

## Prudential Regulation and Bank Performance: Evidence from Capital Adequacy and Asset Quality

Tuuma, Dumka Kpodibabari<sup>1</sup>, J.C Imegi<sup>2</sup>, Adamgbo S.L.C<sup>3</sup>

Department of Finance,  
Faculty of Administration and Management  
Rivers State University,  
Nkporlu-Oroworukwo, Port Harcourt

[tuuma.dumka@ust.edu.ng](mailto:tuuma.dumka@ust.edu.ng)

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### Abstract

*This study examines the effect of prudential regulation on the financial performance of commercial banks in Nigeria, with particular emphasis on capital adequacy and asset quality. An ex-post facto research design was adopted, using secondary data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. The study employed the Autoregressive Distributed Lag (ARDL) framework to capture both the dynamic and lagged effects of prudential regulatory indicators on bank performance. Return on Assets (ROA) was used as the proxy for bank performance, while Capital Adequacy Ratio (CAR), Tier 1 Capital Ratio (TIER1), and Capital-to-Asset Ratio (CTA) measured capital adequacy; Non-Performing Loan Ratio (NPL), Loan Loss Provision Ratio (LLP), and Loan-to-Total Assets Ratio (LTA) captured asset quality. The findings reveal that capital adequacy produces mixed effects on bank performance. Specifically, CAR and TIER1 were not statistically significant, whereas CTA exerted a positive and significant effect on ROA. For asset quality, NPL and LLP had significant negative effects on ROA, while lagged NPL exerted a significant positive effect. LTA was positive but not statistically significant. The models were jointly significant and explained approximately 95.8% and 80.3% of the variations in ROA, respectively. The study concludes that effective asset quality management is particularly important for sustaining bank profitability, alongside maintaining adequate and efficiently deployed capital. It recommends stronger credit-risk management, prudent provisioning and balanced capital regulation to enhance both bank stability and profitability.*

**Keywords:** Prudential regulation, capital adequacy, asset quality, bank performance, commercial banks, Autoregressive Distributed Lag (ARDL), Nigeria.

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### Introduction

Prudential regulation remains fundamental to the soundness and performance of the banking sector because banks operate with substantial leverage and are exposed to significant credit and solvency risks. Among the major dimensions of prudential regulation, capital adequacy and asset quality are particularly important. Adequate capital provides banks with a buffer against unexpected losses, while sound asset quality enables them to maintain productive loan portfolios and minimise credit losses. Empirical evidence from Nigeria suggests that capital adequacy can influence bank performance, although the direction and magnitude of the relationship may vary across studies. Oke and Ikpesu (2022), using data from Nigerian listed banks, found that capital adequacy and asset quality positively influenced banking-sector

performance, suggesting that stronger capital positions and sounder assets can support improved earnings. More recently, Muomaife et al. (2026) reported that capital adequacy significantly enhanced bank performance, while non-performing loans exerted a negative effect on profitability. Asset quality is equally important because deterioration in loan portfolios can reduce interest income, increase loan-loss provisions and ultimately weaken profitability. Onah et al. (2022) found evidence of a causal relationship between asset quality and bank profitability in Nigeria, emphasising the importance of maintaining sound credit portfolios. Similarly, Taiwo and Lawal (2026) reported that non-performing loans had a significant negative effect on profitability growth among Nigerian deposit money banks.

Despite these findings, empirical evidence remains mixed, particularly regarding the extent to which regulatory capital and asset quality translate into improved bank performance. This study therefore examines “Prudential Regulation and Performance: Evidence from Capital Adequacy and Asset Quality” by assessing the effects of capital adequacy and asset quality on bank performance in Nigeria. The study is expected to provide further evidence on whether stronger capital positions and better-managed loan portfolios contribute to sustainable banking performance.

## Literature Review

### Conceptual Review

**Prudential Regulation:** Prudential regulation refers to the framework of rules and supervisory measures designed to ensure that banks operate safely, manage risks effectively and maintain sufficient financial strength to withstand adverse shocks. It focuses particularly on the quality and adequacy of bank capital, credit risk, liquidity and other factors that may threaten financial stability. In practical terms, prudential regulation seeks to balance banks' profitability objectives with the need to protect depositors and maintain confidence in the financial system. In the Nigerian banking sector, prudential regulation is particularly important because weaknesses in capitalisation and credit management can quickly affect banks' profitability and solvency. Oke and Ikpesu (2022) found that capital adequacy and asset quality significantly influenced banking-sector performance in Nigeria, suggesting that stronger prudential positions can support improved bank performance. Similarly, Nnubia, Okafor, and Okegbe (2022) reported that capital adequacy was positively associated with bank performance, while non-performing loans adversely affected performance.

