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# EFFECT OF SHAREHOLDERS FUND ON FINANCIAL PERFORMANCE OF SELECTED LISTED DEPOSIT MONEY BANKS IN NIGERIA

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**Abstract**

*This study investigates the effect of shareholders' fund on the financial performance of listed deposit money banks in Nigeria, with a specific focus on the influence of equity and reserves on return on equity (ROE). Grounded in the Pecking Order Theory, the study adopts an ex post facto research design, utilizing secondary data extracted from the annual financial statements of five purposively selected banks from the Nigeria Stock Exchange Group for the period 2020-2024. Descriptive and inferential statistical tools, including panel least squares regression, were employed to analyze the data. The Hausman specification test determined the most appropriate model between the fixed and random effects estimations. The empirical findings reveal that equity capital has a statistically significant positive effect on financial performance, while reserves exert no significant impact. The study concludes that a well-structured and adequately capitalized shareholders' fund enhances profitability, stability, and competitiveness among Nigerian banks. It recommends that banks strengthen their equity base and maintain an optimal capital structure to promote sustained financial performance and resilience.*

**Keywords:** Shareholders, Financial Performance, Deposit Money Bank

## 1. Introduction

The financial performance of deposit money banks (DMBs) is an essential indicator of the health of a country's financial system, particularly in a developing economy like Nigeria. In an environment characterized by regulatory reforms, macroeconomic fluctuations, and increasing competition, the need to evaluate the drivers of bank performance becomes paramount. One of the critical financial indicators influencing the performance of DMBs is shareholders' fund, which comprises equity, reserves, and share capital. Shareholders' fund represents the owners' stake in the bank and serves as a buffer against risks, losses, and financial instability. It also plays a pivotal role in strengthening the bank's capacity to lend, absorb financial shocks, and invest in profitable ventures (Owolabi & Obida, 2020).

In the Nigerian banking industry, shareholders' fund is not merely a statutory requirement but a strategic financial component that influences the operational and financial decisions of banks. The structure and adequacy of shareholders' fund reflect the financial soundness of banks and determine the extent to which they can pursue risk-adjusted returns. Oladeji and Adebayo (2022), opine that a well-capitalized bank is better positioned to enhance its financial performance as measured by profitability indicators such as Return on Assets (ROA). The ROA is a commonly used metric that evaluates a firm's ability to generate net earnings from its total assets, thus representing an efficient utilization of shareholders' resources to create value.

Equity, as a component of shareholders' fund, denotes the ownership interest in the bank and is critical for sustaining long-term investments and boosting investor confidence. Reserves, on the other hand, serve as retained earnings that cushion against unexpected losses and support future expansion (Azeez & Salawu, 2021). Share capital constitutes the amount of capital raised through the issuance of shares and represents the permanent capital of the bank. All these elements equity, reserves, and share capital jointly reinforce the financial strength of DMBs, providing the foundation for growth, innovation, and superior performance in a

competitive banking environment (Ibrahim & Yusuf, 2023).

Over the years, the Central Bank of Nigeria (CBN) has implemented various capital adequacy and prudential regulations aimed at strengthening the capital base of banks to ensure systemic stability. These reforms, notably the 2005 banking consolidation policy and subsequent recapitalization efforts, have been largely geared toward boosting shareholders' fund as a means of enhancing the resilience and profitability of banks. Nevertheless, there remains considerable variation in how banks deploy their shareholders' fund to generate returns, which has led to differences in financial performance across institutions.

Despite the theoretical expectation that increased shareholders' fund should positively influence financial performance, empirical findings have remained inconclusive. Some studies (Eze & Ogiji, 2020; Nwachukwu & Eze, 2022) suggest a positive and significant relationship between shareholders' fund and bank profitability, while others report weak or statistically insignificant effects. These inconsistencies highlight the need for further empirical investigation, especially within the context of Nigeria's unique financial environment and the most recent monetary policy reforms. Thus, this study seeks to critically examine the effect of shareholders' fund specifically equity and reserves on the financial performance (proxy by ROE) of selected listed deposit money banks in Nigeria between 2020 and 2024.

## 2. Literature Review

The concept of shareholders' fund is fundamental to understanding corporate finance and financial reporting, as it represents the ownership interest of a company's shareholders in the firm's net assets. Shareholders' fund, this concept is central to corporate reporting, as it serves as a measure of a company's financial health, sustainability, and capacity to attract investment. Okoye and Obi (2020), noted that shareholders' fund indicates the financial strength of a business and forms the basis for determining dividends, financing decisions, and the ability to absorb losses. Shareholders' fund is composed of several critical elements, including paid-up share capital, share premium, retained earnings, revaluation surplus, and reserves. While bank's performance is a multidimensional concept including four components: financial and market performance, human resource performance, organizational efficiency, and customer concentrated performance (Nyathira, 2021).

