

Bank Attributes and Financial Performance of Listed Deposit Money Banks in Nigeria

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Abstract

Despite continuous regulatory reforms and increased capital requirements in the Nigerian banking sector, the financial performance of listed deposit money banks (DMBs) remains inconsistent, raising concerns about the influence of bank-specific attributes on profitability. This study examines the effect of bank-specific attributes on the financial performance of listed DMBs in Nigeria from 2015 to 2024. Specifically, it investigates the effects of capital adequacy, asset quality, and management efficiency on return on equity (ROE). The study is anchored on the post-positivist paradigm and adopts a quantitative research design. A census sampling technique was employed, covering all thirteen (13) listed DMBs on the Nigerian Exchange Group. Secondary data were obtained from audited annual financial statements and publications of the Central Bank of Nigeria. Panel Corrected Standard Error (PCSE) regression was applied following evidence of heteroskedasticity. The findings reveal that capital adequacy has a significant negative effect on financial performance, whereas asset quality and management efficiency exert significant positive effects on ROE. The model produced an R-squared value of 0.398, indicating that the explanatory variables account for 39.8% of the variation in financial performance, while the F-statistic confirmed the overall significance of the model. The study concludes that effective management practices and improved asset quality enhance bank performance, whereas excessive capital holdings may reduce profitability due to inefficient resource utilization. It recommends strengthening credit risk management, improving operational efficiency, and ensuring optimal capital utilization to enhance the financial performance of listed deposit money banks in Nigeria.

Keywords: capital adequacy; asset quality; management efficiency; financial performance; deposit money banks

Introduction

The banking sector is a critical component of the economic development of any country, as it performs financial intermediation, mobilizes savings, and allocates resources efficiently. The Deposit Money Banks (DMBs) in Nigeria play a vital role in the development of the economy, including credit generation, investment financing, and backing for private and public sector activities (Central Bank of Nigeria, 2023). Nevertheless, despite their strategic importance, the banks' performance has become a matter of concern, with recurring issues such as the dominance of non-performing loans, volatile capital adequacy ratios, and inefficiencies in management practices (Ogunleye et al. 2021). These challenges suggest that there is a need for further research on the internal determinants of bank performance, especially within the context of the CAMEL framework, which is one of the most common methods used to evaluate bank performance. The CAMEL framework is a comprehensive framework for the evaluation of the financial health and performance of banks (Dang, 2021; Roman & Şargu, 2025). It includes capital adequacy, asset quality, management efficiency, earnings, and liquidity. Regulatory authorities and researchers widely use this framework to assess the stability and operational efficiency of banks.

Among these components, capital adequacy, asset quality, and management efficiency are deemed particularly critical, as they directly impact a bank's ability to remain solvent, manage credit risk, and allocate resources effectively (Yakubu & Affoi, 2024; 2021). Capital adequacy is a crucial performance indicator for banks, as it reflects their capacity to absorb unexpected losses and maintain financial

stability. Higher capital adequacy levels are associated with higher lending capacity, greater resilience in times of economic downturns, and improved profitability. Empirical studies have shown a positive and significant relationship between capital adequacy and bank performance (Naceur & Omran, 2021; Berger & Bouwman, 2023).

However, variations in capital adequacy among listed banks in Nigeria have raised concern for their effects on financial performance, especially during times of economic volatility (Olowokudejo et al. 2022). Asset quality, on the other hand, refers to the degree of credit risk within a bank's loan portfolio. In the Nigerian banking sector, the high frequency of non-performing loans continues to pose a major threat to profitability and financial stability. Poor asset quality is associated with lower profitability, poor capital position, and high probability of financial distress (Klein, 2023; Makri et al., 2024). Empirical studies have validated the negative relationship between asset quality and financial performance, especially when there are high non-performing loans (Kolapo et al., 2022; Alshatti, 2025).

