Effect of Non-Compliance with the Central Banks Regulations on the Sustainability of Micro Finance Banks in Nigeria

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Abstract: This study examined the effect of non-compliance with Central Banks regulations on the sustainability of Microfinance Banks in Nigeria. Ex-post facto research design was adopted to define the structure and strategy of the study, while the target population was all the Microfinance banks license by Central Bank to operate in Nigeria as at 31st December, 2023 which were 20 in number. Out of the 20 banks 14 were purposively chosen based on their complete annual reports and accounts over the period of the study (2019-2023). Panel regression analysis was used to analyze the collected data, and the results shows a positive and significant effect of capital adequacy requirement, liquidity ratio requirement, and cash reserve requirement on returns on assets of the banks. However, unsecured lending limit revealed a negative but significant effect on returns on assets of the banks. Therefore, the study concluded that: non-compliance with the Central Banks Regulations has significant effect on the sustainability of licensed Microfinance banks in Nigeria. This signifies that, having adequate capital funds, maintaining an appropriate liquidity position with sufficient cash reserve invested in Treasury bill as required by Central Bank would improve banks profitability, thus guarantee sustainability of Microfinance banks. Therefore, this study recommends that; the management of licensed Microfinance banks in Nigeria should maintain capital funds adequacy of not less than ten percent of capital to risk weighted assets ratio, and also maintain adequate liquidity in turn of not less than twenty percent of depositors' amount, while investing not less than five percent of total deposit in treasury bills. Furthermore, the banks should pay adequate attention on unsecured loans by not giving out unsecured loan facility of more than fifty thousand Naira. Doing these would help to improve banks profitability and subsequently guarantee banks sustainability.

Keywords: Central banks regulation, Microfinance Bank, Sustainability, Nigeria

1. Introduction

In recent quest for economic development and diversification, microfinance is considered as one of the most effective tools of addressing poverty among vulnerable groups. Despite efforts of various authorities and governments to reduce the rate of extreme poverty, the menace remains a challenge to various developing countries. To this extent, Adebiyi *et al.* (2022) reported that, in Africa, about 460 million people live in extreme poverty, with a poverty threshold of US$1.90 a day. In the case of Nigeria, Adebiyi *et al.* (2022) stressed that, the number of poor people was 89 million in 2020. The high level of poverty in Nigeria was attributed, among other factors, to a high level of financial exclusion (Gambo *et al.,* 2022). The study further stressed that, the number of financially excluded adults in Nigeria increased to 38.1 million in 2020, from 36.6 million in 2018 as population growth outpaced financial inclusion growth.

Access to credit was found by various studies such as Gambo *et al.* (2022) and Thom-Otuya and Chukuigwe (2014) to be one of the key constraints to economic prosperity in most developing and emerging economies. This is also obtainable in Nigeria, as most small-scale businesses do not have adequate securities to pledge as collateral for commercial bank loans, hence depend on personal and family savings, co-operative societies, rotating savings and credit associations and money lenders for their financing needs. However, the availability and cost of borrowing at some of these informal institutions can, sometimes be challenging for businesses. Thus, the growing awareness of the potential of microfinance in poverty reduction, economic growth and development has effectively put the issue of microfinance on the political agenda of most developing countries. Consequently, the establishment of

Microfinance Banks (MFBs) and charge supervisory authorities such as Central Bank of Nigeria (CBN) to take active measures to address the issue of microfinance through appropriate regulatory and supervisory framework. MFBs expand the frontiers of intermediation, by providing credit access to SMEs that were unable to access credit through the formal banking institutions. By easing financing constraints, MFBs promote small-scale businesses and help them harness inherent market potentials, while generating sufficient returns on their investment.

However, for effective and efficient operations of MFBs in Nigeria, the CBN plays a critical role in regulating MFBs by setting operational criteria such as permissible and prohibited activities, ownership requirements, management qualifications and expertise, funding account and related matters, compliance with Anti-Money Laundry Act, publications of audited financial statements, prudential requirements, assessment of soundness, increase in share capital, disclosure of interest by directors and officers, operational requirements and control, and appointments of chief executives, principal officers and external auditors (Seun *et al.,* 2020). Therefore, MFBs are expected meet these requirements and criteria before they can be licensed to operate and even in the course of their operation. This is aim at protecting the interests of depositors and ensure banks sustainability (Chmelíková & Redlichová, 2020). Thus, the concept of MFBs sustainability was describe by Adebiyi *et al.* (2022) as the long-term continuation of MFB. It entails appropriate systems and processes put in place to enable the availability of Microfinance services on a continuous basis and the clients continue to benefit from these services in a routine manner (Gambo *et al.,* 2022).

