

Effect of Regulatory Requirements on Total Assets Performance of Deposit Money Banks in Nigeria.

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ABSTRACT

This paper examines the effect of regulatory requirements compliance on total assets performance of deposit money banks in Nigeria. The banking system is highly regulated with various laws, rules, and instruments prescribed by the Central Bank of Nigeria. However, incidents of non-adherence with regulatory requirements has hinders total assets performance of banks. The study adopted an ex-post-facto research design. Validated data was obtained from published financial statements of (10) deposit money banks quoted on the Nigerian Stock Exchange (NSE) were adopted for the study from 2007 to 2018; thus study sample population was ten (10) banks x 12 years=120 samples. The analysis was conducted in three stages; descriptive analysis was carried out; also diagnostic test were conducted to ensure appropriateness of the model and the choice of regression estimate to employ while multiple regression analysis was carried out to examine the effect of the regulatory requirements compliance on total assets (TA). Following the p -value of F-statistics of 0.0483, which is significant because it is less than the chosen significance level of 5%, it evidenced that regulatory requirements significantly has effects on Total Assets. Therefore, banks are expected to improve on their total assets by ensuring strict adherence to regulatory instruments in their operations towards achieving sustainable long term performance.

Keywords: Asset quality, Loan loss provision, Non-performing loans, Reserves, Return on assets.

I. BACKGROUND

Banking industry across the world have been experiencing cycles of distress and reforms while several regulatory policies put in place by

monetary authorities to resolve the impasse not effectively being complied with, as banks are still battling with negative capital base, diminution of assets caused by growing non-performing loans, increasing loan loss provisions that reduce profitability, poor asset/liability management skills, contraventions of regulations and payment of penalties by banks to the regulators. Harcourt (2017), stated that the global financial meltdown of 2008 accelerated a fundamental change in the banking industry across the globe as its impact was enormous to the extent that almost all sectors of global business were affected and with the banking sector most challenged especially due to their credit creation function having being exposed to a lot of risks of default and other investment risks (AlKulaib, Almudhaf, & Al-Jassar, 2013).

Beck & Cull, (2013); and Saeed & Zahid, (2016) posits that despite banking regulations, most African countries are still been confronted with challenges of distress impasse due to poor capitalization, poor risk asset, high costs of operations, short maturities of financial instruments, loan deposits mismatch and limited financial inclusion (Beck & Cull, 2013; Saeed & Zahid, 2016). According to Nasieku (2014), the regulatory framework has affected the economic efficiency and behaviour of the banking sector in Kenya and several other countries. What is however not clear is how have commercial banks adjusted in place of regulatory requirements? Also, Akanbi and Ajagbe (2012) posited that the effect of regulatory requirements had a minimal effect on bank assets growth performance and this therefore, raises the question of how effective CBN has been in its regulatory policy requirements, supervision, and monitoring of the Nigerian banking industry.

The banking system in Nigeria has witnessed series of issues and challenges which range from banking consolidations, the global financial crisis in 2007/08 as well as bank recapitalization and of recent, banking reforms (Saheed, 2018). Ajumogobia and Okeke, (2015) asserted that by 2009, huge toxic assets had been discovered on the banks financial statements. It is only the timely and drastic banking reforms instituted by the Central Bank of Nigeria that helped rescue the industry by raising minimum capital thresholds, forcing mergers, writing off unprofitable businesses, and cleaning up bad loans

The advent of financial sector reforms in Nigeria has brought several policy changes to the banking sector which include bank recapitalization, cessation of universal banking; emergent of e-banking, the introduction of cashless policy, bank verification number (BVN), reduction of the tenure of bank MDs/CEOs, a separation of the dual roles of bank Chairman/MDs/CEOs. The introduction of asset management companies (AMCON) was saddled with the responsibility of mopping up the toxic assets of banks to relieve them of non-performing loans to improve their liquidity; enhance credit allocation to the private sector, access to credit and strengthen banks' capital base to absorb both internal and external shocks as well as engender an increase in total assets (Igbinsola, Ogbeide, & Babatunde 2017).