Management efficiency is also an important factor, as it determines how much the bank management utilizes the available resources to generate income and control costs (Ajibike & Aremu, 2025; Saona, 2026). Efficient management improves productivity, operational performance, and profitability, while inefficiencies may increase operational expenses and reduce returns (Athanasoglou et al. 2024). The performance of quoted deposit money banks in Nigeria is heterogeneous due to differences in managerial competence and strategic decision-making (Ajibike & Aremu, 2025). The period 2015-2024 is considered a critical period to examine such linkages, as it encompasses significant changes in the Nigerian economy and regulatory environment, including the 2016 economic recession, volatility in foreign exchange, banking sector reforms, and increasing adoption of financial technology (Central Bank of Nigeria, 2023; IMF, 2022).

These changes have had a significant impact on capital adequacy, asset quality, and management efficiency and, consequently, the overall financial performance of banks. There exists a considerable body of literature regarding bank performance; however, the empirical findings concerning the interrelations among capital adequacy, asset quality, management efficiency, and financial performance remain ambiguous and inconclusive. However, some studies have reported positive associations, but other studies have reported insignificant or negative effects. Hence, more empirical studies are needed (Ongore & Kusa, 2023; Alper & Anbar, 2021). The inconsistency calls for further investigation, especially against the backdrop of the recent economic realities and regulatory changes in Nigeria.

Similarly, the study investigates the effect of bank characteristics on the financial performance of listed deposit money banks in Nigeria from 2015 to 2024. The specific objectives of the study are to:

- (i) Establish the effect of capital adequacy on financial performance,
- (ii) ascertain the effect of asset quality on financial performance, and
- (iii) determine the effect of management efficiency on financial performance.

Based on the stated specific objectives, the research hypotheses are formulated in the null form as:

H₀₁: Capital adequacy has no significant effect on financial performance.

H₀₂: Asset quality has no significant effect on financial performance.

H₀₃: Management efficiency has no significant effect on financial performance.

The results of the study will be useful to policymakers, regulators, and bank management on how to improve the stability, efficiency, and general performance of Nigeria's banking sector.

Literature Review

Financial performance refers to the extent to which an organization achieves its financial objectives through the efficient utilization of resources to generate profits, maximize shareholders' wealth, and ensure long-term financial sustainability. In the banking sector, it reflects management's ability to utilize available resources efficiently while maintaining profitability and financial stability. Financial performance is commonly measured using accounting-based indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Earnings per Share (EPS). According to the International Monetary Fund (2023), financial performance is the extent to which an organization achieves its financial objectives through efficient resource utilization, profitability, shareholder value creation, and long-term financial sustainability. This study measures financial performance using Return on Equity (ROE) because it reflects the returns generated on shareholders' equity.

Capital adequacy refers to the sufficiency of a bank's capital relative to its risk exposure to absorb unexpected losses, protect depositors, and maintain financial stability while complying with regulatory requirements. It is an important indicator of a bank's financial strength and resilience against potential risks. Capital adequacy is commonly measured using the Capital Adequacy Ratio (CAR), which compares regulatory capital to risk-weighted assets. The Basel Committee on Banking Supervision (2019) defines capital adequacy as the sufficiency of a bank's capital in relation to its risk-weighted assets to absorb unexpected losses, protect depositors, and ensure financial stability. In this study, capital adequacy is measured using the Capital Adequacy Ratio (CAR).

Asset quality refers to the creditworthiness and recoverability of a bank's assets, particularly its loan portfolio, and indicates the level of credit risk associated with those assets. High asset quality reflects effective credit risk management and lower levels of non-performing loans, while poor asset quality may reduce profitability and threaten financial stability. Asset quality is commonly assessed using the Non-Performing Loan Ratio (NPLR) and related credit risk indicators. According to the Basel Committee on Banking Supervision (2021), asset quality is the measure of the creditworthiness and recoverability of a bank's assets, particularly its loan portfolio, indicating the extent to which assets are exposed to credit risk and potential default. This study measures asset quality using the Non-Performing Loan Ratio (NPLR).

