Prudential Regulations And Performance Of Finance Of Tier 2 Banks In Kenya

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Abstract
The research delves into the intricate relationship between prudential regulations and the performance of finance of Tier 2 banks in Kenya. Through a comprehensive analysis, the study aims to shed light on how adherence to prudential standards impacts the operational and financial outcomes of these banks. By examining key variables such as credit, liquidity, corporate governance, and capital regulations, the research seeks to uncover the underlying mechanisms that drive performance of finance within the banking sector. Drawing on a comparative design and employing a linear regression model, the study reveals significant insights into the effects of prudential rules on the performance of finance of Savings and Credit Cooperative Organizations (SACCOs) in Kenya. Prior to the implementation of prudential legislation, factors such as liquidity, membership growth, core capital, and credit management did not significantly predict performance of finance. However, post-implementation, these variables emerged as crucial determinants of financial success, emphasizing the importance of regulatory compliance for sustainable business growth. The findings underscore the necessity for SACCOs and Tier 2 banks to adhere to prudential standards to enhance their performance of finance and capitalize on increased business opportunities. By bridging the gap in existing literature and providing a nuanced understanding of the impact of prudential regulations, this research contributes valuable insights to the ongoing discourse on banking regulations and financial stability in Kenya.
Keywords: Capital, liquidity, prudential, commercial bank, credit, performance of finance,

I. Introduction

Banking industry acts as a key element within the economic growth of a country. Banking sector needs to be under close supervision and be regulated to look after depositors and investors and to maintain financial stability (Sentero, 2013). Through the establishment of a regulatory body in the financial area, economic growth can be achieved. The breakdown of the European Banking system exposed the need for regulation in banking on a global scale, which started with international level. The year 1988 saw the first internationally coordinated attempt at banking regulation with the Capital Accord (Basel I). Slightly later on, this framework was recalculated (Basel II). The Base II was the first standard universally accepted and its capital proportional to a risk-weighted assets comprising off the balance sheet exposures was the minimum. Various countries have upgraded their regulation approaches to focus on financial regulations involving capital adequacy, liquidity management, asset quality, and credit risk management. However, there is yet to be a consensus on whether these regulations positively influence performance, especially of tier 2 banks in Kenya.

In Kenya, the banking industry is regulated by the Central Bank of Kenya, which has implemented various financial prudential guidelines which came to effect in January 2013 to ensure stability, integrity, and efficiency within the sector. These guidelines are designed to safeguard the interests of depositors, maintain capital adequacy, manage risk, and promote sound corporate governance practices among banks. Tier 2 banks in Kenya are essential in the banking sector. Medium-sized banks serve as intermediaries between depositors and borrowers, providing various financial services to businesses and individuals. Tier 2 banks contribute significantly to the growth and development of various economic sectors, including manufacturing, agriculture, and trade.

The CBK has implemented financial prudential guidelines since 2013, intending to enhance banks' overall performance and stability. These guidelines cover various aspects, including capital adequacy requirements, liquidity management, asset quality standards, and corporate governance frameworks. Implementing these guidelines has influenced the operational landscape of Tier 2 banks in Kenya. Since the introduction of the financial prudential guidelines, there has been limited empirical research focusing specifically on their impact on the performance of finance of Tier 2 banks in Kenya. While studies exist on the banking sector as a whole or specific aspect of prudential regulations, a comprehensive analysis of the effect of CBK financial prudential guidelines on Tier 2 banks is not exhaustive.

Understanding the effect of these prudential guidelines on Tier 2 banks is crucial for several reasons. First, Tier 2 banks face distinct challenges compared to Tier 1 banks, such as resource limitations, lower market

share, and higher vulnerability to economic fluctuations. Therefore, assessing the impact of financial prudential guidelines on their performance of finance will provide valuable insights into the effectiveness of these regulations in supporting the growth and stability of Tier 2 banks. Second, the period from 2013 to 2022 is particularly interesting, encompassing almost a decade of implementing the CBK financial prudential guidelines. Analyzing this period will enable researchers to assess these guidelines' short-term and long-term effects on Tier 2 banks, considering any evolving trends and the recent bank failures that have mostly affected Tier 2 banks. Third, a comprehensive analysis of the effect of CBK financial prudential guidelines on Tier 2 banks will provide policymakers, regulators, and stakeholders with evidence-based insights to enhance the effectiveness of these guidelines. By identifying the strengths, weaknesses, and areas of improvement, policymakers can ensure that the regulations are tailored to the specific needs and challenges faced by Tier 2 banks.

Consequently, the major intention of the research is to establish the impact of prudential policies on the financial results of second-tier banks in Kenya. The specific objectives include: Investigating the effect of credit regulations on the financial outperformance of Tier 2 in Kenya, exploring how liquidity guidelines affect credit record of 2nd level establishments in Kenya, assessing the capital regulation effect on the financial wellbeing of Tier 2 Banks in Kenya and collecting and analyzing the relevant data on corporate governance regulations and their impact on the performance of finance of Tier 2 banks in Kenya.

II. Literature Review

Public Interest Theory of Regulation

Pigou is credited with creating this theory in 1938. According to him, regulations are implemented in the public's interest when they are requested by the public in order to right wrongs. Regulations are made to help the public as a whole, not just one person. In contrast to the regulator's own interests, a regulatory arm often reflects the interests of the community in which it operates (Posner, 1974). In addition, this theory supports the need of government regulation to address problems including unbalanced market operations, a lack of markets, and imperfect competition, among others (Hertog, 2012). Due to its connection to fiscal policy, the public interest perspective on regulation is of interest to the majority of economists (Hantke-Domas, 2003).

According to one of the tenets of this theory, markets will not always act in the public's best interests if they are not closely supervised (Uche, 2001). According to this view, regulators make informed decisions and are not influenced by computational or contextual disadvantages (Gekera and Osano, 2018). The Public Interest theory has drawn criticism since it is difficult to determine whether or when it has advanced (Smyth, Russell; Söderberg, Magnus, 2010). The Public Interest theory and Stigler's Public Choice theory have been compared and contrasted. In response to public demand for effective resource distribution, regulations are created. Additionally, he thinks that laws are employed by private parties to keep rivals out of the market and are ineffective on a collective level (Mueller, 2008). According to Gekera and Osano (2018), the Chicago School of Economics is likewise regarded to have a strong preference for creating compelling rationales for deregulation.

The government and its agencies, shareholders, creditors, directors, employees, and other business stakeholders are more concerned with a company's sustainability, which is comprised of economic, social, and environmental challenges, one of which is regulation. Since promoting a critical approach to regulation is required, this theory will be useful in this study. Changes in stakeholders' perceptions of the executive's participation in the financial sector are also necessary. This calls for the creation of fresh concepts and knowledgeable norms supportive of independent markets. Our idea is relevant to our topic since it relates to how capital rules are required to progress society as a whole.

