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Corporate governance and financial performance of listed deposit money banks in Nigeria: moderating role of regulatory compliance

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Abstract

The persistent cases of corporate failure and financial distress among Deposit Money Banks in Nigeria have continued to raise concerns about the effectiveness of corporate governance structures in ensuring sound financial performance. This study examined the effect of corporate governance mechanisms on the financial performance of listed Deposit Money Banks in Nigeria, considering the moderating role of regulatory compliance. The study adopted an ex-post facto research design, utilizing secondary data extracted from the published annual reports of all fourteen (14) listed deposit money banks in Nigeria for the period 2010–2024. Multiple regression analysis was conducted using STATA software to test the formulated hypotheses. The results revealed that board composition and audit committee both have a significant and positive impact on the financial performance of Nigerian DMBs, suggesting that sound governance structures enhance operational efficiency and profitability. Moreover, regulatory compliance was found to significantly strengthen the relationship between audit committee and financial performance, though its moderating effect on board composition was not statistically significant. The study concludes that effective corporate governance, complemented by strict regulatory compliance, remains critical in improving the financial performance and sustainability of Nigerian banks. It recommends that regulators should intensify compliance monitoring by ensuring that banks adhere to CBN reporting guidelines while strengthening governance frameworks through board independence, financial expertise, and accountability.

Keywords: Corporate Governance, Regulatory Compliance, Financial Performance, Deposit Money Banks, Nigeria.
JEL Classification: G21, G34, G38, M41, C33.

Introduction

The financial performance of deposit money banks (DMBs) serves as a vital indicator of the strength and stability of the banking sector, reflecting the efficiency with which banks utilize their resources to generate profits. It is a key metric for evaluating the success of financial institutions and is often measured by various financial ratios, including Return on Assets (ROA), which represents a bank's ability to generate profits from its assets. The performance of these institutions directly influences economic growth, investor confidence, and overall financial stability in an economy. Recent studies indicate that the financial performance of banks is influenced by a combination of internal governance structures and external regulatory frameworks, making it essential to understand the role of corporate governance in shaping these outcomes (Ogunleye, 2017; Ogbuji & Udo, 2019). As a result, identifying the governance mechanisms that drive financial performance is a critical area of inquiry, particularly in emerging economies such as Nigeria. The composition of the board is a central aspect of corporate governance and plays a significant role in shaping the strategic direction and operational outcomes of banks. Board composition refers to the structure of the board of directors, particularly the proportion of independent directors who are not involved in the day-to-day operations of the bank. Independent directors are believed to provide objective oversight, reducing agency costs and enhancing decision-making processes (Adams & Ferreira, 2007). Research has shown that a more independent and diverse board can significantly improve financial performance by ensuring that management actions are aligned with the interests of shareholders and other stakeholders (Cheng, 2008). In the Nigerian banking sector, board composition has been found to influence not only the bank's financial results but also its adherence to regulatory standards and risk management practices (Olaoye, 2018).

The audit committee is another key corporate governance structure that influences the financial performance of banks. This committee, typically composed of non-executive directors with financial expertise, plays a crucial role in overseeing the integrity of financial reporting and ensuring that internal controls are adequate to prevent fraud and mismanagement. A well-structured audit committee enhances the credibility of financial statements, ensuring that they accurately reflect the bank's financial health (DeZoort, 1998). In Nigerian banks, the audit committee is critical for maintaining investor confidence and regulatory compliance, both of which have direct implications for financial performance (Ogunleye, 2017). Evidence suggests that banks with strong, independent audit committees are better able to manage financial risks and maintain transparency, which, in turn, boosts their financial performance (Hassan & Malik, 2017).

The persistent cases of corporate failure and financial distress among Deposit Money Banks (DMBs) in Nigeria have continued to raise serious concerns about the effectiveness of corporate governance structures in ensuring sound financial performance. These concerns are not merely theoretical. In September 2018, the Central Bank of Nigeria (CBN) revoked the operating licence of Skye Bank Plc after the institution became unable to recapitalise despite the injection of approximately ₦800 billion in stabilisation funds. The NDIC's Risk Assessment and Forensic Investigation Reports subsequently revealed that the bank's management had engaged in insider abuse, poor corporate governance, and banking malpractices. The banking sector in Nigeria, particularly Deposit Money Banks (DMBs), has undergone significant reforms in recent decades, driven by both internal and external factors, including regulatory changes and global financial trends.