Management efficiency refers to the ability of a bank's management to effectively utilize available resources, control operating costs, and allocate assets to achieve organizational objectives and improve profitability. Efficient management enhances operational performance by ensuring optimal resource utilization and cost effectiveness. Management efficiency is commonly measured using the Cost-to-Income Ratio (CIR), Operating Efficiency Ratio, and Asset Utilization Ratio. The World Bank (2022) defines management efficiency as the ability of management to optimally utilize available resources, control operating costs, and effectively allocate assets to maximize profitability and achieve organizational objectives. In this study, management efficiency is measured using the Cost-to-Income Ratio (CIR).

Theoretical Review

Buffer Capital Theory

This study is underpinned by the buffer capital theory, developed by Marcus Milne and David Whalley (2001) and subsequently advanced in banking literature by Berger et al., (1995). The theory posits that

banks maintain capital buffers above the minimum regulatory capital requirements to absorb unexpected losses, reduce the likelihood of financial distress, and avoid the costs associated with regulatory intervention.

According to the theory, banks strategically manage their capital levels to balance profitability with risk exposure, recognizing that adequate capital enhances confidence among depositors, investors, and regulators while supporting sustainable business operations. Beyond capital adequacy, the theory also implies that maintaining high-quality assets and efficient management practices enables banks to preserve capital, improve operational resilience, and achieve superior financial performance. Consequently, banks that effectively manage their capital position, asset quality, and operational efficiency are expected to exhibit stronger financial performance than those with weak capital structures, poor asset portfolios, and inefficient management.

The buffer capital theory is therefore appropriate for this study because it provides a comprehensive theoretical explanation of how capital adequacy, asset quality, and management efficiency collectively influence the financial performance of banking institutions by promoting stability, prudent risk management, and sustainable profitability.

Empirical Review

Oyasor (2025) analyzed the effect of capital adequacy on the profitability of listed deposit money banks in Nigeria using panel data from 2014 to 2023. The study estimated a random effects model and found a significant positive effect of capital adequacy on return on equity (ROE). It concluded that the banks with a strong capital base are better able to absorb shocks and improve profitability. The study thus recommended the need to adopt a more rigorous enforcement of the regulatory capital requirements to boost the stability and performance of banks.

Also, Shiro and Agbesuyi (2026) looked into the effect of capital adequacy on the financial performance of Nigerian banks for the period 2010-2022. The results of the panel regression analysis show that the capital adequacy has a positive effect on the ROE, which implies that banks with higher capital buffers are more likely to achieve better financial performance and stability. The authors pointed out that banks should have adequate capital strength to be able to face shocks in an unsteady economic environment. Oke and Ikpesu (2020), in a similar study, assessed the capital adequacy and performance of the Nigerian banking sector using data from 2010 to 2019 and a system generalized method of moments (SGMM) estimator. The study revealed that capital adequacy has a positive effect on banks' performance, indicating that banks with adequate capital are able to increase their lending and make more profits. The study also observed that the relationship could be influenced by macroeconomic factors.

Obert et al. (2022) Capital adequacy impact on financial performance of listed banks: a panel data analysis. 2024. The results indicate that the capital adequacy ratio (CAR) has a positive and significant impact on the return on equity (ROE). This implies that banks with larger capital buffers are more likely to have higher financial performance. The authors argued that banks with larger capital buffers are able to absorb unexpected losses, reduce the possibility of bankruptcy, and increase investors' confidence, thus resulting in higher profitability. Akande (2025) analyzed the data of listed deposit money banks in Nigeria for the period 2014–2023 and found that capital adequacy has a significant impact on both ROE and financial stability. The study recommended that banks with larger capital bases are better placed to engage in riskier activities such as lending while maintaining their financial soundness. Its many roles and diverse functions make it clear that bank capital is acting as a protective cushion against losses precipitated by certain kinds of uncertainties. This view looks at capital as a constraint to avoid default, and it also acts as a cushion to protect depositors and other creditors against losses at the operating and liquidation stages.