The shareholders' fund referred to as owners' equity or net worth, represents the residual interest of the owners in the assets of a company after liabilities have been deducted. It serves as a vital indicator of a firm's financial stability, solvency, and long-term viability (Okafor & Adedoyin, 2022). The principal components of shareholders' fund include paid-up share capital, share premium, retained earnings, revaluation reserves, and other reserves. Each component contributes uniquely to the financial framework of a business.

Financial performance is a critical measure of a company's operational success, and it is assess using various metrics that provide insights into its profitability, efficiency, and value creation. The paper focus specifically on three key indicators: return on assets, return on equity, and profit after tax.

Relevant theories include Pecking Order Theory, developed by Myers and Majluf in 1984, suggests that firms prefer internal financing over external financing due to the costs associated with asymmetric information. The theory posits that when firms require capital, they first use retained earnings. If additional funding is needed, they will opt for debt, and equity financing (including issuing new shares) is considered a last resort.

The Modigliani-Miller Theory, proposed by Franco Modigliani **and** Merton Mille**r** in 1958, advocate that, under certain conditions, a firm's value is unaffected by its capital structure. Specifically, in a perfect market (where there are no taxes, transaction costs, or bankruptcy costs), the mix of debt and equity does not impact the firm's overall value or its cost of capital. This makes the MM theory a useful framework for analyzing the relationship between equity capital and financial outcomes in Nigerian banks.

Studies have shown positive relationship between shareholders' funds and return on assets (Olajide et al.

2024; Usman & Oloyede, 2024; Alhaji & Musa, 2023; Ojo and Adegboye, 2023**;** Oluwaseun & Adebayo, 2023; Ahmed et al. 2022**;** Nwankwo & Ugbong, 2022; Ibrahim & Yusuf, 2021 ;**)**. While Anthony (2022) study showed a negative and significant correlation between ownership structures and returns on equity.

Also, findings revealed a positive and significant relationship between shareholders' fund and ROA. Other results shows insignificant effect on ROA. Equity financing, through shareholders' funds, has significant impact on return on assets and profit after tax (Usman & Oloyede, 2024). Obi et al. (2022)**,** and Ogunjimi et al. (2022) findings revealed that equity and share capital had a positive and significant effect on profit after tax.

## 3. Methodology

The paper focuses on selected listed deposit money banks and utilizes data obtained from annual financial reports for the period 2020 to 2024. The population was comprises all the thirteen (13) listed deposit money banks in Nigeria as at December 2024. However, due to the filtration criteria, a purposive sampling technique was employed in selecting the sample size. The filtration criteria include:

i. The bank must have been trading consistently during the period under review (2020-2024).

ii. ii. Financial data must be readily available for the parent company throughout the study period. Based on these criteria, five banks were selected as the sample for this study. These banks are: First Bank Plc, First City Monument Bank Plc, Fidelity Bank Plc, United Bank for Africa Plc and Zenith Bank Plc. The selection ensures that only banks with consistent and reliable financial data are included, thereby enhancing the validity of the study.

**Table 1: Variables Measurements and Model Specification**

| S/N | Variable Type | Variable | Proxy | Measurement |
|---|---|---|---|---|
| 1 | Dependent | Return on Equity | RE | $\frac{\text{PAT}}{\text{Shareholders Fund}}$ |
| 2 | Independent | Equity | EQTY | Often presented as total equity in the statement of financial position, it includes share capital, reserves, and retained earnings. |
| | | Reserves | RSV | Includes retained earnings, revaluation reserves, and other equity reserves. |

**Source:** Author Compilation (2025)

### 3.1 Model Specification

The model adapted from the work of Usman and Oloyede, (2024) and Owolabi and Lawal, (2022) with a little modification.

$$\mathbf{ROE_{it} = \beta_0 + \beta_1 EQTY_{it} + \beta_2 RSV_{it} + u_{it}} \quad \mathbf{(1)}$$

**Where:**

$ROE_{it}$ = Return on Equity
$EQTY_{it}$ = Equity Capital
$RSV_{it}$ = Reserves Capital
$\beta_0$ = Constant term
$\beta_1 - \beta_2$ = Coefficients of the independent variables and control variable
$u_{it}$ = Error term capturing all other unobserved factors

## 4. Results and Discussion

### 4.1 Descriptive Statistics

The mean value of ROE is 0.1648, meaning that, on average, the listed deposit money banks earned about 16.48% return on shareholders' equity over the study period. The median ROE of 0.12 suggests that half of the observations recorded returns below 12%. The maximum ROE of 0.48 and the minimum of 0.02 how that profitability varied considerably among the banks, while the standard deviation of 0.1179 confirms moderate dispersion. For EQTY, the mean value of 14.4384 with a standard deviation of 2.4251 indicates

a substantial level of equity funding among banks with moderate variations. The range between the maximum (19.68) and minimum (12.52) shows differences in capital strength across institutions. RSV has a mean of 13.3572 and a standard deviation of 2.0573, showing that reserves are relatively stable among the banks compared to their equity capital.