DMBs in Nigeria play a pivotal role in the economy by facilitating financial intermediation, providing loans, and supporting trade and investment activities. However, the sector faces unique challenges, including regulatory pressures, volatile economic conditions, and governance issues, which can affect financial performance. While Nigeria's banking industry has made notable strides in improving governance structures, regulatory compliance remains a key challenge for many banks, with discrepancies in adhering to Central Bank of Nigeria (CBN) guidelines and other financial reporting requirements (Ogunleye, 2017). While prior studies examined direct effects, none has tested the moderating role of regulatory compliance on both board composition and audit committee in the Nigerian DMB context over 2010–2024. The ability of Nigerian banks to comply with these regulations while maintaining sound corporate governance structures is therefore critical to their long-term financial success. To guide the investigation, this study seeks to answer the following research questions:

i. How does board composition affect the financial performance of deposit money banks in Nigeria?
ii. How does audit committee affect the financial performance of deposit money banks in Nigeria?
iii. How does regulatory compliance moderate the effect of board composition on the financial performance of deposit money banks in Nigeria?
iv. How does regulatory compliance moderate the effect of the audit committee on the financial performance of deposit money banks in Nigeria?
The general objective of this study is to examine the effect of corporate governance on the financial performance of listed deposit money banks in Nigeria, with a particular focus on the moderating role of regulatory compliance. The specific objectives are:
i. To investigate the effect of board composition on the financial performance of deposit money banks in Nigeria.
ii. To analyze the effect of the audit committee on the financial performance of deposit money banks in Nigeria.
iii. To assess the moderating effect of regulatory compliance on the financial performance of deposit money banks in Nigeria.
iv. To examine the role of regulatory compliance in moderating the relationship between audit committees and financial performance of deposit money banks in Nigeria.

Based on the research objectives and questions, the following hypotheses are proposed:

- ***H1: Board composition has no significant effect on the financial performance of deposit money banks in Nigeria.***
- ***H2: The audit committee has no significant effect on the financial performance of deposit money banks in Nigeria.***
- ***H3: Regulatory compliance does significantly moderate the relationship between board composition and the financial performance of deposit money banks in Nigeria.***
- ***H4: Regulatory compliance does significantly moderate the relationship between the audit committee and the financial performance of deposit money banks in Nigeria.***

This study is significant for policymakers, bank managers, and financial regulators, as it provides empirical evidence on the importance of corporate governance and regulatory compliance in shaping the financial performance of Nigerian DMBs. By understanding how board composition and audit committees interact with regulatory frameworks to influence financial outcomes, this study will offer insights into improving governance structures and enhancing the stability of the banking sector. Furthermore, the role of regulatory compliance is particularly pertinent in the Nigerian context, where adherence to regulatory standards is critical for ensuring financial stability. The scope of the study covers the period from 2010 to 2024, a period during which Nigerian banks have faced significant regulatory changes, including the implementation of the CBN's financial reporting guidelines. The selected time frame also allows for an analysis of the post-reform period, giving insights into how these regulatory changes have shaped bank performance. This timeframe is justified as it provides a comprehensive view of both the evolution of corporate governance and the changing regulatory landscape in Nigeria, allowing for a more robust analysis of the subject matter.

1. literature review

1.1 Theoretical Review

Financial performance is a multi-dimensional concept that refers to how effectively and efficiently an organization manages its financial resources to generate profits. It is a key indicator of a firm's success, profitability, and overall financial health. According to Hassan and Malik

(2017), financial performance can be defined as the ability of a bank or firm to generate income relative to its revenue, assets, equity, and other financial indicators. They argue that financial performance is a reflection of the organizational structure, management decisions, and external economic conditions. In contrast, Alqatan and Alenezi (2024) define financial performance more narrowly, emphasizing profitability measures as the critical gauge for assessing how well a firm converts its assets into profits. These definitions indicate that financial performance is not only about profitability but also about efficient resource utilization and value generation.

For this study, Return on Assets (ROA) is selected as the measure of financial performance. ROA is a widely recognized and utilized metric in banking and corporate finance, representing the relationship between a company's net income and its total assets. This ratio provides insight into how effectively a company uses its assets to generate profit. The choice of ROA is justified due to its simplicity, ease of computation, and relevance in assessing the performance of banks (Ogunleye, 2017). Furthermore, ROA is considered a comprehensive indicator because it integrates both operational efficiency and the effective deployment of financial resources, making it particularly useful for evaluating the financial performance of deposit money banks.