Oyasor (2025) also found that asset quality has a negative and significant relationship with bank profitability, indicating that higher non-performing loans reduce ROE among listed deposit money banks in Nigeria. The study emphasized that inadequate credit risk management had a detrimental effect on the financial performance and heightened the vulnerability of the banking sector. The emerging market banking literature suggests that asset quality (measured by nonperforming loans) negatively affects the profitability of the banks in European banking systems. The authors argued that asset quality is an important factor for earnings and capital adequacy, as suggested by the deterioration of loan portfolios, and pointed out the importance of credit risk management.

Also, Oke and Ikpesu (2022) revealed that asset quality has a significant effect on the performance of the Nigerian banking sector, and this effect is conditioned by macroeconomic factors. The authors' study indicated that poor asset quality adversely affects profitability, while improvement in loan recovery and risk management practices enhances financial stability and performance. Likewise, Obert et al. found that asset quality and financial performance (2024) have a high negative correlation between non-performing loans (NPLs) and ROE. The study states that poor asset quality increases loan loss provisions and decreases profitability, leading to poor financial performance. This indicates that a decline in the quality of the credit portfolio directly impacts the bank's ability to generate earnings.

Ikpesu and Oke (2022) also studied Nigerian banks using panel data from 2010 to 2019 and found that asset quality significantly affects financial performance. The results indicated that sound asset quality, as indicated by lower non-performing loan ratios, enhances ROA and ROE. The authors highlighted the significance of effective credit risk management in the loan repayment process and income stability.

A study from the Asian region includes Sufian (2025); the study finds the profitability of 270 Korean banks from 2014 to 2023. The study used panel data (cross-sectional and time series), multiple regression models, and the SPSS statistical package. The regression results indicate that credit risk had a significant positive effect on profitability.

The study by Gilchrist (2022) explored the effects of bank-specific and macroeconomic determinants on the profitability of a sample of 25 commercial banks in Pakistan for the period 2015-2021. The regression results indicated that credit risk had a positive and significant impact on profitability (ROA and ROE).

Epure and Lafuente (2022) examined the performance of banks under risk for the Costa-Rican banking industry in the period 2012-2021. Regulatory changes and risk preceded performance improvements and explained why differences in banks and non-performing loans negatively affected efficiency and return on assets. Management efficiency has a significant effect on bank profitability, though the effect may be different depending on regulatory pressure and operational conditions (Oyasor, 2025). The research found that efficient management of cost and resource utilization improves the ROE of Nigerian deposit money banks.

Similarly, Athanasoglou et al. (2023) researched the efficiency and profitability of banks in European banking systems and found that management efficiency is a major determinant of financial performance. The study's findings also revealed that efficient banks are characterized by low operating costs and efficient utilization of resources, which results in high profitability.

Ajibike and Aremu (2025) in Nigeria examined the efficiency and performance of banks and found out that there is a positive association between efficiency indicators and profitability. The study also showed the importance of effective management practices, such as cost control and strategic planning, in improving the financial performance of commercial banks.

Sufi and Chong (2018) examined the profitability of the banks in the Philippines from 2005 to 2016. The outcome revealed that all factors studied had significant impact on bank profitability. The study also suggested that if the bank efficiency-related behavior affects the profitability of the banks operating in the Philippines, then the non-interest income and capitalization both have a positive relationship with the banks' profitability.

Another study by Sinha and Sharma (2024) from India studied the effect of bank-specific, industry-specific, and macroeconomic factors affecting the profitability of Indian banks using the generalized method of moments (GMM). The panel data for the study were obtained from 42 Indian scheduled commercial banks from 2015 to 2023. The lag of the bank profits variable ROA was found to be significant, indicating a moderate degree of persistence of profits in the Indian banking industry.

