okeke, 2018).

2.1.1.3 Derivative risk disclosure

Derivatives are valuable tools for managing risk, and providing opportunities for hedging, speculation, and arbitrage. Hedging allows investors to protect themselves from routine risks by transferring them to another party (Efang et al., 2019). Derivatives effectively hedge various risks, including market variables such as exchange rates, interest rates, share prices, and commodity prices. Speculators use derivatives to speculate on the movement of these market variables, contributing liquidity to the market. Derivatives also enable arbitrage, where risk-free profits can be made by capitalizing on price differences in different markets (Firas et al., 2014). Few studies have demonstrated the positive impact of derivatives in reducing business risks. Trading in derivatives helps mitigate risks associated with businesses, minimizing their adverse effects on profitability and financial performance. Studies conducted in different countries have supported the risk-reducing effect of derivatives. Some studies have also extended the relationship between derivatives and business risks to financial performance, indicating that effective derivatives trading can improve profitability and financial performance. Overall, derivatives play a crucial role in enhancing financial performance while effectively managing and reducing business risks (Kajola et al., 2018; Kiptoo et al., 2021).

2.1.1.4 Hedging risk disclosure

Hedging is increasingly popular among businesses as a risk management strategy to mitigate risk exposure. It involves acquiring a position or contract that will offset the value of an existing position, thereby reducing volatility caused by fluctuations in exchange rates (Firas et al., 2014). Hedging can be done through various instruments such as cash transactions, forward contracts, futures, or swaps. The primary objective of hedging is to smooth out the risks associated with existing positions. To address concerns raised by financial statement preparers, the accounting regulatory bodies have made changes in respect of accounting for financial instruments under IFRS 9 (Alasin & Briggs, 2018). These changes include a new hedge accounting model and disclosures related to risk management activities for entities using hedge accounting. The amendments require that information on all hedges be consolidated in one place in the financial statements Notes section (Gacheru, 2021).

2.1.1.5 Interest rate risk disclosure

Interest rate risk is described as the possibility of incurring investment losses due to an upward movement in the prevailing rates for new debt instruments. When interest rates increase, the value of fixed-income investments such as bonds in the secondary market tends to decrease (Adebayo et al., 2020). The extent to which a bond's price changes in response to interest rate fluctuations is known as its duration. While interest rate changes can affect various investments, they have a more direct impact on the value of bonds and other fixed-income securities. Therefore, bondholders closely monitor interest rates and make decisions based on their perception of how interest rates will change over time (Onsogo et al., 2020).

2.1.1.6 Value risk disclosure

Value at risk (VaR) is described as a statistical pointer that quantifies the likelihood of financial losses that a firm, portfolio, or position may face within a specified timeframe. It is widely used by investment banks and commercial banks to assess the magnitude and likelihood of potential losses in their institutional portfolios (Luo & Wang, 2018). Risk managers utilize VaR to evaluate and manage their level of risk exposure. Investment banks often employ VaR models to assess the overall risk across the organization, as different trading desks within the bank may inadvertently expose the firm to highly correlated assets. VaR modeling helps determine the potential magnitude of losses that the entity under evaluation could experience and the probability of occurrence for those losses. It involves assessing the potential amount of loss, the likelihood of that loss occurring, and the specific timeframe in consideration (Mercial et al., 2021).

2.1.1.7 Market risk disclosure

Market risk is described as the potential for every individual or entity to incur financial losses as a result of different pointers that could affect the overall outcome of investments in financial markets (Adebayo et al., 2020). These factors can include fluctuations in interest rates, exchange rates, geopolitical events, or economic downturns. The market risk stems from the inherent volatility of prices in the market, which can lead to gains or losses for investors (Osayi et al., 2018).

2.1.1.8 Capital management risk disclosure

Capital risk management involves evaluating a company's capacity to withstand and mitigate the potential adverse effects of capital risks to which it is indicated (Isuwa et al., 2021). In the context of banking, having sufficient capital is crucial to absorb potential losses and safeguard the interests of senior creditors. Capital risk, in essence, refers to the risk that a bank may lack adequate capital to fulfill its obligations (Rahayu et al., 2022).

2.1.2 Financial performance

Financial performance represents the assessment of a business entity's financial well-being, particularly in terms of its capacity to effectively allocate available resources to generate profits (Dagunduro et al., 2022). It is important to note that the long-term viability and value of a firm depend on its capacity to maintain a favorable level of profitability through its operational activities. As highlighted by

Hamdan (2018), financial performance serves as a reflection of the executive leadership's effectiveness within a company. Olarewaju and Adeyemi (2015) further emphasize that financial performance can be evaluated through factors such as profitability growth, revenue generation expansion, the efficient allocation of available capital, and judicious usage of financial resources.

According to Kolawole et al. (2023), a performance system refers to a collection of metrics, indicators, or standards utilized to evaluate the efficiency and effectiveness of actions. Therefore, the term "Financial Performance" can be subjectively understood as a measure of the extent to which a company can generate revenue by leveraging its primary operational assets (Adewara et al., 2023). It has been observed that financial performance is considered a key indicator when assessing an organization's exposure to risks (Adedayo et al., 2019; Adewara et al., 2023). Various criteria are used to measure financial performance. For instance, Omiagbo and Daniel (2021) highlights profitability and issues of shares as measures of financial performance for a given year. On the other hand, Dada et al. (2023) and Dagunduro et al. (2022) state that indicators such as ROA, ROE, and TQ can be used to gauge improvements in operating business performance for a particular period. Therefore, this study utilized ROA, ROE, and TQ as assessment metrics to evaluate financial outcomes.

