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Research Paper

Effect of Corporate Governance Attributes on Financial Risk Disclosures of Listed Deposit Money Banks in Nigeria

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Abstract
This study investigates the effect of corporate governance attributes on financial risk disclosures among listed Deposit Money Banks (DMBs) in Nigeria. Specifically, it examines the impact of board independence, board size, board financial expertise, ownership concentration, and risk committee independence on the quality of financial risk disclosures, utilizing secondary data from the annual reports of 14 listed DMBs between 2014 and 2023. The study employs logistic regression analysis to determine the relationship between these governance attributes and financial risk disclosures. The findings reveal that board independence, board financial expertise, and risk committee independence have significant positive effects on financial risk disclosures, underscoring their role in enhancing transparency and accountability. Conversely, board size and ownership concentration exhibit insignificant effects on risk disclosures, suggesting that these attributes do not strongly influence disclosure practices in Nigerian banks. Based on these results, the study recommends that regulators emphasize the independence of risk committees and boards, as well as the financial expertise of board members, to improve risk transparency. Additionally, policy adjustments are suggested for board size and ownership concentration to ensure more effective governance structures. This research contributes to the literature by providing insights into how specific governance mechanisms influence financial risk disclosures in the Nigerian banking sector.

Keywords: *Corporate Governance, Financial Risk Disclosure, Board Independence, Board Size, Financial Expertise, Ownership Concentration, Risk Committee Independence,*

I. Introduction

Financial information regarding risks plays a pivotal role in financial reporting, enabling stakeholders to assess an organization's financial health, performance, and future outlook. Transparent and comprehensive risk disclosures are essential for investors, regulators, and other stakeholders, as they provide insights into potential uncertainties that may affect a firm's ability to achieve its strategic objectives. Recognizing this importance, the International Financial Reporting Standards (IFRS) 7 was established to mandate the disclosure of risks arising from financial instruments. IFRS 7 requires financial institutions to provide detailed information on key risks, including liquidity, credit, and market risks, to ensure that stakeholders are well-informed about the financial exposures and vulnerabilities of firms (Mousa & Desoky, 2014; Leote, et al 2022).

In Nigeria, the corporate governance landscape has evolved to align with global best practices, especially in the area of risk management. The Nigeria Code of Corporate Governance (2018) mandates that listed companies implement effective risk management systems to safeguard the interests of stakeholders. This is further reinforced by the Securities and Exchange Commission (SEC) in its 2023 directive, which emphasizes the adoption of an Enterprise Risk Management (ERM) framework that conforms to internationally recognized standards such as the **Committee** of Sponsoring Organizations of the Treadway Commission (COSO) framework (Owolabi, Akinola, & Ojo, 2023). These frameworks provide comprehensive guidelines for managing organizational risks, improving transparency, and ensuring that governance structures are adequately equipped to mitigate financial risks.

Despite these robust regulatory frameworks, corporate failures continue to persist, both in Nigeria and internationally, raising significant concerns about the effectiveness of governance mechanisms in managing financial risk (Adegbite, 2015; Olojede & Erin, 2021). Several high-profile corporate collapses, including the failure of Skye Bank (2018), Diamond Bank (2018), Heritage Bank (2024), and internationally, the collapse of Silicon Valley Bank (2023), underscore the limitations of current governance practices. These failures suggest deeper issues rooted in the agent-principal relationship between shareholders and managers, where conflicting interests can undermine effective governance and risk management (Jensen & Meckling, 1976; Zajac & Goranova

2024). This misalignment of interests can lead to governance failures, weak risk management, and inadequate risk disclosures, ultimately eroding investor confidence (Fama & Jensen, 1983; Alhammadi, et al 2021).

The relationship between corporate governance attributes and financial risk disclosures is underpinned by the need for transparency and accountability in financial reporting (Raimo, et al 2022). Strong corporate governance mechanisms, characterized by independent oversight, financial expertise, and specialized risk committees, foster an environment where risk information is disclosed in a more transparent and comprehensive manner (Ahmed & Yahaya, 2024). This transparency is critical for stakeholders, particularly investors, who rely on accurate risk disclosures to assess the financial health and risk exposure of a firm (Ntim, et al 2020). In contrast, weak corporate governance structures, characterized by a lack of board independence, absence of financial expertise, or concentration of power in the hands of the CEO, can lead to insufficient risk disclosures. This increases information asymmetry between managers and shareholders and can lead to adverse outcomes such as misinformed investment decisions and heightened agency conflicts (Jensen & Meckling, 1976, Tahir, et al 2019; Ahmad, et al 2023).

Although a considerable amount of literature exists on the relationship between corporate governance mechanisms and risk disclosures (e.g., Salem et al., 2019; Al-Maghzom et al., 2016; Nurkhin et al., 2020; Gull et al., 2023), there is limited focus on the impact of board risk committee independence on financial risk disclosures. The few studies that do exist have primarily been conducted in the context of other countries, making their findings less applicable to the Nigerian context due to differences in economic conditions and the level of sophistication in governance structures. Moreover, many of these studies utilize aggregate samples drawn from various sectors, which may obscure the unique implications of corporate governance mechanisms within specific industries. This gap underscores the need to focus on quoted Deposit Money Banks (DMBs) in Nigeria, where the banking industry plays a critical role in financial reporting and risk disclosure practices. The choice for the DMBs is informed by the fact that these firms have been neglected in similar studies despite the role that the industry plays in economic development.

