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Effect of Corporate Reserve on Non-Current Liabilities of Deposit Money Banks in Nigeria

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Abstract

Research Objectives: This study aimed to determine the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria The specific objectives of the study include to; examine the effect of statutory reserves on the non-current liability of deposit money banks in Nigeria, ascertain the effect of regulatory risk reserves on the non-current liability of deposit money banks in Nigeria and review the effect of retained earnings on the non-current liability of deposit money banks in Nigeria.

Methodology: The independent variables under study are statutory reserves, regulatory risk reserves, and retained earnings while the dependent variable is a non-current liability. The study used an *ex-post facto* research design. Data were collected from the published annual reports and accounts of the selected Deposit Money Banks and were analyzed using descriptive statistics and panel least square regression model as an analytical technique.

Findings: The study revealed that Statutory reserve has a significant effect on the Non-current liability of deposit money banks in Nigeria (where the p-value = 0.0203), that Regulatory risk reserve has a significant effect on the Non-current liability of deposit money banks in Nigeria (where p-value = 0.0160) and that retained earnings have a significant effect on the Non-current liability of deposit money banks in Nigeria (where p-value =0.0042).

Conclusion: The study concluded that a significant relationship exists between statutory reserve, regulatory risk reserve and retained earnings and the Non-current liability of deposit money banks.

Recommendations: The study recommended that deposit money banks in Nigeria should ensure their statutory reserve is always maintained to enable them to have adequate liquidity to meet up with shareholders' demands. Need for regulators like the CBN not to increase the regulatory risk reserves of quoted commercial banks in Nigeria for effective regulatory capital management. It is finally recommended that deposit money banks in Nigeria should enact a policy or policies whereby a high percentage of net profit is retained in the business. This is to ensure improved performance. The implication of these is that the banks under review have adequate liquidity to maintain their non-current liabilities.

Key words: *Corporate Reserve, Non-current Liabilities, Statutory Reserves, Regulatory Risk Reserves, Retained Earnings.*

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1. Introduction

Bank is a financial institution licensed to accept deposits from the surplus unit and lend such deposits out to the deficit unit. Therefore, one of its major roles is financial intermediation which helps to stimulate the growth of the economy and enhance the financial development of a country. However, Tewodros, (2017) argued that despite the significant impact of banks on the economic activities of a nation, they are prone to failure as any other organization. Because of the major role banks play in the financial stability and economy of a country, the government exercises a high degree of regulation over them. In Nigeria, banks are the most regulated industry, and all their activities are guided by policies. One such policy is the cash reserve requirement (CRR). According to Ude, (2015), the cash reserve requirement is the fraction of total deposit liability which banks are expected to keep as cash with the Central Bank of Nigeria (CBN). Amidst the CRR and other regulations, stockholders expect banks to make a profit for sustainability and as a reward for their investment. The ability to maintain profitability is a bank's performance. Besides, profitability helps banks against unpredicted losses as it fortifies their capital position. Profitability is the net income of banks, where revenue is greater than expenses. Since banks' profitability determines the functionality of the whole financial system of a nation, studies on corporate reserves are important since they might reveal the particular regulatory standards, mostly affecting banks and hence help the apex bank (Central Bank of Nigeria) on suitable modifications or restructuring.

Reserves are the company's profit, remaining after deducting all expenses and paying dividends, and it is retained in the company for future growth (Agu, 2013). Reserves according to Altman, (2013) are profits that were not distributed to shareholders or owners of capital. The concept of reserve gives a perfect understanding of what may be called "saving for the rainy day". These funds may either be paid at a later date or be reinvested in the same business (expansion) or another kind of venture. The purpose is simply to earn more money through reinvestment and to increase the total assets of the organization (Bhatia, 2009). Darling, (2011) is of the view that the reserve of a corporation is the accumulated net income of the corporation that is retained by the corporation at a particular point in time, such as at the end of the reporting period, the net income (or net loss) at that point is transferred from the Profit or Loss Account to the reserve account. If the balance of the reserve account is negative it may be called accumulated losses, retained losses or accumulated deficit, or similar terminology. Al-Malkawi, Rafferty, and Pillai, (2010) are of the view that in the corporate sector, generally, a finance manager deals with three main decisions. Investment decision/ capital budgeting decision, Payout decision, and Financing decision. Investment decision deals with the management of real assets which a firm holds. The financing decision states how the assets of the firm should be financed. While a payout decision arises when a firm starts generating profit. At this profit stage, the author stated that a firm faces two problems in making a good adjustment. Should a firm distribute all of its earned profit to its shareholder or invest back the profit into business? While taking any decision regarding the

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above scenario, finance managers focus on the wealth maximization of shareholders which is the core objective of a firm. Management should not only concentrate on the investment and financing needs of the business, being fulfilled by the firm's earnings but also consider how the implication of this decision can affect the share price (Bishop & Crapp, 2012).

