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The Control Activities of Financial Institutions in Nigeria and Risk Assets Quality

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Abstract
In view of the persistent collapse of financial institutions in Nigeria, it became eminent to ascertain how control activities affect the risk assets quality of Nigerian financial sector. The study applied ex-post research design method and relied on secondary data spawned from yearly financial records spanning 2010-2023. The population of the study comprised all eleven (11) categories of financial institutions operating in Nigeria as of December 31, 2023, in line with the classifications provided by the Central Bank of Nigeria (CBN). A purposive sampling technique was applied to select institutions from four key categories: deposit money banks, non-interest banks, development banks, and merchant banks, resulting in a total of 42 institutions. For the empirical analysis, the study adopted Feasible Generalized Least Squares (FGLS) estimation technique. The findings revealed that both Capital Adequacy Ratio (CAR) and Loan to Deposit Ratio (LDR) have a positive and insignificant influence on non-performing loans, while Loan to Assets Ratio (LTAR) was found to have a negative and not significant effect. In view of the findings, policy makers and financial institutions should exercise restraints in placing too much emphasis on CAR and LDR, and instead strengthen internal credit risk control, due diligence process and adherence to early warning signals. Furthermore, lending should be guided with a well-defined risk appetite and efficient recovery process.

Keywords: Asset Quality, Capital Adequacy, Control Activities, Financial Institutions.

1. Introduction

The primary function of any financial institution is to engage in the financial intermediation through the creation of risk assets quality in form of loans and advances from the surplus unit of the economy to the needy unit of the economy. This assertion was further reinforced in the study of Nasyirah and Putra (2025), Ramalan et al. (2025) that financial institutions accept deposits from public and channel them to loan creation and other financial services so as to improve societal welfare. Adepiti (2023) claims that without these institutions, economic prosperity might be hindered. However, Muhammad et al. (2025) opined that mishandling of this critical asset has remained an albatross to financial institutions in Nigeria. As pointed out by Committee of Sponsoring Organization (1992), control activities occur in all the facets of the entity, and it involves the policies and procedures that could help Management achieve its objectives. In Nigeria, the continuous deterioration in the asset's quality led to emergence of various reforms by the regulatory authorities. Such reforms, according to Ojeka (2021) include consolidation of banks in 2005, revised governance code of 2017 and establishment of risk management framework. In addition, Central Bank of Nigeria's (CBN) in a circular dated July 4, 2019 mandated all financial institutions to peg total loan to deposit ratio at 65 percent minimum in a bid to control Banks' activities.

Despite these reforms, it suffices to say that distresses in the financial sector have not abated as a result of persistent weak control activities in place. For instance, in June 2024, The Central Bank of Nigeria (CBN) announced the revocation of Heritage Bank's license as a result of severe infractions that culminated into its significant distress occasioned by NPL ratio of 81%. This implies poor management

of risk assets of the bank. Furthermore, in 2018, Polaris Bank was announced as a bridge bank by the Nigerian apex bank to take over the assets and liabilities of Skye Bank Nigeria having been fingered of capital inadequacy ratios (Bassey, 2018). It was identified by Femi and Msugh (2021) that over N77 billion loans could not be recovered by Bank of Agriculture (BoA) as a result of poor control activities and improper management of capital adequacy.

Existing research, such as Afolabi et al. (2020), Gilbert and Audu (2022), Ogbebor et al. (2020) and Ofei et al. (2020) predominantly focused on non-financial performance, fraud and financial performance of deposit money banks respectively as domains of investigation. Also, the study of Olaoye et al. (2025) focused attention on only non-interest bank as a domain of investigation. In addition, different scholars used various concepts, theories and methodologies to arrive at different outcomes. Also, dearth of study that combined control activities with asset quality of financial institutions further created gaps that needed to be filled in this study. Hence, the domain of this study was extended to development financial institutions, merchant banks and non-interest banks in addition with deposit money banks in Nigeria with focus on risk asset quality. Also, different concepts such as capital adequacy ratio, loan to deposit ratio and loan to assets ratio were used as surrogates of investigation to address the conceptual gap of previous studies. Hence, the main objective of this study was to ascertain the extent to which control activities affect the risk assets quality of financial institutions in Nigeria.