2.1.2.1 Return on assets (ROA)

The definition of return on assets, as provided by Adebayo et al. (2019), is a metric that compares the assets of a company to its turnover during a specific period. If a company has a higher return on assets, it suggests that the company is performing well financially, and can be an attractive incentive for potential and existing shareholders to postpone consumption (Kolawole et al., 2023).

2.1.2.2 Return on equity (ROE)

According to Al Zaidanin and Al Zaidanin (2021), return on equity (ROE) is an indicator of a company's profitability and its ability to generate profits efficiently. A company that has a higher ROE is considered better at converting its equity financing into profits. Meanwhile, return on equity (ROE) is a measurement of a company's profit after tax, divided by its total equity (Kolawole et al., 2023).

2.1.2.3 Tobin's Q (TQ)

Tobin's Q, also known as the Q ratio, is a measure of market valuation relative to the replacement cost of a company's assets. The Q ratio is calculated by dividing a company's market capitalization by its total assets. The Q ratio compares the market value of a company to the cost of replacing its assets (Dada et al., 2023). If the Q ratio is less than one, it suggests that the market value of the company is lower than its replacement cost, while a Q ratio greater than one suggests that the market value is higher than the replacement cost. Tobin's Q was introduced in 1966 by Nicholas Kaldor and popularized by Nobel Laureate James Tobin. It is a tool for estimating whether a business or market is overvalued or undervalued (Isuwa et al., 2021).

2.2 Theoretical Framework

This research was based on the stakeholder theory. Proposed by Professor Edward Freeman in 1984, this theory suggests that companies are responsible to a broad array of stakeholders beyond shareholders, including employees, suppliers, customers, government, investors, and the community (Dagunduro et al., 2022; Salisu, 2019). This theory views a company as entwined in a network of diverse interests, asserting that a company's success is contingent upon meeting the needs of all stakeholders, not just shareholders. The stakeholder theory introduces fresh perspectives on the potential justification for risk management, particularly regarding financial risks. Nonetheless, the central limitation of the stakeholder theory is the impracticality of simultaneously satisfying all stakeholders. Eric and Alan (2009) suggested that managing the interests of stakeholders comprehensively is practically unfeasible due to their extensive range. This theory has been widely employed to examine various contexts in financial performance and risk management, such as evaluating if risk management generates value following business mergers and whether environmental factors impact a business's profitability.

2.3 Empirical Review

Multiple research inquiries have explored the connection between financial risk disclosure and company performance. For instance, Mercia et al. (2021) scrutinized the relationship between risk management and the disclosure of hedge financial instruments' effect on market performance among public firms listed on Brazil's B3 new market. The study, encompassing 54 companies, utilized a correlational research design and data from 2017 to 2019 to evaluate 162 observations. Although the findings revealed a positive impact of risk management on hedge disclosure practices, the anticipated positive relationship between risk management and accounting disclosure quality concerning organizational performance (market value) was not found.

Wood and McConney (2021) carried out a study in Barbados to assess the influence of risk management on the financial performance of the commercial banking sector. Their research employed an ex-post facto research design, analyzing quarterly data from 2000 to 2015 acquired from secondary sources. The study indicated that various risks—such as capital, credit, liquidity, interest rate, and operational risks—had statistically significant effects on the

financial performance of the commercial banking sector in Barbados.

Similarly, Biswas et al. (2021) examined the impact of credit risk on the profitability of public and private sector banks in Bangladesh. Their descriptive research design encompassed annual reports from 20 commercial banks over a five-year period (2014-2018). The multiple regression analysis revealed statistically significant positive relationships between return on assets (ROA) and the capital adequacy ratio (CAR) and the cost-to-loan assets ratio. However, a significant negative relationship was observed between ROA and non-performing loans (NPL) and bank size, while the cash reserve ratio showed a statistically insignificant relationship with ROA. In a separate study by Wang (2020), the effect of foreign exchange risk on the financial performance of multinational companies in China was assessed, indicating that managing foreign exchange risk could enhance the financial performance of these firms. Onsongo et al. (2020) explored the impact of financial risk on companies listed on the Nairobi Securities Exchange (NSE) in Kenya, highlighting the varying effects of credit, liquidity, and operational risk on return on equity (ROE).

Goshu (2019) focused on the financial performance of insurance companies in Ethiopia and found that financial, operational, and enterprise management risks could influence their performance. Specifically, liquidity risk significantly impacted financial performance, while operational risk factors, such as cost-to-income ratio, claim settlement ratio, and asset utilization ratio, showed varying impacts on performance. Additionally, Alqudah et al. (2019) studied the relationship between board features in Jordan's banks and performance, revealing that directors' busy schedules, political connections, and foreign members hindered company performance. This study did not find a significant association between certain board characteristics and return on assets (ROA).

Moreover, Mohamed and Onyiego (2018) evaluated the effect of credit risk management on the financial performance of commercial banks in Kenya. Their study showed that liquidity risk management significantly influenced the banks' financial performance, as increased liquidity facilitated more lending, resulting in higher interest income and profitability. MacCarthy (2018) explored the influence of financial derivatives on the operational performance of financial firms in the Ghanaian financial sector. The research discovered a robust and favorable relationship between financial derivatives and well-managed business risks. Engaging in financial derivatives was associated with an enhanced financial performance for these firms.

