

Determinants of Retained Earnings of Deposit Money Banks in Nigeria

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ABSTRACT: *The study examined the determinants of retained earnings of deposit money banks in Nigeria. Retained earnings were the dependent variable, while total assets and total deposits were the independent variables of the study. The study adopted an ex-post-facto research design, covering the period between 2010 and 2019. Secondary data were extracted from the annual reports and accounts of sampled deposit money banks in Nigeria. Spearman Covariance analysis was used for the test of hypotheses. From the data analysis, total assets and total deposits have a strong and positive relationship with retained earnings. This implies that total assets and total deposits can be used to predict the retained earnings of deposit money banks in Nigeria. The study, therefore, recommends that deposit money banks in Nigeria should strive to increase their asset base by investing in land and buildings and also ensure that every asset at their disposal is effectively and efficiently managed to yield more profit and subsequently increase their retained earnings for further investments and/or recapitalization. They should engage in promotions and other programmes that will encourage customers to keep their cash with them. This will provide them with additional funds to provide loans and make other investments to increase their revenue and retained earnings.*

KEYWORDS: Retained earnings, total assets, total deposits, deposit money banks, Nigeria

INTRODUCTION

Retained earnings refer to that part of the corporate's net profit after tax which is not distributed to the shareholders as a dividend but is reinvested in the business. Retained earnings, therefore, are the sum of a company's profits after dividend payments, since the company's inception. They are also called an earned surplus, retained capital or accumulated earnings. Retained earnings are an important source of internal or self-financing by a company. Masood (2018) submits that the savings generated internally by a company in the form of retained earnings are ploughed back into the company for diversification of its business. Retention of earnings by banks reduces their dependence on funds from external sources to finance their regular business needs (Masood, 2018). However, Investopedia (2020) defined retained earnings as the amount of net income left over for the business after it has paid out dividends to its shareholders. It could be a very good source of alternative funds to deposit money banks.

The raise in the minimum capital base from N2 billion to N25 billion, with a deadline of December 31, 2005, was a core component of the 13-point reform program. Most banks were unable to raise this huge sum before the deadline which led to the consolidation of banking institutions through mergers and acquisitions which brought down the number of deposit money banks in Nigeria from eighty-nine (89) to twenty-three (23). This consolidation was a consequence of limited funds available to these banks for capital formation. The CBN proposed N100 billion minimum capital base for banks that wish to operate internationally will confine some banks that could not meet the threshold to operate nationally, thereby limiting the bank's growth potential within the banking industry. The sources of finance available to these banks become the issue. The shareholders' funds may not be sufficient and could not give them the minimum capital base, hence other sources of finance such as debt and retained earnings were utilized.

Additional costs that come with recapitalization through borrowing, make retained earnings the most convenient and cost-free source of finance available to these banks. Due to the convenience and cost-free attributes of retained earnings, the study, therefore, seeks to evaluate the determinants of retained earnings of deposit money banks in Nigeria. This is to find out how total assets and total deposits influence retained earnings of deposit money banks in Nigeria.

REVIEW OF RELATED LITERATURE

Retained earnings

Chasan (2012) states that retained earnings are that part of the net profit of a bank that is reserved by the bank rather than dispersed to shareholders as dividends. The purpose of reserving this part of the revenue is to reinvest it into the business for growth and expansion. It is an essential internal financing source that the bank utilizes that does not create additional costs for the bank. (Mohamed, 2010). Altman (1993) opines that a bank's major decision is on how much of its revenue is to be paid to fund providers as dividends and how much it will reserve for reinvestments. Retained earnings do not have any transaction cost or bankruptcy cost, hence, it is the cheapest source of finance available to a bank. Falex (2009) states that the more organizations reserve a proportion of their revenue for investment in research and development, the more they grow and expand.

Thirumalaisamy (2013) states that a company's dividend policy is its long-term financial strategy for deciding how much earnings to pay out as against retaining them for investment in the company. This according to him, leads to the division of profits between dividend payments to shareholders and reinvestment in the company. Payment of earnings as a dividend is associated with agency cost and an opportunity for existing shareholders is lost to reinvest their earnings for the growth of the company. Droms (1990) opine that investors benefit more from reinvested earnings than dividends in the long run.