2. Literature Review and Hypotheses Development

Capital Adequacy and Risk Assets Quality

According to Oyedokun and Osho (2023), risk asset encompasses, but is not limited to, the credit portfolio of financial institutions, which constitutes a significant source of income for banks. To achieve sound assets quality, Ofoegbu and Adepite (2022) submitted that financial institutions should screen credit customers and perform desk appraisal to attenuate the incidences of non- performing assets. As described in the Nigeria prudential guideline (2010), non-performing loans are assets that could no longer generate both interests and principal as at when due. These assets are risky in nature because likelihood of repayment is uncertain. According to Temile et al. (2019), these assets carry greater portion of risk to capital if not properly controlled.

Quite a number of scholars have examined the effect of capital adequacy as a control tool to measure the assets quality of financial institutions, offering mixed outcomes across regions and methodologies. In Indonesia, Nasyirah and Putra (2025) conducted a regression analysis on listed banking institutions covering period 2021–2023 and found that capital adequacy had no significant influence on banks' profitability. In contrast, Mohammed (2025), drawing on data from Arab countries, suggests that dip in the asset quality negatively influence capital adequacy, thereby indirectly impairing bank performance. In a similar study conducted by Khairi et al. (2024) in Indonesia, spanning 2018-2021, found that capital adequacy ratio significantly and positively affects returns on assets, implying that stronger capital buffers enhance financial returns. These divergent results may be attributed to variations in research methodology, regional banking regulations, and the time frames under investigation.

From the Nigerian perspective, Benneth et al. (2024) investigated the relationship between capital adequacy and the performance of deposit money banks using the Autoregressive Distributed Lag (ARDL) model over a longer period (2008–2022). Their findings suggest that capital adequacy, as measured by the capital adequacy ratio, does not exert a significant influence on bank performance in either the short or long run. In view of this, the present study extends the scope of the study to 2024,

aiming to provide a more robust and updated understanding of the dynamics between capital adequacy and bank performance especially on assets quality of financial institutions in Nigeria.

In addition, Adamgbo et al. (2019) analysed the effect of capital adequacy on credit risk management using secondary time series data culled from the annual reports of banks covering 1989 to 2015. Using multivariate regression analysis, the study submitted that capital adequacy significantly influenced the credit situation in Nigerian banks. However, a notable limitation of this study is the absence of a theoretical framework to underpin the empirical analysis, which may likely affect the interpretative depth of its findings. Similarly, Jessie (2019) conducted a study on the role of risk management in bank performance in Nigeria, using capital adequacy as one of the explanatory variables. The study deployed Ordinary Least Squares (OLS) regression on data from selected banks covering the period 1994 to 2016. The findings revealed a negative but statistically insignificant relationship between capital adequacy and return on assets (ROA), suggesting that higher capital levels did not necessarily translate into improved profitability for the banks examined.

Succinctly, the above findings reflect the complex and inconsistent relationship between capital adequacy and various performance indicators of banks. The present study, therefore, intends to contribute to the ongoing discourse by extending the scope and integrating both contextual and theoretical perspectives to provide a more robust understanding of capital adequacy's role in bank performance especially on risk assets quality of financial institutions in Nigeria. In the light of the above empirical and theoretical bases, the study advanced a hypothetical proposition in a null form as stated below:

H1: Capital adequacy has no significant effect on the risk assets quality of financial institutions in Nigeria.

Loan to Assets Ratio and Risk Assets Quality

In the opinion of Wuyep and Eze (2023), LTAR represents a relationship between total loan amount and total assets of financial institutions and that high credit exposure indicates low liquidity. Loans constitute the riskiest of all the assets in the banks' balance sheet and if not properly controlled, it could threaten the liquidity position of the bank (Abata, 2014). Hence, Loan to Asset Ratio (LTAR) is used to measure the level of banks liquidity and shows the ability of banks to meet the demand for credit. LTAR is one source of income generated by the bank by dividing the loans to the total assets (Saeed, 2014). However, Fahrul et al. (2018) caution that when this ratio is high, it means that existing funds have been widely used for credit allocation which could pose dangers to the bank. However, a ratio of 40% is considered acceptable as posited by CBN.

