EFFECT OF NON-PERFORMING LOANS (NPLS), CAPITAL ADEQUACY (CA) AND CORPORATE GOVERNANCE (CG) ON BANK STABILITY IN NIGERIA

Kparobo Gloria AROGHENE[1] & Joseph Jackson Emeka IKEORA.[2]

[1]M.Sc. Candidacy Chukwuemeka Odumegwu Ojukwu University, Igbariam Campus, Nigeria.

[2]Prof. Chukwuemeka Odumegwu Ojukwu University, Igbariam Campus, Anambra State, Nigeria

*Corresponding Author: Kparobo Gloria AROGHENE
Corresponding Author Email: kparoboaroghene@gmail.com

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ABSTRACT

The study examined the effect of Non-Performing Loans (NPLs), Capital Adequacy, Corporate Governance on Bank Stability in Nigeria from 2006-2021. Ten (10) commercial banks represent the sample size for this study. This study made use of secondary data obtained from annual reports and accounts of the Deposit Money Banks under study and NDIC annual report and accounts. The independent variables used are Non-performing loans ratio, capital adequacy ratio while corporate governance was further decomposed into Internal Control (INTC) and External Control (EXTC) and the dependent variable is bank stability measured by Z-score. Data were presented using descriptive statistics, multicollinearity test, validity test, panel unit root test, cointegration test, and correlation matrix. Multiple regression analysis was used to analyze the data with the aid of E-Views version 9.0. The result of this study revealed that Non-Performing Loans Ratio (NPLR), Capital Adequacy Ratio (CAR) and Internal Control (INTC) has a positive and insignificant effect on Z-Score of listed deposit money banks in Nigeria while External Control (EXTC) has a negative and significant effect on Z-Score of listed deposit money banks in Nigeria at 5% level of significance. The study conclude that

non-performing loans, capital adequacy and corporate governance has a positive insignificant effect on bank stability in Nigeria. This study recommends that regulatory and supervisory authorities should monitor banks closely to ensure that banks comply with the corporate governance codes so as to achieve bank stability.

Keywords: Non-Performing Loans, Capital Adequacy, Internal Control, External Control.

INTRODUCTION

It is impossible to understate the contribution financial institutions have made to economic development in recent years. By creating wealth and transferring it from deficit to surplus units through the extension of loans and advances, financial institutions, specifically banking institutions, perform the function of financial intermediation. However, the stability of the financial system plays a crucial role in boosting economic growth just as its collapse can have a disastrous effect on the economy (Bencharles & Nwankwo, 2021).

The use of good corporate governance (CG) practises is the foundation of effective credit risk management (CRM) (Surya, 2016). According to Sreeti (2017), CG is the process by which a company allocates its resources to maximise value for its shareholders. This claim builds on an earlier one made by Emile Wolf International (2010), who claimed that CG is concerned with managing a company's resources with the interest of its shareholders in mind. The management of bank credit under good CG ensures that shareholders' money is maximised and that banks are stable (Baker & Powell, 2009). This imply that problems with loan loss provisioning, liquidity, capital adequacy and non-performing loans need to be handled strictly with the CG code's outlined principles. The effectiveness of risk management is predicated by good corporate governance.

The effects of the financial crisis of 2008/2009 showed that, despite appearing to have strong finances on the outside, the so-called "big" banks were actually struggling financially because the majority of their outstanding loans were non-performing and increased bad debts with little to no provisions for loss (Eke, Akpanuko & Umofffong, 2019).Following the consolidation exercise, a number of regulations were introduced to prevent executive officers from engaging in financial misconduct and to guarantee banks stability (Bencharles & Nwankwo, 2021).

Given the ongoing crises and troubles plaguing the country's banking system, along with the ongoing upward review of bank capital, the relationship between capital regulation and stability of DMBs in Nigeria (commonly known as commercial banks) has become a hot topic among academics and practitioners. The capital adequacy ratio (CAR) of DMBs is taken into account as a scale of their risk level during operation. Applying the CAR in agreement with international standards will protect banks from financial shocks as well as customers and citizens who use banking services (Abou-El-Sood, 2016). Because they are mandatory for all international banks, capital adequacy ratios act as a safety valve for banks as well as their clients or shareholders to reduce anticipated risks faced by commercial banks, particularly for cross-border transactions. Weak internal control systems, excessive risk management, insider fraud and abuse, the absence of or willful disregard for the authority's set credit limits, and willful disregard for the prudent lending principles are all examples of poor corporate governance (Soludo 2004).

