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# Assets Investment and Financial Performance of Deposit Money Banks in Nigeria (2016-2021)

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***Abstract:*** ***The study uses a descriptive research approach to survey the association between asset investment and the financial health of BMBs in Nigeria. The study used time series and a secondary approach to estimate how asset investments affected deposit money institutions' financial health in Nigeria. Only six of the twenty-two (22) listed DMBs in Nigeria-United Bank for Africa (UBA), Access Bank, Unity Bank, Fidelity Bank, Eco Bank, and Zenith Bank-made up the study's population. The study was conducted from 2016 to 2021, giving us a thirty-six (36) year period of annual observation of the six DMBs that were chosen. Purposive sampling was utilized to determine the sample size. The study used secondary sources of information. The data analytic method used to ascertain the association between the independent, dependent, and moderating factors was linear regression. The study found a substantial correlation between cash equivalents, intangible assets and DMBs' return on assets in Nigeria. The same is true for property, plant, and equipment and ROA of DMBs in Nigeria. The link between asset investment and financial health of DMBs (DMBs) in Nigeria is significantly moderated by company size, which is the last factor to be discussed. Thus, the study came to the conclusion that there is a substantial correlation between asset investment and BMB financial health in Nigeria. The researchers therefore recommended that the Nigerian Central Bank ensure adequate monitoring and evaluation of banks with respect to the stipulated maximum amount a bank can invest in intangible assets, property, plant, and equipment.***

***Keywords: Assets Investment, Financial Health, Intangible Assets, ROA.***

## 1. INTRODUCTION

In today's highly competitive and ever-changing business environment, banks actively seek to acquire strategic assets that can serve as the basis for building and sustaining a company's

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competitive edge. There is a wide variety of forms that a bank's strategic assets might take. Since intangible assets, tangible assets, cash, and cash equivalents may all provide a bank with significant and irreplaceable competitive advantages, they may also be considered some of the fundamental strategic assets (Nangih et al., 2020). The three traditional asset types are equities (stocks), fixed income (bonds), and cash equivalents or money market products. The majority of financial experts now consider cryptocurrency to be an asset class alongside real estate, commodities, futures, and other financial derivatives. It is the goal of investors to raise their income through the purchase and subsequent sale of various assets, both tangible and intangible.The quality of a bank's assets is a key determinant in its profitability. The bank's assets include, among other things, the value of its loan portfolio, buildings, and cash in hand. Traditional financial institutions have operated with the help of substantial investments in physical infrastructure, such as buildings and machines. Vehicles, buildings, furniture, note counting machines, communication equipment, and information technology equipment are just some of the many examples of fixed assets that are heavily utilized in the banking sector. Maintenance costs are considerable because of the frequent use and subsequent wear and tear. Factors such as personnel inefficiency in the use of equipment, unanticipated machine breakdowns, modest (uncapitalized) replacements, and maintenance contract fees all contribute to a high cost of repair and maintenance. Choosing the right machine is a critical issue when operational efficiency is a priority. This research was done because nobody knew how much these operational elements affected banks' profits.

The fixed assets section of a company's balance sheet should include all PP&E assets. Analysts and potential investors frequently look at a company's PP&E to see if and how it is investing in capital assets that could have a positive impact on profits. In the event of a financial crunch, it is imperative that businesses have an accurate accounting of their PP&E. Most fixed assets depreciate over time and are inconvenient to convert into cash, but real estate can appreciate in value and provide a substantial boost to a company's bottom line. Investing in fixed assets can be a good long-term decision for a growing business.

