Impact of Credit Risk Exposure on the Market Value of Nigerian Banks (2006 – 2012)

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Abstract

This study examined the impact of credit risk exposure on the market value of Nigerian Banks from 2006 to 2012 based on the suspicion that the collapse of the banking system as witnessed in Nigeria in 2008 was the result of improper risk assessment. Purposefully built credit risk exposure model was used to predict the impact of credit risk exposure on the performance of the 18 banks listed on the Nigerian Stock Exchange as at December 31, 2012 including the 3 nationalised banks together with secondary data which were tested statistically. The findings revealed that banks' credit risk exposure did not have a strong influence on their market value and performance at F = .793 with P value of .513 significance. Conclusively, banks' risk analysis is an indispensable aspect of credit assessment and the credit risk exposure model developed for the study was found to be effective in predicting credit risk exposure for all the banks. The study recommended that banks' management should comply fully with statutory provisions.

Keywords: Credit Risk, Nationalised Bank, Market Value, Credit Risk Exposure Model, Nigerian Bank

1.0 Introduction

The roles of universal banks in creating wealth for the growth and development of the economy cannot be over-emphasized. According to Lall (2009), banks occupy a privileged position in the economy, as the basis of an efficient payment system and the main source of liquidity in the financial system. Cohen (1986), aptly stated that banks provide the oil that lubricate the wheel of commerce.Their activities in the Nigeria capital market in the last one decade showed that banks' stocks were the most active, an indication that banking industry dominated the driving forces of the economy of the country. It should be noted that universal Banks' operations are naturally tainted with risks that could not be avoided but must be taken intelligently to grow the business. The Access Bank and GT Bank Annual Reports (2010) confirmed that Banks should view risks not only as a threat or uncertainty but as a potential opportunity to grow and develop so that they could realise optimal satisfaction for all the stake holders. The annual reports of these banks stated further that, banking business usually facethree major inherent risks; credit, market and operational risks of which credit risk is the most critical.

The literature is replete with information on the impact of credit risk exposure on the profitability of the banks however, there is dearth of information on the impact of credit risk exposure on the market value of Nigerian banks.Consequently, this study aimed at analyzing the impact of the credit risk exposure on the market value of Nigerian Banks between 2006 and 2012 using conceptual risk research model purposefully designed for the study. On this basis,the following research question was raised to guide our investigation.

What is the significant impact of credit risk exposure on the market value of Nigerian Banks?

Our guiding research hypothesis is stated thus:

H_0: Banks credit risk exposure has no significant impact on the   market value of Nigerian banks.

2.0 Literature Review

2.1The Concept of Bank Credit Risk

Risk in general terms referred to variability around expected value. Ama (2009) considered risk as been synonymous with uncertainty. Chrouchy et al (2006) defined risk as "the volatility of returns that led to unexpected losses, with higher volatility indicating higher risks".According to Chike (2004) and GT Bank Annual Reports (2010), Credit Risk is the risk that a counterparty would fail to honour its payment obligations to the bank, leading to financial loss. It has been said to be the most critical for banks due to the fact that banks' credit risk exposures arising from lending activities account for the major portion of the banks' assets and revenues (GT Bank, 2010). Max (2011), in his paper, credit BuVa R" Asymetric Spread VaR with default refers to the credit risk as the risk that a company is unable to pay its debt obligations leading to bankruptcy. Accordingly, Basel II (2004), provided two options for measuring credit risk:

Option 1: Standardised Approach (SA), under SA, the banks use a risk-weighting schedule for measuring the credit risk of its assets by assigning risk weights based on the rating assigned by the external credit rating agencies.

Option 2: Internal rating based Approach (1RB) – The 1RB approach, on the other hand, allows banks to use their own internal ratings of counterparties and exposures, which permit a finer differentiation of risk for various exposures and hence, delivers capital requirements that are better aligned to the degree of risks. However, in India, banks are advised to adopt standardized approach (SA) for computing capital requirements for credit risk.

Generally, the CBN prudential guidelines (2010), mandated all banks to have themselves credit rated by a credit rating agency and disclose their credit rating prominently in their published annual reports.AL-Jarrah (2012), employed a panel data regression analysis to evaluate the riskiness of the banking sector of Jordan. He engaged various accounting variables that measure overall risk, leverage risk, credit risk and liquidity risk to discern those accounting measures that significantly explained the various measures of risks.His conclusion was that, the systematic risk dominates the non-systematic risk in the banking sector of Jordan. Hence, neither the managers of the banks under study nor the regulatory authorities should be blamed for these risks because they are non-controllable and their impact are uniform despite any precautionary procedures that might have been undertaken.