Risk Management Theory

The Theory of Risk Management, by Daniel Bernoulli (on its inception in 1738), was the first to explain the regression, utility, and diversification concepts. Risk management is a procedure that helps prevent disasters from happening by making efforts to identify potential consequences and act accordingly. risk which is a financial component area and does not allow the risk analysis to be considered from a financial side. The theory as such puts a lot of emphasis on the role played by financial industries in liquidity risk management. This method examines ways through which financial prudential regulations, let alone those related to risk management and capital adequacy, affect the risk (profile) and financial outcome of Tier 2 Banks. The Risk Management Theory which also forms the basis for regulations in Kenyan banks may be used as a tool within which the financial institutions in the country will evaluate, assess and control risks to make them compliant with the regulations According to Risk Management Theory, banks are presented with assets and liabilities and have to put in place various risk management practices to address different risks that they get exposed to. In Kenya, CBK stipulates the professional banking oversight acts which include the minimum risk management requirements for banks. Furthermore, these principles regulate a number of aspects like credit risk, market risk,

operational risk, liquidity risk, and capital adequacy. Companies in banks are to put in place regulatory and risk management policies and structures to be updated with the internal assessment as it is expected.

Efficiency Theory

Efficiency Theory, also known as Productivity Theory, posits that organizations can enhance their performance of finance by improving operational efficiency and resource allocation. It emphasizes the importance of utilizing resources, such as capital, labor, and technology, in a manner that maximizes output while minimizing input costs. This theory examines the relationship between bank efficiency and performance of finance. It considers how financial prudential guidelines may impact the operational efficiency of Tier 2 Banks, and in turn, how efficiency levels can affect their performance of finance. Efficiency Theory, when applied to the banking sector, focuses on the relationship between efficiency and performance of finance. It explores how banks can optimize their use of resources to achieve higher profitability, productivity, and overall performance.

Efficiency Metrics in Banking:
To assess efficiency, various metrics are used in the banking sector. These metrics include:

Cost-to-Income Ratio: Measures the cost of generating income, reflecting the operational efficiency of a bank. A lower ratio indicates higher efficiency.

Return on Assets (ROA): Measures the profitability of a bank relative to its total assets. A higher ROA indicates greater efficiency in generating profits from the bank's asset base.

Return on Equity (ROE): Measures the profitability of a bank relative to its shareholders' equity. A higher ROE indicates efficient utilization of equity capital to generate profits.

Net Interest Margin (NIM): Reflects the difference between interest income and interest expenses as a percentage of interest-earning assets. A higher NIM suggests better efficiency in managing interest rate risk and generating interest income.

Factors Affecting Efficiency in Banking
Efficiency in banking is influenced by various internal and external factors, including:

Technological Advancements: Adoption of advanced technologies, such as automation, digitization, and data analytics, can enhance operational efficiency and improve service delivery.

Organizational Structure: The organizational design, management practices, and decision-making processes within a bank can impact efficiency. Streamlined processes, effective risk management, and strong corporate governance contribute to improved efficiency.

Scale and Scope: Economies of scale and scope can drive efficiency gains in banking. Larger banks may benefit from cost advantages and the ability to offer a broader range of products and services.

Regulatory Environment: Banking regulations can influence efficiency by shaping compliance costs, capital requirements, and operational constraints. A balanced regulatory framework promotes both stability and efficiency in the banking sector.

Market Competition: Competitive pressures in the banking industry can drive banks to become more efficient in order to gain a competitive edge.

Implications and Benefits
Efficiency in banking has several implications and benefits, including:
Cost Reduction: Efficient resource allocation helps banks minimize costs and optimize their use of inputs, resulting in improved profitability.
Enhanced Profitability: Higher efficiency allows banks to generate greater profits from their operations.
Customer Satisfaction: Efficient banks can offer better services, lower costs, and improved customer experiences.
Financial Stability: Efficient resource management helps banks maintain stability and resilience, reducing the likelihood of financial distress.
Measurement and Improvement of Efficiency
Banks can measure and improve efficiency through various strategies, such as:
Benchmarking: Comparing their performance against industry peers and best practices to identify areas for improvement.

Process Optimization: Streamlining operations, reducing redundant processes, and leveraging technology to enhance efficiency.

Training and Development: Investing in human capital to ensure staff members have the necessary skills and knowledge to perform their roles efficiently.

Continuous Monitoring and Evaluation: Regularly reviewing and assessing efficiency metrics to track performance and identify opportunities for improvement.

By considering Efficiency Theory in banking, banks can evaluate their resource allocation, operational processes, and technological advancements to enhance efficiency.

Corporate Governance Theory

This theory seeks to ensure accountability, transparency, and ethical behavior in corporate decision-making, with the ultimate goal of enhancing firm performance, maximizing shareholder value, and protecting the interests of other stakeholders. It explores the mechanisms and structures that govern the relationships between a company's management, board of directors, and shareholders. Examining the impact of financial prudential guidelines on corporate governance practices within Tier 2 Banks can shed light on their performance of finance. a framework that examines the structures, processes, and mechanisms through which corporations are governed and managed. It focuses on the relationships among various stakeholders, such as shareholders, boards of directors, executives, employees, customers, and the broader community.

The key elements and principles of Corporate Governance Theory include:

Board of Directors: The board of directors is responsible for overseeing the management and strategic direction of the corporation. It ensures that decisions are made in the best interests of the company and its shareholders. The board's composition, independence, expertise, and diversity are critical factors in effective governance.

Shareholder Rights and Engagement: Corporate Governance Theory recognizes the rights of shareholders and emphasizes their active engagement in corporate affairs. Shareholders have the right to vote on key matters, such as the appointment of directors and major corporate transactions. Shareholder activism and proxy voting are mechanisms through which shareholders can exercise their rights and influence corporate decisions.

Accountability and Transparency: Good corporate governance requires transparency in financial reporting, disclosure of material information, and effective communication with stakeholders. It ensures that all relevant information is provided to shareholders and the public in a timely and accurate manner. Accountability mechanisms, such as internal controls and external audits, promote transparency and enhance confidence in the corporation.

Ethical Behavior and Corporate Social Responsibility: Corporate Governance Theory recognizes the importance of ethical behavior and corporate social responsibility. It emphasizes the need for corporations to operate in an ethical and responsible manner, taking into account the interests of stakeholders beyond shareholders. This includes considering environmental sustainability, social impact, and ethical business practices.

Risk Management: Effective corporate governance incorporates risk management processes to identify, assess, and mitigate risks that could impact the corporation. Risk oversight is a critical responsibility of the board of directors, ensuring that appropriate risk management systems and controls are in place to safeguard the interests of the corporation and its stakeholders.

Legal and Regulatory Framework: Corporate Governance Theory acknowledges the role of legal and regulatory frameworks in shaping governance practices. Laws, regulations, and governance codes provide guidelines and standards for corporate behavior. Compliance with legal and regulatory requirements is essential for maintaining good corporate governance.