**Capital Adequacy:** Capital adequacy represents the extent to which a bank has sufficient capital to absorb unexpected losses and continue its operations without becoming insolvent. It is commonly assessed through measures such as the Capital Adequacy Ratio (CAR), Tier 1 Capital Ratio (TIER1), and Capital-to-Asset Ratio (CTA). A well-capitalised bank is generally better positioned to withstand credit losses, support lending activities and maintain public confidence. Empirically, the relationship between capital adequacy and bank performance has received considerable attention. Oke and Ikpesu (2022) found that capital adequacy positively affected the performance of Nigerian banks, indicating that stronger capital positions enhance banks' ability to generate earnings. Nnubia et al. (2022) similarly reported a positive influence of capital adequacy on the performance of Nigerian deposit money banks. More recently, Muomaife, Nworie, and Muomaife (2026) found that capital adequacy significantly enhanced the profitability of listed Nigerian commercial banks. Thus, capital adequacy is not merely a regulatory requirement; it can also influence the capacity of banks to absorb risks, expand their operations and sustain financial performance.

**Asset Quality:** Asset quality reflects the health and recoverability of a bank's earning assets, particularly its loan portfolio. Since lending constitutes a major component of banking operations, deterioration in loan quality can result in higher credit losses, increased provisioning and reduced profitability. Key measures of asset quality include the Non-Performing Loans Ratio (NPL), Loan Loss Provision Ratio (LLP), and Loan-to-Total Assets Ratio (LTA). A high NPL ratio generally indicates deterioration in credit quality and increased exposure to default risk. Oke and Ikpesu (2022) established a significant relationship between asset quality and bank performance in Nigeria. Similarly, Nnubia et al. (2022) found that non-performing loans negatively affected bank performance. Recent evidence by Tijjani, Aliyu, Madobi, and Umar (2025) also showed that NPLs and loan-loss provisions had significant negative effects on return on equity, while capital adequacy moderated the relationship between asset quality and financial performance. Consequently, maintaining sound asset quality through effective credit appraisal, loan monitoring and recovery mechanisms remains essential for sustainable bank performance.

**Bank Performance:** Bank performance refers to the extent to which a bank effectively uses its financial and operational resources to achieve profitability, efficiency and sustainable growth. It may be evaluated using accounting-based measures such as Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM), as well as market-based measures such as Tobin's Q. For this study, bank performance represents the outcome against which the effects of capital adequacy and asset quality are assessed. Empirical studies have consistently demonstrated that prudential and financial soundness indicators are relevant to bank performance. Oke and Ikpesu (2022) found that both capital adequacy and asset quality influenced the performance of Nigerian banks. Nnubia et al. (2022) similarly established that capital adequacy and liquidity supported bank performance, whereas non-performing loans were detrimental to performance. More recent evidence from Muomaife et al. (2026) further indicates that capital adequacy improves bank profitability, while poor asset quality, reflected by non-performing loans, constrains performance.

### Theoretical Review

**Capital Buffer Theory:** Capital Buffer Theory explains why banks may deliberately maintain capital above the minimum regulatory requirement. The theory, associated with Milne and Whalley (2001), argues that banks hold a capital buffer to reduce the likelihood and cost of falling below regulatory capital requirements. Banks with adequate capital are better positioned to absorb unexpected losses and continue their lending activities during periods of financial stress. The theory therefore suggests that capital adequacy can enhance bank stability and potentially improve performance. The relevance of the theory to this study lies in its explanation of the relationship between capital adequacy and bank performance. A bank with sufficient capital has greater capacity to absorb losses, maintain depositor confidence and undertake profitable lending activities. However, holding excessive capital may also involve an opportunity cost because funds tied up as capital could otherwise be invested in income-generating assets. Thus, the theory implies that an appropriate level of capitalisation, rather than simply higher capital, is important for sustainable performance. VanHoose (2007) notes that capital regulation can influence banks' lending behaviour, risk-taking and overall financial soundness, although the direction of these effects may vary across banking environments. Empirical evidence from Nigeria provides support for the relevance of the theory. Oke and Ikpesu (2022) found that capital adequacy positively affected bank performance, while Yaaba and Sanusi (2020) showed that capital adequacy requirements influenced the behaviour of Nigerian banks. More recent evidence by Oyasor (2025) also indicates that capital adequacy

has a positive and significant effect on bank profitability. Accordingly, Capital Buffer Theory provides the principal theoretical foundation for examining the effect of capital adequacy on bank performance in this study.