2.2The Concepts of Risk Management Structures, Estimate of Potential Lossand Basel Accord Provisions

Pyle (1997), defines risk management as the process of identifying key risks, obtaining consistent, understandable and operational risk measures, choosing which risk to reduce and which to increase and by what means and establishing procedures to monitor the result risk position. However, Schinasi (2005),categorized risks types into two broad groups of endogenous and exogenous risks.In banking industry, risk is considered to be very important because their operations are tainted with risks. This fact was buttressed in the Access Bank and GT bank Annual Reports (2010), that banks cannot avoid risks but should manage them by putting in place risk management infrastructures which should encompass a holistic, comprehensive and integral approach to identifying, measuring, managing, controlling and reporting them.

However, Waugh (2012), opined in his article titled Risk Management based on sound values is needed to restore confidence in banks around the world that, risk management is not just about models and rules. This is because human element, culture of the organization, our values and understanding our customers; play an essential role. He stated further that, one of the key elements of risk management is establishing a strong risk culture where the tone is set at the top and then embedding that culture throughout the organization. This is the best defense against further crises and most importantly, the best able to support customers in a sustained slow economy.

In the view of Navarrete (2006), the determination of appropriate level of capital to cover unexpected losses in banks and other financial institutions is one of the most difficult tasks in risk management. According to him, expected losses can be described as the usual or average losses that an institution incurs in its natural course of business whereas, unexpected losses are deviations from the average that may put an institutions' stability at risk.

According to Lall (2009), Basel Accord, is a set of regulatory proposals to govern the international banking system drawn up by the Basel committee on banking supervision.

The first publication of the committee was in 1988, referred to as Basel Accord and revised in 2004 to further strengthen the soundness and stability of the banks as well as promote the adoption of a stronger bank risk management practices among them. The 2004 publication is referred to as Basel II and has also been reviewed to Basel III in 2010 which now emphasizes liquidity management among the banks. Basel Committee (2004), identified the risks that banks are exposed to and the techniques to be used to mitigate, monitor and control them. The risks included credit risk, market risk, interest rate risk, equity risk, operational risk, counterparty risk and pension risk. All these risks are the long term future uncertainties which the banks and financial institutions are faced with and which they intend to account for. The aim of the Basel accord was to enhance the risk management functions of the banks and financial institutions and Basel II accord provides the international directives on the regulatory minimum amount of capital that banks should hold against these risks.

2.3 The Concepts of Earnings and Total Equity

Earnings remain one of the key drivers of banks' performance. The European Central Bank Publication (2010), confirmed that banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. This report is further strengthened by Kulathunga (2012), that the long term viability of a bank depends greatly on its ability to generate sufficient earnings to protect and enhance its capital and reward shareholders. Most banks annual reports recorded earnings at gross which simply refer to the total revenue of the bank before any deductions. The European Central Bank Publication (2010) emphasized further that while it is clear that a bank must be able to generate earnings, it is also important to take account of the composition and volatility of the earnings. This claim is supported by Moris and Sellon (1991), that many banks are exposed to interest rate risk which affect banks current and future earnings.

Banks total equity represents the aggregate of share capital, share premium, capital reserve and other reserves. It is referred to as the core capital of the bank and highly regulated by both Basel II and III and CBN prudential guidelines because it is important for banks to have enough resources to withstand downturns in the economy. According to Tarullo (2008), capital adequacy requirements have emerged as the dominant form of regulation for maintaining safety of the banks over 25 years ago. He stated further that the rationale for holding regulatory capital i.e. shareholders' equity, reserves and subordinated debt against bank assets is to provide a buffer against unexpected losses and in the process to create a disincentive to undertaking excessive risks or shrinking by banks owners and managers. The CBN Prudential Guidelines (2010), even stipulated the minimum capital to risk weighted assets to be 10% (i.e. capital adequacy ratio) in accordance to the Basel accord. The issue now is that, with all the regulations guiding the capital adequacy of the banks, it is the first to be wiped off in times of crisis.

Furthermore, it should be noted that banks, total equity represents the equity contribution of the owner of the business and are also referred to as Tier I and Tier II Capital in Basel Capital accord of 2004.