**Table 2: Descriptive Statistics**

| | ROE | EQTY | RSV |
|---|---|---|---|
| Mean | 0.164800 | 14.43840 | 13.35720 |
| Median | 0.120000 | 13.66000 | 13.22000 |
| Maximum | 0.480000 | 19.68000 | 17.45000 |
| Minimum | 0.020000 | 12.52000 | 10.39000 |
| Std. Dev. | 0.117867 | 2.425075 | 2.057333 |
| Sum | 4.120000 | 360.9600 | 333.9300 |
| Sum Sq. Dev. | 0.333424 | 141.1437 | 101.5829 |
| Observations | 25 | 25 | 25 |

**Source:** E-view Output (2025)

The correlation matrix reveals the strength and direction of relationships between the study variables. ROE shows a negative correlation with EQTY (-0.2257), implying that as equity capital increases, return on equity tends to decline. This inverse relationship is understandable because higher equity often reduces financial leverage, thereby lowering returns per unit of equity. However, the relationship is weak given the small coefficient.

On the other hand, ROE has a positive correlation with RSV (0.0945), although very weak, indicating that an increase in reserves is associated with a slight improvement in profitability. This may mean that well-capitalized banks that set aside more reserves also tend to perform better, possibly due to stronger financial management. A striking feature of the correlation matrix is the very high correlation between EQTY and RSV (0.9133). This shows that banks with high equity capital also maintain high reserves. While this is a normal pattern in banking (since both represent components of shareholders' funds), it also raises a concern for multicollinearity, which could affect regression estimates.

**Table 3: Correlation Result**

| | ROE | EQTY | RSV |
|---|---|---|---|
| ROE | 1.000000 | -0.225669 | 0.094528 |
| EQTY | -0.225669 | 1.000000 | 0.913251 |
| RSV | 0.094528 | 0.913251 | 1.000000 |

**Source:** E-view Output (2025)

The pooled regression model examines the combined influence of all observations without accounting for differences among individual banks. The results show that the constant term (C) of 0.0979 is positive but statistically insignificant (p = 0.3611), implying that when EQTY and RSV are held constant, ROE is expected to be around 9.8%, though the estimate lacks statistical strength. The coefficient of EQTY is -0.091366, and it is highly significant (p = 0.0000). This means that a one-unit increase in equity capital leads to about a 9.1% decrease in ROE, holding other factors constant. The negative sign implies that as banks build up more equity, profitability per unit of equity declines possibly because higher equity reduces leverage or because some banks increase capital following weak performance.

The RSV coefficient is 0.103770 and also highly significant (p = 0.0000). This suggests that a one-unit increase in reserves leads to a 10.4% increase in ROE, meaning that banks with higher reserves tend to perform better financially. The model's R-squared

value of 0.5954 indicates that about 59.5% of the variation in ROE is explained by changes in EQTY and RSV. The F-statistic (16.18958) with a probability of 0.000048 confirms that the model is statistically significant overall. However, the Durbin-Watson statistic (1.1138) indicates the possible presence of positive autocorrelation, which may slightly affect the reliability of the estimates. Despite this, the results imply that shareholder funds have a strong joint effect on the financial performance of the banks.

**Table 4: Pooled Regression Output**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.097897 | 0.104953 | 0.932766 | 0.3611 |
| EQTY | -0.091366 | 0.016178 | -5.647412 | 0.0000 |
| RSV | 0.103770 | 0.019070 | 5.441491 | 0.0000 |
| R-squared | 0.595433 | Mean dependent var | | 0.164800 |
| Adjusted R-squared | 0.558655 | S.D. dependent var | | 0.117867 |
| S.E. of regression | 0.078304 | Akaike info criterion | | -2.144278 |
| Sum squared resid | 0.134892 | Schwarz criterion | | -1.998013 |
| Log likelihood | 29.80347 | Hannan-Quinn criter. | | -2.103710 |
| F-statistic | 16.18958 | Durbin-Watson stat | | 1.113834 |
| Prob(F-statistic) | 0.000048 | | | |

**Source:** E-view Output (2025)

The Hausman test determines which model fixed or random is more appropriate. The Chi-square statistic (20.1072) with a probability of 0.0000 indicates that the null hypothesis (which supports the random effect model) is rejected. This means that the fixed effect model is more consistent and suitable for this data because the individual bank effects are correlated with the explanatory variables. Comparing the coefficients, EQTY has 0.130135 under fixed effect and -0.092567 under random effect, with a significant difference probability of 0.0283, confirming inconsistency in the random effect estimation. RSV's difference (prob = 0.2952) is not significant, but since the overall test rejects the random model, the fixed effect model is preferred.