In Nigeria, the cash reserve requirement is the responsibility of the CBN and not the market forces. Thus, an increase in the cash reserve requirement of banks might broaden the gap between the total deposit and lending rates. As the gaps get widened, the domestic sector might find it too expensive to borrow money from banks because of the increase in interest rates which consequently affect the profitability of banks. Also, foreign investors might equally find it unattractive to lend to domestic banks. This infers that an increase in cash reserve requirements may accomplish a contraction in national credit, without any additional increase in capital inflows and local currency. Literature shows that countries like Turkey, Croatia, Columbia, Russia, Peru, and Brazil have all adjusted their cash reserve requirement for economic stability. An increase in the cash reserve requirement of banks serves as a tax burden on the total deposit and might consequently, affect their transactions and the profitability level. In the Nigerian context, the cash reserve ratio of Deposit Money Banks is fixed at 27.5% (billion) in November 2020. Though, Cash Reserve Requirement (CRR) is set at a different percentage between the private and public sector funds from 2013 -2014 and was harmonized in 2015 (Central Bank of Nigeria press release through Communiqué No. 98 & 101). This was done to stimulate banks to be more proactive in performing their obligation of financial intermediation rather than depending on government funds as their main source of deposit.

Earnings retained are the most important sources of financing growth of a firm. The level of internal funds conveys information about the growth prospects of companies. Growth firms pay lower dividends, reinvest more of their earnings, and provide a greater percentage of their total returns in the form of capital gains. Companies with a few major investment opportunities would limit paying out a larger percentage of their earnings. For this reason, higher dividends are paid in stable, low-growth industries. By contrast, high-growth companies with lots of investment opportunities are likely to pay low dividends because they have profitable uses for capital. So, growth is likely to place a greater demand on internally generated funds. Higher-growth firms use less debt. Darling, (2011) also argues that firms with growth potential would have less capital structure. Growth opportunities can produce moral hazard effects and push firms to take more risks. To mitigate this problem, growth opportunities should be financed with equity or reserve instead of debt. Any part of a credit balance in the account can be capitalized, by the issue of bonus shares, and the balance is available for distribution of dividends to shareholders, and the residue is carried forward into the next period. Dividends can only be paid out of the positive balance of the reserve account at the time that payment is to be made.

Statement of the Problem

Financial structure is the most famous among other notable decisions made by a firm as it is concerned with ascertaining the optimum capital combination for the firm. Firms at every level of development are seemingly at crossroads when faced with the options of either debt (leverage) and equity or the combination of the two in the project and operational financing. Issues revolving around the funds set aside by organizations and how this in turn plays out on the value creation in the businesses is always a debatable concept. Investors in the banking sector are unarguably not left out in this puzzle as the sector remains one of the main strongholds of Nigerian mono-economy contributing in a very domineering way to the nation's GDP.

With the requirement of huge capital outlay to operate in this sector, financing decisions have become paramount. The process of income generation by a bank incurs operating expenses, including personnel costs, rent, insurance, transportation costs, maintenance costs, advertising and other sundry expenses which tend to limit the statutory reserves, retained earnings and regulatory risk reserve. This situation has invariably limited the influx of funds into the industry from internally generated sources. The current position of the project being self-financing has aggravated the dwindling performance witnessed in the sector as many firms perform abysmally thereby accumulating losses. In furtherance to the challenges in the banking sector, a global review of corporate financing shows that company's health instead of shareholder's wealth has become the end rather than the means. This however does not apply to many companies due to the ineptitude of reinvesting retained earnings.

Sequel to this, the management of companies always turns between the payment of dividend and retention of earnings. It is their prerogative to ascertain the optimal financing mix that will enhance the company's profitability and adequate return to shareholders. But despite these management's efforts in balancing the financing mix, firms collapse within years of taking off and banks are not left out in this distress. It is in the light of the above that the study has ascertained the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria.