In Nigeria, banking distress was brought on by banks ineffective credit management practices. Sanusi (2012), cited in Yusuf and Umar (2021), opined that several board members distributed

loans without providing sufficient collateral. Cecilia Ibru, the former CEO and board director of the now-defunct Oceanic bank, was accused of giving her housekeeper loans totaling millions of naira in this case (Kafidipe, Uwalomwa, Dahunsi and Okeme, 2021). This highlights the requirement for a stringent CGC to prevent financial misconduct among bank executives. Given that the efficiency of credit management (CM) depends on how strictly a good CGC is followed, the relationship between CG and CM is not implausible (Sreeti, 2017). The profitability and banks stability have been significantly impacted by CRM. However, several researches have primarily examined the connection between profitability and CRM (Asiedu, 2019; Nwanna & Oguezue, 2017; Gadzo, Oduro & Asiedu, 2019; Ajao & Oseyomon, 2019). The literature seems to be lacking when it comes to the connection between CRM and bank stability. Concerns have been raised about the CBN's demand for a strong capital base to automatically stabilise the sector, and appears to have received little empirical attention outside of the studies by Yusuf and Umar (2021) and Nguyen (2021).Despite that bank stability is of the utmost importance to the regulatory authorities, evidence from published studies were on its financial performance (mostly profitability) of banks. According to recent events in the Nigerian banking industry, which were previously highlighted, empirical data on the impact of NPLs, CA, and CG (as proxied by internal and external control) on bank stability are few. This study aims to investigate the effect of non-performing loans, capital adequacy, and corporate governance on bank stability in Nigeria.

LITERATURE REVIEW

Bank Stability

Despite increasing profitability, the sector's financial stability may still be viewed as fragile. As a result, bank stability is the absence of a banking crisis. Banking stability is the absence of an unexpected disturbance in the delivery of credit, payment systems, and banking services. According to Hodachnik (2009), "it is managed by adequate capitalization, which is distinguished by a security level of risk asset and serves as a guarantee of bank reliability and liquidity. The Zscore coefficient, comprises of financial ratios and are calculated using information from banks' annual bulletins to assess bank stability. A high Z-score means high bank stability, while a low Z-score indicates a likelihood of bankruptcy.

Non-Performing Loans (NPLs)

This concept differs from one country to another. A loan maybe considered non-performing in one country and might not be considered as such in another country. However, opinions in some cases do match. Banks consider unpaid principal and/or interest remaining outstanding for more than 90 days but less than 180 days as substandard facilities as defined by 15.1(e) subsection 1 of the 2010 prudential guidelines for deposit money banks as objective criteria. To show the true accounting principles of their loan facilities, banks must classify their loan portfolios according to the criteria listed in paragraph 15.1(e), according to the 2010 prudential guidelines' paragraph (f). The Central Bank of Nigeria thus reserves the right to object to the classification of any credit facility and to prescribe the classification it deems appropriate for such credit facility which is something licenced banks should be aware of.

Capital Adequacy

In actuality, banks obtain funding for their operations from three main sources (i.e., retained earnings, debt and equity capital). The regulatory body for the sector developed CAR as a metric to assess the stability of the banking system and make sure that banks can absorb a

reasonable amount of operational losses. According to Dang (2011), the capital adequacy ratio is the basis for determining whether or not capital is adequate. When a bank fails, it could undermine public confidence in the financial system, which could affect other banks' finances and jeopardise the efficient operation of the financial markets (Gabriel, Ogere & Abba, 2013).

Corporate Governance (CG)

The process or structure used for managing a company's affairs to increase corporate accountability and business prosperity and ultimately accomplish the organization's stated goals is termed as CG (Mohamed, Ahmad, & Khai, 2016). It is defined as "the mechanisms by which corporations are controlled and directed" (Yadav, Jain, & Singh, 2017). According to Gayle, Tewarie, and White (2013) these frictions are all about the interests of the governed parties, who have a strong interest in the organization's decision-making. Both internal and external CG mechanisms are used in bank corporate governance. Its external mechanisms include, but are not limited to, the audit committee and governmental regulations. Its internal mechanisms include board composition, gender diversity, board size, and the Chief Executive Officer (CEO) duality (Zabri, Ahmad & Wah 2016; Salma & Cesario, 2016).