2.4 The Concepts of Market Value and Depletion in Market Value

There is a close link between banks shares and capital market and according to Kulathunga (2012), the development of capital markets is a powerful indicator of the depth of the financial sector. This is why in an environment of greater interest volatility and increased bank failures the market values of the stocks of banks are depleted in reaction to the performance of the banks and other public information about the institution and economy. Morris and Sellon (1991), in their article titled Market Value Accounting for Banks: Pros and Cons, defined the market value of a financial instrument as the current price of which the instrument can be bought or sold. This means that, the price an investor will pay for a financial instrument depends on the return he will receive from this investment relative to the return on competing investments. As far as bank is concerned, Morris and Sellon (1991), said that, a bank can find its market value by determining the market values for all its assets, liabilities and off balance sheet items. They stated further that changes in this measure will reflect the impact of changes in credit quality and interest rates on the banks current and future earnings. However, Brealey and Myers (1996), interpreted true value to mean an equilibrium price which incorporates all the information available to investors at that time and thus defines efficient market. They went further to state that, for an investor to get a true value, he must be sure that the market is sufficiently competitive, no collusion among bidders, no substantial cost is involved in submitting a bid, and that bidders are skilled and have access to the available information.

2.5 The Concept of Liquidity Threat

In the overview prepared by Laurent Clerc in the financial Stability Review of Banque De France (2008), liquidity was described as an elusive notion. "It is easier to recognize than to define". According to him liquidity can be defined based on different concepts. These concepts are:

i. Financial instrument which reflect liquidity as the ease with which they can be exchanged for money without loss in value.
ii. Market liquidity which is defined as the market's ability to trade a given volume of assets or securities without significantly affecting their prices.
iii. Monetary liquidity which pertains to the quantity of fully liquid assets circulating in the economy. It is measured by a narrow money or broad monetary aggregate or its ratio to nominal GDP.
iv. Funding liquidity which is the ease with which the economic agents can obtain external finance.
v. Balance sheet liquidity which is the amount of liquid assets on the balance sheets of non-financial institutions.
vi. Bank liquidity (Financial Institution), it is the ability of a bank to meet its immediate commitments.

However, from the above concepts of liquidity, liquidity threats will be the inability of the bank to meet its payment of financial commitments. Liquidity threat is a major problem in the banking industry, once it happens and if not properly managed, the bank may collapse totally. Jacobs (2009), stated that it can happen without warning.

2.6 Theoretical Framework of Risk Models

This theoretical frame work will therefore review portfolio selection theory and capital asset pricing model (CAPM) to show how investors react to risks while expecting high returns. Of course, the foundation of this work is laid on these theories.

2.6.1 Portfolio Selection Theory

Portfolio selection theory was developed by Harry Markowitz in 1952. The model drew attention to the common practice of portfolio diversification and showed exactly how an investor can reduce the standard deviation of portfolio returns by choosing stocks that do not move exactly together. The model is also known as the mean-variance model due to the fact that it is based on expected returns (mean) and the standard deviation (variance) of the various portfolios.The model however concluded that portfolio that gives maximum return for a given risk or minimum risk is an efficient portfolio. This is because as investor is rational, they will like to have higher return and as he is risk averse, he wants to have lower risk. Thus, from the portfolio that have the same return, the investor will prefer the portfolio with lower risk and from the portfolios that have the same risk level, an investor will prefer portfolio with higher rate of return.

2.6.2 Capital Asset Pricing Model (CAPM)

This is another model which measures investment risk and the expected return on same investment. According to Davis (2001), three Economists worked independently by building on the framework of Markowitz – Sharpe (1964), Lintner (1965), and Mossin (1966), to develop what has come to be known as capital Asset Pricing Model (CAPM). He stated further that the model assumes that investors use the logic of Markowitz in forming portfolios, (the risk-free asset) that has a certain return.