The ability to generate profits is crucial to the success of any financial institution and increases its attractiveness to both domestic and foreign investors. Every single deposit money bank in the world was founded with the express purpose of doing better financially. It's vital because insolvent deposit money institutions may have to liquidate. The asset of a deposit money bank is the most reliable indication of financial health. Deposit money institutions, especially in Nigeria, rely heavily on asset acquisition (Kagan, 2020). Non-physical asset management is the process by which a corporation oversees its current assets. Any asset that can be quickly and easily changed into cash is considered a current asset. The adoption of international financial reporting standards requires DMBs to divide their assets into two broad categories: current assets (such as cash and bank balances, trading financial assets, derivative assets, loans and advances to banks, and loans and advances to customers), and non-current assets (such as land, buildings, freehold properties, vehicles, and equipment).

All firms utilize financial health measurements as part of performance management, despite the fact that there is debate over the relative importance of financial and non-financial indicators. Those who advocate for the use of financial health measures point to the company's overarching objectives as the reason for doing so (Kaplan Financial, 2015). Examples of useful metrics are net income, operating margin, cash flow from operations, return on total assets,

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return on equity, and earnings per share. There is a correlation between the degree of an organization and its fiscal success. The fundamental objective of this research is to assess the economic health of the selected DMBs. Traditional financial health metrics are broken down into four categories: profitability, liquidity/working capital, gearing, and investor ratios. DMBs' (DMBs') financial health and the national economy as a whole depend critically on their ability to make sound investments in assets.

### 1.2 Statement of the Problem

Nigerian DMBs take a major hit when the dollar depreciates, which might have repercussions for the value of any investments held by the bank that have fixed or determinable payments made to them until maturity. The ability to create revenue that places the company in a position to benefit from economic growth and prosperity is a key sign of a bank's health. Therefore, a bank with high net assets and low profit might be seen as a sign of non-liquidity, which is bad for the bank's bottom line. However, many Nigerian DMBs today are losing significant amounts of money because of the issue of non-performing loans on their books. Losses due to loan defaults by borrowers are a real risk in the banking industry and the financial sector as a whole. This has an obviously adverse effect on how well the bank does. The risk of a borrower going into partial or complete default on an outstanding loan is known as non-performing loans (Sathyamoorthi & Dzimiri, 2020). Only the amount an asset was originally recognized for can be used to determine its fair value through profit or loss by designation (Jan-Horas & Denny 2019, Nangih et al 2020). The reason for the fluctuation is the bad economy. This research aims to fill the knowledge gap by analyzing the connection between DMBs' (DMB) investment in assets and their financial health in Nigeria over the period of 2016-2021. The goals of the research were to;

(i) Investigate the connection between DMBs in Nigeria's return on assets and their cash equivalents.
(ii) How DMBs in Nigeria evaluate intangible assets and their impact on return on assets.
(iii) The connection between DMBs in Nigeria's property and equipment and their return on assets.
(iv) Evaluate how the size of a company influences the correlation between spending on assets and profits at Nigeria's deposit money institutions.

### 1.4 Research Hypotheses

$H_{01}$. Cash equivalents and the return on assets of Nigerian DMBs have no correlation
$H_{02}$. In Nigeria, DMBs' intangible assets do not correlate with their return on assets
$H_{03}$. DMBs in Nigeria do not perceive a correlation between property/equipment and return on assets.
$H_{04}$. DMBs (DMBs) in Nigeria do not have positive link with financial health.

## 2. LITERATURE REVIEW

### 2.1 Assets Investment (Predictor)

Investment of assets is the use of both liquid and non-liquid funds with the expectation of future growth (Imo, 2021). Uncertainty "domains" are the subject of this study. Time and the future,

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both crucial factors in investment, are highlighted by this definition. Therefore, it is important to have access to data that can generate an understanding of the degree of certainty around the future of investment. From a purely economic vantage point, saving is defined as all income not spent on consumption, regardless of whether or not that income is invested for a higher return. In economics, consumption refers to the sum spent by an individual over a given time period on products and services purchased to meet his wants and requirements.