Almazari (2023) investigated the effect on capital adequacy, cost-income ratio, and performance of Saudi Arabian banks. The study on the implementation of OLS established that the cost-income ratio (CIR) had a negative relationship with ROA. Poor expense management was the main contributor to poor profitability. Aremu et al. (2023) studied determinants of bank profitability from 2000 to 2020 in Nigeria. The results of the econometric model indicated that bank size and cost efficiency were insignificant in determining bank profitability.

Methodology

Predicated on the objectives of this study, the research adopts a quantitative research design, as it involves the empirical examination of the relationship between bank attributes and the financial performance of listed Deposit Money Banks (DMBs) in Nigeria. The study is anchored on the post-positivist research paradigm, which assumes that reality can be objectively measured and statistically tested through observable data. In line with this philosophical stance, the study employs a positivist quantitative approach to ensure objectivity, replicability, and empirical validation of findings. The study considers all the thirteen (13) deposit money banks listed on the Nigerian Exchange Group as of 31st December, 2024, for the period 2015 to 2024. A census sampling technique was used since the entire population of the listed banks was considered in the study, thus eliminating sampling bias and enhancing the representativeness of the results. Secondary data were used in this study, which were obtained from the published annual reports and audited financial statements of the sampled banks and relevant publications from the Central Bank of Nigeria and the Nigerian Exchange Group. The choice of secondary data is justified by its reliability, accessibility, and suitability for longitudinal financial analysis. Hence, Table 1 represent variable measurement of the study.

Table 1 Variable Measurement

Variables	Measurement	Sources
Return on Equity	Net Income / Shareholder Equity	Oyasor (2025)
Capital Adequacy	Shareholders' equity / Total Assets	Ajibike and Aremu (2025)
Asset Quality	loan / Total Asset	Ajibike and Aremu (2025)
Managerial Efficiency	Total cost / Total Income	Oyasor (2025)

Sources: Researcher, 2026.

To test the hypotheses formulated, the following regression models are specified as follows:

$$ROE_{it} = \beta_0 + \beta_1 CA_{it} + \beta_2 AQ_{it} + \beta_3 ME_{it} + \mu_{it}$$

Where:

ROE = Return on equity, β_0 = Intercept, β_1 - β_3 = Coefficient of the Parameters, CA = Capital Adequacy,

AQ = Asset Quality, ME = Managerial Efficiency, μ = Term error, t = time, i = firm.

Results and Discussions

Descriptive Statistics

Table 2 Descriptive Statistics of the Variables

VARIABLES	Min	Max	Mean	SD
ROE	-.025	.728	.043	.458
CA	0.103	.453	.275	.176
AQ	.057	.642	.432	.107
ME	.281	.85	.608	.110

Source: STATA Output, 2026.

Table 2 revealed that Return on Equity (ROE) ranges from a minimum of -0.025 to a maximum of 0.728, with a mean value of 0.043 and a standard deviation of 0.458. The relatively low mean suggests that firms generated weak positive returns to shareholders over the period. The high standard deviation in relation to the mean indicates large volatility in profitability, with some firms recording losses (negative ROE) while others record extremely high returns. This shows the differential performance across the sampled firms. Capital Adequacy (CA) has a minimum of 0.103, a maximum of 0.453, a mean of 0.275, and a standard deviation of 0.176. The positive mean implies that the sampled firms on average maintained a moderate level of capital adequacy. The low standard deviation also shows little dispersion around the mean relative to ROE. The value of Asset Quality (AQ) ranges from 0.057 to 0.642, with a mean of 0.432 and a standard deviation of 0.107. This indicates that the firms had a relatively moderate to excellent asset quality on average. The low standard deviation shows that the asset quality was quite similar across the firms with little variation. The value of Management Efficiency (ME) ranges from 0.281 to 0.85 with a mean of 0.608 and a standard deviation of 0.110. The relatively high mean shows that the firm's management efficiency is generally high. The low standard deviation also indicates that firms are relatively similar in terms of management efficiency, with small differences.