II. Literature Review

Financial Risk Disclosures

Financial risk disclosures refer to the information provided by companies, particularly financial institutions, regarding the nature and magnitude of risks they face, as well as the strategies employed to manage or mitigate these risks. These disclosures are critical to enhancing transparency and enabling stakeholders including investors, regulators, and analysts to assess the financial health, stability, and risk profile of an organization (Bischof, 2019). The importance of financial risk disclosures lies in their ability to provide insights into the potential uncertainties and vulnerabilities that could affect a firm's financial performance and position, thereby aiding decision-making processes.

Financial risk disclosures typically encompass several types of risk, such as credit risk, liquidity risk, market risk, operational risk, and interest rate risk, among others. Each of these risks is associated with uncertainties that could impair the company's ability to meet its financial obligations or impact its profitability and shareholder value (Linsley & Shrives, 2006). According to the International Financial Reporting Standards (IFRS) 7, these disclosures are particularly relevant for entities involved in financial instruments and are mandated to report on the extent, nature, and management of risks arising from such instruments (IFRS Foundation, 2020).

Corporate Governance

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. Good corporate governance ensures accountability, fairness, and transparency in a company's relationship with these stakeholders (Shleifer & Vishny, 1997).

The concept of corporate governance has gained global attention, especially following high-profile corporate collapses like Enron and WorldCom in the early 2000s. These failures highlighted the need for robust governance structures to safeguard stakeholders' interests and ensure companies operate within ethical and legal frameworks. Since then, the adoption of corporate governance standards has been recognized as a vital component of a company's long-term success (Claessens & Yurtoglu, 2013).

Board Independence

Board independence refers to the presence of non-executive directors, particularly independent directors, who are not involved in the day-to-day management of a firm and do not have any material relationship with the company. These independent directors provide objective oversight, helping to mitigate agency problems between shareholders and management (Fama & Jensen, 1983). In the context of risk disclosures, board independence plays a critical role in ensuring transparency and accountability, which are essential components of corporate governance.

The link between board independence and risk disclosure is often explained through agency model, which posits that the separation of ownership and control in corporations can lead to conflicts of interest between managers (agents) and shareholders (principals) (Jensen & Meckling, 1976; Saggar & Singh 2017; Moridu, et al 2023). Independent directors are seen as a solution to these conflicts, as their objectivity and lack of involvement in management can help ensure that managers act in the best interests of shareholders, particularly in disclosing risks that may affect the firm's performance. Van et al (2020) found that firms with more independent boards are more likely to disclose forward-looking and risk-related information, as independent directors are more focused on ensuring transparency and protecting shareholder interests. Similarly, Giannarakis, et al. (2020) found that board independence improves the quality of risk disclosures, particularly in firms that operate in highly regulated sectors such as banking.

Independent directors are in a position to objectively monitor management's actions and ensure that risk information is disclosed accurately and in a timely manner. This enhanced oversight reduces the likelihood of managers withholding or manipulating information that could negatively impact the firm's risk profile (Avci,, 2018). One of the key benefits of board independence is its role in reducing information asymmetry between the firm and its external stakeholders. Independent directors, being external to the firm's daily operations, are more likely to advocate for transparent risk disclosures, which provide stakeholders with a clearer understanding of the company's risk exposure (Chang, J et al., 2023).

In the Nigerian context, the Financial Reporting Council's Code of Corporate Governance (2018) emphasizes the importance of independent directors in enhancing corporate transparency and risk management. Studies by Agubata, et al. (2021) and Kakanda (2017) support this view, showing that Nigerian firms with a higher proportion of independent directors tend to provide more comprehensive risk disclosures, thus improving stakeholder trust and market confidence.

Board Size

Board size refers to the total number of directors serving on a company's board, which is a crucial component of corporate governance. The relationship between board size and risk disclosure has garnered significant academic attention due to its implications for oversight, decision-making efficiency, and transparency. According to Mrabure, et al (2020), boards serve to monitor management and ensure that the interests of shareholders are protected. A larger board may provide more comprehensive oversight, as a greater number of directors increases the board's collective capacity to scrutinize management decisions and demand greater transparency regarding financial risks. Erin, et al. (2023) argued that larger boards are more likely to disclose comprehensive risk information because they can draw on a wider array of expertise and perspectives. Similarly, Viola, et al (2023) concluded that larger boards are better at fulfilling their oversight role, which results in more detailed risk reporting.

Conversely, other studies suggest that an excessively large board can lead to inefficiencies and a lack of focus on key issues, such as risk disclosures. Oliveira, et al (2018) argued that companies with larger boards tend to have less cohesive decision-making processes, which can reduce the board's effectiveness in promoting transparency in risk reporting. Furthermore, Adelopo, et al (1996) observed that firms with smaller boards generally perform better in terms of financial reporting quality, including risk disclosures.