### 2.1.1 Cash and Cash Equivalents

On a statement of financial condition, the value of a company's cash and cash equivalents is recorded under the heading "cash and cash alternatives." Cash equivalents include savings accounts at banks and short-term debt products like convertible bonds (Onyeka et al., 2018). Charles and Fortune (2019), state that cash and equivalents are an asset kind for a business. For the sake of convenience, the total value of cash on hand includes products that are equal to cash. The first line of any annual report of financial status will always show the total amount of cash and cash equivalents the company has on hand.

### 2.1.2 Intangible Assets

Investments in intangible assets are rising everywhere. According to Goodridge et al. (2017), in certain circumstances, this investment is on par with or even exceeds that made in more conventional tangible assets like machinery, equipment, and buildings. The capital expenditures a company makes on marketing, innovation, personnel training, and job skills are reflected in its intangible investments. Spending on market development, research and development, and human capital in the form of education and training are all examples of intangible investments (Chen & Waters, 2017). Investment in R&D is favorably correlated with financial health (Owuor et al., 2021 & Wang et al, 2017). Economic capabilities can be seen as investments that are essential to the development of new products. They cover things like branding and personnel training.

### 2.1.3 Property and Equipment

Fix assets, which are long-term physical assets, also include property, plant, and equipment assets. Fixed assets are quite common in sectors that are regarded as being capital demanding, such as the steel, auto, and oil industries (Goodridge et al, 2017). The actual or tangible long-term assets of a business are known as property, plant, and equipment (PP&E), and they normally have a lifespan of more than a year. To ascertain the kind of capital expenditures a firm is making and how it generates funds for its projects, potential investors and analysts examine a company's PP&E. The subject of how to buy fixed assets is raised by Nangih et al (2020), who believe that acquiring fixed assets may be one of the company's goals for the fiscal year. Depending on the type of asset, different purchase and investment strategies are used.

### 2.1.4 Financial Health (Criterion)

Scholars in the various fields of business and strategic management have paid substantial attention to the topic of financial health. Since financial health has an impact on an organization's health and, ultimately, its survival, the term is employed as a generic metric and

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has also been the main focus of business practitioners in all types of businesses. High performance demonstrates excellent management and efficient resource utilization, which benefits the overall economy of the nation (Owuor et al., 2021).

### 2.1.5 Return on Assets

The amount of profitability is determined by return on assets. This ratio gauges the overall asset return after taxes and interest. The performance of management in employing firm assets to generate profits is shown by the return on total assets or total investment (Jan-Horas & Denny, 2019, Zulqernain et al. 2014, Gartenberg et al. 2019).

### 2.1.6 The Moderating Effect of Firm Size on the Relationship Between Assets Investment and Financial Health of Dmbs (Dmbs) in Nigeria.

The size of a bank may have a variety of effects on its investment in assets and financial success. A larger corporation might have an impact on its creditors, stakeholders, present and potential investors, and even customers. That is demonstrated by the conglomerates' and multinational corporations' impressive financial results in the world economy. As a result, many researchers believe that the size of the bank influences its financial health. There are, however, a variety of outcomes from the relationship between bank size and its financial health. Erasmus (2013), discovered a correlation between firm size as well as financial health that was favorable. In addition to being able to gain trust, a large bank's size suggests that it may be competent or optimal in using assets to boost profitability, which may have an effect on improving the company's financial health. In contrast, a smaller company's size may suggest that the company has not been successful in making the best use of its resources to produce profitability for the company (Brante, 2019).

### 1.2.1 Agency Theory

According to Jensen and Meckling (1976), a firm can be viewed as the intersection of a number of contracting relationships between individuals, whereby shareholders (the principal) assign daily decision-making authority over the company to managers (the agent), who should use their specialized knowledge and the resources of the company to maximize the principal agent's return. However, managers' interests and choices are not always in line with those of the shareholders, which might lead to extra costs or issues. Our idea is pertinent to the study since it states that managers who are charged with making sure shareholders' money is wisely used to produce the desired returns control assets. Therefore, shareholders must encourage management to make good use of internal cash. It has been proposed that managers are more likely to make decisions that will increase the profitability and long-term viability of the company when a significant portion of their human capital is invested in the organization. These investment choices would require more money than working capital. The theory has been criticized as being biased because it solely focused on where funds could be obtained to ensure proper asset management and increased the company's profit level.