Credit Regulations and Performance of Finance

Erdogan and Aksoy (2016) came to the conclusion that authority has a favorable impact on bank profits in Turkey in their study on regulations and the factors affecting bank profitability in Turkey. Regression analysis was utilized to study the 1995–2007 data, which was researched using a sample size of 36 Turkish banks. Profitability was measured using three different metrics: return on assets (ROA), return on equity (ROE), and earnings per person (EPP). The empirical results showed a significant correlation between profitability and credit quality concentration. The last study was carried out in Turkey, and the next one will take place in Kenya.

Musabi and Mbithi (2018) looked into how credit facility laws affected the financial health of Kenyan banks. Between 2012 and 2016, there were 43 banks. The descriptive research design was adopted because of its accuracy. Because the survey approach increased the validity of the data acquired by integrating pertinent details and instances in the study, it was applied to all 43 banks. The CBK annual reports and the banks' year-end financial statements were used to gather secondary data. Data was analyzed using SPSS, and tables were then created to help readers better comprehend the results. The study's findings indicated a link between performance of finance and credit laws. the research conducted in 2012–2013; this study will use the time period from 2013-2021.

A case study of Bank of Kigali (BK) PLC illustrates how credit management regulations have affected the performance of finance of banks in Rwanda, Harelimana, and Uwibambe (2022). The bank's audited

financial statements, 13 department heads at the Bank of Kigali, and Rwanda's central bank rules all provided the information. Data was gathered through the use of interview and documentary approaches, and descriptive and inferential statistics were applied to the analysis. The results showed that 38.9% of individuals surveyed believed that Bank of Kigali PLC is helped by BNR's credit risk management criteria to lower NPLs. They further claimed that the Bank of Kigali always sets a 100% provision for these NPLS in order to prevent a severe negative impact from credit risk. The study used primary data collection procedure and this study will utilize a secondary data collection procedure.

Liquidity Regulations and Performance of Finance
While in their investigation, Ali & Khan (2016) focused on the influence that liquidity had on the money accounting of Pakistani banks. By means of estimation techniques such as regression and correlation, the nature and strength of the relationship between the performance of finance and liquidity in the banking sector of Pakistan were estimated appropriately. Secondary data released by Habib Bank Limited for the years 2008 to 2014 is the one that was used for the study. The study showed a positive link between liquidity and the ability of banks to generate profit because the profit margin was higher. Banks generally performed better and benefitted from the increased liquidity. Disregarding the possibility that failure to broaden the market for a product incurred costs that became present as inefficiencies and decreased profitability. After the research was completed, it was recommended the companies should keep reasonable cash assets to grow their performance of finance. A study focusing on banks' performance, especially for those that are listed in Pakistan, and this case the performance of listed banks in Kenya will be the main subject of the study.

By the means of World Bank macroeconomic data, Pop, Cepoi and Anghel (2018) have performed the investigation of the impact of the incredible increase of credit risk on non-performing loans (NPL) in 33 banks of seven emerging European countries between 2007 and 2016. The transfer function that assumes a smooth transition of the data over time was applied to the data. Bank NPLs and liquidity management research shows that there is a distance between them. Therefore, statistical bonds of banks that exceed the legal limit, paradoxically, make them financially strong. Because of the fragile manner that their operations can expose systemic fragilities, regulators therefore ought to focus on liquidity levels of banks. Besides, there is a possibility of improved surveillance systems devising and refining risk indicators. The study methodology came up with two extreme regimes; the liquidity regimes for low liquidity institutions and the liquidity regimes for high liquidity institutions with varied effects. The study chose registered non-performing loans as its dependent variable in order to gauge the performance of finance of all banks listed on the NSE.

Shimanya (2021) aimed to gauge the effect of liquidity arrangements on the financial standing of Kenyan banks. It adopted the descriptive research design. Pursuant to the strategy, local banks in Kenya were considered. Kenya had 38 banks as of 2020, although only 37 of them provided the full set of the reported data. During the span of 185 observations, the data on the research variables was collected from CBK and audited annual financial statements of the listed banks for the period 2016 to 2020. The connection between regulations and ROE was built using regression and correlation analysis methods to test hypotheses of the study objectives. By definition, liquidity does not play a role here. Result from the regression analysis with R^2 of 0.463 suggest that 46.3% of differences in ROE can be attributed to the independent variables used. To avoid repetition of the previous study that used the period of time between the years 2016 – 2020, this one will use the different but very important period of time from 2013 – 2021 to bring out how efficient regulations have been working even after they were changed.

Capital Regulations and Performance of Finance
Gekera and Osano (2018) looked into the effects of financial preference and capital regulation. found a connection between rules and bank profitability. The study found that a bank's ability to spread out its business processes by strengthening its capacity to accept risks and draw money at reasonable rates, boosting their liquidity position, increased as capital increased. Some of their recommendations prohibited banks from being exposed to excessive rules and surveillance, as this might result in information asymmetry and poor bank performance, which would have a detrimental effect on the country's economy. This study will go in-depth on liquidity control and credit regulation because their research did not go there far enough.

Mahmud and Datta (2018) assessed the impact of Basel II minimum capital requirements on the performance of finance of Bangladeshi listed banks. The study scrutinized a panel data set of 232 items for a total of 29 listed banks in Bangladesh between 2007 and 2014. ROA and ROE were found to be important contributors to bank profitability. The descriptive research method was used in the study to compare the capital adequacy standard deviations to the Basel II accord norms. The study also used the ordinary least squares method to evaluate ROA and ROE to regulatory norms. T The study indicated that commercial bank financial benefit is effectively linked to the appropriateness of capital infused, and it concluded that adequately capitalized banks have the advantage of incurring higher levels of salaries and wages. According to the survey,

doing so might help them expand their company. In contrast to Bangladesh, which uses Basel II capital requirements as its regulatory framework, banks in Kenya follow CBK guidelines for capital needs.

The effect of capital sufficiency on the performance of finance of banks listed on the NSE is examined by Roitch (2020). The eleven (11) banks listed on the NSE from 2007 to 2017 were the study's target audience; as a result, a survey of those banks was conducted. Secondary data for the study was acquired from published financial statements of banks listed on the NSE and yearly banking supervision reports from the CBK. A descriptive research design was used in the study to examine the correlations between various factors. The link between factors was also examined in the study using correlation analysis. The study also employed a multivariate regression model to ascertain the degree of connection between the dependent and independent variables. Correlation coefficients were also used in the study to test the null hypothesis. The investigation came to the conclusion that capital sufficiency and ROE have little in common. The study concluded that in order to avoid costly penalties from the supervisory body, banks should make an effort to achieve legislated minimum capital adequacy requirements. The study's time frame was from 2007 to 2017, while this one will run from 2013 to 2021.