In banking operations globally, the provision of credit remains the primary business of every bank and for this reason; credit quality is considered a primary indicator of financial soundness and health of banks (Boahene, Dasah & Agyei, 2012). However, Coyle (2014) asserted that poor credit management and administration expose financial institutions to credit risks which occurs when a borrower defaults in honouring debt obligations on the due date or at maturity. Afrinvest (2016) reported that the key risk factor in the banking sector was weak asset base which reportedly drove NPLs and provisioning charges higher across the industry's tiers, resulting in weaker margins and put pressure on capital assets ratios (CAR) positions. This was also responsible for the reluctance of banks to extend new credit facilities thereby resulting in their inability to grow assets base.

1.1 Statement of the problems

Yusuff and Ekundayo (2019) observed that due to weak or inefficient regulatory oversight, several efforts were made to strengthen the regulatory requirements through the promulgation of the 1952 Banking Ordinance, Central Bank of

Nigeria (CBN) Act of 1958, Banking Decree (Act) of 1969, Bank and Other Financial Institutions Act (BOFIA) 2004, Nigerian Deposit Insurance Corporation (NDIC) Act 2006, CBN Act 2007 among others but the presence these several regulatory bodies operating independently or sometimes with overlapping functions are hindering efficient management of bank assets. Ahmad, (2018) asserted that what is however not clear is how have commercial banks adjusted in place of regulatory requirements as the performance and growth of banks in Nigeria have been hindered as their ability to create credit is restricted despite increased deposits mobilization. Also, Ajibike and Aremu, (2015) posited that deposit money banks are often confronted with the problem of how to choose and identify the optimum point or the level at which it can maintain its assets to optimize and achieve set objectives. Further, the issue of poor assets base has gained increasing attention in the academia for some decades and it is difficult to distinguish good borrowers from bad ones which usually result into an adverse selection and moral hazards problems since loans and advances constitute the highest chunk of banks assets. Therefore, the specific objective of this study is to evaluate the effect of regulatory requirements dimensions on total assets (TA) of deposit money banks in Nigeria; and the study hypothesized that regulatory requirements have no significant relationship on total assets of deposit money banks in Nigeria.

II. REVIEW OF LITERATURE

2.1 Regulatory requirements

The banking industry is highly regulated to ensure discipline, discourage misconduct and to protect the interest of depositors, investors, and creditors on one hand while elevating the integrity and reputation of the system on the other hand (Zeidan, 2012). Similarly, the necessity for regulatory requirements in the economy has traditionally been justified by the need to correct market imperfections and unfair distribution of resources, hence, the main objective of regulations pursuit of stability, equity of resource allocation and efficient use of resources (Adam, 2009). A bank regulatory requirement is to promote the stability and soundness of the financial system, but compliance must be measured credibly enforced and requirements should be commensurate with risk (Aiyar, Calomiris & Wieladek, 2015). Besides, Abdullahi (2015) posited that reform of the regulatory and supervisory framework is aimed at aligning the institutional framework governing the regulation and supervision of financial institutions

to the needs of a growing and complex financial system. It involves issues of regulating independence, risk-focused, and rule-based supervision while safety arrangements in reforms embrace the traditional lender resort role, deposit insurance arrangement which caters to prudential regulation and supervision.