Additionally, Abubakar et al. (2022) scrutinized the effect of credit risk management on the financial performance of Nigerian deposit money banks. Their study highlighted that factors such as the capital adequacy ratio, return on assets, and loans-to-deposit ratio exhibited a positive and noteworthy impact on financial performance, while metrics like the non-performing loans ratio, cost-to-income ratio, and liquidity ratio did not show a significant effect on financial performance. Tapang et al. (2022) delved into the moderating influence of hedge accounting on the connection between financial risk management and the performance of insurance companies in Nigeria. The investigation revealed that financial risk management significantly affected performance, while hedge accounting did not display a significant effect. Furthermore, Sulaiman and Ibrahim (2021) investigated the impact of financial derivatives on the profitability of selected deposit money banks in Nigeria. Their study highlighted that financial derivatives and loans and advances to customers demonstrated a positive and substantial effect on profitability, whereas financial derivative liabilities showcased a negative and insignificant effect.

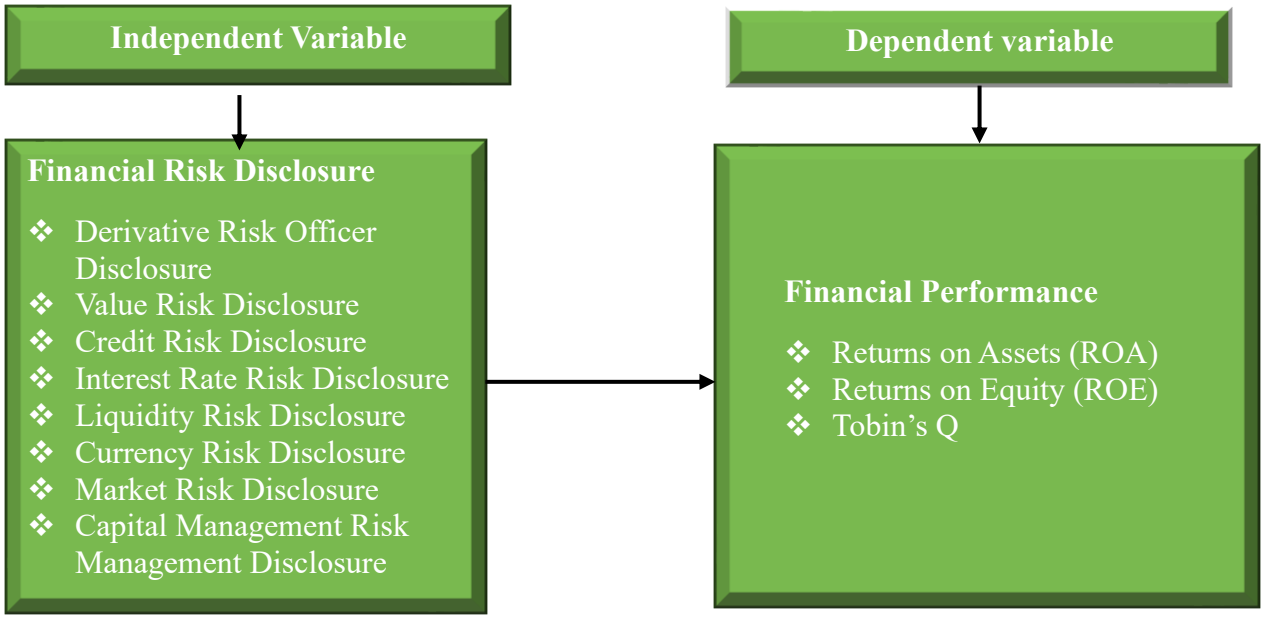
The review of empirical studies indicates a marked interest in corporate risk disclosure among policymakers and researchers in developed economies. However, the extent of studies on corporate risk disclosure, especially in Nigeria with its volatile business environment, remains limited, suggesting a geographical gap in the research field. The correlation between financial risk disclosure and financial performance remains inconclusive, as few studies, including those by Abubakar et al. (2022), Anetoh et al. (2021), Biswas et al. (2021), Goshu (2019), Mercial et al. (2021), Odigbo et al. (2022), Ogbuga et al. (2022), Okpala et al. (2021), Wang, 2020, and Wood and McConney (2021) failed to reach a consensus on this relationship. Moreover, although numerous studies have examined the connection between financial risk disclosure and the financial performance of firms, most have focused on deposit money banks, with limited attention given to financial institutions encompassing listed deposit money banks and insurance companies. The study's hypothesis was formulated as follows:

H_o: Financial risk disclosure has no significant effect on the financial performance of listed financial institutions in Nigeria

2.5 Conceptual Framework

The objective of this research is to expound upon the impact of financial risk disclosure on the financial performance of financial institutions listed on the Nigerian Exchange Group. The financial risk disclosure acts as the independent variable, while financial performance is considered the dependent variable. The visual representation below illustrates the relationship between the variables investigated in this study.

Figure 2.1 Conceptual Framework to show the interaction between Financial Risk Disclosure and Financial Performance of listed financial institutions on the Nigerian Exchange Group.



Source: Author's Concepts

3. Data and Methods

This study used *ex-post facto* and longitudinal research designs with descriptive and inferential statistics. The essence was to search for data that were recorded over a period of time, and which existed in the administrative records and accounts of financial institutions quoted by the Nigerian Exchange Group (NGX) as of 31st December 2021. The records were considered adequate, representative, and acceptable in the process of carrying out this study. The data used for the study is secondary and was sourced from the annually published reports of listed financial institutions in Nigeria. The population of the study was thirty-four (34) financial institutions, which comprises nineteen (19) deposit money banks and fifteen (15) insurance companies listed on the Nigerian Exchange Group profile as of 31st December 2021. The choice of selection of this sector was based on the fact that most of the researchers did not consider the financial institutions in the previous studies conducted in Nigeria. The study selected all the quoted financial institutions in Nigeria using a purposive sampling technique due to the availability of complete data, twenty (20) firms were investigated, comprising ten (10) deposit money banks and ten (10) insurance companies listed on the Nigerian Exchange Group (NGX). The panel data collected for this study were analyzed using both descriptive and inferential statistics.