THEORETICAL REVIEW

Shareholders' Theory

According to the Shareholders' theory, managers are ultimately obligated to maximise shareholders' interests in a manner that is consistent with social norms or the law. The company's market value, or its shareholder value, is the standard at which performance is evaluated (Olaoye and Adeyemi, 2021). According to Basman (2017), all corporate entity should aim to maximise shareholder wealth. The theory's implications for this paper are that CG should give the shareholders' interests top priority.

Agency theory

Among the various theories, agency theory is regarded as the predominant theory of corporate governance. In its most basic form, agency theory sees shareholders as the principal and managers as the agents in a principal-agent relationship (Daily, Dalton, & Canella, 2003). Although shareholders expect managers to act in their best interests, they might not choose to do so. Moreover, there is information asymmetry within the organisation, which causes an agency issue. They propose that prescriptive contracts that reduce information asymmetry between the agent (managers) and the principal (shareholders) in the firm can solve this problem. This idea is backed up by other academics like Ssekiziyivu et al (2018).

Shiftability Theory

In 1915, Harold G. Moulton created the Shiftability theory (El-Chaarani, 2019). According to the theory, banks should allocate portion of their investment funds to securities and credit instruments with secondary markets so they can be converted into cash as and when necessary to deal with declining liquidity. According to this theory, banks hold short-term market investments that can be quickly sold off or liquidated when liquidity is needed. In the event that a liquidity crisis occurs in the industry, they also anticipated holding assets which are transferred to the apex bank.

Buffer Theory of Capital Adequacy

Banking operations are risky because failure would mean the end of capital-vulnerable banks. Capital requirements are the main tool for banking supervision in Nigeria (Oyetayo et al., 2019). Although the CBN regularly conducts on-the-spot financial assessments and

occasionally assigns independent auditors to conduct on-site examinations, it interferes with banks' day-to-day operations less frequently (Salami & Uthman, 2018). The most crucial consideration is bank capital adequacy, so any violations of this rule are considered serious violations of banking law and are subject to harsh punishment from the CBN (Michael, et al., 2018).

Empirical Review

The impact of capital regulation on the stability of Nigeria's DMB was evaluated by Yusuf and Umar in 2021. Using financial statistics from five commercial banks' financial statements (from 2004 to 2018) the variables, along with the data, were statistically examined using panel regression and descriptive statistics. E-Views 9.1 software was used for all analyses. The analysis came to the conclusion that capitalization enhances bank stability in Nigeria.

Amahulu et al. (2017) ascertained the effect of CA on Financial Performance with a focus on selected quoted DMBs in Nigeria from 2010-2015 and Fourteen (14) commercial banks represent the sample size for this study. Secondary data from fact books, annual reports, and the accounts of the DMBs under study were used in this study. According to the study's findings, capital adequacy and financial performance are positively and significantly correlated. Additionally, empirical evidence showed that, at 5% significance level, CA has a statistically significant impact on the financial performance of DMBs.

Peter et al. (2018) examined the information asymmetry theory and the poor managerial hypothesis to evaluate how NPLs affect banks' profitability. Using panel data from 16 commercial banks in Tanzania between 2007 and 2015. Multiple regression analysis and descriptive statistics were used in the study as estimation techniques. The study observed a negative correlation between the prevalence of NPLs and Tanzania's commercial banks' profitability level.

Kafidipe, Uwalomwa, Dahunsi and Okeme (2021) examined corporate governance, risk control in deposit money banks and how operational problems within commercial banks and information on them in Nigeria have been hoarded to a great extent, in the period 2010–2019. Results showed a negative but significant influence on the bank financial performance.

Daoud and Kammoun (2020) analyzed factors influencing 81 Islamic banks financial stability across 22 countries within 2010–2014. The regression result showed CAR had a positive influence and is a crucial indicator that contributes to the Islamic banks financial stability.

In the years 2007 to 2016, Kamran et al. (2019) investigated the favourable factors affecting the financial stability of 28 commercial banks in Pakistan. From the regressed analysis, high financial stability of commercial banks increases when CAR is at a moderate level. The financial stability of commercial banks will suffer if the CAR is too high.

Olalekan et al. (2018) examined the board size, risk management, and financial performance of listed DMBs in Nigeria between 2011 and 2016. There are fifteen (15) registered banks, but only fourteen (14) were included in the study due to data accessibility and availability. Data were analysed using various panel regression techniques. The analysis shows that the ROE and EPS of Nigerian banks are only minimally impacted by the risk of liquidity.