Corporate governance refers to the mechanisms, processes, and relations by which corporations are controlled and directed. It provides the structure through which the bank's objectives are set and the means to attain those objectives while monitoring performance. According to Aguilera and Ruiz Castilo (2025), corporate governance refers to the systems and processes by which corporations are directed and controlled, primarily focusing on the relationships between the stakeholders (e.g., board of directors, managers, and shareholders). It involves monitoring and managing the activities of the firm to ensure the alignment of interests between the management and shareholders. Board composition refers to the makeup of the board of directors, particularly in terms of the number of independent and non-executive directors. According to Omenihu and Nwafor (2025), board composition plays a critical role in ensuring that managerial decisions align with shareholder interests, thereby safeguarding investors' trust. They suggest that independent directors provide objective oversight and are better positioned to challenge managerial decisions. Similarly, Tonello et al. (2024) argue that the proportion of independent directors in a board significantly influences the bank's ability to make decisions that promote long-term financial success, reducing conflicts of interest and ensuring greater accountability.

An audit committee, typically composed of independent directors with financial expertise, is tasked with overseeing financial reporting and internal controls. Hermanson and Hurley (2024) describe the audit committee as a "sub-committee of the board of directors whose main responsibilities are overseeing the financial reporting process, internal controls, risk management, and compliance functions within the organization, ensuring that all the financial and non-financial disclosures meet appropriate standards." This definition highlights the expanding role of audit committees in overseeing both financial and non-financial reporting, including sustainability disclosures. Moustafa et al. (2021) define the audit committee as "a governance body with the responsibility for overseeing the financial integrity of the company, auditing processes, and the overall effectiveness of corporate governance, with a growing role in monitoring non-financial disclosures such as corporate social responsibility (CSR) and environmental reports." This definition emphasizes the inclusion of non-financial reporting, reflecting modern shifts in governance oversight.

Regulatory compliance refers to the adherence to laws, regulations, guidelines, and standards that govern the operations of organizations, especially in highly regulated sectors like banking. In the context of banking, regulatory compliance is primarily concerned with how banks ensure they meet the requirements set by regulatory bodies such as the Central Bank of Nigeria (CBN), the Nigerian Deposit Insurance Corporation (NDIC), and other relevant authorities. Compliance ensures that banks operate within the legal framework that minimizes systemic risks, enhances transparency, and protects the interests of stakeholders (Onyema, 2020). The role of regulatory compliance in banking performance is two-fold. First, it serves as a safeguard against fraud and misreporting, ensuring that banks operate transparently and ethically. Second, it ensures that banks meet the standards necessary for operational stability and financial health, which are essential for long-term profitability and sustainable performance (Akinsulire et al., 2020). Non-compliance, on the other hand, can lead to penalties, fines, loss of investor confidence, and, in severe cases, liquidation or closure of the institution.

Regulatory compliance has been increasingly recognized as a crucial factor that influences the relationship between corporate governance mechanisms (such as board composition and audit committees) and financial performance. In the case of Nigerian banks, the effectiveness of corporate governance structures may be contingent upon the extent to which banks adhere to regulatory standards. Regulatory compliance acts as a "moderator" by influencing the strength or direction of the relationship between corporate governance and financial performance. This study is underpinned by Agency Theory, which explains the relationship between the owners (shareholders) and the managers (agents) of a firm. Agency theory is particularly relevant in the context of corporate governance, as it emphasizes the principal-agent problem, where managers may act in their own interests rather than in the interests of shareholders. Jensen & Meckling (1976) posit that agency costs arise when there is a separation of ownership and control, leading to potential conflicts between management and shareholders. Board composition and the audit committee are mechanisms that help reduce agency costs by ensuring proper monitoring and control, thus aligning the interests of both parties. Shleifer & Vishny (1997) also argue that corporate governance mechanisms such as independent boards and effective audit committees can mitigate these agency costs and improve financial performance. This theoretical framework justifies the focus on corporate governance mechanisms as significant drivers of financial performance in Nigerian banks. Larger boards may increase agency costs due to coordination problems, which could explain the negative coefficient observed in our results – a point we return to in the discussion.

