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Effect of Prudency Guidelines on Nigeria Deposit Money Banks Performance

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Abstract

The study examines the effect of prudency guidelines on Nigeria Deposit Money Banks performance between 2008 to 2022. Ex post-facto research design was used. Quarterly time series data were extracted from the Central Bank of Nigeria's statistical bulletin 2022 and Autoregressive Distributed Lag (ARDL) bound testing framework was used based on the unit root test result. The dependent variable Deposit Money Banks performance was proxied by return on assets, while the independent Variable, prudency guidelines was proxied by capital adequacy requirement and liquidity requirement. Error Correction Model (ECM) approach was used in order to establish the relationship between prudential Prudency Guidelines and Nigeria Deposit Money Banks Performance. Based on Wald test, it was found that capital adequacy requirement had a significant effect on financial performance of Deposit Money Banks in Nigeria, also Liquidity ratio had a significant effect on financial performance of Deposit Money Banks in Nigeria. Therefore, the study recommends that the Central Bank of Nigeria (CBN) should establish stringent monitoring mechanisms to regularly assess the compliance of deposit money banks with prudential guidelines. This includes conducting regular audits, scrutinizing financial reports, and promptly addressing any deviations to ensure sustained adherence to prudent banking practices. The study also recommends that the CBN should increase the existing 30% liquidity ratio to about 32%, in order to achieve high loan-to-deposit ratio in the market. This can positively influence financial performance of Deposit Money Banks (DMBs).

Keywords: Prudency Guidelines, Nigeria Deposit Money Banks, Performance, Banking Regulations, Financial Stability, Risk Management

Introduction

The Central Bank of Nigeria (CBN) persistently strives to safeguard the soundness of banks through multiple initiatives. These efforts involve implementing prudential guidelines such as regulations on capital adequacy, asset quality, earnings, liquidity, exposure to foreign exchange (FX) risk, leverage, and debt service capacity to effectively oversee and regulate the banking sector (Kiplagat & Kalui, 2020).

Prudential guidelines are established laws, rules and regulations designed to minimize bank risk, ensure the safety and soundness of both individual and banking system. The guidelines establish limits and constraints on the banking sector, and the principle involved in preventing, limiting or stopping the damage caused by poor management (Diamond & Dybvig, 2018). The guidelines serve as part of the minimum rules that are set out by the Central Bank of Nigeria (CBN) for the conduct of banking businesses to help prevent banks from problem of liquidity, capital inadequacy and poor asset quality. In a bid to attain effectiveness and efficiency, prudential regulation of banks is intended to pursue two main goals, namely: investor protection and financial stability, which indirectly highlight the direct impact of regulation on bank performance and effectiveness (Emmanuel, Musa & Polycarp, 2022).

Prudential regulation enhances the resilience of the whole banking system and smoothens the financial cycle as it helps to contain systematic risk. Okafor and Asuzu, (2018) has it that prudential guidelines as contained in risk management principles cover liquidity ratios, statutory reserve, cash reserve ratio, capital adequacy and credit rating. Also, loan loss-provisioning entails the review of the credit portfolio, with a view to recognizing any deterioration in credit quality. However, this study will focus on capital adequacy requirement and liquidity requirement.

Onoh (2016) averred that a bank's capital fund is considered adequate if it is enough to cover the banks operational expenses, satisfy customers with dual needs and protect depositors against total or partial loss of deposits in the event of liquidation or loss sustained by the bank. Similarly, liquidity affects institutions' capital or earnings from their inability to meet their obligations when fall short and incur major losses, leading to the problem of insolvency. Adeleke and Ibrahim (2022) observed that a bank experiences liquidity risk when it is unable to effectively accommodate deposits' redemption and other liabilities.