Also, the Capital Asset Pricing Model stated that the expected risk premium on each investment is proportional to its beta. This means that each investment should lie on the sloping security market line. The difference between the return on the market and the interest rate is termed the risk premium.Therefore, expected risk premium on stock equals beta multiply by expected risk premium on market (i. e. r – rf = B (rm – rf)

The CAPM Equation is $E(R_j) = R_f + \beta_j \{E(R_m) - R_f\}$

Where: $E(R_j)$ and $E(R_M)$ are the expected returns to asset j and the market portfolio, respectively, R_f is the risk free rate, and β_j is the beta coefficient for asset J, β_j measures the tendency of asset j to co-vary with the market portfolio. It represents the part of the asset's risk that cannot be diversified away, and this is the risk that investors are compensated for bearing.The models assumed efficient portfolio in which risk is well diversified and no added diversification can lower the portfolio risk for a given return expectation. However, studies in the recent times have shown that diversification of investment portfolio may not reduce risk for higher returns.

In the work of Langrin et al (2009),on "Measuring the effects of concentration and Risk on Bank Returns: Evidence from a Panel of Individual Loan Portfolios in Jamaica".

The key result was that greater diversification does not imply lower risk and or greater returns. Hence, in contrast with traditional portfolio theory, concentration rather than diversification of bank-level loan portfolios may be more consistent with achieving minimal systemic risks. This result was also consistent with that of Stomper (2004), and Elyasiani and Deng (2004), when they stated that concentration portfolios entailed lower monitoring costs given the smaller number of sectors covered in the portfolios.

2.7 Empirical Framework

According to Kallestrap(2012),the dynamics of sovereign credit risk depends critically on fragility in the banking sector and this added additional insights to the conclusions in Longstaff, Pan, Pedersen and Singleton (2011), who argued that, sovereign credit risk is primarily driven by global risk premium factors. This view is consistent with that expressed by Lehmann and Manz (2006), on the exposure of Swiss Banks to macroeconomic shocks – an empirical investigation. They said that credit risk is considered to be a key contributor to fluctuations in bank earnings which is likely to depend on the macroeconomic environment.Also, Reinhart and Rogoff (2009), presented the evidence from his work that systemic banking crises often result in recessions which in turn result in lower government revenues, large fiscal deficits and potentially sovereign credit defaulters.

There is a close link between banks' shares and capital market. Kulathunga (2012), buttress this fact by documenting that, the development of capital market is a powerful indicator of the depth of the financial sector. He also concluded that, in an environment of great interest volatility and increased bank failures, the market values of the stocks of banks are depleted in reaction to the performance of the banks and other public information about the institution and economy. Philippatos and Viswanalthan (1994), emphasized in their study, on the Mexican debt Moratorium and its effect upon US bank stock values: empirical tests on major event windows that, the primary objective of the creditor banks, like any other publicly held firm, is to maximize the wealth of their shareholders. Hence, creditor banks should be concerned about events that affect them adversely. Their conclusion among others were, the announcement of the debt moratorium conveyed a negative signal to the market and forced bank stock prices downward – both Mexican loan - exposed and non – exposed banks. The market reacted by adjusting quickly the share prices of banks. However, the adverse reaction was not limited to banks with loans outstanding in Mexico. Non - exposed banks experienced a similar decline in equity prices, suggesting a contagion effect in the market for bank equities.

Similarly, when the global economic meltdown hit Nigerian economy in 2008 and the report of the audit jointly conducted by the CBN and NDIC revealed that certain banks were carrying toxic assets in their balance sheets, the stock market reacted negatively to this information and banks' stock prices started tumbling. The effect did not only manifest on the banks with toxic assets, it rubbed on other ones that were even declared healthy which confirmed the contagious effect as documented by Spiegel and Yamori (2004), in their study on the evolution of Bank resolution policies in Japan: evidence from market equity values. Their results supported the information-based contagion hypothesis, demonstrating that news concerning the failure of a bank of a certain regulatory class was treated in equity markets as representing a change in regulatory policy, even before these changes in regulatory policy were officially announced.Philippatos and Viswanalthan (1994), further said that the empirical evidence on the efficiency of the markets for bank equities is mixed. If the market for the share of banks (or bank holding companies) is efficient, information about events that have adverse effects on creditor banks, such as the Moratorium announcements by major Third world borrowers, should immediately translate into lower market prices. But if the relevant market has some inefficiencies due to asymmetric information between the affected institutions and the market participants, the adjustment to the market prices of the securities will not reflect the information conveyed by the event. Also, Brewer, Genay, Hunter and Kaufman (1999), examine the effect of Japanese bank failure announcements on surviving bank equity values. Their results demonstrate that shareholders interpreted these failures as adverse changes in the banking system. They also found that, sensitivity of bank to news concerning bank failures was systematically related to bank financial health. In sum, bank failed because of the impact of their exposure to credit risk and with the level of capital market efficiency their stock prices react in line with the information announced in the market or sneaked in.