However, given the importance of microfinance, MFBs and regulatory provisions from CBN, the empirical results on the effect of compliance and non-compliance of CBN regulatory requirements on MFBs performance remains contentious and limited over the years (Adebiyi *et al.,* 2022; Gambo *et al.,* 2022; Kanayo *et al.,* 2013). Only few studies were conducted to empirically observe the implications of non-compliance with CBN regulations on the sustainability of MFBs in Nigeria. Hence, the motivation of this study to empirically examine the effect of non-compliance with the CBN regulatory provisions, particularly, prudential guidelines on the sustainability of MFBs in Nigeria. As MFBs failure rate increases, it has cast doubt on the ability of MFBs in Nigeria to be financially sustainable. Hence, studies such as Adebiyi *et al.* (2022) and Adeyemi and Fagbemi (2019) believed that, the persistent failure of MFBs was as the result of inadequate liquidity, lack of capital funds adequacy, poor cash reserve, and unsecured lending. More so, Siwale and Okoye (2017) emphasized that, CBN regulations is to help and professionalize the microfinance sector, however, their effectiveness in promoting sustainability remains doubtful due to poor observations of CBN regulations (David & Muendo, 2018).

In this regard, the empirical evidence on the effects of non-compliance with the CBN regulations on MFBs sustainability remains very limited, particularly in Nigeria (Alobari *et al.,* 2019; Aliyu *et al.,* 2023). Only a few studies such as Aliyu *et al.* (2023) focused on the aspect of CBN regulation and the performance of MFBs, while others such as David and Muendo (2018) were of foreign context of which CBN regulations on MFB varies significantly with the Nigerian context and the likely impact on MFB performance. Hence, the motivation of this study to empirically examine the effect of non-compliance with CBN regulations on the sustainability of MFBs in Nigeria.

Therefore, to achieve this objective, null hypotheses were formulated to guide the study.

H_{o1}: Liquidity ratio requirement has no significant effect on the sustainability of licensed MFBs in Nigeria.
H_{o2}: Capital funds adequacy requirement has no significant effect on the sustainability of licensed MFBs in Nigeria.
H_{o3}: Unsecured lending limits requirement has no significant effect on the sustainability of licensed MFBs in Nigeria.
H_{o4}: Cash reserve requirement has no significant effect on the sustainability of licensed MFBs in Nigeria

The novelty of this study is its contributions to knowledge in the area of microfinance banks sustainability and the role of CBN regulations framework. Therefore, the study would benefit the regulatory authorities of MFBs and management of MFBs in Nigeria. It would enlighten the management of the banks on the influence of CBN regulations on the sustainability of the banks. Therefore, the remaining part of this study is structured into four sections given that section one is introduction. The review of relevant literatures is presented in Section 2, while Section 3 described the methodology adopted for the study. Then, Section 4 discusses the results of the empirical analyses, while Section 5 presents conclusions and recommendations.

2. Literature Review

2.1 MFBs Sustainability

Microfinance in Nigeria began as non-profit institutions-initiated strategies to address poverty. The Nigerian government has institutionalized microfinance as the practice of collaborative provision of financial services such as credits (loans), savings, micro-leasing, micro-insurance and payment transfers to economically active poor and low-income households, and small-scale businesses. This is to enable them engage in income generating activities or expand their small businesses (Kanayo *et al.,* 2013). Thus, the concept of microfinance banks is described by Gambo *et al.* (2022) as a financial institution established to make available small-scale financial services specifically to unbanked and low-income individuals. In essence, microfinance banks deals with making available a wide range of specific financial services such as money transfers, payment services, insurance services, loans and deposits to low income and poor people and microbusinesses. Thus, to achieve these precarious objectives, the banks should be sustainable.

The sustainability of MFBs means the ability of MFB to be consistent in performance over time. Thus, it allows the banks to sustain its operations of providing financial services to those in need. Thus, studies such as Navajas *et al* (2000) and Gambo *et al.* (2022) believed that, financial sustainability is key to MFBs survival. Despite microfinance's enormous potentials, Adebiyi *et al.* (2022) believed that, the sector is bedeviled with several challenges, such as inadequate cash, strong competition from commercial banks, high transaction costs, high-interest rates, low capital base, low product innovation, low market penetration, and high exposure to credit risk. Thus, to curtail these challenges, CBN provide regulatory and supervisory framework for MFBs in Nigeria.