Thus, the financial performances of DMBs are affected by inadequate capital and illiquidity making it difficult to attract investors and lenders thereby affecting their ability to purchase other financial resources. Illiquidity affects a bank's earnings, and working capital and in extreme circumstances may result in distress, high level of impaired loans, and poor investment portfolios. Inadequate

capital can be attributed to the low level of initial capital, effect of inflation and the large portfolio of NPL maintained by some banks (Kiplagat & Kalui, 2020). Therefore, with the introduction of prudential guidelines, banks are expected to maintain adequate capital to meet their financial obligations, operate profitably and contribute to promoting a sound financial system. This study measured financial performances of DMBs with return on capital employed.

The existence of inefficiency in the management of banks liquidity in Nigeria has become obvious during the distress and liquidation eras in the late 1980s as well as early 1990s. The adverse effects of the banking system liquidity problem in these periods remained up to the re- capitalization era in 2005 in which banks were mandated to increase their capital base from N2 billion to N25 billion. It was believed that this directive by the Central Bank of Nigeria (CBN) would rectify and stabilize the banks performance challenges that were predominant in the economy as the banks still face liquidation. In 2018, Diamond Bank was acquired by Access Bank, Skye Bank had its operating license revoked by the CBN and Polaris Bank was authorized to take it over. In 2022, CBN also announced that the Strategic Capital Investment Limited acquired the Polaris Bank for N1.35 trillion with N50billion as an upfront payment (CBN, 2022).

This research seeks to investigate the impact of prudency guidelines on the performance of Deposit Money Banks (DMBs) in Nigeria, with a specific emphasis on Capital Adequacy Requirement (CAR) and Liquidity Requirement (LR). Therefore, the null hypotheses of this research are as stated below:

H_{O1}: Capital adequacy requirement has no significant effect on financial performance of Deposit Money Banks in Nigeria.

H_{O2}: Liquidity requirement has no significant effect on financial performance of Deposit Money Banks in Nigeria.

THEORETICAL FRAMEWORK

Public Interest Theory of Regulation

This theory was developed in the 1960s with the aim of providing justification for government regulations. Public interest theory of regulation aims at explaining why the government regulates some sectors in the economy (Hantke-Domas, 2003). This theory posits that when private investors are left alone, they may exorbitantly exploit the consumers and it is for this reason that regulations are made. In this respect, regulations are meant to protect the consumers from over exploitations by private businesses. Further, the theory notes that the safety of the general public is crucial to the economy and therefore they should be kept safe from harmful products and other vices that may be perpetrated by business. The theory views that regulations are tools for ensuring that the business exists in order to benefit the public and not only to profit

from the customers. This theory views that there exists market failures and imperfections and thus making is necessary for government to regulate the allocation of resources in a way that they can be used for the common good of all citizens (Joskow & Noll, 1989). Therefore, regulatory bodies are involved in making mandatory stipulations that must be adhered by businesses at all times in order to enhance performance.

This public interest theory of regulations is pertinent to this study because it explains why the government regulates business through its state departments. The Central Bank of Nigeria issues prudential guidelines which are technically regulations (since they are mandatory) in order to control how bank conduct their businesses. The theory notes that regulations are meant to ensure that the public interest is upheld at all times. This is the reason why the CBN strictly follows up on adherence to these guidelines.

The theory also notes that regulations are meant to protect the public good and the agency are predisposed to undue influence by the very entities they are meant to regulate (Levine & Forrence, 1990). It is for this reason that Becker (1983) advocates for control of entities by few powerful individuals in order to enhance efficiency of regulations. According to Gary Adams, Sharon Hayes, Stuart Weierter and John Boyd (2007) the state department that does regulatory duties interacts with those entities they are meant to regulate and this exposes themselves to being the victims of regulations. This means that there is a likelihood of regulatory agencies may fail to achieve tangible goals of protecting the public and when this happen, the public is exposed to harm. However, there has been criticism to this theory.