The importance of bank regulation is to regulate the credit activities of banks as rising loan losses caused bank distress in the late 1980s and early 1990s in the country which has been attributed to laxity in banks' adherence to credit guidelines (Okwo, Mbajaku & Ugwunta, 2012). In the same vein, formal regulatory regimes serve as backstops to regular supervisory action in practice by somewhat constraining supervisory forbearance, complement regular supervisory measures and contribute to their effectiveness by constituting a credible threat (Svoronos, 2018). On the other hand, Occhino (2016) posited that the central bank regulation determines whether banks will be able to repay liabilities to their customers or would not for it to embark on pre-emptive action that would avert financial crisis. Similarly, Abata (2015), stated that the regulatory approach adopted towards resolving threats to banking industry performance and economic stability led to the creation of Assets Management Corporation of Nigeria (AMCON) following the passage into law the AMCON Bill on July 19, 2010, for the corporation to purchase the toxic assets from the banks to "clean" their balance sheet through liquidity injection. Alushula (2017) posited that a few leading banks in Kenya are using the regulation in the forecasting of balance sheets and profit and loss (P&Ls) for their internal planning aimed at improving efficiency while at the same time accelerate the overall generation of the baseline while KPMG (2016), opines that the process of adjusting to new regulatory requirements is not simply about completing compliance requirements, but also crafting dynamic processes and maximizing the use of next-generation analytics to track regulatory changes as they emerge.

2.2 Total Assets (TA)

An asset is a resource with economic value that an individual, Corporation or country owns or controls with expectation that it will provide a future benefit. Such assets are usually reported on a company's statement of financial position and are bought or created to increase a firm's value or benefit the firm's operations (Investopedia, 2020). A firm's asset includes; cash, marketable securities, accounts receivables; prepaid

expenses, inventory, fixed assets, intangible assets; goodwill and other assets (CPE, 2019).

Furthermore, total assets as commonly defined in the context of bank assets are the assets own by an entity that has economic value whose benefits can be derived in the future. Such assets are usually recorded in the statement of financial position of the bank or firm. They are further classified into liquid assets and illiquid assets depending on their level of liquidity. A liquid asset can be easily converted into cash or readily sold for cash; otherwise, it is called illiquid assets. Similarly, Assets are also classified on the balance sheet as either current assets or long term assets. A current assets is the assets which can be liquidated within a year, whereas long term assets are those assets that are liquidated in more than a year (Wall Street Mojo, 2020).

Also according to Ini et al, (2016), the Central Bank of Nigeria reported that, as at end 2013, total assets of the deposit money banks (DMBs) stood at N24, 468.3 billion constituting 80.3 per cent of total financial system assets. This shows that bulk of the mobilization and allocation of funds is within the banking system. Meanwhile, Sangmi and Nazir, (2010) asserted that the assets base of the banking industry is measured by the proportion of impaired credits to total credits while the statutory maximum threshold for banks compliance is 5%. They also affirmed that bank's asset is another bank-specific variable that affects the profitability of a bank; such bank asset includes among others current asset, loan portfolio, fixed asset, and other investments. However, the loan portfolio of a bank is the major asset that generates the major share of the bank's income. In the same vein Richard (2013), posited that liquid assets should be marketable or transferable in which case they are expected to be converted to cash easily and promptly, and are redeemable before maturity. Another quality of liquid assets is price stability and based on this characteristic, bank deposits and short term securities are more liquid than equity investments because the prices of the former are fixed than the prices and value of the later.

2.3 Credit Creation

According to Agu and Nwankwo, (2019); loans and advances are general descriptions of debt obligations companies owe and must show on their balance sheet as part of total liabilities. Formally contracted loans are typically known as "notes payable" on a balance sheet, whereas advances or purchases on credit are recorded as accounts payable. Overdraft facility allows customers to draw beyond the deposits of their current accounts,

for a viable and ongoing business. Also according to Olokoyo (2011), the volume of loans DMBs gives out depends on many factors such as their liquidity ratio, interest rate, the volume of customers' deposit, their investments (domestic and foreign), the customer's prestige and public recognition. Carney, (2013) asserted that when a bank makes a loan to a borrowing customer, it simultaneously creates credit and liability for both the bank and the borrower. The borrower is credited with a deposit in his account and incurs a liability for the amount of the loan. The bank now has an asset equal to the amount of the loan and a liability equal to the deposit. All four of these accounting entries represent an increase in their respective categories: the bank's assets and liabilities have grown, and so has the borrower's. Aduda and Gitonga (2011) posit that credit expansion can be gauged by the year-on-year percentage increase in the stock of bank loans to the private sector. The faster the bank credit expands, the higher the risk of an asset bubble.