### 2.3 Empirical Review

According to Victory et al. (2022), an empirical review looks at the findings, conclusions, and suggestions of renowned academics who have conducted the same or related research project.

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Researchers in this study noted a few earlier studies that are comparable to this study. The impact of existing asset structure on the financial health of manufacturing enterprises in Kenya's building and construction industry was examined by Muli et al. in 2022, using a causal investigative survey with a sample size of 44 businesses in Kenya's building and construction industry. According to the research, current asset structure (CAS), as indicated by the current asset to total assets ratio, has a detrimental impact on financial health as indicated by return on equity and net profit margin. The study came to the conclusion that an effective technique for balancing the risk-return trade-off is optimal asset structure. Nangih and Emeka (2021), evaluated how the asset mix affected the financial health of a few Nigerian consumer products companies, using an ex post facto research design. The study's conclusions showed that 13.7% of the variability in return on asset were explained by the independent variables used in the study. In particular, ROA at the 5% level of importance has a favorable and considerable impact on both current and intangible assets. Although beneficial, noncurrent assets have a negligible impact on ROA. The impact of current assets on the stock performance of Nigerian oil and gas businesses that are publicly traded was examined by Nangih et al. in 2020, using an ex-post facto research design sourced via Nigerian Exchange Group's five (5) listed oil and gas companies. The results showed that cash had no effect on the share price of the listed company, but receivables and inventories did. The study recommended that management of those companies review its credit procedures to ensure that the level of receivables is decreased.YoungJun (2020), investigated investment in intangible assets and firm performance using hierarchical regression approach. The findings show that all three intangible assets have a beneficial impact on a company's profitability and value. The study's findings show that investing in intangible assets is not a waste of money for SMEs since it allows managers to strategically use three important resources-human capital, advertising, and R&D-while also achieving their managerial objectives.Marian and Ikpor (2017), investigated how fixed asset investments affected the financial success of a few Nigerian banks, using secondary data gathered from the annual reports and accounts of Deposit Money Bank of eight chosen institutions. The study's findings showed a detrimental and statistically significant association between further fixed asset acquisition and banks' return on assets (ROA). Imo (2021), established a link between financial resources and DMBs' operations in Nigeria. Secondary data used were taken from the United Bank for Africa Plc Annual Report - 31 December 2018. The results demonstrated a substantial and positive association between cash equivalents and deposit money bank return on investment. It is advised that banks make cash and cash-handling equipment available since they are the foundation of long-term bank viability. Major et al. (2022) looked into the financial health of Nigerian listed industrial goods manufacturing companies. An ex-post facto research design was used for the investigation. In Nigeria, the empirical results showed that between 2011 and 2020, inventories had a significant and favorable association with ROA, trade receivables had a favorable but insignificant connection with ROA, and cash and cash equivalents had a positive and significant connection with ROA of listed industrial goods firms.

### 2.3.1 Gap in the Literature

Many authors have looked into how asset management and financial health are related. To the best of our knowledge, no study has taken into account asset investment and the financial health

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of the banking sector in Nigeria (2016–2021). As a result of the study's scope, research design, demographic, time period, sample size and sampling methods, sources of data collection, and method of data analysis, eminent academics also found that the results were mixed. These gaps in the literature made it possible for the current study to advance our understanding of the connection between investment and the financial success of BMBs in Nigeria.