3.1 Model Specification

To examine the effect of financial risk disclosure on the financial performance of listed financial institutions in Nigeria, the following econometrics model is estimated:

$FP = \alpha 0 + \beta DRD + \beta 2VRD + \beta 3IRRD + \beta 4CRD + \beta 5CRRD + \beta 6LRD + \beta 7MRD + \beta CMRD + \varepsilon it$

FP = Financial Performance
DRD = Derivative Risk Disclosure
VRD = Value Risk Disclosure
IRRD = Interest Rate Risk Disclosure
CRD = Currency Risk Disclosure
CRRD = Credit Risk Disclosure
LRD = Liquidity Risk Disclosure
MRD = Market Risk Disclosure
CMRD = Capital Management Risk Disclosure
$\alpha 0$ = Constant
$\beta 1$- $\beta 7$ = Coefficient of independent variables

The *a-priori* expectation = $\beta 1, \beta 2, \beta 3, > 0$, the implication of this is that a positive relationship is expected between the explanatory variables and the explained variable.

3.2 Operationalization and Description of Research Variables

SN	Variable	Acronym	Role	Measurement	Source
1	Financial Performance	FP	Dependent		
1a	Return on Assets	ROA	Dependent	Measured as earnings after tax divided by the total asset (%)	Abubakar et al., 2022 ; Biswas et al., 2021
1b	Returns on Equity	ROE	Dependent	Measured as earnings after tax divided by total equity (%)	Kajola et al., 2018
1c	Tobin's Q	TQ	Dependent	Measured as market capitalization divided by total asset	Dada et al., 2023; Marcial et al., 2021
3	Financial Risk Disclosure (FRD)		Independent		

3a	Credit Risk Disclosure	CRRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with credit risk management information and "0" for otherwise	Adebayo et al., 2020
3b	Liquidity Risk Disclosure	LIRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with liquidity risk information and "0" for otherwise	Apochi et al., 2020
3c	Derivative Risk Disclosure	DERD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with derivatives risk information and "0" for otherwise	Efanga, et al., 2019; Osayi et al., 2018
3d	Hedging Risk Disclosure	HERD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with hedging risk information and "0" for otherwise	Tapang, et al., 2022
3e	Value Risk Disclosure	VRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with value risk information and "0" for otherwise	Gacheru, 2021
3f	Interest Rate Risk Disclosure	IRRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with interest rate risk information and "0" for otherwise	Mercial et al., 2021
3g	Market Risk Disclosure	MRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with market risk information and "0" for otherwise	Isuwa et al., 2021
3h	Capital Management Risk Disclosure	CMRD	Independent	Measured as a dummy where "1" is assigned to the firm with annual reports with capital management risk information and "0" for otherwise	Osayi & Kasimu, 2016

Source: Researcher's compilation (2023)

4. Data Analysis and Discussion of Findings

4.1. Descriptive Statistics

Table 1 illustrates the descriptive statistics for the study's variables. The capital management risk disclosure score (CMRD) presents a mean of 0.425 with notable variability (standard deviation = 0.495). The currency risk disclosure score (CRD) demonstrates a mean of 0.845 with limited variation (standard deviation = 0.362). The value risk disclosure score (VRD) indicates a mean of 0.255 and substantial variation (standard deviation = 0.436). The CRRD variable shows a mean of 0.96 and low variability (standard deviation = 0.196). The DRD variable reports a mean of 0.63 and notable variability (standard deviation = 0.484). The IRRD variable presents a mean of 0.945 and low variability (standard deviation = 0.228). The liquidity risk disclosure (LQRD) exhibits a mean of 0.955 and limited variability (standard deviation = 0.207). The market risk disclosure (MRD) demonstrates a mean of 0.925 with moderate variability (standard deviation = 0.264). Regarding financial performance, the mean return on assets (ROA) stands at 2.417, indicating variability (standard deviation = 4.178). The mean Tobin's Q score is 0.7442, reflecting a market value approximately 74.42% higher than the book value. The variables' data exhibit different degrees of skewness and kurtosis, suggesting deviations from normal distributions. The Jarque-Bera test statistics for all variables highlight a significant deviation from the normal distribution. Overall, the descriptive statistics offer an overview of the variables' central tendencies, variations, and distributions, forming the basis for further analysis in the study.

Table 1: Descriptive Statistics

	Mean	Median	Max	Mini	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob	Obs
CMRD	0.425	0	1	0	0.495	0.303	1.092	33.40398	0.0000	200
CRD	0.845	1	1	0	0.362	-1.906	4.635	143.4463	0.0000	200
CRRD	0.96	1	1	0	0.196	-4.694	23.041	4081.959	0.0000	200
DRD	0.63	1	1	0	0.484	-0.538	1.290004	34.03419	0.0000	200
IRRD	0.945	1	1	0	0.228	-3.903	16.24002	1968.818	0.0000	200
LQRD	0.955	1	1	0	0.207	-4.389	20.26934	3127.563	0.0000	200
MRD	0.925	2	1	0	0.264	-3.227	11.41441	937.1669	0.0000	200
VRD	0.255	0	1	0	0.436	1.124	2.263851	46.64432	0.0000	200
ROA	2.417	2.055	20.76	-17.59	4.178	-1.034	9.740224	414.2796	0.0000	200
ROE	14.192	11.145	1222.87	-39.42	93.283	10.474	144.3454	170145.1	0.0000	200
TQ	0.7442	0.765	2.55	0.02	0.296	1.581	11.86035	737.5341	0.0000	200

Source: Researcher's Computation (2023)

4.1.2 Panel unit root test

The outcomes from the panel unit root test displayed in Table 2 determine the stationary or non-stationary nature of the individual panel variables in the dataset. The examination is conducted using two distinct statistics: the Levin, Lin & Chu t statistics and Im, Pesaran, and Shin's W-statistics, each having associated p-values. In this instance, all variables showcase exceedingly low p-values (0.0000), leading to the rejection of the null hypothesis of a unit root for each variable. This implies that all the variables are stationary and do not adhere to a random walk process. Moreover, the observations note that all variables are "Integrated at level," indicating they possess a constant mean and finite variance without any trending behavior over time. Hence, the findings suggest that these variables are stationary and suitable for econometric analysis that assumes stationarity.