EMPIRICAL REVIEW

Emmanuel, Musa and Polycarp (2022) investigated the impact of Central Bank of Nigeria Prudential Guidelines on the Financial Performance of Listed Deposit Money Banks in Nigeria for the period 2008-2019. The proxies for Prudential Guidelines are Capital Adequacy Regulation (CAR), Liquidity Regulation (LR), and Credit Risk Regulation (CRR) while for Financial Performance, Return on Asset (ROA) and Return on Equity (ROE) were used as proxies. Secondary data were sourced from the Nigeria Exchange Group (NXG) factbook for a filter sample of Listed Deposit Money Banks (DMBs) that met some criteria. The study employed multiple regression techniques in analyzing the data that were gathered using Ordinary Least Square (OLS) with Eviews-10. The study revealed that CAR has a negative but insignificant effect on ROA but positively and significantly correlated with the ROE while a negative relationship of LR is significant on ROA but insignificant on the ROE, However, a negative relationship of CRR is significant on ROA but insignificant on the ROE of DMBs in Nigeria. However, the study did not conduct post estimation test,

the current study will conduct post estimation test to enrich result and make it reliable in enhancing decision making.

Adeleke and Ibrahim (2022) assessed the effect of prudential regulation on the financial performance of deposit money banks in Nigeria from 2011 to 2020. Prudential regulation was proxied by capital adequacy, liquidity, leverage, and asset quality as the independent variables while the financial performance is proxied by earnings per share (EPS) as dependent variable. The data was sourced from the annual reports of the thirteen (13) quoted deposit money banks and analysed using descriptive statistics and Panel Data Regression to determine the relationships between the variables. The findings from the study show that capital adequacy has a positive and non-significance level on financial performance using the EPS. Liquidity has a positive and non- significance level on the EPS. Asset quality has non-significance level on the EPS. Leverage has non-statistical significance level on the EPS. The study concludes that an increase in capital does not necessarily translate to higher EPS, higher liquidity lessens banks' liquidity risk, asset quality in form of non-performing loans reduces the bank's capacity to create further loans, hence less earnings for the bank and leverage negatively influences financial performance. However, the theory of the study did not align with the findings.

Al-khawaldah, Al-tarawneh and Ghazi-Alassaf (2020) examined the effect of the capital adequacy on the return on equity for the largest 16 Islamic banks in Gulf Cooperation Council United Arab Emirate in terms of market value, using panel data analysis during the period (2010-2014) which size, inflation, and GDP as a control variable. The study data were collected from published annual reports for banks. The study found that there is a significant relationship between capital adequacy and return on equity was negative, size has a statistically significant positive effect on the return on equity, inflation has a statistically significant negative effect on the return on equity, GDP has a statistically significant positive effect on the return on equity. However, the study used return on equity as the proxy for performance which is different from this research.

Rahayu, Ningsih and Zukhairani (2020) investigated how much influence capital adequacy ratio (CAR) and Return on Asset (ROA) to Stocks Price at Sharia Commercial Bank in Indonesia. The method used in this research is descriptive causal method, which is research method done by explaining cause-effect relationship by observation. Based on the results of the research, the simultaneous Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Return on Asset (ROA) have significant effect to Stock price at Indonesian Sharia Commercial Bank. Partially Loan to Deposit Ratio (LDR) has significant effect to Stock price at Indonesian Sharia Commercial Bank, Capital Adequacy Ratio (CAR) has a significant negative effect to Stock price at Indonesian Sharia Commercial Bank and Return on Asset (ROA) has

no significant effect on Stock price at the Indonesian Sharia Commercial Bank. However, the study variables were conducted in Indonesia with which results might be different from study research in Nigeria.

Adeghe, Aguwamba, and Edobor (2019) examined the impact of prudential guidelines and deposit money banks' performance in Nigeria. It specifically examined effect of bank financial strengthen and ratios in terms of asset quality, capital adequacy, liquidity, leverage and bank size on bank performance in Nigeria. It is a longitudinal study covering a time frame of five (5) years (2011-2015). Historical data was obtained from the financial statements and accounts of twelve (12) sampled banks selected through purposive sampling technique. Data was analysed using descriptive statistics and statistical tool, Panel Least Square (PLS) regression. The study revealed that Asset quality and leverage have significant effect on bank performance, while capital adequacy, Liquidity and bank size have no significant effect suggesting that they are weak determinants but have positive relationship with bank performance in Nigeria. However, the study was conducted in 2019 and the scope of the study stopped in 2015.