2.8 **Bank Risk Exposure Model**

The researchers had gone a step further to build a Bank Credit Risk Exposure Modelfor the study which has its root from the existing risk models of portfolio selection theory and Capital Asset Pricing Model.When banks' risks crystalized, shareholders' equities are depleted.

Theories abounds to show that the investors are risk averters and all the different models on risks and returns showed that investors will require extra expected returns for taking on additional risks. They are concerned predominantly with the risks they cannot eliminate through diversification.However, the model for this study which will be known as Banks' Credit Risk Exposure Model was designed to predict the impact of credit risk exposure on the market values of the banks and other identified variables base on their compliance level with the prescribed risk management structures and statutory provisions.

2.9 Model Assumption

The model assumes as follows:

 i. That credit risk is the most critical risk that affects banks' operations.
 ii. That credit lost in the year is same as credit written off.
iii. That the gross credit created in the year is the increase/decrease in the balance sheet figure of loans and advances to customers when the previous year figure is deducted from the current year.
iv. That the net loan created in the year is the increase/decrease in the balance sheet figure of loans and advances to customers when the previous year figure is deducted from the current year less allowances for bad and doubtful loans and other specific and general provisions.

Figure 1 below laid the foundation for figure 2 as well. It revealed the impact of credit lost on the loans and advances granted to customers in the year which resulted in Net loans and advances.
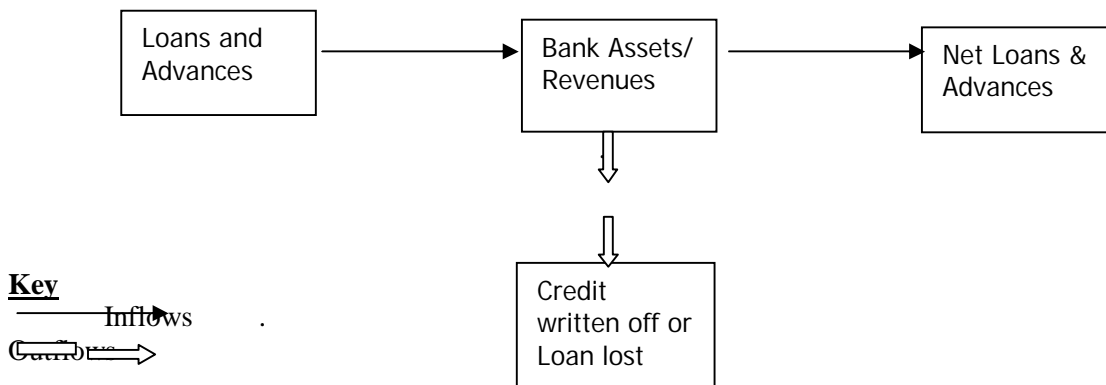

Figure 1: Effect of Loan Lost on Banks'Assets/Revenues
Source: Banks'Conceptual Net Loans and Advances Model (Adebawo, 2012)

2.10 Model Definition

Figure 1 above is now expanded to produce figure 2The expansion was done to predict the impact of banks' compliance with risk management structures, estimate of potential loss provisions and other statutory provisions including Basel Accordon banks credit risk exposure. The level of credit risk exposure could be low, medium or high depending on their compliance level with risk management structures and statutory provisions. It should be noted that banks performance variables in terms of earnings, Total Equity, Market Value, depletion in market value and liquidity threats (Y) is a function of Bank Credit Risk (X).