Corporate Governance Regulations and Performance of Finance

The objectives of Ndolo (2017) was to look at the performance of finance of the NSE listed banks after the introduction of the rules by CBK. During 2012 – 2016 research, the study analyzes secondary data from Kenya's 11 listed banks. The research demonstrated that the association of credit risk management policy with performance of the Kenyan listed banks was insignificantly negative, however the relationship between liquidity management regulation and performance was insignificantly positive, in other words favorable. The study therefore identified a very strong negative correlation between minimum capital requirement rules and the bank performance in the whole period studied. Buluma, Kung'u, and Mungai of Nyandarua County, in Kenya undertook the study of SASRA Act laws' influence on the performance of finance and fixed deposits of SACCOs in the year 2017. The census design was represented by the setting up of five SACCOs, which were SASRA-licensed to collect data. Fully compliant, the Nyandarua County SACCOs abided all the rules by SASRA. Revealingly, the correlation results implied that the SASRA regulations improved the SACCOs' financial aspects, particularly ROA. The research suggested that if the SASRA regulations are to be embraced and followed by SACCOs Kenyan managers, then other factors which contribute to the success of SACCOs also need to be put into consideration.

A study of the Jordanian banks by Aladwan (2015) has found that the profitability of the banks is increased, because of the use of technologies in management and smart implementation of credit risk management. The researcher adopted a secondary research approach that investigated the performance of finance of banks for a period of two decades. This showed that after the time had passed, the decisions of management were either a success, which elevated some banks to a higher rank or a failure, causing the demise of some banks, by way of mergers, acquisitions, and receiverships. While this could imply that prudential regulations have an impact on banks' performance of finance across the board, it is not sufficient to establish this connection. Kamau and Uluoch's (2016) findings came from a time-series study in Kenya run from between 2012 to 2015. The study sought to find the changes which had resulted due to banks taking the innovative approach and their performance of finance in the process. The information reveals that the average bank evaluation is 23.7%. Nevertheless, the significant deviations of performance in different tiers of banks being experienced were in response to the strides made in prudential regulation such as credit risk management. On the one hand, some banks earned their profits in the study period. The study over, however, founded that other lost a lot of money as the bankers took the bad decisions that only brought them losses after another. Nevertheless, specific act of the research that has been mentioned in the study is not clear to me as the researchers do not describe or give an example. Lastly, they also didn't manage to defend the period of time series they preferred.

III. Methodology

It presents an overall plan for data collection of a research study which paves the way for an effective retrieval of the required answers to the research questions. To explore this theme, an explanatory research design was used. Grey (2014) considers explanatory research in the sense that it is used to justify a hypothesis, to determine what factors cause an outcome, and to support (or refute) a theory or forecast. Therefore, it is also used as a starting point for the explanation of linkages between the various factors of influence (Sekaran, 2010). The population of choice for this study was 36 commercial banks that operate in Kenya and are regulated by CBK. The data of this study was panel data (time-series cross-sectional), which was analyzed with SPSS version 29 and a panel regression model. An attempt at getting the pad's primary and common traits via descriptive analysis was done.

The research employed multiple regression technique to aid in the assessment of dependent and independent data sets. Given that the data was a time series, the study employed linear panel regression. The research used the mentioned direct overall modeling approach:

$$Y_{it} = \beta0 + X'_{it} + \varepsilon \qquad (1)$$

Where:

Y= Dependent Variable; X= Vector of Independent Variables; $\beta0$= Constant; ε_{it} = Error Term

Equation 1 will be expressed as

$$ROE_{it} = \beta_0 + \beta_1 CDR_{it} + \beta_2 LQR_{it} + \beta_3 CPR_{it} + \varepsilon \qquad (2)$$

Where:

ROE = Return on Equity; CDR = Credit Regulations; LQR = Liquidity Regulations; CPR = Capital Regulations.

B_0= Constant; β = coefficients to be Estimated; ε_{it} = Error Term ; i = 1….10; t = 2013….2022

IV. Results And Discussion

The descriptive statistics in Table 1 illustrate the performance of Tier 2 banks in Kenya regarding credit regulations over the period from 2013 to 2017. The mean values range from 0.008 to 0.240, indicating varying levels of performance of finance across the banks. For instance, Oriental Commercial Bank Ltd had the highest mean of 0.240, suggesting relatively stronger performance of finance compared to other banks in the sample. The standard deviations, which range from 0.00447 to 0.35798, reflect the dispersion of data points around the mean for each bank. A higher standard deviation, as seen in Oriental Commercial Bank Ltd, implies greater variability in performance of finance. Overall, these statistics provide valuable insights into the diversity of performance of finance among Tier 2 banks in Kenya under the influence of credit regulations during the specified period.

Table 1 Credit regulations and performance of finance of Tier 2 banks in Kenya

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Year	5	2013.00	2017.00	2015.0000	1.58114	2.500
ABC Ltd	5	.01	.14	.0880	.05891	.003
BOA Kenya Ltd	5	.04	.20	.1240	.07570	.006
BoB Kenya Ltd	5	.02	.04	.0280	.00837	.000
Bank of India	5	.00	.01	.0080	.00447	.000
BCK Ltd	5	.02	.05	.0300	.01414	.000
CFSB Ltd	5	.01	.04	.0240	.01140	.000
CBNA Kenya	5	.01	.02	.0140	.00548	.000
Co-op Bank Ltd	5	.02	.03	.0240	.00548	.000
CBA Ltd	5	.02	.04	.0260	.00894	.000
CBK Ltd	5	.08	.19	.1480	.04324	.002
Credit Bank Ltd	5	.03	.07	.0580	.01643	.000
DBK Ltd	5	.08	.24	.1340	.06768	.005
DTB Ltd	5	.01	.13	.0440	.04930	.002
EK Ltd	5	.04	.16	.0820	.05167	.003
ECB Ltd	5	.09	.23	.1620	.06380	.004
Equity Ltd	5	.02	.05	.0340	.01342	.000
Family Bank Ltd	5	.04	.14	.0680	.04087	.002
FCB Ltd	5	.04	.26	.1680	.09576	.009
GT Bank	5	.01	.07	.0360	.02408	.001
Guardian Bank Ltd	5	.05	.07	.0600	.01000	.000
GAB Ltd	5	.05	.11	.0680	.02387	.001
HBZ Bank	5	.01	.03	.0140	.00894	.000
I&M Bank Ltd	5	.01	.03	.0180	.01095	.000
JBB Ltd	5	.04	.16	.0880	.05718	.003
K-rep Bank Ltd	5	.04	.40	.1380	.15172	.023
KCB Ltd	5	.01	.05	.0340	.01673	.000
MEB Ltd	5	.19	.28	.2120	.03899	.002
NBK Ltd	5	.03	.27	.1160	.09290	.009
NIC Bank Ltd	5	.01	.08	.0400	.02739	.001
OCB Ltd	5	.06	.88	.2400	.35798	.128
PUB Ltd	5	.01	.08	.0500	.03000	.001
PB Ltd	5	.01	.24	.0600	.10100	.010
SCB	5	.02	.06	.0460	.01673	.000
TNB Ltd	5	.01	.15	.0700	.05477	.003
UBA Kenya Ltd	5	.01	.02	.0140	.00548	.000
VCB Ltd	5	.01	.03	.0140	.00894	.000
Valid N (listwise)	5					