Osakwe, Nwakaego and Udoye (2022) examined the effect of Central Bank of Nigeria (CBN) regulation on the performance of Deposit Money Banks. CBN regulation was proxied by Return on assets which is the dependent variable while the monetary policy rate, treasury bills rate, lending rate and cash reserve ratio are the independent variables which proxied the deposit money banks. Secondary data of the variables was used and analyzed with Ordinary Least Square regression econometric technique. The results showed that the monetary policy rate has a positive and significant relationship with return on assets of Deposit Money Banks (DMB) in Nigeria, Treasury Bills rate has a positive but insignificant relationship with DMB, Lending rate has a significant negative relationship with DMB while cash reserve ratio has insignificant negative relationship with deposit money banks in Nigeria. The study did not align it work with other studies. However, the recommendation was not stated clearly, hence the need for this study.

Bencharles and Abubakar (2020) investigated the impact of liquidity management on Islamic and conventional banks profitability in Nigeria for the period 2012-2019. First bank plc and Jaiz bank were both used to represent the conventional and Islamic banks in Nigeria respectively. Time series data were sourced from the quarterly bulletin of selected banks used for the study. Time series data were first subjected to preliminary analysis (descriptive statistics, unit root test & co-integration test) so as to ascertain the background characteristics of dataset. The ordinary least square estimation technique was used to capture the relationship between liquidity and profitability. Liquidity was measured by the liquid asset to operating asset ratio, current ratio and cash ratio while bank size was used as a control variable. Profitability was measured using the return on asset. Empirical result indicated that profitability and liquidity have

an inverse relationship in both conventional and Islamic banks; hence it was found to follow the risk return trade off. However, Islamic bank profitability was found to respond more significantly to changes in liquidity level than in conventional banks. The study concluded that liquidity and profitability relationship follow the risk return theory, although liquidity was found to be more significant in the Islamic banks. The study therefore recommended that banks keeps liquidity as needed to meet up defined liabilities and not needlessly keeping too much liquidity as it erodes banks' profits. However, the study conducted unit root test which is not applicable to panel analysis.
Mwangudza, Jagongo and Fredrick (2020) adopted post-positivist research paradigm to interpret the effect of liquidity management on the financial performance of deposit-taking Saccos in Kenya. The study adopted a descriptive, survey research design. The target population was 18 Saccos classified under teachers'-based DT SACCOs according to SASRA records of December 2017 (SASRA, 2018). Census Methodology was used. The study used a data capture form that has been designed by the researcher to collect the data on the independent variables of liquidity management, moderator variable size and dependent variable which was DT Saccos financial Performance. Data were analysed using a combination of descriptive and inferential statistics with the statistical package STATA. Analysed data was presented using graphs and tables. The study established that there was a significant effect of capacity and purchased funds on the financial performance of Teachers DT Saccos. The study also established that cash position, total deposit, and core deposit had an insignificant effect on the financial performance of Teachers DT Saccos and that size of the Sacco affects the relationship between liquidity management and financial performance of Teachers DT Saccos. However, Hausman test was not stated to know whether the study will adopt fixed effect or random effect.
Gerio and Wahome (2020) determined the influence of liquidity management on the financial performance of agricultural firms listed on Nairobi Securities Exchange. A descriptive survey research design was applied. A Census of all the 6 companies listed at Nairobi Securities Exchange as at July 2014 to July 2019 constituted the study population. The study employed secondary data extracted from audited financial statements and individual companies annual report for the five-year period covering July 2014 to July 2019. Record survey sheet was used when collecting data for independent and dependent variables. Data collected was analyzed by using descriptive and inferential statistics. Under descriptive statistics the study considered; Mean, Minimum, Maximum and Standard deviation. For inferential statistics the study considered correlation and multiple regression. Statistical Package of Social Science (SPSS) software program was applied in the analysis of the study with respect to the objectives of the study. The study found out that liquidity management has a positive significant effect on financial performance. The liquidity management has positive

relationship with the Return on Investment (ROA) of the firms under study. However, there is no justification to start from 2014.