Objectives of the Study

The main objective of this study is to appraise the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria. The specific objectives include the following;

1. Examine the effect of statutory reserves on the non-current liability of deposit money banks in Nigeria.
2. Ascertain the effect of regulatory risk reserve on the non-current liability of deposit money banks in Nigeria.
3. Review the effect of retained earnings on the non-current liability of deposit money banks in Nigeria.

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Research Questions

The researcher is set to address the specific objectives of these research questions.

1. What is the effect of statutory reserves on the non-current liability of deposit money banks in Nigeria?
2. To what extent does regulatory risk reserve affect the non-current liability of deposit money banks in Nigeria?
3. What is the effect of retained earnings on the non-current liability of deposit money banks in Nigeria?

Statement of the Hypotheses

Consequent to the above-stated research questions, the following null hypotheses were formulated:

1. Statutory reserves do not have a significant effect on the non-current liability of deposit money banks in Nigeria.
2. Regulatory risk reserve does not significantly affect the non-current liability of deposit money banks in Nigeria.
3. Retained earnings do not have a significant effect on the non-current liability of deposit money banks in Nigeria.

Scope of the Study

This study on the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria. They include First Bank Plc, UBA, Guaranty Trust Bank, First City Monument Bank and Zenith Bank Plc**.** The duration covered for the study was ten (10) years (2012 to 2021). The base year 2012 was selected for the study to study the effect of the 2009/2010 economic recession in Nigeria while the end year 2021 was selected as it is the most recent year of study. The five banks were selected based on the availability of data for all the variables under study. The study sought to examine how statutory reserves, regulatory risk reserves and retained earnings affect the non-current liability of deposit money banks in Nigeria.

2. Literature Review

Conceptual Review

Corporate Reserve

A reserve is retained earnings secured by a company to strengthen a company's financial position, clear debt & credits, buy fixed assets, company expansion, legal requirements, investment and other plans. These are usually done to save the cash from being used for other purposes. Retained earnings are the amount of profit a company has left over after paying all its direct costs, indirect costs, income taxes and its dividends to shareholders. This represents

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the portion of the company's equity that can be used, for instance, to invest in new equipment, R&D, and marketing. A reserve can appear in any part of shareholders' equity except for contributed or basic share capital. In nonprofit accounting, an "operating reserve" is the unrestricted cash on hand available to sustain an organization, and nonprofit boards usually specify a target of maintaining several months of operating cash or a percentage of their annual income, called an Operating Reserve Ratio

Statutory Reserve

Statutory reserves are the company's profit, which remains after deducting all expenses and paying dividends, and are retained in the company for future growth (Onuoha, 2007). The purpose of retention is that expansion chances of growth increase when there is retained profit in the company. Nwankwo, (2012) is of the view that in the corporate sector, generally, a finance manager deals with three main decisions. (1) Investment decision/ capital budgeting decision (2) Payout decision (3) Financing decision. Investment decision deals with the management of real assets which a firm holds. The financing decision states how the assets of the firm should be financed. While a payout decision arises when a firm starts generating profit. At this profit stage, he stated that a firm faces two problems in making a good adjustment. Should a firm distribute all of its earned profit to its shareholder or invest back the profit into business? While taking any decision regarding the above scenario, finance managers focus on the wealth maximization of shareholders which is the core objective of a firm. Management should not only concentrate on the investment and financing needs of the business, being fulfilled by the firm's earnings but also consider the implication of this decision on the share price.

Leverage

Leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital (Almeida, Campello & Weisbach, 2011). Leverage is an investment strategy of using borrowed money, specifically, the use of various financial instruments or borrowed capital to increase the potential return of an investment. Leverage can also be referred to as the amount of debt a firm uses to finance assets (Allman-Ward & Sagner, 2012).

Akuezuilo (2009) defines leverage as the use of debt (borrowed capital) to undertake an investment or project. The result is to multiply the potential returns from a project. At the same time, leverage will also multiply the potential downside risk in case the investment does not pan out. When one refers to a company, property, or investment as "highly leveraged," it means that the item has more debt than equity. The concept of leverage is used by both investors and companies. Investors use leverage to significantly increase the returns that can be provided on an investment (Akinkoye & Akinadewo, 2018). They lever their investments by using various instruments, including options, futures and margin accounts. Companies can use leverage to finance their assets. In other words, instead of issuing stock to raise capital,

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companies can use debt financing to invest in business operations in an attempt to increase shareholder value (Akingbola, 2010).