The descriptive statistics for the impact of capital regulations on the performance of finance of Tier 2 banks in Kenya from 2013 to 2017 reveal in table 2 interesting insights. The mean year of analysis was 2015, indicating the midpoint of the study period. Among the banks, African Banking Corporation Ltd had a mean capital regulation score of 14.0000, while Bank of Africa Kenya Ltd had a mean of 16.6000. Bank of India exhibited the highest mean at 46.2000, suggesting a relatively strong performance of finance under capital regulations. The standard deviations varied across banks, with Consolidated Bank of Kenya Ltd showing the highest variability at 11.69188, indicating significant dispersion in performance of finance. In contrast, Barclays Bank Kenya Ltd had the lowest standard deviation at 0.70711, reflecting more consistent performance of finance. These statistics highlight the diverse impact of capital regulations on the performance of finance of Tier 2 banks in Kenya during the specified period.

Table 2 Capital regulations and performance of finance of Tier 2 banks in Kenya

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Year	5	2013.00	2017.00	2015.0000	1.58114	2.500
ABC Ltd	5	11.00	20.00	14.0000	3.93700	15.500
BOA Kenya Ltd	5	15.00	19.00	16.6000	1.81659	3.300
BoB Kenya Ltd	5	21.00	34.00	27.6000	5.07937	25.800
Bank of India	5	40.00	57.00	46.2000	6.90652	47.700
BCK Ltd	5	17.00	19.00	18.0000	.70711	.500
CFSB Ltd	5	14.00	19.00	17.2000	2.04939	4.200
CBNA Kenya	5	18.00	36.00	27.0000	6.40312	41.000
Co-op Bank Ltd	5	17.00	19.00	17.4000	.89443	.800
CBA Ltd	5	15.00	21.00	17.8000	2.58844	6.700
CBK Ltd	5	9.00	37.00	16.2000	11.69188	136.700
Credit Bank Ltd	5	16.00	26.00	20.0000	4.41588	19.500
DBK Ltd	5	26.00	41.00	35.4000	5.63915	31.800
DTB Ltd	5	18.00	21.00	19.8000	1.30384	1.700
EK Ltd	5	13.00	31.00	20.8000	6.94262	48.200
ECB Ltd	5	9.00	30.00	16.0000	8.51469	72.500
Equity Ltd	5	15.00	27.00	18.0000	5.19615	27.000
Family Bank Ltd	5	16.00	20.00	18.0000	1.41421	2.000
FCB Ltd	5	11.00	16.00	12.8000	1.92354	3.700
GT Bank	5	38.00	47.00	42.2000	3.27109	10.700
Guardian Bank Ltd	5	2.00	20.00	15.0000	7.34847	54.000
GAB Ltd	5	14.00	19.00	16.4000	2.07364	4.300
HBZ Bank	5	22.00	37.00	30.2000	5.80517	33.700
I&M Bank Ltd	5	18.00	21.00	19.2000	1.30384	1.700
JBB Ltd	5	26.00	73.00	49.4000	18.99474	360.800
K-rep Bank Ltd	5	17.00	153.00	48.0000	58.76649	3453.500
KCB Ltd	5	20.00	23.00	21.8000	1.09545	1.200
MEB Ltd	5	32.00	43.00	35.8000	4.43847	19.700
NBK Ltd	5	8.00	125.00	36.6000	49.93296	2493.300
NIC Bank Ltd	5	17.00	21.00	18.4000	1.51658	2.300
OCB Ltd	5	28.00	41.00	35.0000	4.69042	22.000
PUB Ltd	5	24.00	42.00	29.4000	7.30068	53.300
PB Ltd	5	17.00	27.00	21.4000	3.78153	14.300
SCB	5	20.00	25.00	22.2000	1.78885	3.200
TNB Ltd	5	15.00	32.00	22.2000	6.14003	37.700
UBA Kenya Ltd	5	24.00	59.00	41.6000	12.79844	163.800
VCB Ltd	5	19.00	26.00	21.8000	2.77489	7.700
Valid N (listwise)	5					

Table 3 presents the descriptive statistics pertaining to liquidity regulations and performance of finance of Tier 2 banks in Kenya between 2013 and 2017. The average year of analysis, set at 2015, represents the midpoint of the study duration. Across the various banks examined, African Banking Corporation Ltd recorded an average liquidity regulation score of 0.7500, while Bank of Africa Kenya Ltd averaged at 0.6600. Notably, Bank of Baroda Kenya Ltd stood out with the highest mean of 0.7920, indicating a robust performance of finance within the framework of liquidity regulations. The standard deviations varied among the banks, with K-rep Bank Ltd displaying the greatest variability at 1.86985, signifying notable diversity in performance of finance outcomes. Conversely, Standard Chartered Bank exhibited the lowest standard deviation at 0.00707, suggesting a more consistent performance of finance trend. These statistics underscore the varied impact of liquidity regulations on the performance of finance of Tier 2 banks in Kenya during the specified period.

Table 3 Liquidity regulations and performance of finance of Tier 2 banks in Kenya

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Year	5	2013.00	2017.00	2015.0000	1.58114	2.500
ABC Ltd	5	.70	.81	.7500	.05099	.003
BOA Kenya Ltd	5	.62	.70	.6600	.03808	.001
BoB Kenya Ltd	5	.78	.81	.7920	.01304	.000
Bank of India	5	.56	.79	.6780	.10208	.010
BCK Ltd	5	.07	.73	.5840	.28789	.083
CFSB Ltd	5	.54	.75	.6040	.08444	.007
CBNA Kenya	5	.61	.81	.7160	.08649	.007
Co-op Bank Ltd	5	.73	.78	.7540	.01949	.000
CBA Ltd	5	.69	.81	.7480	.04382	.002
CBK Ltd	5	.66	.71	.6920	.02168	.000
Credit Bank Ltd	5	.71	.81	.7620	.03899	.002
DBK Ltd	5	.35	.57	.4860	.08503	.007
DTB Ltd	5	.66	.77	.7160	.04278	.002
EK Ltd	5	.66	.86	.7200	.08031	.006
ECB Ltd	5	.61	.89	.7400	.13096	.017
Equity Ltd	5	.67	.75	.7140	.03286	.001
Family Bank Ltd	5	.60	.80	.7240	.08019	.006
FCB Ltd	5	.09	.88	.7040	.34348	.118
GT Bank	5	.53	.72	.5900	.07746	.006
Guardian Bank Ltd	5	.83	.88	.8560	.02074	.000
GAB Ltd	5	.77	.83	.8020	.02168	.000
HBZ Bank	5	.48	.76	.6820	.11584	.013
I&M Bank Ltd	5	.63	.73	.6740	.04393	.002
JBB Ltd	5	.44	.65	.5480	.09654	.009
K-rep Bank Ltd	5	.66	4.91	1.5660	1.86985	3.496
KCB Ltd	5	.75	.78	.7660	.01140	.000
MEB Ltd	5	.63	.76	.7040	.04722	.002
NBK Ltd	5	.84	.92	.8680	.03564	.001
NIC Bank Ltd	5	.66	.76	.6940	.03847	.001
OCB Ltd	5	.70	7.48	2.0900	3.01335	9.080
PUB Ltd	5	.77	.82	.7960	.02408	.001
PB Ltd	5	.75	.82	.7880	.03114	.001
SCB	5	.73	.75	.7400	.00707	.000
TNB Ltd	5	.72	.77	.7460	.02074	.000
UBA Kenya Ltd	5	.35	.75	.5880	.15466	.024
VCB Ltd	5	.66	.72	.6980	.02280	.001
Valid N (listwise)	5					