Methodology

This paper adopts *Ex post-facto* research design. Therefore, quarterly data were employed from the Central Bank of Nigeria Statistical Bulletin between 2008 and 2022. The study employs Autoregressive Distributed Lag (ARDL) bound testing framework to estimate the long-run equilibrium relationship among the variables and the Error Correction Mechanism (ECM) in order to determine the effect of prudency guidelines on Nigeria Deposit Money Banks performance. The ARDL approach allows the use of different optimal lags for the different variables, which is not possible in the standard cointegration test. The following model was estimated.

ROCE = = f (CAR, LIR) …….(1)

ROCE = a + β_1 CAR_t + + $\beta_2 LIR_t$ +……..……..... (2)

Equation is written like this

[1] *ROCE = f (CAR, LIR)*

where; ROCE means Return on capital employed, CAR stands for Capital Adequacy Requirement, LIR is Liquidity Requirement, a represents intercept (value of Y when Xj is zero), e stands for Error term

Building equations (3) into an ARDL model was stated:

$$\Delta ROCE_t = \mu + \alpha_1 ROCE_{t-1} + \alpha_2 CAR_{t-1} + \alpha_3 LIR_{t-1} + \sum_{i=1}^{p-1} \lambda_1 \Delta ROCE_{t-i} + \sum_{i=0}^{q-1} \lambda_2 \Delta CAR_{t-1} + \sum_{i=0}^{q-1} \lambda_3 \Delta LIR_{t-1} + \varepsilon_t \text{.....(3)}$$

Table 1:

Variables and Measurement

S/N	Variables	Nature	Measurement/Proxy	Source
1	Return on Capital Employed	Dependent	EBIT/Shareholders Fund.	Osakwe et al (2022)
2	Capital Adequacy Requirement	Independent	Capital of commercial banks ratio	Adeleke and Ibrahim (2022).
3	Liquidity Requirement	Independent	Liquidity ratio	Wuave et al (2020)

Source: Author's compilation,2023

Results and Discussions

Table 1:

Descriptive Statistics Test Results

	ROCE	CAR	LIQ
Mean	1.704833	12.74933	30.25000
Median	1.885000	14.80000	30.00000
Maximum	3.330000	18.56000	40.00000

Minimum	-1.950000	1.200000	25.00000
Std. Dev.	1.176054	5.855790	3.244944
Skewness	-1.052873	-1.018638	1.079575
Kurtosis	4.038508	2.585860	5.555154
Jarque-Bera	13.78167	10.80502	27.97684
Probability	0.001017	0.004505	0.000001
Sum	102.2900	764.9600	1815.000
Sum Sq. Dev.	81.60310	2023.126	621.2500
Observations	60	60	60

Author's computed results, 2023

Table 1 shows that, ROCE, CAR and LIQ has mean value of 4 1.704833, 12.74933 and 30.25000 respectively, while deviation from the mean (standard deviation) was 1.176054, 5.855790 and 3.244944. The mean of ROCE, CAR and LIQ were normally distributed because the standard deviation value was lower than the mean value. In like manner, ROCE, CAR and LIQ had median of 1.885000, 14.80000 and 30.00000 with Jarque-Bera of 13.78167, 10.80502 and 27.97684 respectively.

Table 2:

Correlation Matrix Test Results

	ROCE	**CAR**	**LIQ**
ROCE	1	0.22246	-0.0922
CAR	0.22246	1	-0.41944
LIQ	-0.0922	-0.41944	1

Author's computed results, ***2023.***

From Table 2, the relationship between prudential guidelines and DMBs financial performance in Nigeria is explained where the ROCE was correlated with CAR to the extent of 0.22, while, ROCE was correlated with LIQ to the extent of -0.09. Also, CAR was correlated with ROCE to the extent of 0.22, while, CAR was correlated with LIQ to the extent of -0.41. Finally, LIQ was correlated with ROCE to the extent of -0.09, while, LIQ was correlated with CAR to the extent of -0.41. However, the correlation matrix result implies that none of the study's independent variables has multicollinearity.