2.2 CBN Regulatory Framework

Given the growing awareness of the potential of microfinance in poverty reduction, economic growth and development across the globe, the need for effective MFBs has put the issue of microfinance on the political agenda of most developing countries. Consequently, the supervisory authorities in different countries have taken active measures to address the challenges affecting microfinance banks. Thus, in Nigerian context, the CBN has developed regulatory and supervisory framework to curtail the risks associated with the operation of MFBs with the aim to ensure their sustainability. Therefore, Aliyu *et al.* (2023) stated that, the CBN regulation of MFBs is necessary because of the characteristics of microfinance clients are distinct, the credit methodology different and, in many cases the ownership structure of the institutions is not the same as that typically found in conventional financial institutions. These factors give rise to a unique risk profile that needs to be addressed through the regulatory framework and supervisory practices. Thus, the CBN believed that, a risk based supervision shall be implemented which would focus mainly on; governance and ownership structure; lending methodology; borrower characteristics; appropriate management information system; and internal control mechanisms and procedures. Therefore, the major area of concern for this study was prudential requirements such as liquidity ratio, capital funds adequacy, unsecured lending limit, and cash reserves requirement. These were considered by previous studies such as Gambo *et al.* (2023) and Aliyu *et al.* (2022) as the basic factors that might affect MFBs sustainability.

With regards to liquidity ratio, the CBN prudential guidelines provides that, each MFBs should maintain high level of liquid assets to meet frequent request for funds from clients and for field operations. Thus, the minimum liquidity ratio is twenty percent (20%) of their deposit liabilities including 5% compulsory investment in the Treasury Bills in the liquid assets. Regards to capital funds adequacy, CBN regulation provides that, MFBs shall maintain at all times a minimum capital adequacy ratio that shall be measured as a percentage of the capital base of a MFB to its risk-weighted asset exposure. Thus, the minimum Capital Adequacy Ratio (Capital/Risk Weighted Assets Ratio) required for each MFBs shall be 10%.

In accordance with the provisions of BOFIA section 20(2) (a), any unsecured advances or loans or credit facilities of an aggregate amount in excess of fifty thousand naira (N50,000.00) is not permitted. For the purpose of applying this regulation to MFB, group guarantees or third party guarantees of an individual acceptable to the MFB shall qualify as collateral for microfinance loans. Considering cash reserve, the mandatory cash reserve requirements (CRR) for conventional banks is not applicable to MFBs, rather MFBs are required to have

compulsory investment of 5% of its total deposit liabilities in the treasury bills which shall qualify as specified liquid asset in computation of its liquidity ratio.

2.3 Empirical Review

Aliyu *et al.* (2023) conducted a study on Central Bank Regulation and the financial sustainability of seven national microfinance banks in Nigeria. The required data were collected from CBN bulletin and annual reports and accounts of the selected microfinance for a period of five years (2015-2021). The data collected was analyzed using multiple regression analysis and the results shows that minimum capital requirement has positive and significant effect on return on assets and returns on equity of the selected banks. Gambo *et al.* (2022) studied profitability and financial sustainability of 151 national microfinance banks operating in Nigeria. The required data was obtained from annual reports and accounts of the selected banks and was analyzed using multiple regression. The result of the analysis revealed low level of profitability and sustainability.

Burak *et al.* (2023) studied the effect of banking regulation on the performance of 55 banks in selected emerging countries for a period of ten years (2010-2019). The required data was obtained from annual reports and accounts of the selected banks and were analyzed using System Generalized Moment Method and the result shows that capital adequacy ratio and liquidity ratio have positive and significant effect on returns on assets of the banks. Furthermore, Kayembe *et al.* (2021) examined the factors that influence MFBs sustainability in Malawi. A cross-sectional survey was conducted from November to December 2020 among the employees of MFBs in the central region of the country. Convenience and purposive sampling techniques were used to collect data online using a Google form sent via social media platforms. Data were analyzed using IBM SPSS software with Statistical significance placed at 0.05. Study argues that through commercialization, standardized reporting, and effective loan portfolio management systems, stakeholder-based approach to corporate governance, and favored board independence through scale and cost management is critical to improving MFBs financial sustainability. In line with this, Enock (2021) examined the effect of central bank regulation on financial performance of six commercial banks in Ruwanda. The required data was collected from annual reports and accounts of the banks over a period of eight years (2011-2018) and were analyzed using regression analysis. The result of the study shows positive and significant effect of cash reserve and returns on assets, liquidity ratio and returns on assets, and lending risk and returns on assets of the banks.