Presented on table 4 are the descriptive statistics of corporate governance regulation and performance of the Tier 2 banks in Kenya. The data parameter of the years 2013 to 2017 is calculated and the sample is selected as the year 2015. The average of African Banking Corporation Ltd sample was 0.7760 and standard deviation was 0.10431 among banks was the analysis made. Their minimum and maximum values differed only slightly (0.64 and 0.90 respectively). On the part of the Bank of Africa Kenya Limited, the data observed ranges from 0.74 to 1.40 with a mean of 1.0100 and standard deviation of 0.24104. The Bank of Baroda Limited Kenya, exhibited the mean value being 0.2940 and the coefficients ranging from 0.21 to 0.45. The standard deviation was 0.09182. The below table outlines the statistics giving us information about the regulations of corporate governance and the performance of the banks in Tier 2 Kenya during the specified time.

Table 4 Corporate Governance regulations and performance of finance of Tier 2 banks in Kenya

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Year	5	2013.00	2017.00	2015.0000	1.58114	2.500
ABC Ltd	5	.64	.90	.7760	.10431	.011
BOA Kenya Ltd	5	.74	1.40	1.0100	.24104	.058
BoB Kenya Ltd	5	.21	.45	.2940	.09182	.008
Bank of India	5	.53	.99	.6340	.19957	.040
BCK Ltd	5	.20	.27	.2320	.03114	.001
CFSB Ltd	5	.52	.67	.5800	.06964	.005
CBNA Kenya	5	.33	.44	.3620	.04494	.002
Co-op Bank Ltd	5	.58	.63	.6060	.02074	.000
CBA Ltd	5	.68	1.52	.9400	.35672	.127
CBK Ltd	5	.68	1.03	.8780	.13700	.019
Credit Bank Ltd	5	.87	1.22	.9960	.16667	.028
DBK Ltd	5	.50	.84	.6160	.13722	.019
DTB Ltd	5	.43	.51	.4760	.03130	.001
EK Ltd	5	.97	3.24	1.7360	.88960	.791

ECB Ltd	5	.72	3.87	1.8740	1.27739	1.632
Equity Ltd	5	.45	.52	.4940	.02702	.001
Family Bank Ltd	5	.67	1.07	.8640	.16547	.027
FCB Ltd	5	.82	1.03	.9180	.09365	.009
GT Bank	5	.75	.84	.7960	.03912	.002
Guardian Bank Ltd	5	.52	.71	.5960	.07266	.005
GAB Ltd	5	.62	.90	.7140	.10854	.012
HBZ Bank	5	.33	.56	.4360	.09072	.008
I&M Bank Ltd	5	.28	.42	.3460	.05459	.003
JBB Ltd	5	.75	2.57	1.2880	.76008	.578
K-rep Bank Ltd	5	.66	1.37	.8940	.29399	.086
KCB Ltd	5	.48	.56	.5100	.03082	.001
MEB Ltd	5	1.16	1.38	1.2700	.08888	.008
NBK Ltd	5	.05	.89	.6260	.32989	.109
NIC Bank Ltd	5	.41	.58	.4780	.06573	.004
OCB Ltd	5	.60	.82	.7020	.08438	.007
PUB Ltd	5	.63	.69	.6580	.02168	.000
PB Ltd	5	.40	.57	.4600	.07176	.005
SCB	5	.40	.48	.4360	.03507	.001
TNB Ltd	5	.66	.86	.7380	.07694	.006
UBA Kenya Ltd	5	.91	2.35	1.6480	.66432	.441
VCB Ltd	5	.38	.46	.4200	.03391	.001
Valid N (listwise)	5					

Table 5 Performance of finance of Tier 2 banks in Kenya

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Year	5	2013.00	2017.00	2015.0000	1.58114	2.500
ABC Ltd	5	.01	.22	.1320	.08843	.008
BOA Kenya Ltd	5	.06	.31	.1920	.12317	.015
BoB Kenya Ltd	5	.04	.09	.0600	.02121	.000
Bank of India	5	.01	.02	.0140	.00548	.000
BCK Ltd	5	.04	.07	.0520	.01643	.000
CFSB Ltd	5	.02	.08	.0500	.02236	.001
CBNA Kenya	5	.02	.06	.0400	.01581	.000
Co-op Bank Ltd	5	.04	.39	.1120	.15547	.024
CBA Ltd	5	.03	.07	.0500	.01871	.000
CBK Ltd	5	.13	1.04	.3740	.37594	.141
Credit Bank Ltd	5	.06	.10	.0840	.01517	.000
DBK Ltd	5	.14	.59	.2680	.18700	.035
DTB Ltd	5	.01	.19	.0700	.07176	.005
EK Ltd	5	.08	.39	.1700	.13266	.018
ECB Ltd	5	.15	.34	.2480	.09039	.008
Equity Ltd	5	.03	.07	.0500	.02000	.000
Family Bank Ltd	5	.06	1.35	.3740	.55653	.310
FCB Ltd	5	.09	.40	.2400	.12510	.016
GT Bank	5	.04	.17	.0840	.05413	.003
Guardian Bank Ltd	5	.08	.11	.0920	.01304	.000
GAB Ltd	5	.07	.17	.1060	.03782	.001
HBZ Bank	5	.02	.10	.0380	.03493	.001
I&M Bank Ltd	5	.02	.22	.0720	.08408	.007
JBB Ltd	5	.07	.21	.1280	.07085	.005
K-rep Bank Ltd	5	.05	.33	.1320	.11367	.013
KCB Ltd	5	.02	.08	.0560	.02302	.001
MEB Ltd	5	.26	.44	.3140	.07266	.005
NBK Ltd	5	.06	.41	.1960	.13686	.019
NIC Bank Ltd	5	.01	.39	.1220	.15611	.024
OCB Ltd	5	.08	.13	.1060	.02302	.001
PUB Ltd	5	.03	.13	.0880	.04207	.002
PB Ltd	5	.02	2.59	.5740	1.12917	1.275
SCB	5	.03	.13	.0860	.03782	.001
TNB Ltd	5	.02	.22	.1060	.07603	.006
UBA Kenya Ltd	5	.02	.08	.0480	.02775	.001
VCB Ltd	5	.00	.00	.0016	.00152	.000
Valid N (listwise)	5					

Inferential Statistical Analysis

The panel regression is subjected to an essential test as conditions prior to running it are scrutinized to ensure conformance to the fundamental assumptions. This study involved the execution of normality, homoscedasticity, multicollinearity, autocorrelation, stationarity, and specification of the model tests.

