

Asset quality, Internal Control System and Profitability of Deposit Money Banks in Nigeria

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Certification

This is to certify that Oluseyi Abraham Olayinka with matriculation number LCU/PG/001379 carried out this research work titled “**Asset quality, Internal Control System and Profitability of Deposit Money banks in Nigeria**” in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan, Oyo State, for the award of Doctor of Philosophy Degree (PhD) in Accounting and that this has not been previously submitted.

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Dedication

This research work is dedicated to God almighty

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Acknowledgement

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Even though the above mentioned institutions and persons have assisted in the process of this research work, I alone stand responsible for the errors, if any, found in the work.

Abstract

Banking industry has witnessed several changes in the last decade from partial to full digital transformation which improved their customer engagement especially in the area of granting loans with implications on their profitability. This study investigated the effect of asset quality on the profitability of Deposit Money Banks (DMBs) in Nigeria and the moderating effect of internal control system on the interaction between asset quality and profitability of banks. Dearth of study that combines asset quality relevance and internal control system in one study to address profitability of DMBs in Nigeria was the gap filled. The study was anchored on Liabilities Management theory. Four research questions and hypotheses were formulated. The study adopted ex-post facto design which entails the utilization of historical data to forecast future trends. Inferential statistics adopted econometrics models with panel data using pooled ordinary least square, Fixed and Random effects Regression models. The population comprises of twenty three DMBs in Nigeria. Sample size consisted of seven banks based on the problem identified in this study. The results showed that asset quality has significant effect on Return on asset ($F = 10.89, p = 0.001 < 0.05, R^2 = 0.434$); Return on Equity ($F = 4.442, p = 0.004 < 0.05, R^2 = 0.235$); no effect on Return on Capital Employed ($F = 1.193, p = 0.069 > 0.05, R^2 = 0.068$), Internal Control System has no moderating effect on the interaction between asset quality and profitability of DMBs ($F = 1.013, p = 0.071 > 0.05, R^2 = 0.066$). The study concluded that asset quality has effect on the profitability of DMBs and there is no moderating effect of internal control system between asset quality and profitability. It was therefore recommended amongst others that banks should review their credit policy regularly that will reduce non-performing loans and the DMBs should also re-strategise their policy on deposit mobilization that will minimize the impact of Payment Service Banks (PSBs).

Keywords: Asset Quality, Deposit Money Banks, Internal Control System, Loans, Profitability,

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List of Acronyms

Abbreviation	Meaning
AMCON	- Asset Management Corporation of Nigeria
AQ	- Asset Quality
CA	- Capital Adequacy
CBN	- Central Bank of Nigeria
DEP	- Deposit

DMB	-	Deposit Money Bank
GAAP	-	Generally Accepted Accounting Principles
GLA	-	Gross Loans and Advances
GTB	-	Guaranty Trust Bank
ICS	-	Internal Control System
PLA	-	Performing Loans and Advances
PRO	-	Profitability
ROA	-	Return on Asset
ROCE	-	Return on Capital Employed
ROE	-	Return on Equity
TA	-	Total Assets
UBA	-	United Bank of Africa

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