Total Asset

Maggini and Tsaklanganos (2012) state that assets are economic resources of a company expected to benefit the firm's future operations. They also stated that some kinds of assets are in monetary terms such as cash and accounts receivables, while others like inventory, land,

buildings, furniture, and equipment are non-monetary assets. Sloan (2004) classified assets into, current, non-current and intangible assets. Non-current assets which include, buildings, plants, machinery, furniture, and fitting among others are not purchased for resale, but for operational purposes (Singh and Pandey, 2008). Cooper, Gulen, and Schill, (2008) stated that the asset growth rate emerges as an economically and statistically significant predictor of the cross-section of U.S. stock returns. Chen, Yao, and Zhang (2008) also indicate that there is a significantly negative relation between firms' asset growth and subsequent stock returns in China. Asset growth is a significant determinant of a bank's growth and performance.

Total Deposits

Bello (2005) opines that the banking system is the backbone of financial intermediation through the mobilization and channelling of financial resources. Banks are performing this pivotal role in the economy by facilitating financial settlement through the payment system, influencing money market rates and providing a means for international payment (Tuyishime, Memba, and Mbera, 2015). The sector mobilizes resources from the surpluses of individuals, corporate bodies, and government and channels these funds to the deficit spending units for investment. Commercial banks, as well as the sector in general, depend on customers' deposits to perform efficiently. Mobilization of deposits is among the essential functions of commercial banks. It is an essential source of working capital for the bank. Deposit mobilization is an indispensable factor that enables commercial banks to serve their purposes effectively.

THEORETICAL FRAMEWORK

The study was anchored on the pecking order theory. The pecking order theory introduced by Donaldson (1961) is among the most influential theories of corporate leverage. It goes contrary to the idea of firms having a unique combination of debt and equity finance, which minimizes their cost of capital. The theory suggests that when a firm is looking for ways to finance its long-term investments, it has a well-defined order of preference for the sources of finance it uses. It states that a firm's first preference should be the utilization of internal funds (i.e. retained earnings), followed by debt and then external equity. The researcher argues that the more profitable the firms become, the lesser they borrow because they would have sufficient internal finance to undertake their investment projects. Furthermore, it argues that it is when internal finance is inadequate that a firm should source for external finance and most preferably bank borrowings or corporate bonds. And after exhausting both internal and bank borrowing and corporate bonds, the final and least preferred source of finance is to issue new equity capital.

Empirical Review

Olawale, Ilo, and Lawal (2017) investigate the effect of firm size on the performance of firms in Nigeria. The focus is on the firm size as the modern-day phenomenon of economies of scale means this is a crucial factor in firm performance. We use a panel data set of 12 non-financial firms operating in Nigeria in the period 2005-2013. The panel data are analysed using a pooled regression model, fixed-effects model and random-effects model to identify the relationship between firm size and the performance of firms listed on the Nigeria Stock Exchange (NSE). Return on equity is used as a proxy for performance, which serves as the dependent variable. Total assets and total sales are the proxies for firm size, and the control variables are leverage

and working capital. The results of the study reveal that firm size in terms of total assets has a negative effect on performance, while in terms of total sales, firm size has a positive effect on the performance of Nigerian non-financial companies.

Nijun (2017) examined the relationship between the degree of intangible assets and profitability. Shareholders need to understand which critical factors influence firms' financial performance. All the data are based on 17 listed telecommunication firms' financial statements in China from 2014 to 2016. This study gives empirical evidence that intangible assets' ratios have a positive and significant effect on firms' financial performance, measured by Return on Assets (ROA). As a result, the central tendency of the samples' intangible assets ratios would be a reference intangible assets ratio range for other telecommunication firms.

Mwaniki and Omagwa (2017) determined the relationship between the asset structure and the financial performance of the firms quoted under the commercial and service sector at the NSE, Kenya. The target population of the study was the secondary data from the annual reports of the firms. The asset structure is analysed in terms of Property, Plants and Equipment; current assets; intangible assets; and long-term investments and funds, which formed the independent variables. The dependent variable of interest was the financial performance of the firms, and was measured in terms of earnings per share; return on assets; return on equity, profit margin (return on sales); and current ratio, with the aid of a composite index. A census was done on the entire firms listed under this sector by the year 2014, for five years, from 2010 to 2014. A document review guide was used to collect secondary data from the financial statements of the firms under study. A multiple regression analysis (standard) was conducted with the aid of statistical programs SPSS version 21. The results of the study indicate that asset structure had a significant statistical effect on financial performance. In particular, the study found that: Property, Plants and Equipment, and long-term investments and funds have a statistically significant effect on financial performance, while current assets and intangible assets do not have statistical significance on financial performance.