Furthermore, Adams and Tewari (2020) evaluated the impact of MFB regulation on their sustainability and outreach performance in selected sub-Saharan African countries using 551 observations covering 71 MFBs across 10 countries for a period of 10 years. Using the dynamic generalized method of moment estimation technique, the study found that regulations have positive and significant impacts on the MFBs sustainability and depth of outreach performance. Magoma and Gordon (2019) examined the effect of central bank regulation requirements on financial performance of 48 microfinance institutions in Kenya. The required data were collected from annual reports and accounts of the selected banks and central banks bulletin and were analyzed using multiple regression. The result of the analysis shows that capital adequacy requirement, interest rate spread requirement, liquidity requirement, and credit risk requirement have positive and significant effect on the financial performance of the banks. David and Muendo (2018) evaluated the effect of central bank regulation on the performance of 13 microfinance banks in Kenya. The required data were collected from annual reports and accounts of the banks and were analyzed using regression analysis. The study documented a positive and significant effect of capital adequacy requirement and liquidity requirement on returns on assets of the banks.

2.4 Theoretical Review

This study is anchored on Agency Theory. Agency Theory explain the relationship between principals (shareholders or depositors) and agents (management or the board of directors) and the potential conflicts of interest that may arise between them. With regards to MFBs, the principals are the depositors who entrust their savings to the banks, while the agents are the bank management and the board of directors who are responsible for managing the funds. Thus, to improve smooth operations of the banks, CBN plays a vital role by providing regulatory framework. Hence, Aliyu *et al.* (2023) emphasized that, CBN regulatory framework provides guidelines and standards for the operation of financial institutions that has to do with capital adequacy, risk management,

governance, and liquidity requirements. Therefore, Agency theory is appropriate to explain the role of CBN as a supervisory body, and the concept of MFBs sustainability.

CBN Regulation seeks to align the interests of depositors and the agents by setting guidelines for corporate governance and risk management, and also help to minimize information asymmetry between depositors, management, and directors. CBN Regulation seeks to address this by requiring banks to provide timely and accurate information to depositors, shareholders, and other stakeholders. Equally important, as stated by Gambo *et al.* (2023), the CBN Regulation provides framework for monitoring and controlling the behavior of MFBs through the use of prudential ratios, on-site examinations, and off-site supervision, thus protect the interests of depositors by setting standards for MFBs operations. Therefore, Agency Theory provides an appropriate theoretical background to explain the relationship between CBN regulation and MFBs Sustainability.

3. Methodology

This study adopted ex-post facto research design to define the structure and strategy of the study. While the target population consisted of all the licensed MFBs in Nigeria as at 31st December, 2023 and were twenty (20) in number. Out of the 20 banks, 14 were selected as sample based on the availability and the complete required annual reports and accounts of the banks over the period of five years from 2019 to 2023. The data collected were analyzed using both descriptive and inferential analysis.

The panel regression model developed in line with the model of Aliyu *et al.* (2023) with some adjustment to capture the necessary variables of the study. Model was to evaluate the effect of capital adequacy requirement (CAR), liquidity requirement (LDR), unsecured lending limits requirement (ULR), and cash reserve requirement (CRR) on sustainability (ROA) of licensed MFBs in Nigeria, while controlling banks characteristics (FMS, FMA).

$$Y = F\,(CAR, LDR, ULR, CRR, FMS, FMA) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{equation}$$

$$ROAit = \beta_0 + \beta_1 CAR_{it} + \beta_2 LDR_{it} + \beta_3 ULR_{it} + \beta_4 CRR_{it} + \beta_5 FMS_{it} + \beta_6 FMA_{it} + \mu_{it} \ldots\ldots\ldots\text{model}$$

Table 1 presents study variables which gives information with respect to the measurement as used by previous studies.