Board Financial Expertise

Board financial expertise refers to the presence of board members with substantial knowledge and experience in accounting, finance, and related fields. These experts are crucial for effective corporate governance as they enhance the board's ability to understand and manage financial complexities, including the firm's exposure to various risks. Financially literate directors often serve on the audit committee, where their expertise directly influences the quality of financial reporting and risk disclosure. They are better able to challenge the assumptions underlying risk assessments and ensure that financial risks are properly reflected in the firm's reports (Zhang et al., 2007). García-Sánchez et al. (2017**)** found that firms with a higher proportion of financially literate board members disclose more extensive and detailed information about financial risks. This is particularly evident in sectors like banking, where the complexity of financial instruments and regulatory demands require a deep understanding of financial risks. Al-Maghzom et al. (**2016)** observed that the presence of financial experts on the board positively influences the level of voluntary risk disclosure. These experts ensure that the board understands the full spectrum of financial risks, resulting in more comprehensive disclosures. Nurunnabi & Hossain (2012) concluded that the presence of financial experts leads to more accurate and detailed disclosures of risks, particularly in compliance with IFRS 7. Ibrahim and Yahaya (2024) found that in certain cases, boards with excessive financial expertise might be overly conservative in their risk disclosures, attempting to shield the firm from potential scrutiny by underreporting certain risks.

In the Nigerian context, the role of board financial expertise is particularly critical due to the unique challenges faced by financial institutions, including high levels of economic volatility and regulatory changes. Nigerian Deposit Money Banks (DMBs) are required by the Financial Reporting Council's Code of Corporate Governance (2018) to have directors with relevant financial qualifications and experience on their boards.

Ownership Concentration

Ownership concentration refers to the extent to which a company's shares are owned by large shareholders or a small group of investors. High ownership concentration occurs when a significant proportion of a company's shares is held by a few shareholders, typically institutional investors, family groups, or blockholders, while low ownership concentration indicates a more dispersed ownership structure (Wen et al 2023). When ownership is concentrated, the interests of large shareholders are often more aligned with those of management, particularly in family-owned or state-owned enterprises. This alignment can either lead to more transparent risk disclosures if the large shareholders are focused on long-term sustainability, or it can result in less transparency if shareholders prioritize short-term gains and minimize the reporting of financial risks that could attract external scrutiny (Jabbouri, et al 2023).

Rajverma et al (2024) observed that concentrated ownership disclosed less financial information, including risk disclosures, compared to firms with more dispersed ownership. **Gul & Leung (2004)** argued that companies with higher ownership concentration were associated with lower levels of voluntary disclosures, including risk-related information. The authors concluded that large shareholders in these firms tended to access information directly from management, diminishing the incentive for public risk disclosures. Makhlouf and Al-Ghosheh (2024) argued that firms with institutional ownership tend to provide more comprehensive risk disclosures. Institutional investors, as sophisticated market participants, demand detailed information to evaluate their investments effectively, pushing firms to enhance their transparency regarding financial risks. Boumediene and Moussa (2022) suggested that large shareholders acted as effective monitors, compelling management to provide more detailed and transparent risk information to protect their investments.

Risk Committee Independence

Risk committee independence is a key aspect of corporate governance, particularly in managing and disclosing risks effectively. The independence of a risk committee refers to the extent to which the members of the committee are free from any direct involvement or interests in the company's day-to-day management. Independent members are expected to provide objective oversight, free from the influence of management, which can lead to more transparent and robust risk disclosures.

The independence of the risk committee is crucial for ensuring that the company's risk management practices are not compromised by internal biases or conflicts of interest. Independent committee members provide objective oversight, which is essential for ensuring that all relevant risks, including those related to financial instruments, market volatility, and operational challenges, are disclosed transparently (Beasley et al., 2005). This objectivity enhances the quality of risk disclosures, as independent members are more likely to challenge management and seek additional clarification on potential risks.

Independent members of the risk committee are less likely to be swayed by internal politics or the pressure to present the company in an overly favorable light. They are more focused on ensuring compliance with regulatory standards and providing accurate information to shareholders and other stakeholders. Studies have shown that firms with more independent risk committees tend to provide higher-quality risk disclosures, reducing information asymmetry and improving investor confidence (Abraham & Cox, 2007). One of the primary roles of independent risk committee members is to act as a safeguard against agency conflicts, where management might prioritize personal or short-term interests over the long-term sustainability of the company. Independent members can hold management accountable and ensure that risks are communicated accurately to shareholders, thus reducing agency costs (Jensen & Meckling, 1976). This accountability is crucial for enhancing the credibility of risk disclosures. Independent members bring external perspectives and expertise that can strengthen the overall risk management process. This, in turn, leads to more comprehensive risk disclosures. Their experience in other industries or firms can offer valuable insights into emerging risks, regulatory changes, and best practices for managing and reporting risks (Kleffner et al., 2003). As a result, companies with independent risk committees are often better positioned to anticipate and disclose potential risks before they become critical issues.

Empirical Review

Adelopo et al (2021) investigate the effect of board attributes (expertise) on corporate financial risk disclosure in the Saudi energy sector. The research focuses on four energy companies listed between 2009 and 2021, resulting in 52 firm-year observations. Panel regressions were implemented to control for heteroscedasticity and autocorrelation. The study's results revealed that expertise level positively influences financial risk disclosure,

Ramly et al (2022) investigates the effect of board capital on commercial bank risk-taking, and the moderating effect of board independence in commercial bank risk-taking. Data from eight Malaysian commercial banks from 2002 to 2014 were analyzed using generalized least squares (GLS) panel data regression technique. The study found that board independence has a negative significant effect on risk disclosures.