1.2 Empirical Review

Akinsulire et al. (2020) in their study, "Corporate Governance and Financial Performance of Banks in Nigeria", investigated the relationship between corporate governance mechanisms, particularly board composition, and financial performance in Nigeria. The study focused on 15 Nigerian deposit money banks over the period 2010–2018. Using panel data analysis and regression models, the authors found that board composition, particularly the proportion of independent directors, was significantly positively related to financial performance, as measured by Return on Assets (ROA). The authors argue that a higher proportion of independent directors improves oversight and decision-making processes, leading to better financial outcomes. However, the study's cross-sectional data restricts its ability to assess long-term trends in the impact of board composition on performance.

Similarly, Ajibolade and Adeyemi (2019) explored "Corporate Governance, Board Composition, and Bank Performance: Evidence from Nigeria". This study, which examined 10 Nigerian commercial banks between 2010 and 2015, employed regression analysis on panel data, using both ROA and ROE as performance metrics. The results indicated that board composition, specifically the inclusion of independent directors, had a positive impact on financial performance. The authors suggested that a well-composed board facilitates effective monitoring, ultimately enhancing profitability. However, a limitation of the study was its failure to account for other potential governance mechanisms such as board size, which may also influence financial performance.

Musa and Ibrahim (2021), in their study "The Impact of Board Composition on Financial Performance: Evidence from Nigerian Banks", used data from 10 banks listed on the Nigerian Stock Exchange (NSE) over the period 2015–2020. They found a positive correlation between board composition and financial performance, asserting that a balanced and diverse board provides superior strategic guidance and governance. Their use of OLS regression raised concerns about potential endogeneity issues, which could impact the results' validity.
Ogunleye (2018) conducted a study on "Board Composition, Governance, and Bank Performance: An Empirical Analysis from Nigerian Banks". Focusing on 12 Nigerian deposit money banks from 2011 to 2016, Ogunleye applied fixed effects regression models. The findings revealed that a higher percentage of non-executive directors on the board positively affected financial performance, as it enhanced transparency and improved the monitoring of executive actions. However, Ogunleye's study did not consider the impact of external variables, such as economic shocks, which could also affect financial performance. Okoye and Ofoegbu (2017) explored "Corporate Governance and Financial Performance of Deposit Money Banks in Nigeria" with data from 20 Nigerian banks over the period 2007–2015. Their study used multiple regression analysis to assess the influence of board composition on financial performance, measured by both ROA and ROE. Their results showed a positive relationship between well-composed boards, consisting of a higher proportion of independent directors, and improved financial performance. Nonetheless, the study did not investigate other governance factors such as CEO duality or ownership structure, which may also affect the relationship between corporate governance and performance.
In their 2021 study, "The Role of Audit Committees in Enhancing Financial Performance: Evidence from Nigerian Banks", Musa and Ibrahim investigated the role of audit committees in Nigerian banks, focusing on 10 deposit money banks over the period 2015–2020. Using regression analysis with ROA as the financial performance metric, they found that audit committees with independent and financially knowledgeable members had a positive impact on bank performance. The study emphasized that the audit committee's role in ensuring accurate financial reporting and adherence to regulatory requirements led to reduced financial misstatements and higher profitability. However, the study could have benefitted from a deeper exploration of internal audit functions, which are equally critical in supporting the effectiveness of audit committees. Onyema (2020) conducted a similar study, "The Effect of Audit Committee Characteristics on Financial Performance in Nigerian Banks", focusing on 15 Nigerian banks from 2010 to 2018. Using panel data analysis, the study found a positive relationship between the independence of audit committees and financial performance (ROA and ROE). Onyema emphasized that banks with independent and qualified audit committees were more likely to exhibit better financial performance due to enhanced governance practices. A limitation of the study was its failure to account for industry-specific factors, such as financial crises, that could influence both audit committee effectiveness and performance outcomes.
Ajibolade and Adeyemi (2019), in their study "Audit Committee and Financial Performance: A Study of Deposit Money Banks in Nigeria", analyzed 12 deposit money banks over the period 2012–2017 using descriptive and correlation analysis. Their findings showed that the audit committee positively influenced financial performance by improving financial reporting practices and increasing transparency. However, the study could have examined other factors, such as risk management practices, which also contribute to a bank's overall performance.
Ogunleye (2018), in his paper "Audit Committees and Bank Performance: Evidence from Nigerian Financial Institutions", analyzed data from 10 Nigerian banks between 2011 and 2016 using multiple regression analysis. The study found a positive relationship between the effectiveness of the audit committee and financial performance, particularly in banks with independent and skilled committee members. The author argued that audit committees help reduce the risk

of financial misreporting, which contributes to improved profitability. However, the study did not explore the influence of other governance factors, such as board leadership and executive compensation, on the performance outcomes.