**Risk-Return Trade-off Theory:** Risk-Return Trade-off Theory proposes that higher expected returns are generally associated with higher levels of risk. In banking, this relationship is particularly important because lending represents a major source of income but simultaneously exposes banks to credit and default risks. Banks therefore have to balance the pursuit of higher returns against the possibility of losses arising from poor-quality assets. The theory is particularly relevant to asset quality, as excessive exposure to risky loans may increase non-performing loans and loan-loss provisions, thereby reducing profitability. Conversely, overly conservative lending may improve asset quality but restrict interest income and investment opportunities. Hence, effective bank management requires a balance between credit expansion and asset quality. The empirical literature supports this trade-off. Toby (2005) found a significant relationship between capital adequacy and asset quality among Nigerian banks, although the relationship was not necessarily consistent with the expectation that greater capital automatically produces better asset quality. Oke and Ikpesu (2022), however, reported that asset quality positively influenced bank performance in Nigeria, suggesting that effective management of bank assets can contribute to improved earnings. Oyasor (2025) similarly found that poor asset quality negatively affected bank profitability. The theory therefore provides a useful basis for understanding how asset quality, credit risk and bank performance are interconnected. It suggests that banks must maintain an appropriate balance between risk-taking and return generation to achieve sustainable performance.

The two theories complement each other. Capital Buffer Theory explains why banks maintain adequate capital to absorb losses and remain financially resilient, while Risk-Return Trade-off Theory explains how banks' balance credit risk and asset quality against the pursuit of profitability. Together, they provide a coherent theoretical foundation for examining how capital adequacy and asset quality influence bank performance in Nigeria.

### **Empirical Review**

Oke and Ikpesu (2022) examined the effect of capital adequacy and asset quality on the performance of 12 listed Nigerian banks over 2010–2019. Using the System Generalised Method of Moments (SGMM), the study found that both capital adequacy and asset quality had positive effects on bank performance. The authors concluded that adequate capital and sound asset quality could translate into improved earnings and overall banking performance. Oyasor (2025) investigated financial soundness and bank performance among 10 listed Nigerian deposit money banks from 2014–2023. Using a Generalised Least Squares random-effects estimator, the study found that capital adequacy had a positive and significant effect on return on equity, whereas asset quality had a negative effect. The study further showed that prudential regulation strengthened the relationship between financial soundness indicators and bank performance. Oke and Ikpesu's findings contrast with those of Oyasor (2025), particularly regarding asset quality. This difference suggests that the performance implications of asset quality may depend on how asset quality is measured, the period examined and the estimation technique adopted. Onah, Iwedi, and Kpagih (2022) examined the causal relationship between asset quality and profitability in the Nigerian banking industry using data covering 2008–2021. Applying the Granger causality framework, they found evidence of causality between asset quality and return on assets. The study therefore stressed the importance of maintaining sound asset quality for the long-term performance and sustainability of Nigerian banks. Lucky and Nwosi (2015) examined asset quality and profitability among 15 quoted Nigerian commercial