Maier and Yurtoglu (2022) examined the effect of Board characteristics on insolvency risk of non-financial firms using panel data comprising 2519 listed non-financial firms from 29 European countries over the 2012–2020 period. The study found that board independence is associated with lower risk of bankruptcy.

Ayuningtyas and Harymawan (2022) examines the relationship between the risk management committee and textual risk disclosure. Textual risk disclosure is measured using the use of a risk-contained tone in the annual report. We employed empirical analysis for the Indonesian listed firms for the period 2010 to 2018. The findings of this research suggest that the existence of the risk management committee gives more risk disclosure.

Jia and Li (2022) examines whether the presence of risk management committees is associated with the readability of risk management disclosure. Specifically, we consider the presence and the effectiveness of risk management committees. We measure the readability of risk management disclosure using six different readability indices, namely: Bog index; Flesch Reading Ease score; Coleman–Liau index; Flesch–Kincaid Grade level; Simple Measure of Gobbledygook; and Automated Reading index. Regression revealed that the presence and the effectiveness of risk management committees are associated with the higher readability of risk management disclosure.

Kanene and Francis (2023) studied the link between board size, board tenure, and corporate risk management. The study population consists of 328 companies listed on the Nigerian Stock Exchange as at December 2020. A sample of 30 firms was scientifically selected for the study. The analysis was carried out using dataset from 2014 to 2020, comprising of 210 observations. The panel data regression analysis is the technique for data analysis. The technique was chosen because of its ability to enhance data points while still controlling for individual variation. The research uncovers a positive and insignificant relationship between board size and corporate risk management.

Viola et al (2023) examines how board characteristics (gender, education, and age) and board size can impact corporate risk disclosure (CRD) in quantity and coverage. This research differs from previous studies because we use the newest COSO framework (2017) to measure CRD. We analyzed the data using multiple regression analysis. The results show no relationship between the composition of female directors in both CRD coverage and quantity. Board size positively affects CRD coverage and quantity, while board age negatively affects those two types of CRD. However, board education does not influence CRD quantity and coverage. This study also indicates that board size and age substantially impact the level of risk disclosure.

Boadi et al (2023) analyze the correlation between risk governance and bank performance while taking into consideration the influence of board expertise. By analyzing data from 83 bank-year observations, which includes information from the bank focus database and hand-collected data from annual reports spanning the period from 2012 to 2021, this research employs panel models to analyze the impact of board expertise on bank risk governance and performance relationships among a selection of banks in Sub-Saharan Africa. The research reveals a negative association between the expertise of the board members and risk disclosure.

Makhlouf and Al-Ghosheh (2022) studied the effect of ownership structure's impact on risk disclosure. A data collection obtained from 39 firms listed on the Amman Stock Exchange (ASE) is analyzed using content analysis of annual financial reports, as the current study is conducted over 5 years (2016–2020). The outcomes of the multiple linear regression analysis indicate that ownership concentration has positively impacted the risk disclosure.

Boumediene and Moussa (2022) examined the impact of internal corporate governance mechanisms of Tunisian companies, on the quality and extent of risk disclosure. Using content analysis followed by a multivariate analysis of a sample of 170 company-year observations from 2011 to 2015, the results indicate that institutional, foreign, and government ownership negatively affect the extent of risk disclosure. However, ownership concentration has a positive effect on the extent of corporate risk disclosure.

Ikhsan et al (2024) studied the effect of board attribute on risk management disclosure through the perspective of shareholders, board size and board of commissioners. The sample used in this study is mining companies listed on the Indonesia Stock Exchange in 2019-2022. The test on the hypothesis uses Multiple Linear Regression. The study of this sample's data reveals that the degree of risk management disclosure is influenced by board size.

Al Nabhani et al (2024) investigates the effect of the board of directors' attributes on the corporate risk-taking of listed financial firms in Oman. A total of seven board attributes such as board ownership, shareholder ownership, CEO duality, board structure, audit committee independence, audit committee and board gender diversity are assimilated into an index for this study. The sample consists of 168 firm-year observations for financial firms listed on the Muscat Stock Exchange for the period 2016 to 2021. Before COVID, the board independence had no significant impact on corporate risk-taking.

Theoretical Framework

The theoretical underpinning of financial risk disclosures is rooted in agency theory, which posits that managers (agents) may not always act in the best interest of shareholders (principals), particularly when there is asymmetric information (Jensen & Meckling, 1976). In this context, financial risk disclosures serve as a tool to reduce information asymmetry and align the interests of management with those of shareholders by providing a clearer understanding of the firm's risk exposure and management practices (Healy & Palepu, 2001). By increasing transparency, risk disclosures can also strengthen corporate governance and reduce the likelihood of opportunistic behavior by management.