Table 1: Variable identification and measurements

SN	Label	Variables	Description	Sources
1	ROA	Returns on assets	Profit after tax divide by total assets	Gambo *et al.* (2022)
2	CAR	Capital adequacy ratio	Capital divide by risk weighted assets ratio	Aliyu *et al.* (2023)
3	LDR	Liquidity ratio	Credit facility to total deposit	El-Maude *et al.* (2022)
4	ULR	Unsecured loan limit ratio	Total unsecured loan divide by total loan for a year	Burak *et al.* (2023)
5	CRR	Cash reserve ratio	Amount of investment in treasury bills divide by total deposit liabilities	Aliyu *et al.* (2023)
6	FMS	Firm's size	Natural logarithms of total assets	Bala *et al.* (2018)
7	FMA	Firm's age	Years of operation since incorporation	Ali (2021)

4. Results and Discussions

The results of descriptive statistics are presented in Table 2.

Table 2: Descriptive statistics

Variables	Mean	Std. Dev.	Min.	Max.
ROA	0.0134	0.1325	0.0023	0.0628
CAR	0.1032	0.3126	0.0041	0.1839
LDR	0.2314	0.0345	0.0439	0.2936

ULR	0.0418	0.0139	0.0114	0.0671
CRR	0.0613	0.0125	0.0089	0.0746
FMS	15.1472	1.5780	11.1300	18.6801
FMA	14.2727	6.4057	10.0000	17.0000

Sources: STATA 14 Output (2024)

Table 2 shows 0.0134 mean value of returns on assets (ROA) in between minimum value of 0.0023 and maximum value of 0.0628, with a standard deviation of 0.1325. Regards to CBN regulation requirements, capital funds adequacy has a mean value of 0.1032, minimum value of 0.0041, and maximum value of 0.1839 with a standard deviation of 0.3126. Liquidity ratio shows a mean value of 0.2314 that falls in between minimum value of 0.0439 and maximum value of 0.2936 with a standard deviation of 0.0345. The mean value of unsecured lending limit is 0.0418, in between minimum value is 0.0114 and maximum value is 0.0671 with a standard deviation of 0.0139. While cash reserve ratio revealed a mean value of 0.0613, minimum value of 0.0089, maximum value of 0.0746, and standard deviation of 0.0125. With respect to banks characteristics, the descriptive statistics in Table 2 shows a mean value of firms' size of 15.1472, with a standard deviation of 1.5780, minimum value of 11.1300 and maximum value of 18.6801. Firms' age revealed an average value of 14.2727 with a standard deviation of 4.4057 with 10.0000 and 17.0000 minimum and maximum values respectively.

Furthermore, correlation analysis was carried using Pearson moment correlation statistics and the results presents in Table 3.

Table 3: Correlation Results

Variables	ROA	CAR	LDR	ULR	CRR	FMS	FMA
ROA	1						
CAR	0.0914	1					
LDR	0.1602	0.1072	1				
ULR	-0.4279	0.0031	-0139	1			
CRR	-0.0219	0.1734	0.5134	0.0181	1		
FMS	0.3182	0.4167	0.3192	-0.2152	0.2154	1	
FMA	0.0127	0.2015	0.2419	0.0012	0.4120	0.5012	1

Sources: STATA 14 Output (2024) @ 5% significant level

The result of correlation in Table 3 shows a negative correlation between unsecured lending limits (ULR) and return on assets (ROA), cash reserve requirement (CRR) and return on assets (ROA), firms size (FMS) and unsecured lending limit requirement (ULR), while others have positive correlations. With respect to the strength of the correlation, unsecured lending limit and returns on assets, firms size and returns on assets, firms' size and capital fund adequacy, cash reserve requirement and liquidity ratio requirement, firms age and cash reserve requirement, and firm age and firm size revealed a moderate correlation, while others shows a negligible correlations.

Although there are mixed results in the direction and strength of correlations among the variables of the study where most of the correlation values ranges from very low to moderate correlation, the minimum absolute value of correlation is 0.0012 and the maximum absolute value is 0.5134. This implies that, the variables of the study are moderately correlated, thus, absence of harmful multi-collinearity among the variables.

Table 4: Diagnostic test results

Variables	VIF	1/VIF	Std. Skewness	Std. Kurtosis
ROA	1.1051	0.9049	1.0034	4.0129
CAR	1.4218	0.7033	0.2191	3.9102
LDR	1.1641	0.8590	0.8241	3.9120
ULR	1.2145	0.8234	0.4123	5.4181
CRR	1.0023	0.9977	1.3209	4.3174
FMS	1.0521	0.9505	1.0192	3.6123

FMA	1.4125		0.7080	1.2140	6.0164
Hausman test		0.0000			
Durbin Watson test		1.1932			

Source: STATA 14 Output (2024)