Adegbie, Akintoye and Ashaolu (2019) examined the effect of corporate governance on the financial stability of deposit money banks in Nigeria. Ex-post facto research design was adopted for the study. Twenty-one (21) listed deposit banks on the Nigerian stock exchange as at September 2016 constituted the population of the study from which 10 banks were selected

as sample. Data were collected from the annual reports for the period of ten years (2007-2016). Descriptive Statistics test were carried out, Hausman test and cross-section random effect test were analyzed. The study concluded that corporate governance has a significant effect on financial stability. The study recommended that to increase financial stability, management should focus on ensuring that there is effective corporate governance in the organization.

Wang et al. (2012) evaluated the relationship of CG with performance of firms in banking sector. Measures of governance include board sizes, average director ages, outside directors, chairman duality, number of committees, and auditors while measures of the firm's performance include capital adequacy, asset quality, management, earnings, and liquidity. The study employed truncated regression and the data envelopment technique. Several numbers of committee members and auditors showed a positive relationship with firm performance, board size, outside directors, average director age, and chairman duality showed a negative relationship with firm performance.

Kabir, et al. (2016) examined based on the monthly data of Turkish banks from 2006 to 2014, changes in the capital adequacy ratio (CAR) of banks under various risk scenarios using the stress test method for a sample of 106 observations. The study's findings show that banks' capital adequacy ratios fall below the prudential threshold when they are under pressure from shocks that result in financial instability. This affirms the notion that a bank's stability will increase with a higher capital adequacy ratio.

Halit et al. (2019) analysed the impact of adequate capital on Kosovo's banking sector's ability to reclaim assets. The study offered empirical proof of the link between capital adequacy and return on commercial bank assets in Kosovo between 2008 and 2017. The study's results showed that CA significantly and favourably affects asset returns.

RESEARCH METHODOLOGY

The ex post facto research design was used. This type of research design helps to provide answers to the questions of who, what, when, where and how associated with a particular research problem. Secondary sources of data were used. A sample of 10 banks was chosen, out of the population of twenty four (24) commercial banks which currently serves as the sample size. Data were presented using descriptive statistics, multicollinearity test, validity test, panel unit root test, cointegration test and correlation matrix. Multiple regression analysis (OLS) was used to analyse the data with the aid of E-VIEW version 9.0.

Variables Measurement

The independent variables used are Non-performing loans ratio, capital adequacy ratio while corporate governance was further decomposed into Internal Control (INTC) and External Control (EXTC) and the dependent variable is bank stability measured by Z-score. These variables, their measurements and expected signs are explained below:

Table 1

Measurement and Predicted Signs

Variables	Acronyms	Measure	Type of Variable	Expected Sign
Bank Stability	**BST**	Z score measures banking system stability and it is computed with three important soundness indicators: Equity/Assets ratio (R/E), the return on assets (ROA) and the standard deviation of return on	Dependent Variable	

		assets (ROA) - a proxy for return volatility.		
Non-Performing Loans Ratio	NPLR	Non- Performing Loans/Total Loans	Independent Variable	**+/-**
Capital Adequacy Ratio	CAR	(Tier-I + Tier-II)/Risk Weighted Assets.	Independent Variable	**+/-**
Internal Control	INTC	Internal Control is measured as percentage of Non- Executive director on board	Independent Variable	**+/-**
External Control	EXTC	External control has to do with independent auditors to total number of Audit committee	Independent Variable	**+/-**

Source: Researcher's Compilation (2022)

Model Specification

Adegbie, Akintoye, and Ashaolu (2019) study was employed to develop the regression model. The model is defined as follows: BST = f (NPLR, CAR, INTC, EXTC)

BST= β_0+ β_1NPLR + β_2CAR +β_3INTC + β_4EXTC + ε

Where:

BST= Bank Stability

NPLR = Non Performing Loans Ratio

CAR = Capital Adequacy Ratio

INTC = Internal Control

EXTC = External Control

ε = Error Term

β_0 = Intercept

β_1–β_4 = Coefficient of the Independent Variables.

The a priori expectation is β_1, β_2, β_3, β_4, is lesser or greater than 0.