Regulatory Risk Reserves

The Nigerian banking regulators required banks to create a reserve for the difference between the cumulative impairment charge determined in line with the principle of IFRS and the charge determined in line with the prudential guidelines issued by CBN (Akinkoye & Akinadewo, 2018). According to IFRS 9, financial losses for banks are uncertain ahead of time. To manage this, banks hold provisions for the expected losses but also hold capital in case losses are larger than expected. The financial losses are divided into expected loss and unexpected loss, the following provision must be made by the bank in the ways below as cited in Akingbola, (2010):

Retained Earnings

Retained earnings decision is one of the financial decisions that are taken by the management of firms. The managers have different motives for retained earnings. These motives can be summarized in taking advantage of investment opportunities, hedging against financial shocks, or meeting operating costs (Bajaj and Vijh, 2003). After the global financial crisis of 2007-2009, the subject of corporate retained earnings and cash management has gained much attention in empirical financial studies to help the firms in facing the negative effects of the changes in macroeconomic conditions by doing the necessary financial adjustments to timely receive the funds necessary to meet its obligations by holding cash without increasing its liabilities or incurring considerable losses by converting its assets (Baker and Powell, 2006).

Retained earnings play a significant role in the economic growth of emerging countries. Chen and Mahajan, (2010) suggested that corporate retained earnings in emerging markets promote economic growth. His study attributed this relationship to firms in developing countries' desire to take advantage of the investment opportunities. Furthermore, the attraction to dissipate cash may be especially strong during financial crises in emerging markets because increased market uncertainty can reduce the value of managers' self-interested behavior. Moreover, retained earnings may be useful to firms during the time of downturn markets; the reduction of liquidity may increase the troubles of securing alternative financing tools (Almeida, Campello and Weisbach, 2009). In many emerging markets, firms hold enormous cash balances to use cash during financial crises. This cash helps firms buy the assets of distressed firms at cheap prices and this may happen much less than in developed markets, but such practice still exists (Akuezuilo, 2009).

Theoretical Framework of the Study

Pecking order Theory

The study is anchored on Pecking Order Theory

The pecking order theory of Myers was proposed in 1978. It stated that firms finance investments first with retained earnings, then with safe debt and risky debt, and finally with equity (Olowe, 2008). The purpose of this order of financing is to minimize asymmetric information costs and other financing costs. This theory suggests that firms do not have target cash levels, but instead, cash is used as a buffer between retained earnings and investment needs.

Thus, when current operational cash flows are enough to finance new investments, firms repay debt and accumulate cash. When retained earnings are not enough to finance current investments, firms use the accumulated cash holdings and, if needed, issue debt. Investment opportunity set: A large investment opportunity set creates a demand for a large stock of cash because cash shortfalls imply that unless a company engages in costly external financing it must forego profitable investment opportunities (Panda, 2009). Therefore, a positive relationship between the investment opportunity set and cash holdings is expected.

Leverage: In a pecking order world, debt typically grows when investment exceeds retained earnings and falls when investment is less than retained earnings (Dittmar, 2013). Consequently, cash holdings follow an inverse pattern of evolution, i.e., cash holdings fall when investment exceeds retained earnings and grow when investment is less than retained earnings. This relationship between cash holdings, debt and investments suggests that there is a negative relation between leverage and cash holdings.

Size: Larger Firms presumably have been more successful, and hence should have more cash, after controlling for investment (Dittmar, 2013). Cash flow. Controlling for other variables, it is expected that firms with high cash flow will have more cash (Kanwal, 2012). This study was anchored on Pecking Order Theory based on the premise that it shows that finance managers are keen to maintain control of the firm, and it helps in minimizing the cost of equity and agency problems. Pecking Order Theory helps explain the changes associated with credit risk reserve.

Empirical Review

Statutory Reserves and Non-Current Liability

Tam (2019) studied the relationship between capital structure and financial performance of 52 listed real estate firms in the Vietnam stock exchange from 2014 to 2018. By using multiple regression, the study found that short-term and total debts reduce financial performance as measured by ROA, ROE and EPS. However, using short-term debt brings more investment opportunities for businesses, while long-term debt is not statistically significant for financial performance at the 10% significance level. The study results also found that the proportion of fixed assets harms performance measured by ROA and no statistical significance for financial performance measured by ROE, EPS, and Tobin' Q.