In practice, financial risk disclosures are influenced by various factors, including regulatory requirements, corporate governance mechanisms, and market pressures (Gull, et al 2023). Regulations such as IFRS 7 and the Basel III framework have established detailed guidelines for the disclosure of risks in financial institutions, requiring firms to provide qualitative and quantitative information on their risk exposures. These regulations aim to promote a more resilient financial system by ensuring that market participants have sufficient information to make informed decisions (Basel Committee on Banking Supervision, 2011).

Moreover, effective corporate governance structures particularly the role of independent directors and risk management committees—are critical in shaping the quality and extent of financial risk disclosures. Research shows that firms with robust governance mechanisms, such as independent audit committees and specialized risk committees, are more likely to provide comprehensive and accurate risk disclosures (Ntim et al., 2013). This is because independent oversight reduces the likelihood of withholding critical information or presenting overly optimistic risk assessments, thereby fostering a culture of transparency and accountability.

III. Methodology

Research Design

The ex post facto research design was used in this study since the goal is to establish causal links between past events and circumstances. This design is particularly suitable for research where variables cannot be manipulated, and the researcher relies on pre-existing conditions to investigate possible causes or effects.

Population, Sample, and Sampling Techniques

The population of the study comprises 15 DMBs listed on the Nigerian Exchange Group (NGX) as of 31st December 2023.

Table 1 Population of the study

S/N		Year of listed
1	ACCESS BANK PLC	1998
2	FIDELITY BANK PLC	2005
3	FIRST CITY MONUMENT BANK PLC	2004
4	FIRST BANK NIGERIA	1970
5	GUARANTY TRUST BANK PLC	1996
6	UNION BANK OF NIGERIA PLC	1971
7	UNITED BANK OF AFRICA PLC	1970
8	ZENITH BANK PLC	2004
9	ECOBANK NIGERIA PLC	2006
10	POLARIS BANK PLC	2018
11	STANBIC IBTC BANK PLC	2012
12	STERLING BANK PLC	1992
13	JAIZ BANK	2003
14	UNITY BANK PLC	2006
15	WEMA BANK PLC	1991

Source: Researcher's computation 2024

For the study, the researchers employed a census sampling technique, ensuring that the entire population of banks that met specific criteria was included. A key criterion was that the banks must have been listed on the NGX on or before 2014 to ensure a comprehensive review of financial data over an extended period. Based on this criterion, Polaris Bank PLC (listed in 2018) was eliminated from the sample. As a result, the final adjusted population comprised 14 banks that satisfied all the inclusion criteria. This approach ensures that the study remains focused on banks with consistent and comparable financial records over the period under review, thereby enhancing the robustness of the findings.

3.3 Methods of Data Collection

The study utilized secondary data sources for data collection, primarily sourcing information from the annual reports of the sampled banks from 2014 to 2023. This approach allowed for the extraction of relevant financial and corporate governance data necessary to achieve the research objectives. The decision to rely on secondary data was driven by the requirements of the research model and the chosen analysis technique, which necessitate consistent, accurate, and comparable data over time.

3.4 Technique of Data Analysis and Model Specification

The study adopted logistic regression as the primary technique of data analysis. Logistic regression is particularly suitable for this study as it allows for the examination of relationships between binary dependent variables (such as the presence or absence of financial risk disclosures) and multiple independent variables (such as corporate governance attributes). This method is ideal for modeling the probability of an event occurring based on the predictor variables.

Model Specification

$FRD = \beta0 + \beta_1 BI + \beta_2 BS + \beta3BFE + \beta_4 OC + \beta_5 RMI + FS + e$

Where:
FRT= Financial Risk Disclosures
BI= Board Independence
BS= Board Size
BFE=Board Finance Expertise
OC = Ownership Concentration
RMI = Risk Committee Independence
FS= Firm Size
ε Error Term

Variable Measurement and Source

S/N	Definition	Measurement	Authors
1.	Elamer, A. A., & Benyazid, I. (2018).	**1** = If the bank discloses its financial risks (such as liquidity risk, credit risk, and market risk) in its annual report in compliance with IFRS 7 and other relevant guidelines. **0** = If the bank does not disclose or inadequately discloses its financial risks.	Elamer and Benyazid (2018).
	Board independence	Proportion of independent non-executive directors sitting on the board	Asiriuwa , et al (2021) Bathula (2008)
2.	Board Expertise	Proportion Board of Directors who have qualification in accounting or finance to total Board of Directors	Raweh, Kamardin & Malik (2019), Bouaine & Hrichi (2019)
4	Ownership Concentration	Percentage of shares held by top shareholders	Wang & Shailer (2015)
5	Board size	Number of directors on the board of the firm (	El-Faitouri, 2012)
6	Risk Committee Independence	Proportion of independent members in the risk committee	Chou and Buchdadi (2017)
	Firm Size	Natural logarithm of total assets	Margono & Gantino (2021)

IV. Results and Discussion

In this section results are presented and discussed in the light of the research findings. First, a set of descriptive statistics are presented, then followed by the regression results.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
frd	140	.8681319	.3402219	0	1
bi	140	.1507722	.12303	.0086798	.5790338
bs	140	11.57143	2.75405	7	17
bfe	140	.7302955	.162715	.206897	.965517
oc	140	.5408947	.1095357	.182553	.707749
rmi	140	.1551882	.1506496	.0086798	.5790338
fs	140	8.862174	1.694642	5.489548	10.9927