The diagnostic result in Table 4 reveals that the data obtained for the dependent and independent variables are not abnormal. Hence, the study is considered valid based on validity of the data. The absolute skewness values were all less than 1.96, and kurtosis more than 3. Hence, the data were considered to be moderately skewed and platy Kurtic in accordance to the rule of thumb (Gujarati, 2008). Furthermore, the result of the VIF in Table 4 shows the maximum VIF value of 1.4218 with a minimum value of 1.0023, while the maximum tolerance coefficient of 0.9977 with a minimum value of 0.7033. Hence, the conclusion that, the data collected has no multicollinearity problem. The value of Hausman model specification test of 0.000 is significant, thus, the null hypothesis was rejected (random effect) in favor of fixed effect.

Since the data collected were normally distributed and there were no issues of multicollinearity, multi-regression analysis was carried out to examine the effect of non-compliance with CBN Regulations on the sustainability of the selected MFBs in Nigeria and results presents in Table 5.

Table 5: Regression results

Variables	Coeff.		t-value	p-value
Constant	0.4550		8.4161	0.0030
CAR	0.0311		3.7960	0.0010
LDR	0.3191		2.3870	0.0219
ULR	-0.0152		-2.1472	0.0000
CRR	0.8140		9.5161	0.0021
FMS	6.4402		4.2810	0.0011
FMA	0.6110		0.1402	0.8102
R^2		0.5220		
Adj. R^2		0.4401		
F-St.		5.342		
Prob>chi2		0.000		

Source: STATA 14 Output (2024) @5% significant level

The regression result in Table 5 shows that the R^2 is 0.5220 which implies that, about 52.20% in the percentage of the total variation in returns on assets of the listed MFBs over the period of the study is explained by the compliance with CBN Regulations such as capital funds adequacy requirements, liquidity ratio requirements, cash reserve requirement, and unsecured lending limit requirements, while controlling banks characteristics such as bank size and banks age. Furthermore, given the F-statistic value of 5.342 and the p-value of 0.0000 at 5% significant level is significant, thus the model is fit and has a good predictive power.

Furthermore, the regression results in Table 5 shows that, capital fund adequacy requirement (CAR) has positive and significant (coef. = 0.0311; p-value = 0.0010) effect on returns on assets (ROA) of the banks at 5% significant level. This implies that, increasing 1% in capital to risk weighted assets ratio above 20% CBN requirement would result to 3.11% increase returns on assets of MFBs. More so, liquidity ratio requirement (LDR) revealed positive and significant (coef. = 0.3191; p-value = 0.0219) effect on returns on assets (ROA) of the banks. This also implies that, increasing 1% in credit facility to total deposit ratio above 20% CBN requirement would result to 31.91% positive effect on return on assets of the banks. Furthermore, cash reserve ratio shows positive and significant (coef. = 0.8140; p-value = 0.0021) effect on returns on assets of the banks. This further shows that, investing at last 5% of total deposit in treasury bills would positively and significantly affects returns on assets of the banks. However, the regression results in Table 5 shows that, unsecured lending limit requirement has negative but significant (-0.0152; p-value = 0.0000) effect on returns on assets of the banks. This implies that, increasing N1 of unsecured lending above CBN provisional limit would result to 1.52% decrease in returns on assets of the banks.

5. Conclusion and Recommendations

Given the findings of this study, it reveals that, capital funds adequacy requirements, liquidity ratio requirements, and cash reserve requirement have positive and significant effect on returns on assets of the licensed Microfinance banks in Nigeria over the period of the study. However, unsecured lending limit requirement had negative and significant effect on returns on assets of the banks over the period of the study. Therefore, the conclusion that non-compliance with CBN regulatory requirements has a significant effect on sustainability of the licensed Microfinance banks in Nigeria over the period of the study. This implies that failure to comply with CBN regulatory requirements such as capital funds adequacy, liquidity ratio, cash reserve requirements, and unsecured lending limit requirement would affect the going concern of licensed Microfinance banks in Nigeria,

Therefore, this study recommends that; the management of licensed Microfinance banks in Nigeria should continue to maintain capital funds of not less than ten percent of capital to risk weighted assets ratio, and also maintaining adequate liquidity in turn of not less than twenty percent of depositors' amount, while investing not less than five percent of total deposit in treasury bills. Furthermore, the banks should pay adequate attention on unsecured loans by not giving out unsecured loan facility of more than fifty thousand Naira. Doing these would help to improve profitability and subsequently guarantee banks sustainability.

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