Table 3: Summary of Unit Root Test Results

Variables	***ADF Test Statistic***	***Order of Integration***
ROCE	7.782375 (-3.552666)	*I(1)*
CAR	-7.574035 (-3.548208)	*I(1)*
LIQ	-14.75661 (-3.565430)	*I(1)*

Author's computed results, 2023

From the Table 3, it was discovered that ROCE was found stationary at first difference, that is, at order I(1). It follows that their ADF test statistic was discovered to be higher than their threshold values. Additionally, CAR was discovered to be stationary at the first difference, or at order I (1). It follows that their ADF test statistic was discovered to be higher than their threshold values. However, at order I, the first difference, the LIQ was found to be stationary (1). It follows that their ADF test statistic was discovered to be higher than their threshold values. The long-term relationship between the variables was examined using the VECM approach.

Table 4:

Cointegration Test Results.

Unrestricted Cointegration Rank Test (Trace)

Hypothesized		**Trace**	**0.05**	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.326072	47.75738	29.79707	0.0002
At most 1 *	0.231518	24.86868	15.49471	0.0015
At most 2 *	0.152472	9.595052	3.841466	0.0020

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level
*** denotes rejection of the hypothesis at the 0.05 level**
****MacKinnon-Haug-Michelis (1999) p-values**

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized		**Max-Eigen**	**0.05**	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.326072	22.88870	21.13162	0.0280
At most 1 *	0.231518	15.27363	14.26460	0.0345
At most 2 *	0.152472	9.595052	3.841466	0.0020

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level

Author's computed results, 2023

The result of cointegration test in Table 4 indicated that there is indication of no cointegration at 0.05 significance level as shown in its trace statistics of None, At most 1 and At most 2 (24.86868 and 9.595052) are greater than their respective 0.05 critical values (15.49471 and 3.841466), while their p-values (0.0015 and 0.0020) are all below the 0.05 level of significance for this study. Since there is a cointegration in the two criteria of Johansen cointegration test, it implies that there is a long run relationship between financial performance and the two variables of prudential guidelines (Capital adequacy ratio and Liquidity ratio) considered.

Table 5: Vector Error Correction Model

Error Correction:	D(ROCE)	D(CAR)	D(LIQ)
CointEq1	-0.246189	-0.101549	0.288128
	(0.04418)	(0.09877)	(0.04902)
	[-5.572408]	[-2.04058]	[5.87753]
D(ROCE(-1))	-0.412273	0.743582	-0.448894
	(0.15964)	(0.35687)	(0.17712)
	[-2.58254]	[2.08034]	[-2.53447]
D(CAR(-1))	-0.201429	0.314967	0.106057
	(0.06574)	(0.14696)	(0.05294)
	[-3.06402]	[2.14321]	[2.00334]
D(LIQUIDITY_R(-1))	-0.115678	-0.204346	-0.250382
	(0.02784)	(0.14108)	(0.11965)
	[-4.15510]	[-4.97434]	[-2.09262]
C	0.228556	0.498895	-0.388810
	(0.06016)	(0.24802)	(0.17769)
	[3.79913]	[2.01151]	[-2.18813]
R-squared	0.422559	0.025065	0.432022
Adj. R-squared	0.340067	-0.114211	0.350882
Sum sq. resids	68.40357	341.8368	84.20031
S.E. equation	1.181521	2.641261	1.310868
F-statistic	5.122446	0.179969	5.324411
Log likelihood	-86.07715	-131.9310	-91.99870
Akaike AIC	3.300953	4.909861	3.508726
Schwarz SC	3.587697	5.196605	3.795470
Mean dependent	0.002281	0.154386	-0.175439
S.D. dependent	1.454426	2.502233	1.627035

Author's computed results, 2023.