Table 2: Panel Unit Root Test

	Levin, Lin & Chu t statistics		Im, Pesaran and Shin W-statistics		
	Levin, Lin & Chu t statistics	p-value	Im, Pesaran and Shin W-statistics	p-value	Remarks
CMRD	-6.25965	0.0000	-7.48179	0.0000	Integrated at level
CRD	-8.18699	0.0000	-0.6438	0.0000	Integrated at level
CRRD	-5.60707	0.0000	-5.39757	0.0000	Integrated at level
DRD	-7.08829	0.0000	-6.48943	0.0000	Integrated at level
IRRD	-11.75098	0.0000	-7.62649	0.0000	Integrated at level
LRD	-13.80434	0.0000	-9.476	0.0000	Integrated at level
MRD	-6.84585	0.0000	-5.64432	0.0000	Integrated at level
VRD	-9.80277	0.0000	7.54574	0.0000	Integrated at level
ROA	-11.43103	0.0000	-8.5375	0.0000	Integrated at level
ROE	-11.74591	0.0000	-7.85409	0.0000	Integrated at level
TQ	-7.65036	0.0000	-6.8973	0.0000	Integrated at level

Source: Researcher's Computation (2023)

4.2 The Effect of Financial Risk Disclosure on the Financial Performance of Listed Financial Institutions on the Nigerian Exchange Group

4.2.1 Correlation Analysis of the Independent Variables

Table 3 presents the outcomes of the correlation analysis conducted on the independent variables encompassing DRD, VRD, IRRD, CRD, CRRD, LQRD, MRD, and CMRD. The table illustrates the Pearson correlation coefficients between each variable pair, indicating the strength and direction of their linear relationship. The coefficient scale ranges from -1 to 1, where -1 signifies a perfect negative correlation, 0 denotes no correlation, and 1 signifies a perfect positive correlation. As anticipated, the correlation between a variable and itself is always 1. The findings reveal a substantial positive correlation (0.40) between DRD and VRD, demonstrating a statistically significant relationship, as reflected by a p-value of 0.0000. Conversely, the examination suggests a weak positive correlation (0.09) between IRRD and DRD, indicating an insignificant relationship with a p-value of 0.2170. Moreover, there is a noteworthy positive correlation (0.32) between CRD and IRRD, signifying a statistically significant relationship with a p-value of 0.0000. Similarly, the analysis shows a substantial positive correlation (0.62) between CRRD and IRRD, indicating a statistically significant relationship with a p-value of 0.0000. The examination also reveals a significant correlation coefficient value (0.44) between LQRD and CRRD, suggesting a moderate positive relationship between these variables, supported by a p-value of 0.0000. Additionally, the results demonstrate a considerable positive correlation (0.46) between MRD and LQRD, with a p-value of 0.0000. There is also a weak positive correlation (0.17) between MRD and CMRD, revealing a relationship that is statistically significant, supported by a p-value of 0.018. Overall, the findings illustrate a moderate correlation among the independent variables. However, this degree of correlation is not substantial enough to cause significant collinearity issues.

Table 3: Correlation Matrix

Probability	DRD	VRD	IRRD	CRD	CRRD	LQRD	MRD	CMRD
DRD	1.000000							

VRD	0.400835	1.000000						
	0.0000	-----						
IRRD	0.087672	-0.009812	1.000000					
	0.2170	0.8903	-----					
CRD	0.215476	0.250570	0.320881	1.000000				

	0.0022	0.0003	0.0000	-----				
CRRD	0.266357	0.119423	0.422274	0.335596	1.000000			
	0.0001	0.0921	0.0000	0.0000	-----			
LQRD	0.283253	0.126998	0.582401	0.306900	0.440351	1.000000		
	0.0000	0.0731	0.0000	0.0000	0.0000	-----		
MRD	0.292923	0.166591	0.430905	0.245220	0.416860	0.462333	1.000000	
	0.0000	0.0184	0.0000	0.0005	0.0000	0.0000	-----	
CMRD	0.302718	0.402038	0.029947	0.340264	0.175491	0.186623	0.244805	1.000000
	0.0000	0.0000	0.6738	0.0000	0.0129	0.0081	0.0005	-----

Source: Researcher's Computation (2023)

4.2.2 Variance inflation factors

Table 4 displays the Variance Inflation Factor (VIF) for the independent variables utilized in the study's analysis. Typically, a VIF value under 10 is considered indicative of the absence of collinearity problems. The outcomes presented in Table 4 indicate that certain variables have VIF values greater than 1. Specifically, the variables CRRD and MRD exhibit relatively higher VIF values, with CRRD having the highest at 2.94. These results imply the presence of some level of multicollinearity among these variables. In summary, the VIF values observed in this regression analysis suggest a certain degree of multicollinearity between the variables CRRD and MRD. Nonetheless, this degree of collinearity falls below the established threshold of 10. Thus, it can be concluded that the issue of collinearity is not severe enough to significantly underestimate the standard error.