2.4 Reserve Requirements

The CBN (2015) defined reserve requirement as the proportion of total deposit liabilities which the deposit money banks are expected to keep as cash in vaults and deposits with the CBN who controls the money stock by varying the requirement as desirable as banks usually keep reserves over and above the legal requirement to ensure the safety of depositors' fund, hence the cash ratio requires the deposit money banks to keep a certain proportion of their total deposit liabilities as cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets, mainly to safeguard the ability of banks to meet depositors' cash withdrawals and ensure confidence in the banking system.

Cash Reserve Ratio is the percentage of total deposits that DMBs are required to keep with the Central Bank. In most countries, the Central Bank is responsible for controlling the cash reserve ratio, and alongside the existing cash reserve requirement (CRR) of 12.0 percent, the 50.0 percent CRR on public sector deposits was retained to address excess liquidity in the banking system, (CBN, 2014). Similarly in Kenya, reserves requirements are the proportion of deposits commercial banks are required by law to keep at the Central Bank hence when the Central Bank needs to significantly adjust the amount of money circulating in the economy, it can increase or decrease the cash reserves and these reserves are held in the CBK at no interest and in other words,

to facilitate commercial banks' liquidity management, commercial banks are currently required to maintain their cash reserves based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below 3 percent on any day (CBK, 2017). The assumption is that deposit money banks generally maintain a stable relationship between their reserve holdings and the amount of credit they extend to the public. The Central Bank serves as a moderator of activities of banking through its regulations (Investopedia, 2014). Also, Uhagiro (2008) asserted that such regulation is to control the activities of banks in Nigeria which include maintenance of adequate equity capital, and reserve requirements. This requires banks to maintain two major reserve ratios: a cash ratio and liquid assets ratio otherwise known as liquidity ratio. Others are special deposit which the Central Bank of Nigeria uses to call on the bank to make special deposits which have the effect of reducing their liquidity. Such deposits are usually proven and do not form part of their eligible liquid assets and stabilization securities which the CBN issues to banks to mop up excess liquidity.

2.4 Statutory Reserves

According to CBN Act as amended (2010), 'Every bank shall maintain a reserve fund appropriated out of its net profits for each year (after due provision made for taxation) and before any dividend is declared' as follows: Where the amount of the reserve funds is; (i) less than the paid-up share capital, transfer to the reserve fund a sum equal to not less than 30% of the net profits; and (ii) equal to or in excess of the paid-up share capital, transfer to the reserve fund a sum equal to not less than 15% of the net profit; provided that no transfer under this subsection shall be made until all identifiable losses have been made good. Cash reserve ratio: The CBN shall prescribe the minimum cash reserve ratio for banks in Nigeria from time to time in line with its monetary policy's directions (CBN, 2010). Any changes made in cash reserve ratio (CRR) or statutory liquidity ratio (SLR) affects the availability of money with the bank for credit in the system thereby influencing the money supply in the economy. Whenever CRR is increased, it acts as a tax on bank deposits (Glocker & Towbin, 2012). Carney (2013) posited that at least two more types of liabilities are also created by banks which are; a reserve requirement and a capital requirement. These aren't standard financial liabilities but they are regulatory liabilities. The reserve requirement arises with the creation of the deposit (the bank's liability), while

the capital requirement arises with the creation of the loan (the bank's asset). Hence loans create capital requirements while deposits create reserve requirements. Glocker and Towbin, (2012); Bech and Keiser, (2012) asserted that the reserve requirement characteristically affects the liquidity of banks and this happens in two dimensions, namely from the perspectives of bank customers or depositors and commercial banks.