banks over 1980–2013. Using regression, cointegration and Granger causality techniques, the study found that non-performing loans were positively related to return on investment, while loan-loss provisions were negatively related to profitability. The authors concluded that asset quality was significantly associated with bank profitability, highlighting the importance of effective credit administration and monitoring. Saleh, Abubakar, and Abubakar (2022) investigated the determinants of profitability among 14 listed Nigerian deposit money banks over 2011–2020. Their regression results showed that both capital adequacy and asset quality had positive and significant effects on profitability. The findings suggest that well-capitalised banks with better-managed assets are more likely to achieve stronger financial performance. Imahsunu and Osamwonyi (2025) examined the effect of prudential guidelines on the financial performance of quoted Nigerian deposit money banks between 2010 and 2022. Using panel regression, the study considered capital adequacy and asset quality alongside other CAMELS-based prudential indicators. The study provides evidence on the broader relationship between prudential regulation and bank performance and reinforces the importance of capital and asset-quality indicators in assessing banking-sector soundness. Tijjani, Aliyu, Madobi, and Umar (2025) examined whether capital adequacy moderates the relationship between asset quality and financial performance among 13 Nigerian deposit money banks over 2015–2024. Using panel-corrected standard errors, they found that non-performing loans and loan-loss provisions had significant negative effects on return on equity. Importantly, capital adequacy significantly moderated the relationship between asset quality and performance, suggesting that stronger capital buffers can help banks absorb the adverse consequences of poor-quality assets. Oyetade, Obalade, and Muzindutsi (2022) examined the potential effect of Basel IV capital requirements on commercial bank performance across selected African countries. Using historical data from 2000–2018 and static and dynamic panel approaches, the study found that higher capital requirements could have a negative short-term effect on bank performance but a favourable long-term effect. The finding highlights the possible trade-off between immediate profitability and longer-term financial resilience associated with stronger capital requirements. Adu, Boadi, and colleagues' evidence from Ghana was examined by Adu et al. (2021), who assessed regulatory capital requirements and bank performance using 20 universal banks covering 2008–2017. The Panel Corrected Standard Error results showed that minimum capital requirements initially improved ROA and ROE, but the positive effect became negative beyond threshold levels of approximately 1.7% for ROA and 1.6% for ROE. The findings suggest that capital regulation has a non-linear, or double-edged, relationship with bank performance. Finally, Isayas (2022) examined the determinants of bank profitability using dynamic panel data from 14 Ethiopian banks over 2008–2019. Using the Generalised Method of Moments, the study found that capital adequacy had a positive and statistically significant effect on profitability. The result supports the argument that adequate capital strengthens banks' capacity to absorb losses and sustain profitable operations. The empirical literature generally suggests that capital adequacy contributes positively to bank performance, although some studies report negative or non-linear effects. Evidence on asset quality is less consistent: while some studies associate sound asset quality with improved profitability, others find that non-performing loans and loan-loss provisions significantly weaken performance. The mixed findings may reflect differences in countries, study periods, asset-quality proxies, performance measures and estimation techniques. This inconsistency provides justification for further examining the relationship between prudential regulation, capital adequacy, asset quality and bank performance in Nigeria, particularly within an ARDL framework.

## Methodology

The study adopted the expost facto research design that enable it collect already existing secondary data from official publications of reputable organisations without the intention of manipulating or altering the figures. The data for the study were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin for the period under consideration. This study specifies an econometric model to examine the relationship between prudential regulations and the financial performance of commercial banks in Nigeria within the Autoregressive Distributed Lag (ARDL) framework. The general ARDL model and econometric models are presented below.

$$Y_t = \alpha_0 + \sum_{i=1}^p \alpha_i Y_{t-i} + \sum_{j=0}^q \beta_j X_{t-j} + \mu_t \quad (1)$$

$$ROA_t = \alpha_0 + \sum_{i=1}^p \alpha_i ROA_{t-i} + \sum_{j=0}^q \beta_{1j} CAR_{t-j} + \beta_{2j} TIER1_{t-j} + \beta_{3j} CTA_{t-j} + \mu_t \quad (2)$$

$$ROA_t = \alpha_0 + \sum_{i=1}^p \alpha_i ROA_{t-i} + \sum_{j=0}^q \beta_{1j} NPL_{t-j} + \beta_{2j} LLP_{t-j} + \beta_{3j} LTA_{t-j} + \mu_t \quad (3)$$

Where ROA =Return on asset the proxy for bank performance, CAR = capital adequacy ratio, TIER1 = Tier 1 capital ratio, CTA = capital-to-asset ratio, NPL = Non performing loan ratio, LLP = Loan Loss Provision Ratio, LTA = Loan to total asset ratio.