The importance of loan-to-total assets ratio cannot be underestimated as it is widely regarded as one of the indicators of a bank's lending activity. Empirical findings, however, suggest different outcomes across different jurisdictions and timeframes. In the Nigerian context, Wuyep and Eze (2023) conducted a study on the relationship between the loan-to-total-assets ratio and the non-performing loans of deposit money banks over the period 2011–2022. Their study submitted a positive and statistically significant effect on the NPLs of banks in Nigeria. In contrast, Adato (2022) investigated a similar study in Ethiopia for the period 2010–2021, applying a random effects regression model. The findings indicated a negative and significant effect on the loan-to-assets ratio on return on assets (ROA).

Furthermore, Bayu and Andam (2019) examined the impact of the loan-to-total-assets ratio on non-performing loans within the context of Indonesian banking sector using secondary data from 40 listed banks between 2012 and 2018. The pooled regression model with fixed effects found a positive but statistically insignificant relationship with NPLs. In the same region, Fahrul et al. (2018) investigated the impact of the loan-to-total-assets ratio on the performance of commercial banks in Indonesia. The findings indicated a negative but statistically insignificant relationship between the loan-to-assets ratio and return on assets (ROA). In a related study, El-Kassem (2017) investigated the key determinants of bank profitability in Qatar, with loan-to-total-assets ratio included as a predictor variable. Drawing on data from six major commercial banks over the period 2008–2015, the study found a negative and statistically significant relationship between the loan-to-assets ratio and ROA. Abata (2014) conducted a research on asset quality and banks performance in Nigeria with a sample interval period 1999-2013. The findings through regression estimation techniques revealed that loans to total assets have a positive and not significant effect on the asset's quality of financial institutions.

These mixed findings brought to fore the value of contextual factors, such as regulatory frameworks, credit risk controls, and economic conditions in shaping the effect of the loan-to-assets ratio on asset quality. Drawing from existing empirical submissions, the current study is equally proposed in a null form that:

H2: Loan to assets ratio has no significant effect on the risk assets quality of financial institutions in Nigeria.

Loan to Deposit Ratio and Assets Quality

Loan to total deposits is very crucial to the control activities of financial institutions in the sense that it measures the banks liquidity position (Kingu et al., 2018). The study further remarked that a bank that parades higher loan balances relative to deposits diminishes the liquidity level. According to Folajimi and Dare (2020), when banks are more liquid, risks of insolvency would be reduced to the barest minimum. Loans constitute the riskiest of all the assets in the banks' balance sheet and lack of proper control could threaten the liquidity strength (Abata, 2014). According to Karadayi (2023), a high loan to deposit ratio presents a significant risk to the financial institutions. Deposits as explained by Agu and Nwankwo (2019) refer to the amount mobilized from the surplus unit of the economy for safekeeping. This fund represents liabilities in the financial statement. However, rise in the ratio means less liquidity and the fall in the ratio leads to strong liquidity (Ofeimun et al., 2020).

The loan-to-deposit ratio (LDR) plays an important role in the bank's liquidity position and risk-taking. It reflects how effectively banks are utilizing customers' deposits to generate income through loans. Several scholars have examined the relationship between LDR and various performance indicators, though findings remain mixed and context dependent. For instance, Karadayi (2023) explored the effect of the loan-to-deposit ratio on the return on assets of banks in Türkiye, using data from 31 banks for the year 2021. Employing multiple regression analysis, the study reported a positive and statistically significant effect of LDR on returns on assets. However, the study's reliance on a single year of data impounds on the generalizability of its findings, especially given potential volatility in macroeconomic conditions. In a related study conducted in Indonesia, Amir et al. (2022) investigated the effect of LDR and ROA over a five-year period (2016–2020) among the listed banks. The regression analysis revealed that the loan-to-deposit ratio had a significant and positive effect on return on assets.

Conversely, Pham (2021) in a study conducted in Vietnam, focusing on the effect of LDR on credit risk, with non-performing loans (NPLs) as proxy of investigation. Utilizing a Bayesian regression approach and secondary data, the study submitted that a higher LDR was associated with increased credit risk, as depicted by a negative effect on asset quality. This suggests that excessive lending relative to deposits may compromise asset quality, especially in environments with weaker risk controls.