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Duenya and Dugugh (2021) investigated the effect of capital structure on the financial performance of selected deposit money banks in Nigeria from 2013 to 2017. Fixed effect regression analysis was used after the result from the Hausman test for randomization of the panel result indicated that it is the best estimator than the random effect regression in estimating the relationship between the variables of the study. The findings from the study indicated that all the variables of model one (EQR, DTR & DER) were negatively related to our first measure of profitability which is the return on asset (ROA). For model two, a positive relationship exists between EQR, DER and ROE while DTR was negatively related to the ROE of the DMBs in Nigeria. The result of the third model of the study indicated a positive relationship between the explanatory variables of EQR, DTR & DER with EPS and the relationships are statistically significant. The result of model four indicated that EQR and DTR had a negative effect on the EPS of deposit money banks in Nigeria while DER is positively related to the Quick ratio.

Eslam, *et al* (2021) investigated the impact of capital structure on the profitability of Egyptian MSMEs from 2016 to 2019. Multiple regression was used for this study and it was found that there was a significant negative correlation between Debt ratio and ROE, ROA and NPM. However, it was found that there was a highly significant positive correlation between Equity ratio and ROE, ROA and NPM. In regards to medium firms, it was found that there was a positive significant correlation between debt ratio and ROE, ROA and NPM. On the other hand, it was found that there was a negative significant correlation between Equity ratio and ROE, ROA and NPM. This result supported the tradeoff theory of medium business capital structure in Egypt. Concerning firm age, it was found that smaller-aged firms have better rates of profitability than large-aged ones.

Akinkoye and Akinadewo (2018) studied retained earnings and firms' market value in Nigeria. The sample data was extracted from 75 non-financial firms listed on the Nigeria stock Market during the period 2003 to 2014. 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 payout and value of firms while market value is positively but non-significant associated with financial leverage.

Eyo, *et al* (2016) studied the impact of retained profit on corporate performance. Data was collected from the annual report of Niger Mills Company Ltd. Calabar and the statistical model used for data analysis was the Karl Pearson product-moment correlation coefficient. Findings revealed that the future earnings capacity of Niger Mills Ltd. Calabar depends on its retained profit. It was also discovered that accumulated profit retained in the business has the potential of boosting future earnings.

Akparhuere, *et al* (2015) studied the effect of capital structure on retained earnings in the oil and gas sector in Nigeria. Data covering the period, 2002-2011, were gathered through

secondary methods and the study is descriptive. The analysis was carried out using simple statistical tools like Correlation Coefficient (r), F-test (ANOVA), Coefficient of Determination (R2), and Regression Analysis. The study revealed that Retained Earnings are strongly and positively determined by borrowing or debt; that Share Capital positively determines Retained Earnings; and that Retained Earnings had a significant relationship with debt and share capital throughout study.

Narsaiah (2020) examined the impact of credit risk reserves on financial performance from 2014 – 2019. The study applied econometric models for panel data analysis and used pooled OLS estimation, fixed effect, and Random Effect Methodology along with the Hausman test and Ramsey RESET. Tobin's Q. Pearson's correlation and regression techniques were adopted for the study. The research found a significant negative relationship amongst credit risk reserve variables with the financial performance measured by ROA, EPS, and Tobin's Q. However, the results revealed that long-term debts and total debts decreased the financial performance, while short-term debts facilitated financial performance.

Sovaniski (2020) researched the impact of credit risk reserve on the financial performance of Kurdistan manufacturing firms. Multiple linear regression included return on equity as an independent variable, credit risk reserve, liquidity, size and growth as the independent variables. These variables were used to establish whether credit risk reserve decisions affect the profitability of manufacturing firms in Kurdistan. The results obtained from the regression equations established a negative relation between total debt, size and financial performance.

Appah and Tebepah (2020) researched the optimization of credit risk reserve and return on assets of listed non-financial firms in Nigeria from 2009 to 2018. Data for this study were obtained from the annual reports of sampled firms and multiple regression of ordinary least square technique of pooled regression, fixed effects and random effects was used for the analysis. The results revealed that return on assets (ROA) is negatively related to both debts to capital employed (DCE) and equity to capital employed (ECE).