2.5 Asset Quality

Ombaba (2013) defined asset quality as the general risk attached to various assets held by a financial institution. It is commonly used by a financial institution to determine how many of their assets are at financial risk and how much allowance for potential losses they must make. The support of asset quality is an essential feature of the bank (Gulia 2014). Asset quality of the bank is one of the main issues whenever research on banks is conducted (Chisti 2012). Debelle (2015) posits that asset quality ratios of banks merit particular attention given its vital role in ensuring the safety and soundness of the banking system and following the collapse of many renowned world financial institutions in 2007-2009 and the recent market turmoil which had exposed to significant risk management weaknesses in banking institutions. Afrinvest (2017) reported that in the banking sector, the key risk factor was weak asset quality, which drove NPLs and provisioning charges higher across the industry's tiers, resulting in weaker margins and pressure on CAR positions and was also responsible for the reluctance of banks to extend new credit facilities and financial results so far have been broadly positive, having been driven by non-interest income through foreign exchange trading income, revaluation gains and improvement in E-business income.

2.6 Prime Lending Rate

Ngure (2014) defined interest rates as the price a borrower pays for the use of the money they borrow from a lender (financial institution) or fee paid on borrowed assets. Sayedi (2013) expressed an interest rate as the percentage rate over a period of one year. Karl et al., (2009) posited that interest rates are derived from macroeconomic factors which agree with Irungu (2013) that interest rates are major economic factors that influence the economic growth in an economy. Inflation and inflationary expectations can press interest rate upward which affects lending rates resulting to reduce credit demand and lending ability of commercial banks (Keynes, 2006).

2.2. 0 Theoretical Review

The study review two (2) theories relevant to all the explanatory variables of this work such as:

2.2.1 Shiftability Theory.

This theory was proposed in the USA by Moulton (1918). It assumes that the problem of liquidity is not a problem but how to shift a bank's assets without any material loss. Moulton opined that to attain minimum reserves, relying on maturing bills is not needed but maintaining the number of assets which can be shifted to other banks whenever necessary and that for an asset to be perfectly shift able. Such assets must be directly transferable without any loss of value when there is a need for liquidity. This is specifically used for short term market investments, like treasury bills and bills of exchange which can be directly sold whenever there is a need to raise funds by banks. But in general, circumstances, when all banks require liquidity CBN, will offer banks lender of last resort assistance. The shift-ability theories need all banks to acquire such assets which can be shifted on to the central bank which is the lender of the last resort.

2.2.2 The Liability Management Theory

The theory was propounded in the early 1960s when Woodworth (1968) published an article in the Bankers magazine. Liability management theory holds that it is unnecessary for banks to adhere strictly to traditional standards of liquidity management since reserve money can be borrowed or obtained in the money market using short term debt instruments whenever a bank experiences reserve deficiency. However, it does not mean that a bank only manages its liabilities but passive concerning its assets. Banks are also employing asset and liabilities management policy which recognize that asset structure of the bank has a prominent role to play in providing the bank with liquidity. Liability management theory does not depend on a particular theory but rather hybrids of theories that are usually employed by banks to enhance optimal performance.