Correlation Matrix

Table 3 Correlation Matrix

VARIABLES	ROE	CA	AQ	ME
ROE	1.000			
CA	0.099	1.000		

AQ	0.126	0.531	1.000	
ME	0.122	0.153	0.032	1.000

Source: STATA Output, 2026.

Table 3 shows the correlation between ROE and the explanatory variables considered in the study. The correlation of ROE with capital adequacy (CA) is a fragile positive correlation (0.099), which means that an increase in capital adequacy is weakly related to an improvement in return on equity. Similarly, ROE has a weak positive relation with asset quality (AQ) at 0.126, which means that asset quality is weakly related to profitability, but the effect is weak. Also, management efficiency (ME) has a weak positive relationship with ROE (0.122), which indicates that management efficiency is faintly associated with ROE increases. Overall, the findings reveal that all the explanatory variables are positively related to ROE but fragile and that individually they have little explanatory power in influencing profitability in the context of the study.

Table 4 Post-Estimation Test

Test	Result	P-Value
Hettest Chi2	98.98	0.000

Source: STATA Output, 2026.

The heteroskedasticity test (Hettest) from Table 4 returns a chi-square value of 98.98 with a p-value of 0.000. Given that the p-value is below the standard 5% significance level ($p < 0.05$), we reject the null hypothesis of homoskedasticity. This shows that there is heteroskedasticity in the model. That is, the variance of the error terms is not constant across all observations. In practice, this result implies that the regression estimates may be inefficient and the standard errors biased if ordinary least squares (OLS) estimators are used without adjustment. In such cases, it is recommended to use robust standard errors or apply appropriate estimation methods such as GLS or panel-corrected standard errors (PCSE) to achieve reliable and valid inference.

Regression Result

Table 5 PCSE Regression Result

Variables	Coefficient	t-value	p-value
CA	-0.032	-0.11	0.000
AQ	0.732	1.64	0.000
ME	0.591	1.76	0.005
R ²	0.398		
F-Statistic	8.06		
Prob. of F	0.000		

Source: STATA Output, 2026.

Table 5 shows an R-squared value of 0.398 indicates that about 39.8% of the variation in the dependent variable can be explained by the independent variables, and this figure indicates a moderate level of explanatory power. The F-statistic is calculated to be 8.06, and the probability value is 0.000, indicating

that the overall model is statistically significant, i.e., the independent variables have a significant effect on the dependent variable as a whole.

The results show that capital adequacy (CA) has a coefficient of -0.032, a t-value of -0.11, and a probability value of 0.000, which shows a statistically significant negative relationship with the dependent variable. The findings show a marginal decline in firm performance with an increase in capital adequacy, implying that the accumulation of excess capital may be less profitable, possibly due to idle funds or misappropriated capital. The finding contradicts the initial hypothesis of a positive relationship between capital adequacy and performance. This hypothesis predicts that the higher capital buffer should enhance stability and profitability. The finding is at variance with previous studies. This is in line with Owolabi and Inyang (2023), who found a negative relationship between capital adequacy and bank profitability, but inconsistent with Berger (2025), who found a positive relationship between capital strength and financial performance. Asset quality (AQ) has a coefficient of 0.732 with a t-value of 1.64 and a p-value of 0.000, which means the statistically significant positive relationship with the dependent variable. This means that asset quality has the potential to improve firm performance by reducing non-performing assets and improving income generation. This is in tandem with a prior expectation that there is a positive relationship between asset quality and performance, as better asset quality reduces credit risk exposure. This result is in agreement with the study of Kargi (2021), who found that the better the asset quality, the better the bank performance, but in disagreement with the study of Ogunmuyiwa and Oluwole (2022), who found an insignificant or weak relationship between asset quality and profitability. Management efficiency (ME) has a coefficient of 0.591 with a t-value of 1.76 and a p-value of 0.005, indicating a statistically significant positive relationship with the dependent variable. This means improved efficiency in resource utilization and cost management leads to higher firm performance. This finding is in line with the a priori expectation, as the assumption of a positive relationship between management efficiency and performance is that efficient management reduces costs and increases profitability. This is consistent with Sufian and Habibullah (2020) findings. who found a positive effect of management efficiency on bank performance, but it is not in line with Athanasoglou et al. (2018), who reported an insignificant effect in some banking contexts.