Ezu (2020) investigated the effect of credit risk reserves on the financial performance of oil and gas companies quoted on the Nigerian stock exchange. Secondary data were carefully sourced from the financial statement/annual reports of the oil and gas companies quoted on the Nigerian Stock Exchange. The data span from 2005 to 2018. Eviews 10.0 software was used to analyse the data collected. Findings from data analysed showed that total debt to total assets has no significant effect on the return on assets of oil and gas companies quoted on the Nigerian Stock Exchange and that total debt to total equity has a significant effect on the return on equity of oil and gas companies quoted on the Nigerian Stock Exchange.

Koech, *et al* (2020) studied the effect of credit risk reserves on the financial performance of firms in Kenya from 2008 to 2013. The study adopted explanatory non-experimental research. Secondary data were obtained from the published annual reports and financial statements of the listed companies at the NSE covering the years 2008 to 2013. The collected data was

entered into the Statistical Program for Social Sciences (SPSS) and the multiple regression analysis method was used to analyze and test the hypotheses. The findings showed that equity and long-term debt have a positive and significant effect on financial performance, while short-term debt has a negative and significant effect on financial performance.

Nehu, *et al* (2018) examined the impact of credit risk reserve on the risk and firm performance of listed companies in the Bucharest Stock Exchange for the period 2000 to 2016. Their study applied multivariate fixed-effects regressions, as well as dynamic panel-data estimations (two-step system generalized method of moments, GMM). The results showed that leverage is positively correlated with the size of the company and the share price volatility. On the other hand, the debt reserve has a different impact on corporate performance, whether this is calculated on accounting measures or seen as market share price evolution.

Dang, et al (2019) measured the relationship between credit risk reserve and the performance of sixty-one (61) food and beverage firms in Vietnam for periods between 2000-2017. Random effect panel regression model was adopted for the study and the outcome showed that debt ratio affects ROE and EPS but it does not affect ROA. It means that a firm financed with a high level of debt performs better when measured by ROE but performs poorly when measured by ROA.

Gap in Empirical Review

Thuranira (2013) studied the Effect of Retained Earnings on the Returns of Firms listed on the Nigeria securities exchange (2000 – 2010). Ogundipe (2011) carried out a study on the Determinants of Corporate Retained earnings in Nigeria (2000 – 2005) while Uwa (2012) studied the Impact of Corporate Governance on retained earnings (2000 – 2010). These authors used a co-integration test, Generalized Method of Moments (GMM) and co-integration test respectively but this study on the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria is set to combine diverse analytical techniques such as descriptive statistics, and random panel regression. The essence of a combination of these techniques is to obtain an improved result thereby filling the gaps left by these authors.

3. Methodology

Research Design

The researcher adopted an *ex-post facto* research design. The choice of the ex-post facto design is because the research relied on already recorded events, and researchers do not have control over the relevant dependent and independent variables they are studying to manipulate them Onwumere, (2009).

Area of Study

This study is on the effect of corporate reserve on non-current liabilities of deposit money banks in Nigeria. The major emphasis was on the banking sector of the Nigerian economy.

Sources of Data

This study made use of secondary data covering a period of 10 years i.e. 2012 – 2021 obtained from the financial statement of the selected deposit money banks.

Population of Study

The population of the study comprised all the deposit money banks listed in the Nigerian Exchange Group (NGX). There are a total of nineteen (19) quoted deposit money banks in Nigeria as of 2021.

Sample Size Determination

The sample size consisted of five (5) listed deposit money banks in the Nigerian Exchange Group. They are; First Bank Plc, UBA, Guaranty Trust Bank, First City Monument Bank and ZENITH BANK Plc**.** The purposive sampling technique was used for the banks on the premise that five (5) selected banks are the only ones with complete data set for all the variables, especially credit risk reserve and statutory reserve.