From Table 1 above.The mean of 0.8681 indicates that, on average, around 86.81% of the banks in the sample disclosed their financial risks. Since FRD is a binary variable (0 or 1), the minimum value is 0 (no disclosure), and the maximum is 1 (disclosure). The standard deviation of 0.3402 shows some variability among banks in terms of their disclosure of financial risks. The **mean** of 0.1508 suggests that, on average, about 15.08% of the board members across the banks are independent non-executive directors. The standard deviation of 0.1230 indicates a moderate variability in board independence across banks. The minimum value of 0.0087 implies that some banks have very few independent board members, while others have up to 57.90% independent directors. The mean board size of 11.57 indicates that, on average, banks have around 12 directors. The standard deviation of 2.75 reflects moderate variation in board size across banks. The smallest board size observed is 7 directors, and the largest is 17 directors. The **mean** value of 0.7303 suggests that, on average, around 73.03% of board members possess financial expertise (e.g., accounting or finance qualifications). The **standard deviation** of 0.1627 indicates some variation in financial expertise among board members across the banks. The minimum value of 0.2069 shows that in some banks, only around 20.69% of board members have financial expertise, whereas in others, nearly all board members (up to 96.55%) have such expertise. The mean ownership concentration of 0.5409 suggests that, on average, about 54.09% of the shares are held by large shareholders (major stakeholders). The **standard deviation** of 0.1095 indicates some variation in ownership concentration across the banks. The minimum value of 0.1826 means that some banks have as low as 18.26% concentration, while others have up to 70.77%.

The mean value of 0.1552 shows that, on average, around 15.52% of the risk committee members are independent. The standard deviation of 0.1506 indicates significant variation in risk committee independence across banks. Some banks have very few independent members (minimum 0.0087), while others have up to 57.90%. The **mean** value of 8.8622 (measured as the natural logarithm of total assets) indicates the average size of the banks in the sample. The **standard deviation** of 1.6946 shows that there is a wide range in the sizes of the banks, with the smallest having a value of 5.4895 and the largest having a value of 10.9927.

Table 2: Correlation Matrix Table

	frd	bi	bs	bfe	oc	rmi	fs
frd	1.0000						
bi	0.0641	1.0000					
bs	0.2644	-0.0895	1.0000				
bfe	0.2026	0.1628	-0.1674	1.0000			
oc	0.0307	0.4515	-0.2180	0.2744	1.0000		
rmi	0.1807	0.4775	-0.1352	-0.0985	0.3559	1.0000	
fs	0.0923	0.2957	-0.2554	0.0856	0.4137	0.4321	1.0000

Table .2 shows a positive relationship between financial risk disclosures and all the independent variables and control variable firm size. The correlation with FRD is **0.0641**, indicating a very weak positive relationship between board independence and financial risk disclosure. This suggests that increasing board independence slightly improves financial risk disclosure, but the effect is not very strong. The correlation with FRD is **0.2644**, indicating a moderate positive relationship. This suggests that larger boards are associated with more financial risk disclosures. The positive relationship implies that a greater number of directors on the board may lead to more extensive financial risk disclosures. The correlation with FRD is **0.2026**, indicating a weak to moderate positive relationship. This means that a higher proportion of directors with financial expertise is associated with better financial risk disclosure. The correlation with FRD is **0.0307**, showing a very weak positive relationship. This suggests that ownership concentration has a negligible impact on financial risk disclosures in the sample. The correlation with FRD is **0.1807**, which indicates a weak positive relationship. This implies that having more independent members on the risk committee may slightly improve the level of financial risk disclosure. The correlation with FRD is **0.0923**, suggesting a weak positive relationship. Larger firms tend to have slightly better financial risk disclosures, but the relationship is not particularly strong.

Table 3: Goodness-of-fit test after logistic model

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Goodness-of-fit test after logistic model
Variable: frd

      Number of observations =     140
Number of covariate patterns =     89
            Pearson chi2(82) =  42.69
                 Prob > chi2 = 0.9999

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The Hosmer-Lemeshow chi-square test statistic is 42.69 with 8 degrees of freedom and a corresponding p-value of 999. This indicates that there is no significant difference between the observed and expected frequencies of the FRD variable across the predicted probability groups. Therefore, the logistic model used in this study appears to fit the data well and can be considered an appropriate model for the analysis of the FRD variable.

Table 4: Regression Result

```
Logistic regression                                     Number of obs =    140
                                                        LR chi2(6)    =  21.54
                                                        Prob > chi2   = 0.0015
Log likelihood = -24.712451                             Pseudo R2     = 0.3035
```

frd	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
bi	.4093135	.1116038	3.67	0.000	.1905741	.6280529
bs	.0012989	.0016712	0.78	0.438	-.0019912	.004589
bfe	.0433605	.0159879	2.71	0.007	.011859	.0748621
oc	.4290073	.2836402	1.51	0.132	-.1298579	.9878725
rmi	.5843827	.219319	2.66	0.008	.1545254	1.01424
fs	.0555556	.0244268	2.27	0.027	-.2514732	.0165908
_cons	-21.75888	10.40423	-2.09	0.036	-42.1508	-1.366954

The Pseudo R2 value of 0.3035 indicates that the logistic model including the independent variables in the study explains about 30% of the variation in financial risk disclosures DMBs in Nigeria. The table also shows that the model is fitted as evidenced by the LR chi2(5) = LR chi2(6) = 21.54 (as indicated by the P-value of 0.0015).