Folajimi and Dare (2020), focusing on the effect of credit risk on the performance of deposit money banks in Nigeria using the loan-to-deposit ratio as one of the independent variables, raised interesting implications about the relationship between credit risk management and bank performance. The findings through the use of inferential statistics spanning 2006-2018, revealed that LDR has a positive and significant effect on the performance of the sample banks in Nigeria, particularly in relation to assets quality. However, this study fails to extend discourse on this matter to other category of financial institutions in Nigeria. The study of Ayunku and Uzochukwu (2020) on credit management and issues with bad debt in listed deposit money banks in Nigeria found that loan to deposit ratio has negative and statistically not significant effect on the asset's quality. This conclusion was arrived at through the use of data that spanned 2014-2019 which was analyzed through the use of ordinary least squared regression technique. This conclusion could have been robust if it was extended beyond one financial institution in Nigeria.

Akwaa-Sekyi and Gene (2016) conducted a study on the effect of internal control systems on the credit risk of listed Spanish banks. The objective of the study was to examine the efficacy of internal control systems in the banks. Quantitative approach was used to test the hypotheses. Data was sourced from the company website from 2004-2013, while generalized least squared estimation technique was used for the model. The outcome of the study showed that loan to deposit ratio has negative and not significant effect on the non-performing loans. Hence, the study hypothesizes that;

H3: Loan to deposit ratio has no significant effect on the asset's quality of financial institutions in Nigeria.

Lending Rate and Assets Quality

The statement that financial institutions deal with funds intermediation between the surplus unit and the needy unit reflects the core function of financial intermediation in the economy (Nasyirah & Putra 2025). In the process of funds intermediation, financial institutions charge interest on the amounts borrowed by deficit units. This interest represents the cost of renting and is a fundamental aspect of financial transactions. This rate is usually expressed in percentages and represents the amount paid over a specific period on the amount borrowed (Kihara & Mirie, 2017). In addition, Oteng and Adjei (2014) described lending rates as charges by borrowers when they take loans and advances from the financial institutions. The study of Afolabi et al. (2020), opined that lending activities could be influenced by the prevailing interest rate on the amount borrowed.

The study of Bujar et al. (2021) identified the effect of internal controls at reducing non-performing loans in Kosovo banks. The study adopted the use of linear regression model and mediation analysis using lending rates as one of the independent variables. The outcome of the study supported that lending rate has significant effect on the assets quality. Apart from the fact that this work was not conducted in Nigeria, the study of this magnitude could have used more than one independent variable to make the study more robust. Kihara and Mirie (2017) examined the effect of interest rates on the financial performance of commercial banks in Kenya spanning 2002-2014.The study adopted census design and

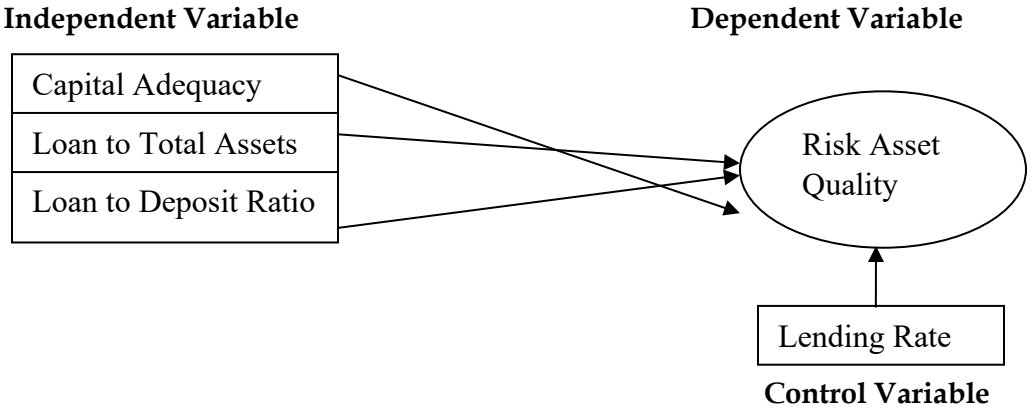
gathered data through secondary source. Multiple linear regressions estimation technique was used to carry out data analyses. The finding that lending rates have a significant and positive influence on the financial performance of commercial banks in Kenya suggested an important relationship between interest rates charged on loans and overall bank performance.