Model Specification in the Model

The model was specified in the functional form:

NCL = f (SR, RRR, RE)

Where:

NCL = Non-current Liability

SR = Statutory Reserve

RRR = Regulatory Risk Reserve

RE = Retained Earnings

In a linear regression form, it will become:

$NCL = \beta o + \beta_1 SR + \beta_2 RRR + \beta_3 RE + \mu$ …… (2)

βo = Constant Term

β_1 = Coefficient of Statutory Reserve

β_2 = Coefficient of Regulatory risk reserve

β_3 = Coefficient of Retained Earnings

μ = Error Term

Description of Variables

Dependent variable	**Formula**	**Source**
Non-current Liability: A liability is something a person or company owes, usually a sum of money.	Non-Current Liabilities =	Financial Statement

Liabilities are settled over time through the transfer of economic benefits including money, goods, or services.	Long-term lease obligations + Long Term borrowings + Secured / Unsecured Loans.	of selected banks
Regulatory Risk reserves: According to the Banks and other financial institutions act (BOFIA) of 1991(amended), every bank shall maintain a reserve fund appropriated out of its net profits for each year(after due provision made for taxation) and before any dividend is declared. The natural log of the values of statutory reserves will be taken to reduce the scale effect of numbers. Statutory reserves (SR) are an independent variable.	Reserve Requirement= Deposits×Reserve Ratio	Financial Statement of selected banks
Retained Earnings: *Retained earnings* (RE) is the amount of net income left over for the business after it has paid out dividends to its shareholders. Often this profit is paid out to shareholders, but it can also be reinvested back into the company for growth purposes.	**Retained Earnings =** Prior Retained Earnings **+** Net Income **–** Dividends	Financial Statement of selected banks

Source: Author's compilation 2023.

4.0 Data Analysis

Method of Analysis

Panel data covering 10 years was estimated using descriptive statistics, and a random panel regression model. Descriptive statistics were used to ascertain the characteristics of the variables. The random panel regression model was used to measure how the independent variables affect the dependent variable.

Data Presentation

Presentation of data refers to the organization of data into tables, graphs or charts, so that logical and statistical conclusions can be derived from the collected measurements. The pooled data of the banks used for analysis is presented in Appendix II while the logged data is presented in Appendix III.

Data Analysis

Data analysis is a process of inspecting, cleansing, transforming and modeling *data* to discover useful information, informing conclusions and supporting decision-making. This study was therefore evaluated using analytical and logical reasoning to examine each component of the *data* provided to arrive at a conclusive result.

Table 1: Descriptive Statistics for First Bank, UBA, GTBank, FCMB and Zenith Bank

	LSR	LRRR	LRE	NCL
Mean	9.606865	16.91664	12.74258	11.76868
Maximum	19.40041	18.95040	19.65779	17.33488
Minimum	5.338691	13.43498	9.358674	7.243513
Skewness	2.052743	0.150063	1.155289	1.840004
Kurtosis	10.53661	2.498919	2.957183	5.458218
Jarque-Bera	138.1107	0.568596	8.901011	32.64215
Probability	0.000000	0.752542	0.011673	0.000000
Observations	50	50	50	50

Source: Author's Computation from Eviews 9.0, 2023

Table 1 described the variables under study using the components of descriptive statistics such as Skewness, Kurtosis and Jarque – Bera Statistics. The table showed that all the variables were positively skewed relative to normal and log of the statutory reserve, Non-current liability is leptokurtic as their kurtosis values are greater than three (3) while Retain earnings and Regulatory Risk Reserve is platykurtic as their kurtosis values are less than three (3).

The table also showed that logs of the statutory reserve retained earnings and non-current liability are not normally distributed as the probability values of its Jarque-Bera statistics are less than 0.05 while regulatory risk reserve is normally distributed as the probability values of its Jarque-Bera statistics are greater than 0.05.

Test of Hypotheses

The hypotheses of this research were tested using panel least squares based on the premise that the analysis was done using pooled data of the companies under study.

Test of Hypothesis one

Step 1: Restatement of the hypothesis.

Statutory reserves do not have a significant effect on the non-current liability of deposit money banks in Nigeria.

Step 2: Presentation of Test Result

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Table 2: Test of Hypothesis One

Dependent Variable: LNCL

Method: Least Squares

Date: 04/24/23 Time: 13:59

Sample: 1 50

Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LSR	1.15E-07	4.73E-08	2.422718	0.0203
LRRR	2.939991	1.165986	2.521464	0.0160
LRE	4.44E-06	1.35E-05	6.328681	0.0042
C	13.23726	3.207789	4.126600	0.0002

R-squared	0.581151	Mean dependent var	11.76868
Adjusted R-squared	0.553835	S.D. dependent var	2.274230
S.E. of regression	1.519086	Akaike info criterion	3.750713
Sum squared resid	106.1506	Schwarz criterion	3.903675
Log likelihood	-89.76782	Hannan-Quinn criter.	3.808962
F-statistic	21.27492	Durbin-Watson stat	1.013484
Prob(F-statistic)	0.000000		

Source: Author's Computation from E-View 9.0, 2023

Step 3: Decision Rule

Reject H_O if the probability value is <0.05.