## 3. METHODOLOGY

Using a descriptive research design, the study examines the connection between asset investments and the financial success of BMBs in Nigeria. In order to estimate the impact of asset investments on the financial health of DMBs in Nigeria, the study used time series and a secondary process. Out of the twenty-two (22) named DMBs in Nigeria that made up the study's population, only six DMBs banks in Nigeria (United Bank for Africa (UBA), Access Bank, Unity Bank, Fidelity Bank, Eco Bank, and Zenith Bank) were included in the study region. The study's time frame, from 2016 to 2021, allows us a thirty-six (36) year period of annual observation of the six (6) DMBs we chose, which was also used to determine the appropriate sample size when using the purposive sampling technique. The study used secondary data sources. Through the Nigerian Exchange Group Bulletin, the data for the study were taken from the BMBs' Annual Report. In order to analyze the data and identify the relationship between the independent, dependent, and moderating variables, linear regression was used. The model's functional representation is as follows:

Model 1: ROA = F (CCE, IA, PPE)..... (1)
Statistically given as
ROA = a0 + a1CCE + a2IAt + a3PPEt + Ut..... (2)
Model 2: BS = F (AI, FP)..... (3)
Statistically given as
BS = a0 + a1AI + a2FPt + Ut..... (4)
Where;
ROA = Return on assets
CCE = Cash and cash equivalents
IA = Intangible assets
PPE = Plant, property and equipment
BS = Bank size
AI = Assets investment
FP = Financial health
a0= Constant or intercept;
a1– a2= coefficient of the independent variables or slope; A priori expectations.

## 4. RESULTS AND DISCUSSION

Table 4.1 Descriptive statistics on the items of assets investment and financial health of BMB in Nigeria.

| | IA | PPE | CCE | BS | ROA |
|---|---|---|---|---|---|
| Mean | 4.3865 | 5.4566 | 6.1085 | 7.2208 | 3.4524 |

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| | | | | | |
|---|---|---|---|---|---|
| Maximum | 7.85 | 8.39 | 9.17 | 10.07 | 37.66 |
| Minimum | 1.91 | 3.38 | 3.97 | 5.32 | -79.16 |
| Std. Dev. | 1.44169 | 1.17245 | 1.17245 | 1.30399 | 16.74919 |
| Observations | 36 | 36 | 36 | 36 | 36 |

Source: Author computation using E-views 8

The descriptive study of the time series characteristics of the model's included variables was reported in Table 4.1. For the variables in our model, descriptive statistics were run for the cross-panel data from 2016 to 2021. IA, PPE, CCE, BS, and ROA have mean values of 4.3865, 5.4566, 6.1085, 7.2208, and 3.4524, respectively. Every year, the IA, PPE, CCE, BS, and ROA standard deviations from their corresponding long-term mean values are 1.44169, 1.17245, 1.30399, and 16.74919, respectively. A comparison of the dependent, independent, and moderating variable's mean and maximum values reveals a considerable discrepancy, with the maximum values being higher than the mean values. This shows that between the study periods, IA, PPE, and CCE were generally low in the Nigerian BMBs indicated above. However, ROA and BS can be interpreted as being significant on average, showing that the BMBs' financial success has been rising over time.

Dependent Variable: ROA
Method: Panel Least Squares
Date: 16/03/22 Time: 9:03
Sample: 2016 2021
Periods included: 6years
Cross-sections included: 5
Total panel (balanced) observations: 36

Table 4.2 Regression Result of Model

| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
|---|---|---|---|---|
| C | 2.033 | 20.053 | 0.101 | 0.002 |
| CCE | 0.487 | 4.724 | 0.103 | 0.001 |
| IA | 2.300 | 4.312 | 0.533 | 0.000 |
| PPE | 0. 665 | 2.762 | 0.054 | 0.004 |
| R-squared | 0.537 | Mean dependent var | | 0.002 |
| Adjusted R-squared | 0.712 S.D. dependent var | | | 0.296269 |
| S.E. of regression | 0.231579 | | | |
| Sum squared resid | 202.041 | | | |
| Log likelihood | 4.828885 | | | |
| F-statistic | .224 | | | |
| Prob(F-statistic) | 0.002 | | | |