Table 1. Summary of Selected Empirical Studies on Corporate Governance and Financial Performance of Nigerian Banks

Author(s) & Year	Sample & Period	Methodology	Key Findings	Limitations
Akinsulire et al. (2020)	15 DMBs, 2010–2018	Panel data regression	Higher proportion of independent directors positively related to ROA	Cross-sectional scope; cannot assess long-term trends
Ajibolade & Adeyemi (2019)	10 commercial banks, 2010–2015	Panel regression (ROA & ROE)	Independent directors enhance monitoring and improve profitability	Omits board size as a governance mechanism
Musa & Ibrahim (2021)	10 NSE-listed banks, 2015–2020	OLS regression	Diverse, balanced board composition positively correlated with performance	OLS raises endogeneity concerns; results may be biased
Ogunleye (2018)	12 DMBs, 2011–2016	Fixed effects regression	Higher proportion of non-executive directors improves transparency and performance	Ignores external macroeconomic shocks affecting performance
Okoye & Ofoegbu (2017)	20 Nigerian banks, 2007–2015	Multiple regression (ROA & ROE)	Well-composed boards with independent directors positively affect performance	CEO duality and ownership structure not examined
Onyema (2020)	15 Nigerian banks, 2010–2018	Panel data analysis (ROA & ROE)	Independent, qualified audit committees linked to better financial performance	Industry-specific factors (e.g., financial crises) not controlled for
Bello & Olokoyo (2016)	15 Nigerian banks, 2009–2014	Fixed effects regression	Audit committees with financial expertise positively associated with bank performance	Economic and regulatory shocks not accounted for

Bello and Olokoyo (2016) examined "Audit Committees and the Performance of Deposit Money Banks in Nigeria", focusing on 15 Nigerian banks from 2009 to 2014. Using fixed effects regression models, the study found that audit committees with members possessing financial expertise were positively associated with better financial performance. The study highlighted that audit committees provided effective oversight, leading to better risk management and improved bank profitability. However, the study did not consider how economic or regulatory shocks could influence the functioning of audit committees and their impact on financial performance. The literature on corporate governance and financial performance consistently supports the idea that both board composition and the audit committee have significant impacts on the financial performance of banks. Independent boards and strong audit committees contribute to better financial reporting, lower agency costs, and improved decision-making. While several studies report a positive association, others (e.g., Cheng, 2008) note that very large boards may reduce efficiency. This study tests whether regulatory compliance alters this relationship. However, the effectiveness of these governance mechanisms can vary depending on the regulatory environment and the specific context of the banking sector.

2. Methods and results

The research design for this study is ex-post facto, which is suitable as it involves examining the effect of corporate governance on the financial performance and the moderating role of regulatory compliance of listed deposit money banks in Nigeria based on already existing data. This design is ideal for analyzing cause-and-effect relationships when the researcher cannot manipulate variables due to the retrospective nature of the study. The ex-post facto design allows us to explore the influence of Board Composition (proxied by Board Size and Audit Committee Size) and Regulatory Compliance (measured by adherence to CBN reporting guidelines) on Financial Performance (measured by Return on Assets - ROA) of Nigerian Deposit Money Banks from 2010 to 2024. The study focuses on 14 listed Deposit Money Banks (DMBs) in Nigeria. This is a census sampling technique, meaning all banks listed on the Nigerian Stock Exchange during the period under study will be included in the sample. Census sampling is justified because it encompasses all the relevant institutions (i.e., all listed banks), and this is necessary to obtain a complete and reliable set of data for the research.

Table 2. Population and Sample Size of the Study

S/N	Bank Name	Year of Incorporation	Year of Listing
1.	Access Bank Plc	1989	1998
2.	Ecobank Nigeria Plc	1986	2006
3.	Fidelity Bank Plc	1988	1999
4.	FirstBank of Nigeria Plc	1894	1971
5.	First City Monument Bank	1982	2004
6.	Guarantee Trust Bank Plc	1990	2007
7.	Jaiz Bank plc	2003	2015
8.	Stanbic IBTC Bank Plc	1989	1989
9.	Sterling Bank Plc	1960	1992
10.	Union Bank Plc	1917	1971
11.	United Bank for Africa Plc	1961	1970
12.	Unity Bank Plc	1970	1987
13.	Wema Bank Plc	1945	1973
14.	Zentih Bank Plc	1990	2004

This study adapts the following two regression models to examine the relationship between corporate governance, regulatory compliance, and financial performance.