Step 4: Decision

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Table 2 shows the probability value of 0.0203 < 0.05. We reject the null hypothesis (H0) and conclude that statutory reserves have a significant effect on the non-current liability of deposit money banks in Nigeria.

Test of Hypothesis Two

Step 1: Restatement of the hypothesis.

Regulatory risk reserve does not significantly affect the non-current liability of deposit money banks in Nigeria.

Step 3: Decision Rule

Reject H_O if the probability value is <0.05.

Step 4: Decision

Table 2 shows the probability value of 0.0160< 0.05. We reject the null hypothesis (H0) and conclude that Regulatory risk reserves significantly affect the non-current liability of deposit money banks in Nigeria.

Test of Hypothesis Three

Step 1: Restatement of the hypothesis.

Retained earnings do not have a significant effect on the non-current liability of deposit money banks in Nigeria.

Step 2: Decision Rule

Reject H_O if the probability value is <0.05.

Step 3: Decision

Table 2 shows the probability value of 0.0042< 0.05. We reject the null hypothesis (H0) and conclude that retained earnings have a significant effect on the Non-current liability of deposit money banks in Nigeria.

Discussion of Findings

Statutory Reserve and Non-Current Liability

Statutory reserves have a significant effect on the Non-current liability of deposit money banks in Nigeria based on the premise that the probability value of 0.0203 was less than 0.05. This discovery is in agreement with the finding of Fatima and Samreen (2015). They studied the relationship between the reserve requirement ratio and banks' profitability in Pakistan. They found out that CRR taken as a measure for Reserve Requirement has a significant relationship with banks' financial performance, which is measured by ROA and ROE.

Regulatory Risk Reserve and Non-Current Liability

Regulatory risk reserve significantly affects the Non-current liability of deposit money banks in Nigeria. because the probability value being 0.0160 was less than 0.05. This finding is

following the discovery of Kargi (2011) who evaluated the impact of credit risk on the profitability of Nigerian banks. The author found out that credit risk management has a significant impact on the profitability of Nigerian banks.

Retained Earnings and Non-Current Liability

The study finally discovered that retained earnings have a significant effect on the Non-current liability of deposit money banks in Nigeria based on the premise that the probability value being 0.0042 was less than 0.05. This discovery is in agreement with the statement of Thuranira (2013) who studied the effect of Retained Earnings on the Returns of Firms listed on the Nigeria securities exchange (2000 – 2010). The author found out that cash dividends have a significant effect on stock prices, implying that the cash dividends per share might lead to an increase in the closing price of the firm's stock.

The finding was also in agreement with Ogundipe (2011) who studied the determinants of corporate retained earnings in Nigeria (2000 – 2005). The study found that retained earnings have a significant negative effect on firm size, net working capital, return on asset and bank with growth opportunities, leverage, inventories, account receivables and financial distress.

Summary of Findings

The summary of the findings of this study includes the following:

1. Statutory reserve has a significant effect on the Non-current liability of deposit money banks in Nigeria.
2. Regulatory risk reserve has a significant effect on the Non-current liability of deposit money banks in Nigeria.
3. Retained earnings have a significant effect on the Non-current liability of deposit money banks in Nigeria.

5.0 Conclusion and Recommendations

Conclusion

The study concludes that the log of retained earnings and non-current liabilities are integrated of order one or stationary at first difference while the logs of statutory reserve and regulatory risk reserve are all integrated of order zero or stationary at first difference. It was also concluded that a significant relationship exists between statutory reserve, regulatory risk reserve and retained earnings and the Non-current liability of deposit money banks.

Recommendations

As a result of the findings of this study, the following are recommended.

1. Deposit money banks in Nigeria should ensure their statutory reserve is always maintained to enable them to have adequate liquidity to meet up with shareholders' demands.

2. Need for regulators like the CBN not to increase the regulatory risk reserves of quoted commercial banks in Nigeria for effective regulatory capital management.
3. It is finally recommended that deposit money banks in Nigeria should enact a policy or policies whereby a high percentage of net profit is retained in the business. This is to ensure improved performance.

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