Inyiama, Ugbor, Oluchukwu, and Chukwuani (2017) evaluated the relationship between assets growth rate and the financial performance of manufacturing firms in Nigeria. Six (6) firms were selected from the twenty-two (22) manufacturing firms listed on the Nigeria Stock Exchange Market (NSE) and secondary data was collected from the firms for ten years period (2006 – 2015). Using Pearson Product Moment Correlation Matrix and Multiple Regression, the result shows that the non-current assets growth rate and net assets growth rate of manufacturing firms in Nigeria positively and strongly related to the profit for the year of the firms for the period of 2006 – 2015, while current assets growth rate positively and weakly related with the profit for the year of the firms for the period.

Abubakar, Isah, and Usman (2018) examined the effect of firms' characteristics and financial performance of listed insurance companies in Nigeria. The data for the study were collected from the annual reports and accounts of Insurance companies quoted in the Nigeria Stock Exchange (NSE) between 2007 and 2016. Robust regression analysis was used to test the hypothesis in addition to some diagnostic tests conducted on the data. The results of the study revealed that liquidity and Age have a significant negative impact on the financial performance of insurance companies in Nigeria.

Nwanganga (2018) examined the determinants of retained earnings of quoted manufacturing firms in Nigeria. The study is anchored on Pecking Order Theory while an ex-post facto research design was adopted wherein secondary data sourced from financial statements of selected quoted manufacturing firms in Nigeria covering a period of 10 years (2009 to 2018) were used for analysis. The result of the panel data regression analysis revealed that earnings retention ratio (ERR) has an inverse and insignificant effect on ROA; dividend payout ratio (DPR) has a direct and insignificant effect on ROA; while net profit margin (NPM) has a direct and significant effect on ROA of quoted manufacturing firms in Nigeria.

Akinkoye and Akinadewo (2018) evaluated the relationship between retained earnings and the market value of firms in Nigeria. The sample data was extracted from 75 non-financial firms listed on the Nigeria Stock market during the period 2003 to 2014. The unbalanced panel data (cross-sectional and time series) used to examine the relationship was obtained from the annual financial statements of the various firms. Two basic approaches descriptive and multiple regression models were used to determine the relationship between the underlying variables. The results indicated a positive and significant relationship between retained earnings, earnings per share, dividend pay-out and value of firms while market value is positively but nonsignificantly associated with financial leverage.

Olaoye, Adekanbi, and Oluwadare (2019) examined working capital management and firms' profitability in Nigeria quoted firms on the Nigerian Stock Exchange (NSE). A panel data methodology was used with different regression estimators to analyze this relationship based on a balanced panel of 10 listed firms during the period 2008-2017. It was discovered that the cash collection period and cash payment period exerted a negative impact on return on assets, though the impact was only significant for the cash payment period on the ground of -0.064 ($p = 0.000 < 0.05$), as against the estimate for cash collection period that stood at -0.032 ($p = 0.077 > 0.05$). Also discovered was that both the current ratio and inventory period exerted a positive impact on return on assets, though the impact was only significant for the current ratio on the ground of 8.172 ($p = 0.000 < 0.05$), as against the estimate for inventory period that stood at 0.045 ($p = 0.438 > 0.05$).

Akparhuere, Duru and Ogbu (2019) ascertained the effect of asset management efficiency on the corporate performance of building and construction companies in Nigeria. To accomplish the main objective three specific objectives were formulated. These include examining the effects of asset turnover, inventory turnover and working capital turnover on profit after tax (a proxy for performance). The study adopted the ex-post facto research design and secondary data were collected on the independent and dependent variables for ten (10) years, i.e. 2006-2017. The data were analyzed using a simple regression method and it was found that net asset turnover and working capital turnover did not have a significant effect on the performance of building and construction companies in Nigeria. On the other hand, inventory turnover had a significant effect on the corporate performance of the building and construction companies in Nigeria.

Abubakar, Abuh, and Inyada (2019) examined the impact of these characteristics on profitability. The study adopts an ex-post facto research design and secondary source data drawn from the financial statements of the selected banks were used. Regression analysis was

adopted in analyzing the data. The findings of the study show that bank capital, loan and advance have a significant relationship with earnings but liquidity is not during the period of study.