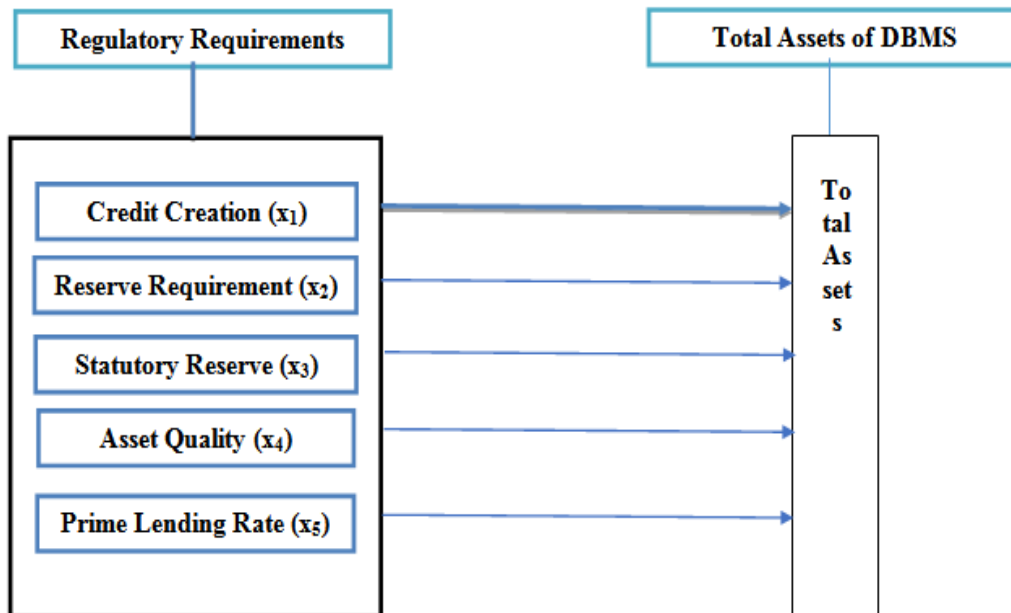
2.3. Empirical Review

Ekanayake and Azeez (2015); Klein (2013), found that the loan to assets ratio (LAR) reflects the credit growth and risk appetite of a bank. Failure to maintain effective credit standards with increasing loan portfolios may raise the possibility of bad loans. Khemraj and Pasha (2009), Meela and Prasad (2016) and Sinkey and Greenawalt (1991) showed that rapid credit growth is usually associated with poor lending decisions, indicating the probability of bad loans and the likelihood of a banking crisis increase with the increase in the LAR (Peña 2017). In contrast,

Shingjergji (2013) found a negative effect of LAR on NPLs in the Albanian banking industry, which suggests an increase in the loan portfolio may not increase the NPL level. However, there are theoretical reasons to believe that with the increase in credit over total assets, the likelihood of adverse selection and the possibility of bad loans increases. Chenyam and Abdrahamane (2017) in their study employed descriptive statistics, Pearson correlation analysis and multiple regression techniques for analyzing data and found out that credit risk management was inversely linked to banks' assets performance. Taiwo and Musa (2014) using a sample of four banks; Paired sample T-test was used to test the hypothesis formulated concerning the variables; Return on Asset, Return on Equity and Net profit margin. In another study on commercial banks' performance in Nigeria; a panel model approach examined the impact of consolidation on the performance of listed deposit money banks in Nigeria from 2000 to

2011 (6yrs pre and post); the study concluded that consolidation reform in the Nigerian banking sector has impacted positively on Return on Assets, Net profit margin, but does not impact on Banks Return on equity. In Umoren and Olokoyo (2007), correlation analysis was used to test the impact of bank performance ratios evaluate; asset profile, capital structure, credit risk, cost controlling, liquidity risk, return on asset, return on equity, and size. Their findings support the hypothesis that on average, strategically similar institution tend to improve performance (asset size) to a greater extent than dissimilar institution. However, the results differ for individual banks. Also Okpanachi (2011), the result of his study revealed an enhanced financial performance due to improved financial efficiency, but the t-test statistic result of the three selected banks depicted an increase in their combined means for gross earnings and net assets while profit after tax recorded a decline.

Conceptual Model



Source: Researcher's model 2020

Variable Description, Measurement and data source

Variables	Description	MEASUREMENT	Source
Credit Creation (CC)	Total aggregate loans including contingencies.	Loan Growth	CBN Annual reports and account of selected DMBs
Reserve Requirements (CRR)	Capital adequacy Ratio (CAR)	Capital Adequacy Ratio	CBN Annual reports and account of DMBs

Statutory Reserve (SR)	Liquidity Ratio, liquid Assets/Total Assets ratio	Liquidity Ratio	CBN Annual reports and account of selected DMBs
Prime Lending Rate (PLR)	Annual Interests on Loans & Advances	Interest on Loan	Audited financial statements of banks, Fitch rating & stock exchange fact book.
Assets Quality (AQ)	Non-performing Loan/Gross Loans	Total loans and advances to total asset	Audited financial statements of banks, Fitch rating & stock exchange fact book.
Total Asset (TA)	Core Liquid Assets, (Cash, Loans, Investments)/Total assets.	Total liquid assets, /Total Assets.	Audited financial statements of banks, Fitch rating & stock exchange fact book.