Source: Author computation using E-views 8

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The coefficients and z-statistics of the fixed effect regression results for the model are displayed in Table 4.2. According to the findings, model one's adjusted R2 is roughly 0.537, which represents the proportion of the dependent variable's overall variation that can be accounted for by the asset investment variables (CCE, IA, and PPE). It shows that the factors responsible for 53.7% of the variation in the financial health measure of return on assets (ROA) of listed BMBs in Nigeria are cash and cash equivalents (CCE), intangible assets (IA), and property, plant, and equipment (PPE), while the remaining 46.3% are factors not taken into account in this study model. The likelihood that the model's F-value (0.002) is less than the 0.05 level of significance shows that the models are well-fitting and carefully chosen. This result is consistent with research by Major et al. (2022), Nangih and Emeka (2021), Muli et al. (2022), Nangih et al. (2020), and studies on intangible asset investment and firm performance. The findings show that all three intangible assets have a beneficial impact on a company's profitability and value. It's interesting that this research discovers that advertising spending has the greatest influence on a company's profitability and worth.

Table 4.3 Model estimation of the effect bank size on assets investment and financial health

| **Model Summary** | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .919[a] | .844 | .835 | .52994 |
| a. Predictors: (Constant), FPS, AI | | | | |

**Source:** SPSS version 25 computation

| **ANOVA[a]** | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 50.246 | 2 | 25.123 | 89.458 | .000[b] |
| | Residual | 9.267 | 33 | .281 | | |
| | Total | 59.513 | 35 | | | |
| a. Dependent Variable: BS | | | | | | |
| b. Predictors: (Constant), FP, AI | | | | | | |

Source: SPSS version 25 computation

A significant and favorable moderating effect of bank size on the relationship between assets investment and financial health of DMBs (DMBs) in Nigeria can be seen based on the data in table 4.3 above (R-value = 0.919 and p-value = 0.000 > 0.05 level of significance). The moderating variable (BS) shows 84.4% of the variance, which is explained by changes in the predictor and criterion variables, according to the coefficient of determination (R2) = 0.844, while the remaining 5.6% is explained by other variables not included in the model. This result is consistent with Marian and Ikpor (2017), Major et al (2022), and Imo (2021), who used the Expost Factor study design to examine the effect of fixed asset investments on the financial health of a sample of Nigerian banks. Their findings demonstrated that the cost of maintenance and repairs significantly and negatively affect banks' return on assets.

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## 5. CONCLUSIONS AND RECOMMENDATIONS

Using a descriptive research design, the study examines the connection between asset investments and the financial success of BMBs in Nigeria. In order to estimate the impact of asset investments on the financial health of DMBs in Nigeria, the study used time series and a secondary process. The study found a strong correlation between cash equivalent/equivalent and the return on assets of Nigerian deposit money institutions, Additionally, there is a considerable correlation between intangible assets and the return on assets of Nigerian deposit money institutions as well as between property, plant, and equipment and that same correlation. Finally, the link between asset investment and financial health of DMBs (DMBs) in Nigeria is significantly moderated by company size. As a result, the study came to the conclusion that there is a strong link between asset investment and the financial success of BMBs in Nigeria. Thus, the researchers proposed that;

1. The Nigerian Central Bank should provide effective monitoring and evaluation of banks in relation to the maximum amount that a bank is permitted to invest in tangible assets, real estate, plant, and equipment.
2. Policymakers ought to provide effective training programs based on particular subject matter that they can use in their official roles.
3. Banks should correctly use their cash and cash equivalent to earn a profit and advance Nigeria's economic growth.
4. Financial institutions should make an effort to buy only property, plant, and equipment that can increase profitability and, consequently, support the entity's financial health.

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**Journal of Corporate Finance Management and Banking System**
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