## Results and Discussion of Findings

Table 1: Prudential Regulations and Commercial Bank Performance in Nigeria

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.*   |
|--------------------|-------------|-----------------------|-------------|----------|
| ROA(-1)            | -0.149395   | 0.279198              | -0.535087   | 0.6056   |
| ROA(-2)            | 0.505509    | 0.228825              | 2.209151    | 0.0545   |
| CAR                | -0.837149   | 0.616551              | -1.357793   | 0.2076   |
| CAR(-1)            | -1.394509   | 0.667748              | -2.088378   | 0.0664   |
| TIER1              | 0.958802    | 0.672123              | 1.426528    | 0.1875   |
| TIER1(-1)          | 1.524495    | 0.701161              | 2.174244    | 0.0577   |
| CTA                | 0.687720    | 0.183098              | 3.756016    | 0.0045   |
| CTA(-1)            | -0.262326   | 0.288956              | -0.907839   | 0.3876   |
| CTA(-2)            | -0.517137   | 0.235935              | -2.191864   | 0.0561   |
| C                  | 3.642903    | 2.273008              | 1.602679    | 0.1435   |
| R-squared          | 0.957958    | Mean dependent var    |             | 1.600000 |
| Adjusted R-squared | 0.915915    | S.D. dependent var    |             | 3.159465 |
| S.E. of regression | 0.916163    | Akaike info criterion |             | 2.968172 |
| Sum squared resid  | 7.554191    | Schwarz criterion     |             | 3.465245 |
| Log likelihood     | -18.19764   | Hannan-Quinn criter.  |             | 3.052297 |
| F-statistic        | 22.78547    | Durbin-Watson stat    |             | 2.030995 |
| Prob(F-statistic)  | 0.000038    |                       |             |          |

**Source:** Author's Computation using E-Views 12

The findings on capital adequacy and bank performance present a mixed but informative picture. In Table 1, CAR had a negative but not significant contemporaneous effect on ROA ( $\beta = -0.8371$ ,  $p = 0.2076$ ), while its first lag was also negative and not significant ( $\beta = -1.3945$ ,  $p = 0.0664$ ). TIER1, however, had a positive but not significant contemporaneous effect ( $\beta = 0.9588$ ,  $p = 0.1875$ ), with its lag approaching significance ( $\beta = 1.5245$ ,  $p = 0.0577$ ). In contrast, CTA had a positive and statistically significant effect on ROA ( $\beta = 0.6877$ ,  $p = 0.0045$ ). These results suggest that the effect of capital adequacy on bank performance depends on the measure of capital employed. The positive effect of CTA is consistent with Oke and Ikpesu (2022), Saleh et al. (2022) and Isayas (2022), who reported that stronger capital positions improved bank profitability. It also agrees with the broader evidence of Oyasor (2025), who found a positive effect of capital adequacy on bank performance. However, the negative and non-significant CAR result differs from these studies and may reflect the opportunity cost of holding

regulatory capital, whereby excessive capitalisation can limit funds available for income-generating activities. This interpretation is also consistent with Oyetade et al. (2022) and Adu et al. (2021), who found that higher capital requirements could impose short-term performance costs and that the capital-performance relationship may not be uniformly positive.

**Table 2: Asset Quality Regulation and Commercial Bank Performance in Nigeria**

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.*   |
|--------------------|-------------|-----------------------|-------------|----------|
| ROA (-1)           | 0.326187    | 0.145427              | 2.242959    | 0.0330   |
| NPL                | -0.123686   | 0.040001              | -3.092080   | 0.0045   |
| NPL(-1)            | 0.176977    | 0.031950              | 5.539125    | 0.0000   |
| LLP                | -0.795356   | 0.266215              | -2.987647   | 0.0058   |
| LTA                | 0.010043    | 0.067720              | 0.148306    | 0.8832   |
| C                  | 2.858444    | 3.402015              | 0.840221    | 0.4079   |
| R-squared          | 0.803159    | Mean dependent var    |             | 1.941176 |
| Adjusted R-squared | 0.768009    | S.D. dependent var    |             | 2.416749 |
| S.E. of regression | 1.164039    | Akaike info criterion |             | 3.300454 |
| Sum squared resid  | 37.93965    | Schwarz criterion     |             | 3.569812 |
| Log likelihood     | -50.10773   | Hannan-Quinn criter.  |             | 3.392313 |
| F-statistic        | 22.84932    | Durbin-Watson stat    |             | 1.818728 |
| Prob(F-statistic)  | 0.000000    |                       |             |          |