Source: Researcher,2020

III. METHODOLOGY

The study adopted ex-post facto research design. The population of the study consisted of ten (10) banks being quoted on the Nigerian Stock Exchange. They control over 60% of the assets and liabilities of the banking industry. Meanwhile, these banks have also satisfied the compliance index of Central Bank of Nigeria. They are UBA, GTB, Eco-Bank, First Bank, Access Bank, Stanbic-IBTC, Fidelity Bank, Zenith Bank, First City Monument Bank, and Union Bank of Nigeria. Purposive sampling technique was adjudged to be the most appropriate technique to use for the study because the sample subjects shared similar characteristics. Validated data was collected from the audited financial statements of the ten (10) selected banks from 2007 to 2018 as approved by CBN was used for the study. The unit of analysis employed for the study was ten (10) deposit money banks times (x) 12 years x thus making 120 samples.

3.1 Model Specification

The model formulated for the hypothesis is written as:

$X; RR = (CC, RR, SR, AQ, PLR); Y; TA = (TA); TA = f(CC, RR, SR, AQ, PLR)$

Where: $Y = f(X)$; The Dependent Variable $Y =$ Bank Performance.; $y_1 =$ Total Asset (TA)

The Independent Variable $X =$ Regulatory Requirements (RR).

$x_1 =$ Credit Creation (CC); $x_2 =$ Reserve Requirement (RR); $x_3 =$ Statutory Reserve (SR); $x_4 =$ Asset Quality (AQ); $X_5 =$ Prime Lending Rate (PLR).; $TA = f(CC, RR, SR, AQ, PLR)$

$TA_{it} = \beta_0 + \beta_1 CC_{it} + \beta_2 RR_{it} + \beta_3 SR_{it} + \beta_4 AQ_{it} + \beta_5 PLR_{it} + e_{it}$

IV. ANALYSIS OF DATA:

Descriptive statistics were employed to evaluate whether the variables are cut from a normal distribution or abnormal distribution. These statistics include; minimum, maximum, Mean, Standard Deviation, Skewness, Excess Kurtosis as well as the normality test values of the variables. The research Objective was to Determine the effect of regulatory requirements dimensions on total assets (TA) of Deposit Money Banks in Nigeria; Research Question: How do regulatory requirements dimensions affect total assets in Deposit Money Banks in Nigeria?; H_0 - Regulatory requirements dimensions have no significant effect on total assets in Deposit Money Banks in Nigeria in Nigeria. The multiple regression model is thus expressed as: $TA = 266.37 - 13.11CC + 0.08RR - 1.22SR - 1.66AQ - 0.51PLR$

Table 1.0 Research hypothesis: Regulatory Requirements on Total Assets

Method	fixed effect regression with driscoll-kraay Standard Errors			
Variables	Coeff	Std. Err	T	Prob
CC	-13.11	13.34	-0.98	0.347
RR	0.08	0.12	0.67	0.519
SR	-1.22	1.30	-0.93	0.371

AQ	-1.66	1.90	-0.87	0.401
PLR	-0.51	1.66	-0.30	0.767
Constant	266.37	108.14	2.46	0.032
R-squared = 0.01, $F_{(5, 11)} = 3.24$, Prob>F = 0.0483				
Hausman Test: $\text{Chi}^2_{(5)} = 76.56$, Prob> chi ² = 0.00				
Testparm: $F_{(11, 94)} = 2.59$, Prob>F = 0.01				
Modified Wald Test: $\text{Chi}^2(10) = 3.2e^{05}$, Prob> chi ² = 0.00				
Wooldridge Test: $F_{(1, 9)} = 0.216$, Prob>F = 0.65				
Peseran CD: 2.842 (Prob = 0.00)				

Dependent Variable: Total Assets (TA)