Also, Evans and Adjei (2014) through the instrumentality of primary source found that high lending rate impounds on the ability of borrowers to pay back in Ghana. Victor and Eze (2013) examined the impact of banking lending rate on the performance of deposit money banks in Nigeria between 2000 and 2010. The study utilized secondary data econometrics in regression. The result confirmed that lending rate has significant and positive effect on the performance of banks. Enyioko (2012) investigated the performance of banks in Nigeria with reference to interest rate policies. The outcome of the study was that interest rate policies have not improved the overall performance of banks significantly. However, the outcome of the study conducted by Kipngetich (2011), which suggests that interest rates do not have a significant effect on the profitability of commercial banks in Kenya, presented an intriguing perspective on the relationship between interest rates and bank profitability.

Theoretical Review: Buffer Theory

According to Nnamdi et al. (2021), buffer theory was proposed by Berger and De-Young in 1997 with the view that financial institutions need to keep enough capital to hedge against future unforeseen circumstances, particularly over investment opportunities. Buffer theory assumes that with capital marginally above the regulatory requirement ratio, the lesser the risk of penalty by the regulatory authorities. Hence, banks with large risk portfolio must hold higher buffer capital so as not to fall below the regulatory requirements. From the perspective of Abbas et al. (2019), buffer theory suggests that increase in capital tends to reduce banks risk and thus lead to enhanced performance by reducing lending rate in a way that will attract demand for loans.

Conceptual Framework



Conceptual Framework Schema

Source: Author's compilation (2025).

3. Methodology

The study adopted an *ex-post facto research design* to investigate the extent to which control activities influence the quality of risk assets in Nigeria's financial sector. The analysis was based on secondary data spawned from annual reports covering the period 2010 to 2023. The choice of the base year, 2010, is justified by the establishment of the Asset Management Corporation of Nigeria (AMCON), which

marked a critical intervention aimed at resolving the toxic asset crisis in the Nigerian financial institutions. The population of the study comprised all eleven (11) categories of financial institutions operating in Nigeria as of December 31, 2023, in line with the classifications provided by the Central Bank of Nigeria (CBN). A purposive sampling technique was applied to select institutions from four key categories: deposit money banks, non-interest banks, development banks, and merchant banks, resulting in a total of 42 institutions. However, only 38 institutions were included in the final sample, as four were excluded due to their recent establishment and the unavailability of enough historical data for the period under review. For the empirical analysis, the study adopted Feasible Generalized Least Squares (FGLS) estimation technique. This method was chosen to address issues of heteroscedasticity and autocorrelation commonly associated with panel data. The analytical model was indeed adapted, with slight modifications, from the framework developed by Asilgwa (2017). The modified model is specified as follows:

$$NPLR_{it} = \beta_0 + \beta_1 CAR_{it.} +_{.} \beta_2 LTAR_{it} + \beta_3 LDR_{it} + \beta_4 logLR_{it} + e_{it} \ldots \quad (1)$$

Where;

$NPLR_{it}$ = Nonperforming loans ratio of bank i at time t, as dependent variable
CAR_{it} = Capital adequacy ratio of bank i at time t, as independent variable
$LTAR_{it}$ = Loan to assets ratio of bank i at time t, as independent variable
LDR_{it} = Loan to deposit ratio of bank i at time t, as independent variable
$Log\ LR_{it}$ = Lending rate of bank i at time t, as independent variable
It 2010-2023 = Annual time series of the pooled data
β_0 = Constant parameter
β_{1it}- β_{4it} = Coefficient Slope
e_{it} = Stochastic error time

Table 1: Measurement of Variables

Variables	Proxies/Notation	Description	Measurement	Source
		Dependent Variable		
Risk Asset Quality	Non-performing Loan Ratio (NPLR)	Classified loans in line with the CBN prudential guidelines.	Non-performing Loan divided by Total loans	Pham (2021),
		Independent Variables		
Control Activities	Capital Adequacy Ratio (CAR)	Liquidity of the financial institutions.	Capital divided by Risk Weighted Asset	Nasyirah and Putra (2025)
	Loan To Total Assets (LTAR)	Level of banks' liquidity and ability to meet the demand for credit.	Loan to Assets Ratio	Wuyep and Eze (2023)
	Loan To Deposit Ratio (LDR)	Amount of loans in relation to deposits mobilized.	Ratio of loans to deposit	Karadayi (2023**)**
		Control Variable		
External Factor	Lending Rate (LR)	Borrowing cost	Prime lending rate over time	Kihara & Mirie (2017)

Source: Authors' Compilation (2025).