The result from table 4 indicates that the board independence has a significant positive effect on financial risk disclosures of DMBs in Nigeria. The positive coefficient (**0.4093135**) suggests that as the proportion of independent non-executive directors on the board increases, there is a corresponding increase in the level of financial risk disclosures by the bank. In other words, banks with a higher degree of board independence are more likely to disclose their financial risks in greater detail. The **p-value of 0.00** is less than the standard significance level of **0.05** (or 5%), indicating that the effect of board independence on financial risk disclosures is statistically significant. This result aligns with findings from existing literature that emphasize the role of independent directors in enhancing corporate transparency and accountability (Asiriuwa et al., 2021; Bathula, 2008), and contributes to the growing body of evidence that board independence is a critical determinant of financial risk disclosure practices.

The result from **Table 4** indicates that Board Size has an insignificant positive effect on the Financial Risk Disclosures (FRD) of listed Deposit Money Banks (DMBs) in Nigeria. This is demonstrated by the coefficient of 0.0012989 and a p-value of 0.438, which is not statistically significant at the 5% level of significance. The insignificant effect of board size suggests that simply increasing the number of directors on the board does not necessarily lead to better or more comprehensive financial risk disclosures. The quality of governance and the composition of the board, such as the expertise and independence of its members, may play a more critical role than the sheer number of directors. This finding is consistent with previous studies that have shown mixed results regarding the impact of board size on corporate governance outcomes, with some suggesting that the effectiveness of a board is not solely determined by its size, but by the skills, diversity, and independence of its members (Maier & Yurtoglu 2022).

The result from Table 4 indicates that the Board Expertise variable has a significant positive effect on the Financial Risk Disclosures (FRD) of listed Deposit Money Banks (DMBs) in Nigeria. This is demonstrated by the coefficient of 0.0433605 and a p-value of 0.007, which is statistically significant at the 5% level of significance. The significant positive effect of board expertise highlights the importance of having board members with relevant financial knowledge to enhance the quality of financial risk reporting. This is particularly crucial for financial institutions like banks, where understanding and managing risks is fundamental to their operations. Board members with financial expertise are better equipped to oversee management's risk-handling practices, critically evaluate risk reports, and ensure that the company's financial risk disclosures comply with regulatory requirements, such as IFRS 7. They can also provide better insights into how risk exposure is measured and communicated to stakeholders. This result aligns with previous research that emphasizes the role of board financial expertise in improving corporate governance outcomes. Studies have shown that boards with a higher proportion of financially knowledgeable directors tend to enhance the quality of financial reporting, mitigate risks more effectively, and improve overall transparency (Adelopo et al 2021).

The result from table 4 indicates that the ownership concentration has an insignificant positive effect on financial risk disclosures of listed DMBs in Nigeria. The result from **Table 4** indicates that Ownership Concentration has an insignificant positive effect on the Financial Risk Disclosures (FRD**)** of listed Deposit Money Banks (DMBs) in Nigeria. The coefficient of **0.4290073** suggests that ownership concentration measured as the proportion of shares held by large shareholders has a positive relationship with financial risk disclosures. This implies that as ownership becomes more concentrated in the hands of a few large shareholders, there is a tendency for financial risk disclosures to increase. However, the effect is not strong enough to be statistically significant in this model. Previous studies on ownership concentration and financial disclosures present mixed results. Some research suggests that large shareholders push for more transparency to safeguard their investments, while others argue that concentrated ownership can reduce the need for public disclosures if large shareholders already have direct access to information (Makhlouf & Al-Ghosheh 2022). The insignificant findings in this study may reflect a context-specific dynamic where ownership concentration does not exert a dominant influence on disclosure practices in Nigerian DMBs.

The result from **Table 4.4** indicates that Risk Committee Independence has a significant positive effect on the Financial Risk Disclosures (FRD) of listed Deposit Money Banks (DMBs) in Nigeria. This is demonstrated by the coefficient of **0.5843827** and a **p-value of 0.008**, which is statistically significant at the 5% level of significance. The coefficient of **0.5843827** suggests that greater independence of the risk committee is associated with an increase in the level of financial risk disclosures. Specifically, as the proportion of independent members on the risk committee increases, the quality and extent of financial risk disclosures improve. This highlights the critical role that independent members play in ensuring more transparent and accurate risk reporting. The **p-value of 0.008** indicates that the relationship between risk committee independence and financial risk disclosures is statistically significant at the 5% level. This means that there is a strong and reliable link between having independent risk committee members and improved financial risk disclosure practices among the sampled banks. The significant role of risk committee independence in enhancing financial risk disclosures is supported by prior research, which suggests that independent directors contribute to more robust governance structures and better transparency (Jia & Li 2022). Independent directors are less likely to be influenced by management, which enhances their effectiveness in overseeing risk management practices and ensuring that risks are adequately disclosed in financial reports.