The VECM result on Table 5 shows that capital adequacy requirement (CAR) and liquidity requirement (LR) have significant effect on Return on capital employed (ROCE) given their t-values of -3.06402 and -4.15510 which is greater than the ±1.96 significance level. Also, the result reveals the explanatory power of the regression model with an r-squared of eight-two (42%) percent. This indicates that 42% percent of the variation in financial performance (ROCE) is explained by the independent variables of capital adequacy requirement and liquidity requirement. The remaining eighteen percent (58%) is explained by variables outside this model. The Adjusted R2 of seventy-one (34%) is close to the R2 value of eighty-two (42%), meaning that the

model is fit and useful for generalizing within this period. Furthermore, the value of F-statistics stands at 5.12244.

Table 6:

Hypotheses Test Results

Variable	F-statistic	Chi-square	Prob.
CAR	0.639296	8.745040	0.0000
LIQ	-1.212406	-3.181885	0.0035

Author's computed results, 2023.

H_{01}: Capital adequacy requirement has no significant effect on financial performance of Deposit Money Banks in Nigeria.

The result of the study revealed a coefficient of 0.639296 and a P-value of 0.000. This means a percentage increase in capital adequacy requirement will result in a 63.9% increase in financial performance of Deposit Money Banks in Nigeria. This is also significant at a 95% confidence level. As such, the study rejects the hypothesis, which implies that CAR has a significant effect on financial performance of Deposit Money Banks in Nigeria.

H_{02}: Liquidity requirement has no significant effect on financial performance of Deposit Money Banks in Nigeria.

The result of the study revealed a coefficient of -1.21240 and a P-value of 0.003. This means a percentage increase in liquidity requirement will result in a decrease in financial performance of Deposit Money Banks in Nigeria. This is also significant at a 95% confidence level. As such, the study rejects the hypothesis, which implies that LIQ has a significant effect on financial performance of Deposit Money Banks in Nigeria.

Discussion of Findings

Based on the findings of the research, the study is consistent with the research of Kaluarachchi et al (2021), Rahayu et al (2018) and Al-khawaldah et al (2020), that capital adequacy requirement has a significant effect on financial performance of Deposit Money Banks in Nigeria. This implies that capital adequacy is considered as a shock absorber due to unexpected losses. Given that banks face a lot of risk in order to conduct their business, and how well these risks are managed and understood is a key factor behind profitability, and how much capital a bank is required to hold.

Also, the findings of the research is in agreement with the research of Bencharles and Abubakar (2020), Osakwe et al. (2022) and Gerio and Wahome (2020), that liquidity requirement has a significant effect on financial performance of Deposit Money Banks

in Nigeria. The CBN's liquidity management policies are designed to support economic stability and growth. By managing liquidity levels in the banking system, the CBN aims to maintain price stability, control inflation, and promote a healthy economy.

Conclusion and Policy Recommendations

The study examined the effect of prudency guidelines on Nigeria deposit money banks performance. From the findings, it is obvious that prudential guidelines as proxied by Capital adequacy and Liquidity requirements have a long-term significant effect on financial performance of Deposit Money Banks (DBMs) in Nigeria. The empirical results from this study show the existence of nonlinear relationship between the prudential guidelines instruments and financial performance of Deposit Money Banks in Nigeria.

Drawing from the research findings, the recommendations proffered are as follows:

The study recommends that the CBN should implement a robust regulatory audit system to regularly assess Nigeria Deposit Money Banks (DMBs) compliance with prudency guidelines. Conduct thorough examinations of financial records, risk management practices, and adherence to regulatory standards. This will ensure proactive identification and correction of any deviations, promoting a culture of prudence within the banking sector.

Secondly, the study also recommends that the CBN should increase the 30% liquidity ratio that obtains currently to about 32%, in order to achieve high loan-to-deposit ratio in the market. This can positively influence financial performance of DMBs.

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