4. Results and Discussion

This section presents the outcomes of the descriptive statistics alongside the post-estimation diagnostic tests employed for the study.

Descriptive Statistics

The descriptive analysis as shown in Table 2 reveals that on the average, the sampled financial institutions in Nigeria exert 10% as rate of non-performing loan within the period under review. Furthermore, Basel committee mutes the idea of capital adequacy regulation in 1988 and requires the financial institutions to have a minimum Capital Adequacy Ratio (CAR) of 10 percent. The results show that financial institutions in Nigeria maintain on the average, 25 percent capital adequacy ratio, an indication of financial soundness. Hence, liquidity might not be an issue while creating assets in Nigeria's financial institutions. However, this variable records value of standard deviation of 61 percent that is higher than the mean value. This implies that there is a wide dispersion among the data in the respective financial institutions.

The mean value of Loan to Assets ratio (LTAR) stands at 37 percent which portents liquidity of the financial institutions in Nigeria. Fahrul et al. (2018), Wuyep and Eze (2023) admonish that an increase in the ratio suggests that the existing fund has been used for credit allocation which implies low liquidity that poses serious danger to the financial institutions. LTA has a minimum of 0 percent (meaning that some banks are new and yet to start creation of assets), and a maximum of 89 percent within the period under review. In addition, Loan to Deposit Ratio (LDR) has been pegged at the minimum of 65 percent by the CBN effective September 2019. The mean value of LDR as shown in the descriptive statistics has approximately 54 percent which is outside the acceptable threshold. The smallest observation in the LDR was 0 percent, indicating that some banks have not started creating assets from their deposits as they are new in the market, and the highest was 1.69 percent. This was made possible because some of the financial institutions do not accept deposits and hence loans are not created from the deposits mobilized. According to Adenuga et al. (2021), higher LDR translates to increase in the lending activities of financial institutions. Rise in the ratio means less liquidity and the fall in the ratio means strong liquidity (Ofeimun et al., 2020).

Another important statistics to discuss in Table 2 is skewness and kurtosis. Skewness measures the asymmetry of the distribution of series around its means. The results indicate that the data are positively and negatively skewed, indicating non-normality in the data. Kurtosis as indicated in Table 2 implies a distribution with more extremes from the normal distribution and thus makes it heavily tailed.

Table 2: Descriptive Statistics Results

Variables	Mean	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
NPLR	0.10	0.16	0	1.07	3.01	12.65
CAR	25.11	61.59	-174	558.65	4.96	36.07
LTA	0.37	0.15	0	0.88	0.01	3.27
LDR	0.53	0.30	0	1.69	0.19	3.96
LR	14.07	4.49	0	17.59	-1.77	5.58

Source: Authors' Computation (2025).

Post Estimation Test

In a bid to validate the reliability and the robustness of the estimated model, post-estimation tests were conducted on the extracted data.

The Breusch-Pagan/Cook Weisberg results in Table 3 show a Chi-square value of 10.47 with a p-value of 0.0012. This is statistically significant at the 5% level, suggesting the presence of heteroscedasticity in the model. Hence, the result violates the assumption of constant error variance. In view of this, the use of Feasible Generalized Least Squares (FGLS) estimation is justified to correct and enhance the reliability of the parameter estimates.

Table 3: Heteroscedasticity Results

Chi2(1)	10.47
Prob.> Chi2	0.0012

Source: Authors' Computation (2025).

As depicted in Table 4, Breusch Godfrey LM (Lagrange Multiplier) autocorrelation test yielded an F-statistic of 17.83 with a corresponding p-value of 0.0002. Since the p-value is less than the 5% level of significance, it affirms the presence of autocorrelation in the model. Therefore, the adoption of the Feasible Generalized Least Squares (FGLS) estimation technique is suitable for this study as this will correct for this serial correlation and offer more efficient estimation.

Table 4: Autocorrelation Results

F-Statistics	prob> chi2
17.83	0.0002

Source: Authors' Computation (2025).