Soyemia and Olawale (2019) examined the impact of a firm's characteristics on the quality of financial reporting of listed manufacturing firms in Nigeria. Some 25 nonfinancial firms listed on the Nigeria stock exchange from 2009 to 2016 comprised the sample. Longitudinal panel data is used to account for individual heterogeneity of the sample companies with the utilization of two steps regression in determining the quality of financial reports of the Nigerian listed manufacturing firms adopting modified Dechow and Dichev's (2002) model. The firm characteristics are firm size, firm tangibility, profitability and growth. The result revealed that firm size has a positive significant effect on financial reporting quality. Tangibility has a negative significant effect on audit financial reporting quality. A firm's profitability has also been argued to have a positive influence on the quality of financial reporting while firm growth has a negative significant effect on financial reporting quality.

Efuntade and Akinola (2020) examined the impact of firm characteristics on the financial performance of quoted manufacturing firms in Nigeria. The descriptive and cross-sectional research design was adopted to investigate the relationship between variables of firm characteristics and the financial performance of quoted manufacturing firms in Nigeria for 14 years. Secondary Data were obtained from the annual reports of five selected quoted manufacturing firms. The panel least square regression model was used to test the formulated hypothesis. Findings showed that all the independent variables jointly and strongly have an impact on the financial performance of manufacturing firms in Nigeria measured by return on assets. It was concluded the explanatory variables (Firm Age, Firm Size, Sales Growth, Liquidity and Leverage) were significantly associated with the dependent variable (Return on Asset).

Gap in Empirical Review

From the foregoing literature, it could be observed that there is scanty work on retained earnings of banks in Nigeria. The few studies conducted were conducted in other sectors other than the banking sector. The period studied also created a study gap because most of the prior studies were conducted earlier than 2015 with different sets of variables. This created a gap in the literature which this study filled by evaluating new sets of characteristics and retained earnings of banks in Nigeria from 2010 to 2019.

METHODOLOGY

The study adopted an *ex post facto* (after the facts) research design. The research adopted an *ex post facto* design because it made use of data which are already in existence in annual reports and accounts of banks in Nigeria. The research was conducted in Nigeria's banking sector of the economy. The study made use of secondary data. Panel data from 2010 to 2019 were extracted from the annual report and accounts of the selected banks in Nigeria. The study made use of a systematic sampling technique. Inyama (2016) described systematic sampling as one in which every K^{th} value on a list is selected for inclusion in the sample. The study critically chooses the "K" value of 2 as the sampling interval. The sample size was determined by

dividing the population size by the K-value ($23/2= 11.5$). Eleven (11) deposit money banks listed on the Nigerian Stock Exchange formed the sample of the Study. Descriptive Statistics and panel covariance analysis was used as the statistical tool for data analysis.

The models for this study were specified as follows:

$$r=[1/(n-1)] \times \sum[(\overline{TA} - TA)/S_{TA}X(\overline{RETEARN} - RETEARN)/S_{RETEARN}] \dots\dots(1)$$

$$r=[1/(n-1)] \times \sum[(\overline{TDP} - TDP)/S_{TDP}X(\overline{RETEARN} - RETEARN)/S_{RETEARN}] \dots\dots(2)$$

Where;

n = number of observations in the sample

\sum = summation symbol

RETEARN = the value of retained earnings

$\overline{RETEARN}$ = the sample mean of retained earnings

$S_{RETEARN}$ = the sample standard deviation of the retained earnings

TA = the value of total asset

\overline{TA} = the sample mean of the total asset

S_{TA} = the sample standard deviation of total asset

TDP = the value of total deposit

\overline{TDP} = the sample mean of total deposit

S_{TDP} = the sample standard of total deposit

DATA ANALYSIS

Table 4.2.1: Descriptive Statistic of the Industry Level Panel Data

	RETEARN	TA	TDP
Mean	33575.71	2283760.	1608163.
Median	30321.00	1786558.	1261570.
Maximum	427874.0	7146610.	5442193.
Minimum	-2657472.	277111.0	203270.0
Std. Dev.	297703.8	1572044.	1142650.
Skewness	-0.424466	0.126191	0.168794
Kurtosis	1.874710	2.469550	2.759730
Jarque-Bera	18671.99	22.05709	25.17295
Probability	0.748546	0.877012	0.621003
Sum	3357571.	2.28E+08	1.61E+08
Sum Sq. Dev.	8.77E+12	2.45E+14	1.29E+14
Observations	100	100	100

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 4.2.1, the probability of the Jarque-Bera Statistics for all the explanatory variables have insignificant p-values as follows, Retained Earnings (0.748546), Total Assets (0.877012), Total Deposits (0.621003). The insignificance of the p-values depicts normal distribution for all the variables. This is further confirmed by the skewness coefficients which operate around figure one in all the variables under study. The kurtosis coefficient also provides a second level of confirmation that all the explanatory variables are normally distributed with Retained Earnings (1.874710), Total Assets (2.469550), Total Deposits (2.759730). The kurtosis of all the variables are not far from the figure 3 (three).