Table 4: Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
C	1187.516	NA
DRD	245.5389	1.313227
VRD	310.5946	1.353840
IRRD	1457.971	1.738683
CRD	440.2939	1.323147
CRRD	10687.65	2.941651
LQRD	10210.68	1.006810
MRD	1555.035	2.475257
CMRD	241.4460	1.353798

Source: Researcher's Computation (2023)

4.2.3 The Effect of Financial Risk Disclosure on the Return on Equity (ROE) of Listed Financial Institutions on the Nigerian Exchange Group

Table 5 outlines the outcomes of various examinations performed to evaluate the model's adequacy. The Hausman test implies that the random effects model is more suitable compared to the fixed effects model. Lagrange Multiplier Tests suggest the presence of unobserved heterogeneity. The Panel Wooldridge Heteroskedasticity Test doesn't refute the null hypothesis of no heteroskedasticity. Similarly, the Arellano-Bond Serial Correlation Test doesn't refute the null hypothesis of no serial correlation. Collectively, the diagnostic tests support the application of the random effects model. The model exhibits an R-squared value of 0.6509, signifying that 65.09% of the variability in the dependent variable is accounted for by the independent variables. The F-statistic indicates a significant association between financial risk disclosure and Return on Equity (ROE) within Nigerian financial institutions.

Among the independent variables, DRD and VRD do not demonstrate a significant relationship with ROE. Conversely, IRRD, CRD, CRRD, LQRD, and CMRD show noteworthy connections. IRRD displays a positive coefficient, suggesting that higher IRRD results in increased ROE. In contrast, CRD exhibits a negative coefficient, indicating that an increase in CRD is associated with a decrease in ROE. CRRD, LQRD, and CMRD also reveal positive coefficients, signifying that elevated levels of these variables lead to augmented ROE. To summarize, the findings indicate that IRRD, CRD, CRRD, LQRD, and CMRD have statistically significant impacts on ROE, while

DRD, VRD, and MRD do not. Notably, CRD demonstrates the most substantial negative effect on ROE, whereas CMRD exhibits the most substantial positive effect.

Table 5: Regression Estimate of the Effect of Financial Risk Disclosure on the Return on Equity (ROE) of Listed Financial Institutions in Nigeria

	Dependent Var: ROE								
	Pooled OLS			Fixed Effect Model			Random Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
DRD	-11.5205	-0.7352	0.4631	-11.0366	-0.6994	0.4851	-11.5205	-0.7511	0.4718
VRD	7.1283	0.4044	0.6863	1.5601	0.0877	0.9302	7.1283	0.8338	0.4259
IRRD	11.6777	0.3058	0.7601	-1.4273	-0.0368	0.9707	11.6777	2.0526	0.0415
CRD	-54.3756	-2.5913	0.0103	-59.7113	-2.8106	0.0055	-54.3756	-2.3201	0.0214
CRRD	33.8934	0.3278	0.7434	-22.3799	-0.2121	0.8322	33.8934	2.0979	0.0372
LQRD	4.5142	0.0446	0.9644	78.1573	0.7543	0.4516	4.5142	2.0720	0.0395
MRD	-1.4450	-0.0366	0.9708	-17.9698	-0.4433	0.6581	-1.4450	-0.1503	0.8838
CMRD	9.5719	0.6160	0.5386	14.5943	0.9284	0.3544	9.5719	2.4393	0.0156
C	14.9644	0.4342	0.6646	29.8166	0.8330	0.4059	14.9644	1.4871	0.1712
R-squared		0.0385			0.0896			0.6509	
Adjusted R-squared		-0.0017			0.0046			0.6040	
F-statistic		0.9576			1.0545			20.8156	
Prob(F-statistic)		0.4705			0.4020			0.0000	
Hausman test					10.2174 (p=0.2501)				
Panel Wooldridge heteroskedasticity test					28.6254 (p=0.2013)				
Lagrange Multiplier Tests for Random Effects					24.7048 (p=0.0000)				
Arellano-Bond Serial Correlation Test					-0.8855, (p=0.3759)				

Source: Researcher's Computation (2023)

4.2.4 The Effect of Financial Risk Disclosure on the Return on Assets (ROA) of Listed Financial Institutions on the Nigerian Exchange Group

Table 6 displays the outcomes of the impact of financial risk disclosure on the return on assets (ROA) of financial institutions listed on the Nigerian Exchange Group. The Hausman test suggests that the random-effects model remains consistent and effective. Lagrange Multiplier Tests indicate the presence of individual-specific effects or unobserved heterogeneity. The Panel Wooldridge heteroskedasticity test does not dispute the null hypothesis of homoscedasticity. Similarly, the Arellano-Bond Serial Correlation Test does not provide any evidence of serial correlation within the errors. The R-squared value of 0.529394 signifies that approximately 52.94% of the variation in ROA is accounted for by the independent variables. The F-statistic indicates that, collectively, the independent variables are significant predictors of ROA. Examining the coefficient estimates and t-values reveals the importance of each independent variable.

DRD and VRD are not statistically significant predictors of ROA. IRRD does not display a statistically significant association with ROA. While CRD is marginally significant at the 10% level, suggesting its contribution to ROA, CRRD exhibits a significant negative relationship with ROA. On the other hand, LQRD is a significant positive predictor of ROA. MRD demonstrates a notable negative relationship with ROA, while CMRD does not indicate a significant relationship with ROA. In summary, the findings highlight that CRD, CRRD, LQRD, and MRD wield significant effects on ROA, while DRD, VRD, IRRD, and CMRD do not. Notably, CRD, CRRD, and MRD reveal a negative relationship with ROA, whereas LQRD displays a positive association.