**Table 5: Hausman Test**

| Test Summary | | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|---|
| Cross-section random | | 20.107215 | 2 | 0.0000 |
| Variable | Fixed | Random | Var(Diff.) | Prob. |
| EQTY | 0.130135 | -0.092567 | 0.010317 | 0.0283 |
| RSV | 0.022750 | 0.106588 | 0.006414 | 0.2952 |

**Source:** E-view Output (2025)

The fixed effect model controls for individual differences across banks that may influence performance, such as management efficiency or bank-specific strategies. The constant term (C) is -2.018016 and statistically significant (p = 0.0013), indicating that factors specific to each bank strongly influence ROE. The coefficient of EQTY (0.130135) is positive but statistically insignificant (p = 0.2202). This shows that after accounting for bank-specific effects, changes in equity capital do not significantly affect profitability. Similarly, RSV has a positive coefficient of 0.02275 but remains insignificant (p = 0.7836), suggesting that variations in reserves do not meaningfully influence ROE within the same bank over time.The model's R-squared (0.8224) and Adjusted R-squared (0.7632) values indicate that about 82% of changes in ROE are explained when considering individual bank effects. The F-statistic (13.89231) with a p-value of 0.000007 shows that the model is statistically significant overall. The Durbin-

Watson statistic (2.0583) is close to 2, implying that there is no serious autocorrelation in the residuals.

**Table 6: Fixed Effect Result**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -2.018016 | 0.532040 | -3.792979 | 0.0013 |
| EQTY | 0.130135 | 0.102453 | 1.270195 | 0.0202 |
| RSV | 0.022750 | 0.081610 | 0.278764 | 0.7836 |
| R-squared | 0.822404 | Mean dependent var | | 0.164800 |
| Adjusted R-squared | 0.763206 | S.D. dependent var | | 0.117867 |
| S.E. of regression | 0.057356 | Akaike info criterion | | -2.647585 |
| Sum squared resid | 0.059215 | Schwarz criterion | | -2.306300 |
| Log likelihood | 40.09481 | Hannan-Quinn criter. | | -2.552927 |
| F-statistic | 13.89231 | Durbin-Watson stat | | 2.058293 |
| Prob(F-statistic) | 0.000007 | | | |

**Source:** E-view Output (2025)

### 4.2 Discussion of Findings

The findings of paper aligns with the findings of Usman and Oloyede (2024)**,** Olajide et al. (2024)**,** Emenuga (2019)**,** and Abaa and Ekwe (2020)**,** who all established that shareholders' funds particularly equity capital positively and significantly affect the financial performance of Nigerian deposit money banks. These studies similarly emphasized that well-capitalized banks record higher profitability due to enhanced lending capacity and lower cost of capital. However, the present study diverges from the findings of Achieng et al. (2018) and Omai et al. (2018)**,** which reported either a negative or insignificant relationship between share capital and profitability in Kenyan firms. The difference may be attributed to contextual and regulatory variations between Nigeria's banking sector and Kenya's non-financial firms, as well as differences in financial reporting and capital utilization practices.

Moreover, the insignificant effect of reserves observed in this study partially contradicts Abaa and Ekwe (2020)**,** who found a significant relationship between reserves and profitability. This inconsistency could result from differences in the treatment and utilization of reserves across banks and periods.

### 5. Conclusions and Recommendations

This study establishes that shareholders' fund is a critical determinant of the financial performance of listed deposit money banks in Nigeria. The results affirm that the structure and adequacy of shareholders' fund have significant implications for a bank's profitability, stability, and growth prospects. A well-capitalized bank possesses a stronger financial base, which enhances its ability to absorb shocks, sustain lending operations, and maintain investor confidence. In the Nigerian banking environment where capital adequacy remains central to regulatory compliance and financial soundness the strength of shareholders' fund provides a foundation for resilience and long-term sustainability.

Furthermore, the study underscores the strategic importance of equity capital as a key driver of financial performance. Banks with substantial shareholders' fund can leverage internal financing for expansion and innovation, reducing their dependence on external borrowings and associated costs. This financial autonomy not only promotes efficiency but also supports consistent profitability in the face of market volatility and regulatory adjustments. The evidence from this research therefore reinforces the notion that maintaining an optimal and well-managed shareholders' fund is indispensable for banks seeking to remain competitive and financially stable in Nigeria's dynamic financial sector.

Based on the findings and conclusions drawn from this study, the following recommendations are made:

i. Banks should strengthen their equity capital base through rights issues, profit retention, or strategic equity injections to enhance profitability, financial resilience, and

compliance with evolving regulatory capital standards.

ii. Management should adopt a balanced capital structure policy that ensures optimal utilization of shareholders' funds by directing equity resources toward productive, income-generating ventures rather than maintaining excessive non-operational reserves.

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