2.11 Research Model

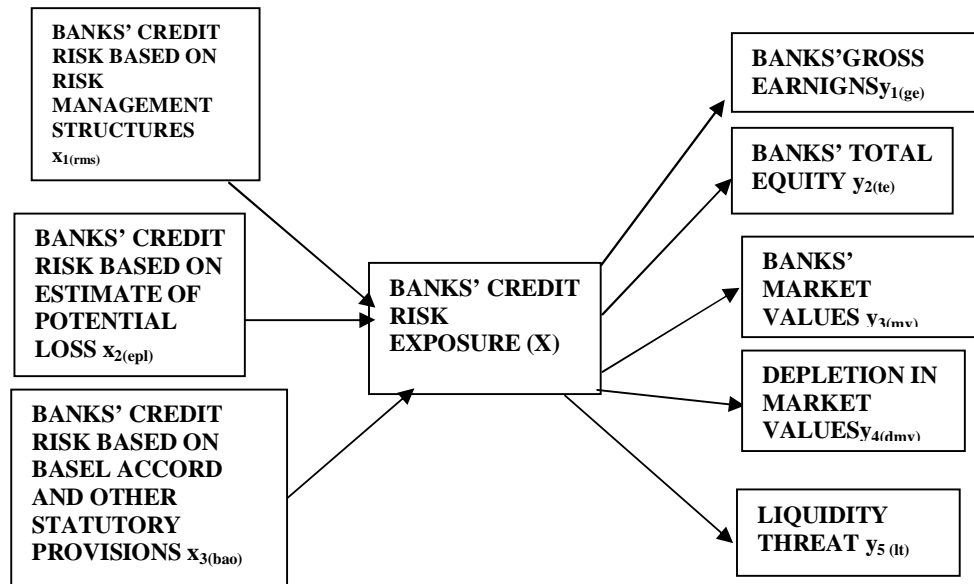The research variables are depicted in the following model:

Figure 2: Banks' Credit Risk Exposure Model and the Identified Research Variables

Source: Banks' Credit Risk Exposure Model (Adebawo, 2012).

Independent Variables are: BCR $(X) = x_{1(rms)} + x_{2(epl)} + x_{3(bao)}$

The Dependent Variable Y $\quad = y_{1(ge)} + y_{2(te)} + y_{3(mv)} + y_{4(dmv)} + y_{5(lt)}$

$$Y = f(x)$$

Therefore, $\quad y_{1(ge)} + y_{2(te)} + y_{3(mv)} + y_{4(dmv)} + y_{5(tt)} = x_1 + x_2 + x_3$

$$X = x_1 + x_2 + x_3$$

$$Y = \beta_0 + \beta_{1x(rms)} + \beta_{2x2(epl)} + \beta_{3\,x3(bao)} + \mu$$

Where:

$\beta_0 \quad = \quad \dfrac{\text{Loan written off}}{\text{Net Loans \& Advances granted in the year}}$

$y_{1(ge)}$	=	Gross Earnings
$y_{2(te)}$	=	Total Equity
$y_{3(mv)}$	=	Market Value
$y_{4(dmv)}$	=	Depletion in Market value
$y_{5(lt)}$	=	Liquidity Threat
$x_{1(rms)}$	=	Banks' Credit Riskexposure based on compliance withrisk management structures
$x_{2(epl)}$	=	Banks' Credit Risk exposure based on compliance with Estimate of Potential Loss provisions
$x_{3(bao)}$	=	Banks' Credit risk exposure based on compliance with Basel Accord and other statutory provisions
μ	=	Error Term

Source: Researcher's Model (2012)

3.0 Methodology

The research adopted correlational design survey of all the 18 commercial banks quoted on the Nigerian Stock Exchange Market including the 3 nationalised banks. The population comprised of 899 staff in the credit risk administration departments of all the 18 commercial banks. A sample size of 277 was determined using Yaro Yamani formula.

Convenience sampling method was used based on the judgment of the contact persons to identify the core staff. A Structured questionnaire titled "Banks' Risk Measurement and Management Questionnaire" was used to collect the data. The instrument was validated and its reliability test with Cronbach Alpha result was 0.908. There was a response rate of 82%.

Secondary data were also collected from both audited accounts and Nigeria Stock Exchange Daily official listing. The variables applied were, Credit Risk Exposure (CRE) and Market Values (MV). The data collected were analyzed and tested using Simple and Multiple Regression analyses.

3.1 Data Analysis and Discussions

The multiple regression analysis model was operationalized as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots.. \beta_k X_k + E$
Where: Y= Banks' Market Value
β_0= Constant or Y intercept
β_1= Coefficient of first predictor variable (i.e. coefficient of Banks' loans and Advances)
β_2= Coefficient of second predictor variable (i.e. coefficient of banks' credit lost)
E = Error term

Table 1: Impact of Banks' Credit Risk Exposure on Their Market Values

Model	Sum Square	DF	Mean Square (MS)	F-Ratio	Sig.	R^2	Adjusted R Square
Regression	2185119.397	2	1092559.698	.793	.513		
Residual	5508264.540	4	1377066.135			.284	-.074
Total	7693383.937	6					

Source: Researcher's Field Survey Result, (2012).