Table 4.2.2: Result of Panel Unit Root Tests

Variable	ADF P-value at levels	Decision	ADF P-value at 1 st difference	Decision	ADF P-value at 2 nd Diff.	Decision	Order of Integration
RETEARN	0.0000	Reject Ho					I (0)
TA	0.9305	Do not reject Ho	0.4663	Do not Reject Ho	0.0007	Reject Ho	I (2)
TDP	0.9972	Do not reject Ho	0.3941	Do not Reject Ho	0.0497	Reject Ho	I (2)

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 4.2.2 above is a representation of the stationarity test of the variables used in this study. This test is necessary to determine if a variable has a unit root, i.e. if the variable is non-stationary. For the sake of the current study, and to obtain a result that is robust enough for prediction and forecast, these variables must not have a unit root, which is to say that they are stationary. The test has a null hypothesis, which is that a variable has a unit root or that the variable is non-stationary. The null hypotheses are rejected or not rejected depending on the probability value of the Augmented Dickey-Fuller Test for Unit Roots. A probability value less than 0.05 means that the null hypothesis will be rejected, meaning that the variable does not have a unit root, i.e. the variable is stationary over time.

Subsequently, from the table, the probability value of ADF for retained earnings, denoted as RETEARN, is 0.0000 which is less than 0.05. This means that the null hypothesis is rejected, thereby concluding that the variable has no unit root. However, this probability value was achieved at levels, which is to say that the variable RETEARN is stationary at levels. Total assets, represented by TA have an ADF probability value of 0.0007 after the 2nd difference, meaning that the variable TA is integrated of order two (2), or that it is stationary at the 2nd difference. Total deposit, represent with TDP, achieved a probability value of 0.0497 after the 2nd difference, indicating that the variable is integrated of order two (2). Summarily, retained earnings were found to be stationary at levels. Total assets and total deposits were further found to be stationary after the second difference.

Table 4.2.3: Covariance Analysis Result of the Industry-Level Panel Data

Covariance Analysis: Spearman rank-order

Date: 01/19/21 Time: 16:36

Sample: 2010 2019

Included observations: 100

Covariance	RETEARN	TA	TDP
Correlation			
t-Statistic			
Probability			
RETEARN	833.2500 1.000000		
TA	667.8900 0.801548 13.27065 0.0000	833.2500 1.000000 ----- -----	
TDP	646.6900 0.776106 12.18366 0.0000 -2.372388 0.0196	820.4800 0.984674 55.89247 0.0000 -1.066936 0.2886	833.2500 1.000000 ----- ----- -0.885593 0.3780

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 4.2.3 suggests that there is a strong (80% approx.) and positive relationship between Retained Earnings and Total Assets with t-Statistic: 13.27065 and Probability: 0.0000. Retained Earnings and Total Deposits also share a positive and strong relationship (77.6% approx.) with t-Statistic: 12.18366 and Probability: 0.0000. This implies that as total deposit and total assets increases, retained earnings of deposit money banks in Nigeria also increases.

Test of Hypotheses

The hypotheses were tested using the covariance analysis result in Table 4.2.3. The decision rule is based on the significance of the t-statistics which are represented by the p- values.

Statement of Decision Rule: Reject H_0 if the P-value tabulated is less than the A-value calculated (0.05), the t-statistic is > 2 , and if the correlation coefficient is > 0.50 and accept the null hypotheses if reverse becomes the case.

Hypothesis One: Total assets do not have a strong relationship with retained earnings of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.3, the P-value of $0.0000 < 0.05$ A-value, the 13.27065 t-statistic > 2 , and the correlation coefficient of $0.801548 > 0.50$.

Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that total asset has a strong relationship with retained earnings of Deposit Money Banks in Nigeria.

Hypothesis Two: Total deposits do not have a strong relationship with retained earnings of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.3, the P-value of $0.0000 < 0.05$ A-value, the 12.18366 t-statistic > 2 , and the correlation coefficient of $0.776106 > 0.50$. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted. This implies that total deposits have a strong relationship with retained earnings of deposit money banks in Nigeria.