The estimation results of FGLS presented in Table 5 established that capital adequacy ratio was positive and not significant. The implication is that a unit increase in the capital adequacy ratio would translate to a unit increase in the non-performing loans of financial institutions in Nigeria. This result actually is counterintuitive in the sense that having enough capital is expected to transform into good asset quality. Nevertheless, the outcome suggests that capital adequacy alone might not guarantee quality of risk assets, especially in a context where regulatory oversight is loose, weak lending standards and ineffective risk management framework. However, Khairi et al. (2024) and Adamgbo et al. (2019) aligned with the present results. At variance with this outcome were the studies of Nasyirah and Putra (2025), Benneth et al. (2024) and Jessie (2019) that capital adequacy has negative effect on performance, profitability and ROA of financial institutions. All these outcomes suggested mixed effects. The buffer theory of capital assumes that with capital marginally above the regulatory requirement, it reduces the risk of penalty by the regulatory authorities.

In addition, loan to assets ratio has negative and insignificant effect on the asset quality of financial institutions in Nigeria. This result submitted that, lower LTAR is associated with lower NPLs, and the effect is not significant at 5 percent level. This presupposes that institutions with lower LTAR tend to have better asset quality (i.e., fewer NPLs). This outcome suggested effective control measures and prudent lending practices among Nigerian financial institutions. Resonating with this outcome was the study of Fahrul et al. (2018). Furthermore, Adato (2022) in Ethiopia and El-Kaseem (2017) from Qatar found that loan to total assets ratio has negative and significant effects on the quality of assets.

Conversely, Bayu and Andam (2019), in Indonesia, Abata (2014) in Nigeria found that LTAR has positive with no significant effect on the NPLs in their various environments. Also, a divergent result was expressed by Wuyep and Eze (2023) that LTAR has positive and significant effect on the risk assets quality of banks in Nigeria.

The results in Table 5 further demonstrated that loan to deposits ratio has positive and not significant effect on the quality of assets. The outcome suggested that a unit increase in the loan to deposit ratio increases non-performing loans. This outcome seems worrisome and could not be divorced from overzealous lending. Also, economic and sector vulnerability could account for the outcome. This finding is consistent with the studies of Karadayi (2023) in Türkiye, Amir et al. (2022) in Indonesia, as well as Folajimi and Dare (2020) in Nigeria. However, this result contrasts with the outcomes of Pham (2021) in Vietnam, Ayunku and Uzochukwu (2020) in Nigeria, and Akwa-Sekyi and Gene (2016) in Ghana, all of which reported negative effects on assets quality.

Lending rate as a control variable in this study has positive and significant effect on the risk assets quality. This means increase in lending rate increases the rate of default. This is in consonance with the submission of Victor and Eze (2013), Okoye and Richard (2013) and Yunusa et al. (2021) within the Nigerian context. The outcomes of these studies suggest that high lending rate hinders performance. However, Kipngetich (2011) argued to the contrary that interest rates do not have a significant effect on the profitability of commercial banks in Kenya.

Table 5: FGLS Regression Result

Variables	Coefficients	P-Value
CAR	0.0115	0.377
LTAR	-0.0374	0.417
LDR	0.0009	0.752
LR	0.7314	0.000
Wald chi2	235.66	
Prob.	0.0000	

Source: Authors' Computation (2025).

5. Conclusion and Recommendations

This study investigated the effect of control activities, measured by key financial ratios such as Capital Adequacy Ratio (CAR), Loan to Assets Ratio (LTAR), and Loan to Deposit Ratio (LDR) on the risk assets quality measured by NPLs in Nigerian financial institutions, using panel data covering 2010 to 2023. By employing the Feasible Generalized Least Squares (FGLS) technique, the findings revealed that both CAR and LDR have positive and insignificant influence on non-performing loans, suggesting that higher capital buffers and overzealous lending are associated with deterioration in asset quality. This outcome submits that although capital adequacy is typically considered a means of reducing risk, it could reflect risk-taking behavior that compromises asset quality. Conversely, the LTAR was found to have a negative but not statistically significant effect on non-performing loans, implying that while efficient deployment of deposits through lending could enhance asset quality, its effect may not be strong enough to stand alone as a regulatory tool.

In view of the findings, policy makers and financial institutions should exercise restraints in placing too much emphasis on CAR and LDR and instead strengthen internal credit risk control, due diligence

process and adherence to early warning signals. Furthermore, lending should be guided by a well-defined risk appetite and efficient recovery process.

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