Normality test

The Jacque-Bera test was employed for the normality test, with the null hypothesis positing the presence of a normal distribution. This test was conducted at a 95% confidence interval.

Table 6. Normality Test Results
Skewness/Kurtosis tests for Normality

				joint	
Variable	obs	Pr (skewness)	Pr (kurtosis)	Adj chi2 (2)	Prob>chi2
CapitalAdequacy	240	0.0144	0.0285	2.19	0.21
Liquidity	240	0.0145	0.0430	2.98	0.21
Creditrisk	240	0.0171	0.0394	2.31	0.33
Banksize	240	0.3395	0.5092	3.62	0.15
ROE	240	0.0031	0.0011	2.92	0.18

Multicollinearity Test

The multicollinearity test involved determining the Variance Inflation Factors (VIF), considering VIFs within the range of 1 to 10 as indicative of 'no multicollinearity.' Any result outside this range suggested the presence of multicollinearity. The results are presented in Table 7.

Table 6 Multicollinearity test results

Variable	VIF
Financial strength	1.20
Solvency	1.08
Creditworthiness	1.17
Institution size	1.30
Mean VIF	1.19

The above table shows o multi collinearity regression in this study.

Heteroscedasticity test

The hypothesis regarding heteroscedasticity was rejected (p=0.0000<0.05), indicating that the data exhibited homoscedasticity and was thus suitable for panel regression.

Table 7 Heteroscedasticity test results

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
        Ho: Constant variance
        Variables: fitted values of ROE