DATA PRESENTATION AND EMPIRICAL ANALYSIS

Descriptive Statistics

The descriptive statistics are summarized on Table 2 below:

Table 2

Descriptive Statistics

	Z_SCORE	NPLR	CAR	INTC	EXTC
Mean	1.414585	0.172629	0.317329	0.524445	0.500833
Median	1.414542	0.054844	0.202418	0.500000	0.500000
Maximum	1.416730	7.207826	4.935155	0.857143	0.750000
Minimum	1.413471	4.290005	-0.636247	0.100000	0.333333
Std. Dev.	0.000316	0.407232	0.604143	0.161459	0.032954
Skewness	3.294173	6.713387	5.422817	0.204914	4.264402
Kurtosis	22.20791	62.39734	36.37078	3.030909	46.70462
Jarque-Bera	2749.001	24722.15	8156.942	1.119062	13218.89
Probability	0.000000	0.000000	0.000000	0.001477	0.000000

Source: E-VIEW 9.0 Output, 2022.

Table 2 showed Z-Score had a mean of 1.4146 for the ten (10) deposit money banks, with a maximum and minimum of 1.4146 and 1.4167 respectively while the standard is 0.0003. This shows that Z-Score volatility is about 0.03%. NPLR have a minimum value of 4.2900, maximum value of 7.2078, an average value of 0.1726 and standard value of 0.4072, volatility is about 40.72%. CAR have a minimum value of -0.6362, maximum value of 4.9352, an average value of 0.3173 and standard deviation value of 0.6041, volatility is about 60.41%. INTC have a minimum value of 0.1000, maximum value of 0.8571, an average value of 0.5244 and standard deviation value of 0.1615, INTC volatility is about 16.15%. EXTC has a mean value of 0.5008 while the standard deviation is 0.0330; it implies that EXTC volatility is about 3.3%. The standard deviation shows that CAR is the most volatile variable and follows by NPLR. Lastly, the Jarque-Bera statistics reveals that the variables Z-Score, NPLR, CAR and EXTC are not normally distributed at 5% significant level only INTC is and it can be attributed to the large range of data.

Multicollinearity Test

This is presented in table 3 below:

Table 3

Multicollinearity Test- Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.51E-07	253.8266	NA
NPLR	3.71E-09	1.208114	1.028705
CAR	1.78E-09	1.391017	1.077641
INTC	2.48E-08	12.58900	1.089176
EXTC	5.49E-07	232.9531	1.010471

Source: E-VIEW 9.0 Output, 2022.

From table 3, the Centered Variance Inflation Factor (CVIF) statistics for all the independent variables consistently lies between 1.0287, 1.0776, 1.0892 and 1.0105 for Non-Performing Loans Ratio (NPLR), Capital Adequacy Ratio (CAR), Internal Control (INTC) and External Control (EXTC) respectively. This indicates the absence of multicollinearity problems among the variables under investigation because the cut off value of VIF is 10. Values of VIF that exceed 10 are often regarded as indicating multicollinearity.

Heteroskedasticity Test

This is presented in Table 4 below:

Table 4

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.179380	Prob. F(4,153)	0.0739
Obs*R-squared	8.517124	Prob. Chi-Square(4)	0.0744
Scaled explained SS	74.42457	Prob. Chi-Square(4)	0.0812

Source: E-VIEW 9.0 Output, 2022.

To ensure homoscedasticity, the heteroskedasticity test via the Breusch-Pagan-Godfrey was performed. With the result there is no problem of heteroskedasticity as the p-values of the f-statistics are insignificant at 5% significance level.

Table 5

Panel Unit Root Test Result

Group unit root test: Summary
Series: Z_SCORE, NPLR, CAR, INTC, EXTC
Date: 06/27/22   Time: 05:39

Sample: 1 162				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0 to 2				
Newey-West automatic bandwidth selection and Bartlett kernel				
Method	Statistic	Prob.**	Sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-39.1955	0.0000	4	622
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-35.8358	0.0000	4	622
ADF - Fisher Chi-square	333.161	0.0000	4	622
PP - Fisher Chi-square	156.920	0.0000	4	626

** Probabilities for Fisher tests are computed using an asymptotic Chi
-square distribution. All other tests assume asymptotic normality.

Source: E-Views 9.0 Output (2022).

It was observed from Table 5 that all probability values of Levin, Lin & Chu Test, Im Pesaran and Shin W-Test, Augmented Dicker-Fuller's Test and PP Fisher Test for the variables of the ten (10) DMBs in the NSE are < 0.05 significant level. Therefore, we hereby reject the null hypothesis which states that the data is not stationary and the data series are normally distributed and suitable for multiple regression.