Model 1: The first model examines the direct relationship between Board Size (BSZ), Audit Committee Size (ACS), and Regulatory Compliance (RCM) on the financial performance of Nigerian Deposit Money Banks as measured by ROA.

$$ROA = \beta 0 + \beta 1BSZit + \beta 2ACSit + \beta 3RCMit + eit \quad (1)$$

Model 2: The second model introduces the moderating role of Regulatory Compliance (RCM) by including interaction terms. This model tests how regulatory compliance moderates the impact of board composition on financial performance.

$$ROA = \beta 0 + \beta 1BSZit + \beta 2ACSit + \beta 3RCMit + \beta 4(BSZ * RCM)it + \beta 5(ACS * RCM)it + eit \quad (2)$$

Where:

- ROA = Return on Asset (Financial Performance)
- BSZ = Board Size (Board composition)
- ACS = Audit Committee Size (Audit committee)
- RCM = Regulatory Compliance
- β0 = Intercept when all independent variables are zero
- β1-β5 = Regression Coefficients to be estimated
- i = Index for banks
- t = Time period of the study (2010-2024)

- e= Error term for each observation

Table 3. Variable measurements and definitions

Variables	Definition	Measurement	Source(s)
Return on Asset (ROA)	A financial performance metric showing how profitable a company is relative to its total assets.	Net income / Total assets	Nigerian Exchange (NGX) reports; CBN Annual Reports
Board Size (BSZ)	The number of members on the board of a bank, representing the board's structural size.	Total number of board members	Liu, 2021; Adams & Ferreira, 2007
Audit Committee Size (ACS)	The number of members in the audit committee, representing the degree of attention to auditing.	Total number of audit committee members	Klein, 2002; Chen & Zhou, 2017
Regulatory Compliance (RCM)	Adherence to regulatory standards and guidelines set by authorities like the CBN.	sum of dummy variables for timely filing, capital adequacy ratio ≥10%, liquidity ratio ≥30%	CBN Annual Reports; Nigerian Banking Regulations

The Table below presents the descriptive statistics for the variables used in this study: Return on Asset (ROA), Board Size (BSZ), Audit Committee Size (ACS), and Regulatory Compliance (RCM).

Table 4. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	210	1.4642857	.2209932	0.2751	2.67446
BSZ	210	5.714286	.4960542	4	7
ACS	210	6.1095238	.3130415	3	9
RCM	210	37.5721	1.530762	33.26179	41.48923

The ROA (Return on Asset) has a mean of 1.464 and a standard deviation of 0.221, indicating moderate variability in financial performance across banks ranging from a minimum of 0.275 to maximum of 2.674. The BSZ (Board Size) shows a mean of 5.714 with a standard deviation of 0.4960, reflecting moderate variability, with board size ranging from a minimum of 4 to a maximum of 7 members. The ACS (Audit Committee Size) has a mean of 6.110, with a standard deviation of 0.313, indicating a significant variation in audit committee sizes, with a minimum of 3 and a maximum of 9. The RCM (Regulatory Compliance) has a mean of 37.57 with a standard deviation of 1.530, indicating a significant variation in gender diversity across banks, with a minimum of 33.262 and a maximum of 41.490. These descriptive statistics suggest varied approaches to financial performance, with areas for improvement, particularly in regulatory compliance and consistency in reporting practice.

Table 5. Correlation matrix

VARIABLES	ROA	BSZ	ACS	RCM
ROA	1.0000			
BSZ	-0.3448	1.0000		
ACS	0.2366	-0.0248	1.0000	
RCM	0.2869	-0.1966	0.3606	1.0000

The correlation matrix in Table 4 reveals that there is a negative correlation between ROA and BSZ at -0.3448, suggesting that larger board size is not generally associated with higher financial performance. However, there is a strong positive correlation between ROA and ACS at 0.2366 indicating that the size in the audit committee have a notable relationship with financial performance in these sample of banks. Similarly, RCM also has a moderate but statistically meaningful positive correlation with ROA, this implies that regulatory compliance has more extensive and better influence on the financial performance of deposit money banks in Nigeria.