DISCUSSION OF FINDINGS

Total Asset and Retained Earnings

In the test of hypothesis one, the covariance analysis result reveals that total asset has a strong and positive relationship with retained earnings of Deposit Money Banks in Nigeria. The finding is in line with the *a priori* expectations of the researchers because assets are items of economic value, which are expended over time to yield benefits to the banks, hence, the more the total assets, the more the profit potentials of the banks and consequently the more the retained earnings, if it is the wish of the management. It also shows that Deposit Money Banks in Nigeria have been utilizing their assets effectively and efficiently which enables them to generate enough profit to pay a dividend and still make some retentions. The result is not scary because most of the countries where the previous research was carried out are at the same level of economic, social, political and infrastructural development. Pecking Order Theory states that a firm's first preference should be the utilization of internal funds (i.e. retained earnings), followed by debt and then external equity. This shows the importance attached to retained earnings by corporate firms, especially Deposit Money Banks, as a major source of free capital for expansion.

Okwo, Okelue, and Nweze (2012) on the other hand found an insignificant relationship between assets and profitability. The researchers did the study in the Nigeria Brewing Industry and the cut-off date was 2009. The result could be attributed to the fact that brewing firms usually produce in line with the prevailing demand level which, most times, are lower than their productive capacities in terms of assets. Bank activities are to a very large extent powered by assets; especially fixed assets. Information Communication Technology (ICT) is the way to go in the banking industry if the bank must break through the cut-throat competition in the sector presently and still make a profit.

Total Deposit and Retained Earnined

In the test of hypothesis two, the covariance analysis result reveals that total deposit has a strong and positive relationship with retained earnings of Deposit Money Banks in Nigeria. This is in tandem with the result of Access Bank Plc, Guarantee Trust Bank Plc, United Bank for Africa Plc, Zenith Bank Plc, Fidelity Bank Plc, and First City Monument Bank Plc, when considered individually. This implies that as total deposit increases retained earnings will experience a significant increase. The bulk of banks' lending and other investment activities is

to a great extent financed by customers' deposits which in itself is a liability to the banks and assets to the depositors. An increase in customer deposits will finally increase revenue and revenue retention. This supports the positive relationship between the total deposit and retained earnings of Deposit Money Banks in Nigeria.

Profitable firms should logically have more retained earnings depending on their dividend payout policies. This finding is consistent with the findings of Dogarawa and Maude (2016) who found a significant relationship between deposits and the financial performance of Deposit Money Banks in Nigeria. The more the deposits, the more the banks are disposed to extend loans and the more the revenue and reserves too. Pecking Order also postulates that firms which are mostly financed by retained earnings do not have to deal with transaction costs and bankruptcy costs. They do not have to pay interest or dividends for such funds. This also underscores the importance of retained earnings to banks in Nigeria.

CONCLUSION, AND RECOMMENDATIONS

Conclusion and Recommendation

Retained earnings provide deposit money banks with the avenue for a cost-free fund for investment purposes as suggested by Myers and Majluf (1984) in their Pecking Order Theory. This is because retained earnings provide the bank management with internally generated funds without cut-throat interest rates or diluting the control or ownership structure of the company through the issue of shares. However, total assets and total deposits can affect banks' ability to retain the amount of profit they wish to retain. From the data analysis, total assets and total deposits have a strong and positive relationship with retained earnings. This implies that total assets and total deposits can be used to predict the retained earnings of deposit money banks in Nigeria. The study made the following recommendations:

- i. Deposit money banks in Nigeria should strive to increase their asset base by investing in land and buildings and also ensure that every asset at their disposal is effectively and efficiently managed to yield more profit and subsequently increase their retained earnings for further investments and/or recapitalization.
- ii. They should engage in promotions and other programmes that will encourage customers to keep their cash with them. This will provide them with additional funds to provide loans and make other investments to increase their revenue and retained earnings.

Contribution to Knowledge

The reason for every research is to increase the existing reservoir of knowledge. The purpose of this study is to evaluate bank characteristics that determine retained earnings of deposit money banks in Nigeria. The reviewed works of literature show that there is scanty work on retained earnings of companies in Nigeria. The eight studies conducted were conducted in other sectors other than the banking sector. The period studied also created a study gap because most of the prior studies were conducted earlier than 2015 with different sets of variables. This study added to the already existing knowledge by evaluating the relationship between total assets, total deposits, and retained earnings of banks in Nigeria.

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