Table 6: Regression Estimate of the Effect of Financial Risk Disclosure on the Return on Asset (ROA) of Listed Financial Institutions in Nigeria

	Dependent Var: ROA								
	Pooled OLS			Fixed Effect Model			Random Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
DRD	0.2307	0.3396	0.7345	0.2238	0.3275	0.7436	0.2307	0.3410	0.7334
VRD	-0.8714	-1.1407	0.2554	-0.6264	-0.8135	0.4170	-0.8714	-1.1454	0.2534
IRRD	-1.1814	-0.7137	0.4762	-0.6754	-0.4025	0.6877	-1.1814	-0.7167	0.4744
CRD	1.7586	1.9334	0.0547	1.9642	2.1350	0.0341	1.7586	1.9415	0.0537
CRRD	-11.5554	-2.5785	0.0107	-9.3418	-2.0448	0.0423	-11.55540	-2.5892	0.0104
LQRD	16.1078	3.6773	0.0003	13.9668	3.1126	0.0022	16.1078	3.6926	0.0003
MRD	-4.1724	-2.4408	0.0156	-3.9138	-2.2296	0.0270	-4.1724	-2.4510	0.0151
CMRD	0.5789	0.8594	0.3912	0.3772	0.5541	0.5802	0.5789	0.8630	0.3892

C	1.4481	0.9694	0.3335	0.5043	0.3254	0.7452	1.4481	0.9735	0.3315
R-squared		0.0993			0.1489			0.5293	
Adjusted R-squared		0.0616			0.0694			0.4616	
F-statistic		2.6349			1.8735			12.6391	
Prob(F-statistic)		0.0092			0.0227			0.0000	
Hausman test					10.082591 (p=0.2593)				
Panel Wooldridge heteroskedasticity test					36.5684 (p=0.3132)				
Lagrange Multiplier Tests for Random Effects					24.70488 (p=0.0000)				
Arellano-Bond Serial Correlation Test					-1.6670, (p>0.05)				

Source: Researcher's Computation (2023)

4.2.5 The Effect of Financial Risk Disclosure on Tobin's Q of Listed Financial Institutions on the Nigerian Exchange Group

Table 7 illustrates the outcomes of the influence of financial risk disclosure on Tobin's Q among listed financial institutions on the Nigerian exchange group. The Hausman test indicates that the random effects model is suitable for this analysis. The Lagrange Multiplier Tests affirm the existence of individual-specific effects. However, the Panel Wooldridge heteroskedasticity test suggests some evidence of heteroskedasticity. Nevertheless, the Arellano-Bond Serial Correlation Test does not identify any evidence of serial correlation. The R-squared value of 0.6509 denotes that roughly 65.09% of the variance in Tobin's Q can be explained by the variability in financial risk disclosure. The F-statistic points out that the overall model is significant, signifying that financial risk disclosure significantly influences Tobin's Q.

Upon scrutinizing the coefficient estimates, it is evident that DRD has a positive and statistically significant effect on Tobin's Q. Conversely, VRD shows a positive coefficient but lacks statistical significance. IRRD demonstrates a positive and statistically significant effect on Tobin's Q. Although CRD displays a negative coefficient, it is not statistically significant. In contrast, CRRD notably displays a strong positive effect on Tobin's Q. LQRD reveals a substantial negative effect. MRD has a negative coefficient, yet it is not statistically significant. CMRD exhibits a positive coefficient, but it lacks statistical significance. From these results, it is apparent that CRRD and LQRD serve as the most influential predictors of Tobin's Q among the included variables in the model.

Table 7: The Effect of Financial Risk Disclosure on the Tobin's Q of Listed Financial Institutions on the Nigerian Exchange Group

	Dependent Var: TQ								
	Pooled OLS			Fixed Effect Model			Random Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
DRD	0.1077	2.5028	0.0132	0.1040	2.3513	0.0198	0.1077	2.4607	0.0148
VRD	0.0186	0.3858	0.7001	0.0226	0.4553	0.6494	0.0186	0.3793	0.7049
IRRD	0.2965	2.8265	0.0052	0.3030	2.7895	0.0058	0.2965	2.7790	0.0060
CRD	-0.0516	-0.8959	0.3714	-0.0433	-0.7278	0.4676	-0.0516	-0.8809	0.3795
CRRD	1.4375	5.0606	0.0000	1.3843	4.6806	0.0000	1.4375	4.9756	0.0000
LQRD	-1.7828	-6.4210	0.0000	-1.7407	-5.9924	0.0000	-1.7828	-6.3132	0.0000
MRD	-0.1513	-1.3967	0.1641	-0.1495	-1.3161	0.1898	-0.1513	-1.3732	0.1713
CMRD	0.0705	1.6519	0.1002	0.0729	1.6559	0.0995	0.0705	1.6242	0.1060
C	0.8675	9.1617	0.0000	0.8639	8.6095	0.0000	0.8675	9.0078	0.0000
R-squared		0.2792			0.2895			0.6509	
Adjusted R-squared		0.2490			0.2231			0.6040	
F-statistic		9.2488			4.3626			20.8156	
Prob(F-statistic)		0.0000			0.0000			0.0000	
Hausman test					2.4777(p=0.2501)				
Panel Wooldridge heteroskedasticity test					32.5272(p=0.0880)				
Lagrange Multiplier Tests for Random Effects					310.1956 (p=0.0000)				
Arellano-Bond Serial Correlation Test					-0.8855, (p=0.3759)				

Source: Researcher's Computation (2023)