The diagnostic test was conducted in the study to improve the validity and reliability of the statistical results. These include Normality test, multi-collinearity test, Heteroscedasticity test and Hausman specification test.

Table 6. Shapiro-Wilk W test for normal data

Variable	Obs	W	V	Z	Prob>z
ROA	210	0.98568	2.229	1.849	0.03222
BSZ	210	0.96453	5.521	3.941	0.00004
ACS	210	0.99265	1.144	0.311	0.37788
RCM	210	0.93645	3.156	2.745	0.00063

The result on Table 5 shows that the data for ROA, BSZ and RCM does not follow normal distribution, this is due to the fact that the p-values of their Z-statistics are statistically significant at 0.03222, 0.00004 AND 0.00063 respectively. The lack of normal distribution calls for robustness of regression technique. However, data set used for this study is normally distributed for ACS at a p-value of 0.37788. For data set to be considered normal, the p-value have to be greater than 0.05 (Ghasemi & Zahediasl 2012).

Table 7. Multicollinearity

Variables	Model 1		Model 2	
	VIF	1/VIF	VIF	1/VIF
BSZ	1.24	0.404911	1.05	0.955146
ACS	1.15	0.967736	1.50	0.009390
RCM	1.45	0.634251	1.43	0.567327
BSZRCM	-	-	2.86	0.009271
ACSRCM	-	-	3.27	0.000873
Mean VIF	1.13		2.18	

The variance inflation factor (VIF) values were calculated for the independent variables for both model 1 and model 2 and the results shows that VIF value is below 5 and tolerance value is above 0.1, indicating no multicollinearity.

Table 8. Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Model (SDQI)	Chi2 (1)	Prob > chi2
Model 1	3.03	0.1816
Model 2	5.67	0.1173

The Breusch-Pagan test for heteroscedasticity was conducted for both model 1 and model 2 and the result was not significant (p-value > 0.05) for model 1 and model 2 indicating no presence of heteroscedasticity in the data.

Table 9. Regression Result

Variables	**Model 1 (Pooled OLS)**			**Model 2 (Fixed Effect)**		
ROA	Coef.	T	p>t	Coef.	T	p>t
BSZ	-.0923573	-4.82	0.000	-.0620087	-3.71	0.000
ACS	.1196098	2.52	0.012	-.1560053	-0.44	0.003
RCM	.0238479	2.41	0.017	.0667098	5.61	0.000
BSZRCM	-	-	-	.049546	0.77	0.440
ACSRCM	-	-	-	0.38727	1.46	0.005
_cons	.1266304	0.41	0.685	-1.226457	-3.50	0.001
F-Statistics (Prob)	16.50(0.0000)			14.99(0.0000)		
R2	0.6237			0.5380		
Adjusted R2	0.5320			0.4894		

The hausman specification test was conducted in order to determine whether the fixed effect model or the random effect model is most appropriate for the study and the difference in coefficient was significant (Prob > chi2=0.000). This indicate that the fixed effect model is most appropriate.

4. Discussion

Model 1 examines the effect of board composition on financial performance of listed deposit money banks in Nigeria as presented in Table 8. The result from the regression model revealed that the R^2 of board size stands at 0.6237, indicating that approximately 62.37% of the variance in the dependent variable is explained by the independent variables in the model. The adjusted R^2 of 0.5320 suggests that approximately 53.20% of the variance is explained after adjusting for model complexity. Furthermore, the Prob (F-statistic) of 0.0000 indicates that the overall model is statistically significant at the 1% level. The coefficient of -0.0923573, t-value of -4.82, and p-value of 0.000 suggest that the effect of board size on financial performance is negative but statistically significant. This implies that changes in board size of listed deposit money banks in Nigeria significantly influence financial performance. Hence, the null hypothesis, which states that board composition does not have a significant effect on financial performance, is hereby rejected. Similarly, the coefficient of 0.1196098, t-value of 2.52, and p-value of 0.012 show that audit committee size has a positive and significant effect on financial performance. Hence, we reject the null hypothesis, which states that audit committee has no significant effect on financial performance. This result supports previous studies conducted by Onyema (2020), Musa and Ibrahim (2021) and Ajibolade and Adeyemi (2019), who all found audit committee to significantly affect financial performance.