**Source:** *Researcher's Computation using E-Views 12 (2026).*

The results for asset quality in Table 2 provided stronger evidence of its importance for bank performance. NPL had a negative and statistically significant contemporaneous effect on ROA ( $\beta = -0.1237$ ,  $p = 0.0045$ ), although its first lag became positive and significant ( $\beta = 0.1770$ ,  $p = 0.0000$ ). This indicates that deterioration in loan quality initially reduces profitability, while the positive lagged coefficient may reflect subsequent recovery, restructuring or provisioning effects. LLP also had a negative and significant effect on ROA ( $\beta = -0.7954$ ,  $p = 0.0058$ ), suggesting that higher loan-loss provisions place pressure on bank profitability. LTA, however, had a positive but not significant effect ( $\beta = 0.0100$ ,  $p = 0.8832$ ), implying that a greater proportion of assets committed to lending does not necessarily translate into improved profitability. The negative effects of NPL and LLP are consistent with Oyasor (2025) and Tijjani et al. (2025), who found that poor asset quality, non-performing loans and loan-loss provisions adversely affected bank performance in Nigeria. The findings also support the argument of Onah et al. (2022) that asset quality is closely linked to bank profitability. However, they differ partly from Oke and Ikpesu (2022) and Saleh et al. (2022), who reported positive effects of asset quality on bank performance. The differences may be explained by variations in the measurement of asset quality, study periods, sample characteristics and estimation techniques. Generally, the results indicate that asset quality appears to have a more direct and consistent influence on ROA than capital adequacy. While CTA significantly improved performance, CAR and TIER1 were not significant in the short run. Conversely, higher NPL and LLP significantly reduced ROA. The findings therefore suggest that maintaining adequate capital is important, but effective credit-risk management and the preservation of asset quality are equally critical to sustaining the performance of Nigerian commercial banks. Both models were statistically significant, with the capital adequacy model explaining approximately 95.80% of the variation in ROA and the asset quality model explaining 80.32%, reinforcing the overall relevance of prudential factors to bank performance.

### Summary of Findings

1. The study found that capital adequacy ratio had a negative but not significant effect on return on bank performance in the current period. Its lagged value was also negative and remained not significant at the 5% level. This suggests that maintaining higher regulatory capital, although important for financial safety, did not translate directly into improved bank performance during the period studied.
2. TIER1 capital had a positive but not significant effect on ROA. Its lagged value was also positive but did not reach the 5% significance level. The finding suggests that stronger core capital may support bank performance, but its contribution to profitability was not sufficiently strong to be statistically established in the study.
3. Capital to asset ratio had a positive and statistically significant effect on ROA. This indicates that banks with a stronger capital base relative to their total assets tended to record better profitability. Among the capital adequacy measures, CTA therefore provided the clearest evidence of a favourable relationship with bank performance.
4. The current non-performing loan ratio had a negative and statistically significant effect on ROA. This means that an increase in non-performing loans was associated with a decline in bank profitability. However, the lagged NPL ratio showed a positive and significant effect, suggesting that the effect of problem loans on profitability may change over time as banks recover, restructure or manage impaired loans.
5. Loan loss provision ratio had a negative and statistically significant effect on ROA. The result indicates that higher loan loss provisions were associated with lower profitability, reflecting the direct earnings pressure created when banks recognise higher expected credit losses and provisions against potentially impaired loans.
6. Loan to total asset ratio had a positive but not significant effect on ROA. Although greater lending relative to total assets appeared to be associated with higher profitability, the relationship was too weak to establish a statistically reliable effect. Thus, simply increasing the proportion of assets committed to lending did not necessarily improve bank performance.
7. In the asset quality model, lagged ROA had a positive and statistically significant effect on current ROA. This indicates a degree of persistence in bank profitability, with banks that performed well in the previous period tending to maintain relatively stronger performance in the current period.

### Conclusion

The study concludes that prudential regulation has an important, although varied, influence on the performance of commercial banks in Nigeria. Capital adequacy, measured through CAR, TIER1 and CTA, produced mixed results, with CTA showing a significant positive effect on ROA. In contrast, asset quality demonstrated a clearer relationship with performance, as higher NPL and LLP significantly reduced profitability. In conclusion, the findings suggest that maintaining adequate capital is necessary, but effective management of credit risk and asset quality is equally important for sustaining bank profitability and financial stability.

### Recommendation

The study recommended the following.

1. Banks should strengthen credit-risk management by improving loan appraisal, monitoring and recovery systems to minimise non-performing loans.
2. Banks should maintain adequate and efficient capital levels, particularly by strengthening their core capital base without holding excessive idle capital that could constrain profitable investment.
3. Loan-loss provisioning should be proactive and accurate, ensuring that potential credit

losses are recognised early while avoiding excessive provisioning that unnecessarily depresses profitability.

4. Regulators should adopt a balanced prudential approach that promotes bank stability without imposing capital requirements that unnecessarily constrain lending and profitability.

5. Banks should ensure that lending growth is supported by sound risk assessment, since a higher loan-to-asset ratio alone does not guarantee improved profitability.

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