V. Conclusion and Recommendations

This study examined the effect of various corporate governance attributes on the financial risk disclosures (FRD) of listed Deposit Money Banks (DMBs) in Nigeria. The results indicate that certain governance mechanisms, such as board independence, board financial expertise, and risk committee independence, play a significant role in enhancing financial risk transparency. In particular, board independence and risk committee independence were found to significantly improve the level and quality of financial risk disclosures, highlighting the importance of independent oversight in ensuring transparent reporting. Conversely, attributes such as board **size** and ownership concentration showed insignificant effects, suggesting that their influence on financial risk disclosures in Nigerian DMBs is less pronounced.

The findings underscore the critical role of effective corporate governance in promoting transparency and accountability, particularly in the context of financial risk disclosures. These results contribute to the understanding of how corporate governance structures can be leveraged to improve risk reporting practices in the banking sector, offering insights that are especially relevant in the Nigerian regulatory and economic context.

Recommendations

1. It is recommended that banks prioritize increasing the proportion of independent non-executive directors on their boards. Independent directors are more likely to challenge management decisions and encourage greater transparency in financial risk disclosures. Regulatory bodies, such as the **Central Bank of Nigeria (CBN)** and the **Securities and Exchange Commission (SEC)**, should strengthen governance codes to ensure that a substantial percentage of board members are independent.
2. While the study indicates that board size has an insignificant effect on financial risk disclosures, it is essential for policymakers to revisit governance frameworks regarding the optimal number of board members. Regulatory authorities, such as the **Corporate Affairs Commission (CAC)** and the **Securities and Exchange Commission (SEC)**, should issue guidelines recommending board sizes that ensure effective oversight without being too large, which may dilute accountability. The emphasis should be on ensuring that each board member contributes meaningfully to decision-making processes, rather than focusing solely on numerical size.
3. Ownership concentration's insignificant effect on financial risk disclosures suggests that high ownership concentration may not lead to greater transparency. To mitigate potential risks arising from concentrated ownership, regulators like the **Central Bank of Nigeria (CBN)** and **SEC** should encourage policies that promote dispersed ownership structures. Such policies may include incentivizing minority shareholders' active involvement in governance and enhancing shareholder protection mechanisms to ensure that large shareholders do not undermine the rights of smaller stakeholders or the transparency of financial risk reporting.
4. Banks should seek to enhance the financial expertise of their boards by including more members with strong financial backgrounds. Directors with financial expertise can better understand and oversee the reporting of complex risk-related information, leading to more accurate and comprehensive disclosures. This may involve targeted recruitment or training programs to boost the financial literacy of board members.
5. Given the significant positive effect of risk committee independence on financial risk disclosures, banks should ensure that their risk committees are composed primarily of independent directors. This will help improve oversight of risk management processes and enhance the quality of risk disclosures, ultimately promoting investor confidence and regulatory compliance.

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Appendix

. summarize frd bi bs bfe oc rmi fs

Variable	Obs	Mean	Std. dev.	Min	Max
frd	140	.8681319	.3402219	0	1
bi	140	.1507722	.12303	.0086798	.5790338
bs	140	11.57143	2.75405	7	17
bfe	140	.7302955	.162715	.206897	.965517
oc	140	.5408947	.1095357	.182553	.707749
rmi	140	.1551882	.1506496	.0086798	.5790338
fs	140	8.862174	1.694642	5.489548	10.9927

. correlate frd bi bs bfe oc rmi fs
(obs=91)

	frd	bi	bs	bfe	oc	rmi	fs
frd	1.0000						
bi	0.0641	1.0000					
bs	0.2644	-0.0895	1.0000				
bfe	0.2026	0.1628	-0.1674	1.0000			
oc	0.0307	0.4515	-0.2180	0.2744	1.0000		
rmi	0.1807	0.4775	-0.1352	-0.0985	0.3559	1.0000	
fs	0.0923	0.2957	-0.2554	0.0856	0.4137	0.4321	1.0000

. logistic frd bi bs bfe oc rmi fs

. logistic frd bi bs bfe oc rmi fs, coef

```
Logistic regression                          Number of obs =    140
                                       LR chi2(6)    =  21.54
                                       Prob > chi2   = 0.0015
Log likelihood = -24.712451                    Pseudo R2     = 0.3035

------------------------------------------------------------------------------
```

frd	Coefficient	Std. err.	z	P>|z|	[95% conf. interval]	
bi	.4093135	.1116038	3.67	0.000	.1905741	.6280529
bs	.0012989	.0016712	0.78	0.438	-.0019912	.004589
bfe	.0433605	.0159879	2.71	0.007	.011859	.0748621
oc	.4290073	.2836402	1.51	0.132	-.1298579	.9878725
rmi	.5843827	.219319	2.66	0.008	.1545254	1.01424
fs	.0555556	.0244268	2.27	0.027	-.2514732	.0165908
_cons	-21.75888	10.40423	-2.09	0.036	-42.1508	-1.366954

. estat gof

Goodness-of-fit test after logistic model
Variable: frd

Number of observations = 140
Number of covariate patterns = 89
Pearson chi2(82) = 42.69
Prob > chi2 = 0.9999

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