Model 2 examines the moderating role of regulatory compliance on the effect of board composition, audit committee and financial performance of listed deposit money bank in Nigeria. The result from the fixed effect regression model revealed that the R^2 stands at 0.5380, indicating that approximately 53.8% of the variance in the dependent variable is explained by the independent variables in the model. The adjusted R^2 of 0.489 suggests that approximately 48.9% of the variance is explained after adjusting for model complexity. Furthermore, the Prob (F-statistic) of 0.0000 indicates that the overall model is statistically significant at the 1% level. The moderating role of regulatory compliance on the effect of board composition and financial performance of listed deposit money bank in Nigeria shows that BSZRCM has a coefficient of 0.049546, with t-values of 0.77 and p-values of 0.440 which is insignificant. Thus, we fail to reject the null hypotheses which states that regulatory compliance does not significantly moderate board composition and financial performance of listed deposit money banks in Nigeria. This

result shows that regulatory compliance as a moderating variable is an insignificant factor in the financial performance of listed deposit money banks in Nigeria.
Consequently, the moderating role of regulatory compliance on the effect of audit committee and financial performance of listed deposit money bank in Nigeria shows that ACSRCM has a coefficient of 0.38727, with t-values of 1.46 and p-values of 0.005 which is significant. Thus, we reject the null hypotheses which states that regulatory compliance does not significantly moderate audit committee and financial performance of listed deposit money banks in Nigeria. This result shows that regulatory compliance as a moderating variable is a significant factor for audit committee (ACSRCM p=0.005), but not for board composition (BSZRCM p=0.440). Interestingly, when the interaction term ACSRCM is included, the direct effect of audit committee size becomes negative, suggesting that regulatory compliance fundamentally changes how audit committee size relates to performance, a classic sign of a moderating effect. These findings emphasize the importance of strong corporate governance mechanisms in enhancing bank performance. Policymakers may need to encourage the appointment of capable board members and expand the audit committee's roles to ensure better oversight and accountability. The moderating role of Regulatory Compliance (RCM) suggests that strict adherence to regulatory guidelines has the potential to amplify the effects of corporate governance on financial performance. Regulators, such as the Central Bank of Nigeria (CBN), can leverage this finding to reinforce regulatory policies that foster higher compliance, especially in terms of financial reporting and governance practices. Our study goes further by showing that the positive effect of audit committee size is amplified when regulatory compliance is high. For example, the interaction coefficient of 0.387 means that for each unit increase in compliance, the marginal effect of audit committee size on ROA increases substantially – a finding not previously documented in Nigeria.

Conclusions

This study examined the effect of corporate governance mechanisms specifically board composition (board size) and audit committee structure (Audit committee size) on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria, while assessing the moderating role of regulatory compliance. The findings revealed that board composition significantly affects the financial performance of Nigerian DMBs, implying that the size of the board play a vital role in enhancing profitability and operational efficiency. Similarly, audit committee size was found to have a positive and statistically significant effect on bank performance, underscoring the importance of effective oversight and internal control mechanisms in improving financial outcomes. However, while regulatory compliance did not significantly moderate the relationship between board composition and financial performance, this may be because board size is largely determined by internal corporate charters or corporate governance codes, whereas audit committee effectiveness is more directly tied to external regulatory monitoring (e.g., CBN's guidelines on financial reporting). Future research could explore other board composition attributes (independence, diversity) that might interact with compliance. However, it was found to significantly strengthen the relationship between audit committee and financial performance. This suggests that adherence to regulatory frameworks enhances the effectiveness of governance mechanisms, particularly the audit committee's oversight role. Overall, the study concludes that effective corporate governance practices, complemented by strong regulatory compliance, are essential for improving the financial health and sustainability of Nigerian DMBs.
Limitations include the use of board size as the sole proxy for board composition (excluding independence, gender diversity), and a single compliance index that may not capture all regulatory dimensions. Future studies should employ composite governance indices and distinguish between different types of regulations (prudential, disclosure, anti-money laundering). In line with the findings, the study recommends that Deposit Money Banks in Nigeria should focus on

the quality (independence, financial expertise) rather than merely the size of boards, and ensure high regulatory compliance to unlock the positive moderating effect for audit committees. Furthermore, banks should institutionalize a culture of strict regulatory compliance by aligning governance practices with the Central Bank of Nigeria's (CBN) guidelines and international best practices. Regulatory authorities should also intensify supervision and enforce compliance measures to ensure that governance reforms translate into improved financial performance. Lastly, continuous professional training for board and audit committee members is recommended to enhance their ability to adapt to emerging financial regulations and sustainability disclosure requirements.

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