Correlation Matrix

Table 6

Correlation Matrix

	Z_SCORE	NPLR	CAR	INTC	EXTC
Z_SCORE	1.000000				
NPLR	0.119036	1.000000			
CAR	0.061027	0.130889	1.000000		
INTC	0.061609	0.133016	0.249329	1.000000	
EXTC	-0.243002	-0.006743	-0.011853	-0.100728	1.000000

Source: E-VIEW, 9.0 Outputs, 2022.

The correlation matrix shows that NPLR, CAR and Internal Control (INTC) have positive correlation with Z-Score while External Control (EXTC) has negative correlation with Z-Score. Finally, the correlation matrix Table 6 shows the absence of multi-co linearity among the variables since the correlation values are < 0.7 (Agbogun, Ehiedu, Bayem, & Onuorah, 2022).

Table 7

Regression Result

Dependent Variable: Z_SCORE				
Method: Least Squares				
Date: 06/27/22 Time: 03:25				
Sample (adjusted): 1 160				
Included observations: 160				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.415696	0.000388	3648.701	0.0000
NPLR	8.530005	6.090005	1.400656	0.1635
CAR	2.120005	4.220005	0.502370	0.6158
INTC	2.440005	0.000157	15541.43	0.8771
EXTC	-0.002279	0.000741	-3.075574	0.0025
R-squared	0.274841	Mean dependent var		1.414589
F-statistic	3.094252	Durbin-Watson stat		1.591351
Prob(F-statistic)	0.017509			

Source: E-VIEW, 9.0 Outputs, 2022.

From the multiple regression results in Table 7, the coefficient of NPLR is 8.5300 with a t-value of 1.4007 and an associated p-value (Sig. value) of 0.1635. This suggests that NPLR has a positive insignificant effect on Z-Score of listed DMBs in Nigeria at (5%) significant level. This is supported by anticipated income theory, which posited that banks should make loans based on the anticipated income of the borrower and not his present value. This is in line with the findings of Bencharles and Nwankwo (2021) and Fazli, Muhammad and Saima (2020) but contradicts the findings of Yusuf and Umar (2021).

Also, from the multiple regression results in Table 7, the coefficient of CAR suggests that CAR has a positive insignificant effect on Z-Score of listed DMBs in Nigeria at (5%) significant level.This finding contradicts the buffer theory of capital adequacy, which argues that regulating banks' capital provide a 'buffer' of excess capital to prevent the situation where financial intermediation function will be crippled due to risks. This agreed with Kamran et al. (2019) report but contrary to the findings of Agu and Nwankwo (2019), Sunday and Felicia (2020) and Daoud and Kammoun (2020).

Furthermore, in the multiple regression results in Table 7 bove, the coefficient of Internal reveals that Internal Control (INTC) has positive insignificant effect on Z-Score of listed DMBs in Nigeria. The shareholder theory is supported by this findings, it implies that corporate governance should take the shareholder's interest into utmost consideration. This is consistence with Kafidipe, Uwalomwa, Dahunsi and Okeme (2021) report but contrary to Olaoye and Adeyemi (2021) observation.

Finally, in the multiple regression results in the table 7, the coefficient of Internal Control (INTC) suggests that External Control (EXTC) has a negative significant effect on Z-Score of listed DMBs in Nigeria. Thus, 1% increase in External Control (EXTC) will leads to 0.23% decrease in Z-Score of listed DMBs in Nigeria. This is in line with the findings of Kafidipe, Uwalomwa, Dahunsi and Okeme (2021) but contradicts the findings ofAdegbie, Akintoye and Ashaolu (2019).

CONCLUSION AND RECOMMENDATIONS

The findings showed that NPLR, CAR and Internal Control (INTC) has positive insignificant effect on Z-Score of listed DMBs in Nigeria while External Control (EXTC)has negative significant effect on Z-Score of listed deposit money banks in Nigeria. The study therefore concludes that NPLs, capital adequacy, and corporate governance have positive insignificant impact on bank stability in Nigeria.

Base on the conclusion, this study recommends that Bank managements should maintain their liquidity levels above the regulatory threshold in order to give themselves a safety margin if losses due to credit defaults occur. Also Since internal control has a positive impact on the sector stability, regulatory and supervisory authorities should closely monitor banks to ensure they abide by the corporate governance codes.

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