The findings of this study provide important theoretical implications for banking and financial performance literature. The significant negative effect of capital adequacy on financial performance suggests that the relationship between capital strength and profitability is not always positive, as proposed by the Buffer Capital Theory. While the theory posits that maintaining higher capital buffers enhances financial stability and profitability by reducing risk exposure, the present findings indicate that excessive capital accumulation may instead reduce profitability when surplus funds remain underutilized or are inefficiently allocated. This implies that the theory may require contextual refinement, particularly in emerging economies where the opportunity cost of holding excess regulatory capital can outweigh its stability benefits. Conversely, the positive and significant effects of asset quality and management efficiency reinforce the propositions of banking efficiency and risk management theories, which argue that prudent credit risk management and efficient resource utilization are fundamental drivers of organizational performance. These findings therefore extend existing theoretical knowledge by demonstrating that although adequate capital remains essential for regulatory compliance and financial resilience, sustainable financial performance depends more substantially on maintaining high-quality earning assets and improving managerial efficiency in resource allocation and operational decision-making.

The findings of this study also have significant practical implications for bank management, regulators, investors, and policymakers. The negative influence of capital adequacy on financial performance indicates that bank managers should avoid maintaining excessive capital beyond optimal regulatory requirements without corresponding productive investment opportunities, as idle capital may depress

returns. Instead, capital should be strategically deployed into profitable and low-risk investments that enhance shareholder value while preserving financial stability. The positive relationship between asset quality and financial performance underscores the importance of strengthening credit appraisal procedures, loan monitoring mechanisms, and recovery strategies to minimize non-performing loans and improve income generation. Likewise, the positive effect of management efficiency highlights the need for bank executives to improve operational processes, control administrative costs, adopt modern banking technologies, and optimize resource utilization to enhance profitability. For regulatory authorities, the findings suggest that supervisory policies should strike a balance between enforcing adequate capital requirements and encouraging efficient capital utilization, while also promoting sound asset quality management and operational efficiency as critical determinants of sustained financial performance in the banking sector.

Conclusion and Recommendations

The study concludes that financial performance is jointly affected by capital adequacy, asset quality, and management efficiency, with asset quality and management efficiency having a significant positive effect and capital adequacy showing a strong negative correlation with performance. This implies that asset quality and managerial efficiency are important determinants of profitability and firm performance, but excess capital holding may reflect inefficiencies in resource utilization that reduce return. Overall, the findings suggest that firm performance is more sensitive to the efficiency of resource utilization and the health of the asset portfolio than to the level of capital held by the firms. The model is also statistically significant, which indicates that the variables selected significantly explain the variations in performance, although some portion of the performance is still affected by other factors not included in the model.

Based on the findings, it is recommended that the firms should put more focus on the enhancement of asset quality through effective credit risk management and proactive monitoring of non-performing assets because such actions would lead to an increase in overall profitability. Management should also concentrate on the improvement of operational efficiency by reducing unnecessary costs and resource allocation optimization because efficient management significantly leads to improved performance. Moreover, even though capital adequacy is crucial for financial stability, companies should avoid over-capitalization and focus on optimal capital utilization to avoid inefficiencies that may negatively impact profitability. Finally, regulators and management should maintain a balanced approach between maintaining adequate capital buffers and ensuring efficient deployment of financial resources to achieve sustainable performance. This study is subject to certain limitations. The study focuses only on the effects of capital adequacy, asset quality, and management efficiency on financial performance of listed deposit money banks in Nigeria for the period coverage from 2015 to 2024.

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