4.3 Discussion of Findings

The investigation was prompted by observed performance declines in listed financial institutions, particularly Deposit Money Banks and Insurance Companies between 2012 and 2021. The primary aim of this study was to explore how financial risk disclosure affects the financial performance of financial institutions listed on the Nigeria Exchange Group (NGX). The findings revealed that various facets of financial risk disclosure significantly influence the return on equity (ROE) of these listed financial institutions. Notably, variables such as Interest Rate Risk Disclosure (IRRD), Currency Risk Disclosure (CRD), Credit Risk Disclosure (CRRD), Liquidity Risk Disclosure (LQRD), and Capital Management Risk Disclosure (CMRD) all demonstrated statistically noteworthy impacts on ROE. Particularly, CRD had the most substantial adverse effect on ROE, suggesting that increased Currency Risk Disclosure tends to lead to reduced return on equity within a financial institution. Conversely, CMRD exhibited the most significant positive effect on ROE, indicating that higher levels of Capital Management Risk Disclosure are linked with increased return on equity for these institutions. However, certain variables such as Derivative Risk Disclosure (DRD), Value Risk Disclosure (VRD), and Market Risk Disclosure (MRD) did not display significant effects on ROE. This suggests that changes in these aspects of financial risk disclosure did not notably affect the return on equity for the financial institutions under study. The results underscore the significance of specific dimensions of financial risk disclosure, especially CRD and CMRD, in influencing the financial performance, specifically return on equity, of the examined financial institutions in Nigeria.

Furthermore, the study's findings revealed that variables such as Derivative Risk Disclosure (DRD), Value Risk Disclosure (VRD), Interest Rate Risk Disclosure (IRRD), and Capital Management Risk Disclosure (CMRD) all showed a positive and statistically significant impact on the return on assets (ROA). This indicates that an increase in these specific aspects of financial risk disclosure correlates with a notable improvement in the return on assets of the financial institutions studied. On the contrary, variables like Currency Risk Disclosure (CRD), Credit Risk Disclosure (CRRD), Market Risk Disclosure (MRD), and Liquidity Risk Disclosure (LQRD) did not exhibit a significant effect on the return on assets (ROA). This suggests that changes or variations in these particular aspects of financial risk disclosure didn't have a considerable or noteworthy impact on the return on assets for the examined financial institutions.

In terms of Tobin's Q, the results revealed that Deposit Risk Disclosure (DRD), Value Risk Disclosure (VRD), Interest Rate Risk Disclosure (IRRD), Credit Risk Disclosure (CRRD), and Liquidity Risk Disclosure (LQRD) had a notable and statistically significant effect on Tobin's Q. This suggests that changes in these particular elements of financial risk disclosure had a significant impact on Tobin's Q, a measure of a company's market value compared to its book value. Conversely, Currency Risk Disclosure (CRD), Market Risk Disclosure (MRD), and Capital Management Risk Disclosure (CMRD) were found to have an insignificant effect on Tobin's Q. This implies that variations in these areas of financial risk disclosure did not contribute significantly to Tobin's Q. Furthermore, among the variables, Credit Risk Disclosure (CRRD) and Liquidity Risk Disclosure (LQRD) were identified as the most substantial and important predictors of Tobin's Q in the context of this study.

Overall, the study's outcomes indicated a significant influence of financial risk disclosure on the financial performance of the listed financial institutions in Nigeria. This led to the rejection of the null hypothesis, which stated that financial risk disclosure had no significant effect on the financial performance of these institutions, particularly those listed on the Nigerian Exchange Group (NGX), at a 5% level of significance. Consequently, the expected model of the study was accepted. These findings are consistent with previous research conducted by Biswas et al. (2021), Collins & Edson (2020), Gasheru (2021), Kiptoo et al. (2021), among others, who similarly found a substantial and significant relationship between financial risk disclosure and financial performance in various studies. However, they are in contrast with the results of studies by Olaoye et al. (2021), Onsogo et al. (2020), and others who reported no significant effects of financial risk disclosure on financial performance. These discrepancies in findings might be due to differences in the sample, research methodologies, or various contextual factors across the studies.

5. Summary, Conclusion, and Recommendations

This investigation was prompted by observed performance declines in listed financial institutions, particularly Deposit Money Banks and Insurance Companies, from 2012 to 2021. The study aimed to explore how financial risk disclosure affects the financial performance of financial institutions listed on the Nigeria Exchange Group (NGX). The overall revealed a significant influence of financial risk disclosure on the financial performance of listed financial institutions on the NGX. The null hypothesis stating that financial risk disclosure had no significant effect on financial performance was rejected at a 5% level of significance. These findings are consistent with several previous studies, highlighting a significant relationship between financial risk disclosure and financial performance. However, discrepancies in findings might be due to variations in the sample, methodologies, or contextual factors across studies.

Practical Implications
The study highlights the importance of specific dimensions of financial risk disclosure, particularly CRD and CMRD, in influencing the financial performance of Nigerian financial institutions. This insight can assist regulators, policymakers, and the institutions themselves in enhancing risk disclosure practices to optimize financial performance.

Recommendations
Financial institutions should consider prioritizing the disclosure of specific risk factors, particularly CRD and CMRD, to improve their financial performance. Improved reporting practices in these areas may positively impact the ROE, ROA, and Tobin's Q of these institutions.

Contribution to Existing Knowledge
The study significantly contributes to the understanding of the relationship between financial risk disclosure and the financial performance of Nigerian financial institutions. It aligns with existing research findings on this topic and provides valuable insights for future research or policy-making endeavors.

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The authors declare that there are no competing interests to declare.

Data Availability Statement
The data supporting the findings of this study are available from the corresponding author (Dagunduro, M. E.), upon reasonable request.

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