The table 1 above revealed that banks' credit lost, loans and advances which represented banks' credit risk exposure had no significant impact on the market value at F-ratio = .793, P = .513, r^2 = .284 and Adjusted r^2 = -.074. Since P value was higher than .05, the null hypothesis was accepted. The r^2 value of .284 indicated the rate at which changes in Banks' Credit Risk Exposure accounted for changes in the Market Value. Thus, this result established that, changes in banks' credit risk exposure contributed at least 28.4% change in the market value of the banks.

Table 2: Parameters of Estimate of Relative Contributions of Banks' Credit Lost, Loans and Advances to Changes in Banks' Market Values

Model	Unstandardized Co-efficients		Standardized Co-efficients		
	β	Standard Error (SE)		t	Sig.
Constant	4077.513	1539.851		2.648	P =.057>0.05
Banks' Loans & Advances	-4.367	3.467	-.534	-1.260	P =.276>0.05
Banks Credit Lost	-.022	.260	-.036	-.084	P=.937>0.05

Source: Researcher's Field Survey Result, (2012).

Furthermore, table 2 indicated that the β values of Banks' loans and advances and credit lost which are the independent variables in the multiple regression model stated above are -4.367, with P> .05 for banks' loans and advances and -.022 with P> 0.05 for banks' credit lost.

The implication of this is that, Banks' Credit Risk Exposure did not have significant contributions towards impacting the market value of Nigerian banks between 2006 and 2012.

Thus, the regression model above can be restated by substituting the values of "β_0", "β_1" and "β_2" in the model as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + E$
$Y = 4077.513 + -4.367$ (Banks' loans and advances) $-.022$(Banks' Credit Lost) $+ E$

The findings above did not agree with the findings of Kulathonga (2012), who established that market values of stocks are depleted in reaction to performance of the banks and other public information about the institution and economy. This implies that banks' credit risk exposure did not have adverse effect on the market value of the banks.

The findings also disagree with that of Philippatos and Viswanalthan (1994), who established from their study on the Mexican debt Moratorium and its effects upon US Bank Stock Values that, the announcement of the debt moratorium conveyed a negative signal to the market and forced bank stock prices downward. However, Reinhart and Rogaff (2009), presented the evidence from their work that systematic banking crises often result in recessions which in turn result in lower government revenues, large fiscal deficits and potentially sovereign credit defaulters. These findings confirmed the situation in Nigerian banking system in 2008 when the global economic meltdown hit Nigerian economy and Nigerian banks were found to be carrying huge toxic assets in their balance sheets resulting from sovereign defaulters. A situation that nearly led to systemic failure in the country.For the research findings to disagree with the findings of Kulathunga (2012), Philippatos and Viswanalthan (1994), there is suspicion of manipulation of audited accounts by banks' management which raised doubt on the integrity of figures being presented by banks' management. This shows the extent to which information asymmetric can conceal the reality from coming to the lime light.

5.0 Conclusion and Recommendations

Considering the result of the statistical analysis which revealed that banks' credit risk exposure has no significant impact on the market value of banks though, disagree with some empirical findings and relevant literatures. The research concluded that, the quality of credit risk created by banks is determined by the level of their compliance with statutory provisions which serves as input,of which the significant level is reflected on the banks' performance and market value among other variables i.e. the output. This was depicted in the bank risk exposure model that was purposefully designed for the study.

The research also concluded based on the information asymmetric suspected in the banks' financial statement that the banks' credit risk exposure which has no significant impact on the market value of Nigerian banks between 2006 and 2012 did not reveal the reality of Nigerian banking system. The consequences of ignoring banks' risk nearly led to collapse of the system as was experienced in 2008 when the global financial crises hit Nigerian economy. Investors lost their investments and capital market was also badly affected as prices of stocks especially, those in the banking sector crashed significantly. The research resolved that the inconsistency of the research findings with the reality was a clear indication of banks non-compliance with the prescribed statutory provisions and risk management structures which made the fight against banks systemic failure difficult.

This paper recommends the use of the purposefully built research model for the planning and designing of suitable credit risk management structures for the banking institutions. It also recommends that regulatory agencies should mete out stern punitive measures to erring institutions and personnel to check compromises and collusions among banks' managements and regulatory authorities.

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