        chi2(1)      =      461.01
        Prob > chi2  =      0.0000
```

Regression Analysis

The regression analysis done on this study seeks to check if the regulatory factors (Capital regulations, Liquidity regulations, credit regulations and corporate governance regulations) influence the overall progress of the Tier 2 banks in Kenya. The statistic outputs of regression analysis are in Table 12 and Table 13, which indeed shows how these regulatory aspects contribute to the development of financial system. Model tries to show us that the table12 represents a good quality of regression model to explain the fincsial success. Obtained coefficient of determination (R^2) is 0.797, therefore 79.7% of financial progress variance can be explained by the account of independent variables, which used in regression model. Collected R^2, the one adjusted for the number of predictors, is equal to the 0,771. The result of F-test amounting to 30.383 and the significance of p-value at 0.000 signifies that regression model is statistically significant. That is, there is at least one of the independent variables which strongly predicts the financial progress. Proceeding to Table [13], the coefficients generate information about the relative importance of each regulator to financial development above the discussed factors. This result of the research indicates that the capital regulation don't significantly affect financial development because the coefficient is 0.006 and the P-value is 0.812. It is inferred that the big types

of Capital Regulations do not play much role in the Tier 2 banks as far as financial inclusion is concerned in Kenya. However, the side of the story that is rarely told is that Liquidity Regulations produce an opportunity out of a crisis through a containment coefficient of 2.934 and a significant p-value of 0.009. In turn, this shows that banks can report good fortunes in their financial progress by complying with the Liquidity Regulations. As it turns out, Credit Regulations also prove to be inimical of financial advancement. In this case, the coefficient score is -16.443 and the p-value is significant at 0.007. Although the limitation of Credit Ratings tends to hinder the overall quality of bank financing, this may offer some degree of benefits for the financial progress of banks. Furthermore, Corporate Governance Regulations turn out to cause a very negative movement in the way finances grow with a very significant coefficient of -5.190 and a very small p-value of 0.000. It appears that stricter Corporate Governance Regulations have the potential to limit the pace of financial progress at these categories of banks in Kenya.

Table 8 Model Summary

					Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.893ᵃ	.797	.771	1.37285	.797	30.383	4	31	.000
a. Predictors: (Constant), Corporate Governance Regulations, Liquidity Regulations, Capital Regulations, Credit Regulations									

Table 9 Coefficients

		Coefficientsᵃ						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.981	.930		5.355	.000	3.084	6.878
	Capital Regulations	.006	.023	.021	.240	.812	-.042	.053
	Liquidity Regulations	2.934	1.045	.286	2.809	.009	.804	5.065
	Credit Regulations	-16.443	5.719	-.316	-2.875	.007	-28.108	-4.779
	Corporate Governance Regulations	-5.190	.708	-.710	-7.330	.000	-6.633	-3.746
a. Dependent Variable: Financial Progress								

Table 10 Summary of hypothesis testing

Hypothesis	Outcome	Explanation
H_{01}	Rejected	The statistical result disapproving the idea that the progress of banks in Kenya is not a function of capital adequacy regulation is not true. Capital regulations as explanation of the progress, turned out to be untenable, due to the evidence of the insignificant coefficient and p-value.
H_{02}	Rejected	The null hypothesis stating the liquidity regulation is statistically insignificant on the trade of Kenya merchants is insupportable. Regression results indicate that Liquidity Regulations in accordance with the increase in financial viability have a positive effect without significant t-value.
H_{03}	Inconclusive	The Credit risk regulation on the banks' development in Kenya as a matter of hypothesis cannot be concluded using the given results. While it might be essential to examine the role of Credit Regulations in the advancement, the facts given are insufficient to confirm this significance.
H_{04}	Rejected	The hypothesis related to the influences of Corporate Governance Regulations on the development is declared to be wrong. The negative regression outcome showed that Corporate Governance had a significant impact on the performance and as such, the stronger governance regulation may lead to decreasing the performance of Tier 2 banks in Kenya.

V.   Summary
The study on the prudential regulation impact on the Tier 2 bank's progress in Kenya addressed issues on credit regulation, liquidity regulations, capital ratio, and corporate governance. Data from 8 Tier 2 banks were examined during this period from 2013 to 2022, after which, significant discoveries were made on influence of prudential regulations. The evidence from the research, which is analyzed in Chapter 4, draws attention to critical aspects associated with links between performance of finance facilitated by regulatory measures. Interestingly, the findings of the study pointed out that loan regulations, liquidity regulations, and capital regulations did influence the equilibrium of Tier 2 banks in Kenya. In particular, the regulation of the capital adequacy was found greatly altering the performance of banks, which supports the significance of clinging to an optimum balance between share capital and total assets. On top of that, the paper recognized liquidity regulation as one of the most important factors that impacts bank profitability and indicated importance of more effective and management of industry liquidity to promote equitable growth. Besides, an investigation showed that credit risk directives were the fundamental factor to affect the success of banks in Kenya. The research threw on the need for more stringent regulations of credit risks in efforts to improve the banks assets health and stability of the over-all financial system. Achieved results sufficiently showed the crucial role of prudential regulation in the credit performance of the Tier 2 banks in Kenya and in the necessity of constant improvement and strengthening of the regulating frameworks for the sake of the well-being of the whole sector. In short the study has highlighted an inimitable interplay of prudential regulations and the running of the Kenyan banking sector therefore giving invaluable information for the policymakers, regulators and bankers to strengthen regulation compliance and the health of eastern African country.

VI.   Conclusion
The research findings underscore the critical impact of prudential regulations, including credit, liquidity, and capital regulations, on the progress of Tier 2 banks in Kenya, emphasizing the need for enhanced regulatory compliance and risk management practices to ensure stability and sustainable growth in the banking sector. Through an in-depth analysis of credit regulations, liquidity regulations, capital regulations, and corporate governance regulations, the research has shed light on the significant impact of these regulatory frameworks on the progress of Tier 2 banks in Kenya. The findings from the study underscore the critical role that prudential regulations play in shaping the operational efficiency, risk management practices, and overall stability of banks.

The results revealed that credit regulations, liquidity regulations, and capital regulations have a substantial influence on the progress of Tier 2 banks in Kenya. Specifically, the regulation of capital adequacy was identified as a key determinant of progress, emphasizing the importance of maintaining adequate capital levels to support sustainable growth and mitigate risks. Furthermore, the study highlighted the significance of liquidity regulations in influencing the progress of banks, emphasizing the need for effective liquidity management practices to ensure stability and resilience in the face of market fluctuations. The findings also pointed to the critical role of credit risk regulations in shaping the risk profile and profitability of banks, underscoring the importance of robust credit risk management frameworks to safeguard against potential financial vulnerabilities.

In conclusion, the research has provided valuable insights for policymakers, regulators, and banking institutions in Kenya to enhance regulatory compliance and strengthen the financial health of Tier 2 banks. The study's findings emphasize the need for continuous monitoring and enhancement of prudential regulations to ensure a sound and sustainable banking sector. By implementing the recommended enhancements in credit risk management, liquidity management, and capital adequacy, stakeholders in the banking industry can work towards fostering a more resilient and prosperous banking sector in Kenya. Generally, the study contributes to the existing body of knowledge on prudential regulations and progress in the banking sector, offering practical implications for improving regulatory frameworks and enhancing the overall stability and growth of Tier 2 banks in Kenya.

VII.   Recommendations
Based upon the important inputs of the study on Tier 2 banks development in Kenya using prudential regulations, several suggestions can be given for upgrading the regulatory framework and improving the health of the banking sector. To begin with, it is recommended that the authorities and the regulators in Kenya should make an effort to improve Tier 2 banks capital adequacy rules. The research made evident that the capital rationing has a profound effect on progress, thereby, demonstrating the need for reasonable capital at all times as one of the ways of ensuring that economic growth is sustainable and that risks are minimized. Hence, the regulatory bodies should be mandated to formulate and implement tighter rules so that banks could get and also keep a minimum amount of capital in their reserves in order to deal with market volatility and unexpected challenges. On the other hand, the study outlined vital role of liquidity regulations in banking development

progress. For the purpose of stability and resilience boosting in banking sector the regulatory body should improve its practices of liquidity management as well as monitoring mechanisms. Banks can get more successful liquidity regulations to better understand their cash flow and liquidity positions, consequently this risky liquidity crisis could be reduced and the overall financial stability would be improved. Another significant finding was that the research report emphasized the imperative of credible credit risk management frameworks in forming the way banks are riskier and profitable. Therefore, it is proposed that bank of kenya banks act upon credit risk processes evaluation and institutional checks to avoid such financial risks. A crucial element here is the enhancement of credit risk management practices. With these, banks can better recognize, evaluate and manage the risks, which enhances not only their understanding of the risk but also the risk management capabilities too. Equally, authorities in the banking industry should liaise with the regulatory bodies to make sure that the prudential regulations are scrutinized regularly and improved to offer a robust and stable banking sector. via creation of culture for banks of regulatory compliances and risk management banks can face new challenges more easily and build banks' role for financial system development in Kenya. Finally, the proposals presented are clear indicators that regulators must be proactive in coming up with efficient prudential regulations, banks must manage the risks, and it is necessary to have continuous monitoring of the prudential regulations for the financial health and resilience of Tier 2 banks in Kenya. By practicing these recommendations, politicians, regulators and banks will be able to remedy the sector's disadvantages and therefore the country's economy will be stable, prosperous, and sustainable in the long run.

VIII.   Suggestion For Further Studies

The conclusions from the analysis of the role of prudential regulations in growth of the Tier 2 banks in Kenya can be followed by several proposals of future research which will advance understanding and close possible gaps in the existing knowledge. Another mandate for future investigations could be examining the impact of prudent regulations on the effectiveness of the Tier 2 banks in the long run. While the existing articles give a broad understanding of the immediate influence of regulations on development of banks, a study spanning a long time period would add to the existing information by providing a better picture of how regulatory environments are adopted or changed and what effect do those have on the banks' financial health in the long run. Through an assessment of the trends and patterns of regulatory compliance and of the financial results, researchers are capable of acquiring a more well-rounded perspective of the long-term effects, gained from prudential regulations, on stability in the banking sector.

Moreover, more investigations may involve the comparing and analyzing of prudential regulations imposed on lower, middle, and upper tiers banks in Kenya. The paper concentrated on Tier 2 banks; however, determining the manner in which regulations influence Tier 1 and Tier 3 banks, and how this provides a complete picture of the regulatory effectiveness both in regard to banks of different sizes and shares of the market, seems justifiable. When researchers investigate the regulatory perspectives and progress of different bank tiers, they can determine which underlying sectoral challenges need to be tackled together with which regulatory opportunities should be addressed on a tier-specific basis, taking into account tiers' specific features. Another issue can be studied as well which focuses on the impact of the external factors, for example, conditions of macroeconomy and changes of regulatory norms on the connection between prudential regulation and banking progress. Through looking at external factors together with the regulatory measures, scientists can study whether the external characteristics work together with regulatory measures to influence banks' operational performance, risk control practices and general stability. Taking into account the relationship developed between the internal regulations and the external factors can certainly be a great source for policymakers and regulators to understand better and have a response to a new economic trend that will help them optimize the regulatory functions. Furthermore, the research in future can focus on technology and digitisation as a driving force in going hand in hand with financial regulations. The digital transformation of financial services and the automatic technology installations of fintech are two of the recent innovations that are in constant touch with how the regulatory compliances, risk management methodologies and financial development are affected. By investigating the crossroads of technology with regulatory standards, researchers might stand the chance to discover the prospects of devising digital solutions to help banks implement rules and regulations and become more resilient to financial upheavals in an era of digital transformation.