Significance @ 5% @10%

4.1 Interpretation

The Hausman result showed that fixed effects model is the best estimate considering the probability value of 0.00 which is less than 0.05 significant level; also, the testparm test confirmed the result of Hausman that fixed effect existence with a significant ρ -value of 0.01. Modified Wald Test revealed that there is heteroskedascity problem in the model looking at the ρ -value of 0.00 being significant as the null hypothesis specifies that the model is homogeneous; there was serial correction shown under the Wooldridge test with the ρ -value of 0.00 which is significant and negates the null hypothesis which states that no serial auto correlation, while the model also has cross-sectional dependence test considering its ρ -value of 0.00; thus fixed effect regression with driscoll-kraay Standard Errors was conducted to correct the errors. The probabilities and the signs of the t-statistics as presented in Table 1.1 showed that credit creation (CC) having t-stat of -0.98, which is negative and ρ -value of 0.347, which is greater than chosen significant level of 5%, means that CC has insignificant negative effect on Total Assets (TA). Also, reserve requirements with t-statistics of 0.67; being positive and ρ -value of 0.519, which is greater than chosen significant level of 5%, implies that RR has insignificant positive effect on Total Assets. Likewise, statutory reserve with t-statistics of -0.93 and ρ -value of 0.371, which is greater than chosen significant level of 5%, indicates that SR negatively but insignificantly influences Total Assets. Considering the t-statistics and ρ -values of asset quality (AQ) and prime lending rate (PLR) with negative values of -0.87 and -0.30; ρ -values of 0.401 and 0.767 respectively, means that AQ and PLR negatively and insignificantly influence TA. Interpreting the coefficients of AQ and PLR which are -1.66 and -0.51 implies that an increase in AQ would result to ₦1.66billion decrease in Total Assets while a percentage increase in PLR would yield ₦0.51billion decrease in Total Assets. For CC, RR and SR, with coefficients of -13.11; 0.08;

and -1.22 respectively means that a naira increase in CC would result to ₦13.11billion decrease in Total Assets; a naira increase in RR would result to ₦0.08billion increase in Total Assets; while a naira increase in SR would yield ₦1.22billion decrease in Total Assets. Following the ρ -value of F-statistics of 0.0483, which is significant because it is less than the chosen significant level of 5%, it evidenced that Regulatory requirements significantly effects on Total Assets. The value of adjusted R-squared of 0.01 explains the power of the explanatory variables. It simply means that a variation in the combined powers of the explanatory variables (CC, RR, SR, AQ, and PLR) would lead to 1% variation in the explained variable, that is, Total Assets (TA), while the remaining 99% changes that could occur in Total Assets resulted from other factors that are not captured in this model.

4.2. Decision and Discussion

Therefore, the null hypothesis (H_0) which states that regulatory requirement dimensions do not significantly affect total assets of selected deposit money banks in Nigeria is hereby rejected while the study accepted the alternate hypothesis that regulatory requirement dimensions significantly affect total assets of selected deposit money banks in Nigeria. In Asantey and Tengey (2014), their study discovered a high negative correlation between bad loans and lending ability at 0.05 alpha levels and a high negative correlation between bad loans and financial performance, measured as return on investment or net profit at 0.05 level. Shingjergji (2013) found a negative effect of LAR on NPLs in the Albanian banking industry, which suggests an increase in the loan portfolio may not increase the NPL level. However, there are theoretical reasons to believe that with the increase in credit over total assets, the likelihood of adverse selection and the possibility of bad loans increases.

V. CONCLUSION AND RECOMMENDATION

It evident from this study that regulatory requirements significantly effects on total assets but there is more work to be done by deposits money banks in Nigeria to enhance their level of total assets performance. There is need for banks to domesticate their loan procedures to enhance the value of their investments in total assets creation system as healthy banks usually drive a healthy economy. This should be done to build trust, asset protection, and enhanced sustainability of profitability, cost savings; and placing zero tolerance on fraud and insider abuse. It is however recommended that there is the need for banks to ensure that skillful and experienced professional bankers that can competently appraise loan request to ensure safe lending at all time. This study will help inform deposit money banks to avoid capital erosion through the accumulation of losses and diminution of assets value.

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