

## GROWTH INDICES AND MARKET CAPITALIZATION OF DEPOSIT MONEY BANKS IN NIGERIA

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### ABSTRACT

The study examined the association between growth indices and market capitalization of deposit money banks (DMBs) in Nigeria. The specific objectives of the study is to ascertain the relationship amid total deposit growth, total asset growth, liquidity, profit growth and share price of DMBs in Nigeria. The study period spanned 10 years (2013-2022) and purposively sampled 8 out of the 23 DMBs. Spearman's Rank Order covariance technique was used to test the hypotheses. Results revealed that both total deposit growth and total asset growth exerted weak and positive relationships with share prices (correlation coefficients (cc): 0.2031 and 0.1366 respectively), while profit growth exerted a weak but negative relationship with share prices (cc: -0.1792). It portrayed the existence of diverse factors influencing share price movements. However, share prices are also affected by investors' sentiments, macro trends, and so on. Unexpectedly, a weak negative association between profit growth and share price showed that profit growth alone does not guarantee higher share prices. Share prices react to such factors as macro conditions, financial health, sentiment and investor expectations. That is, while growth indices play a key role, other variables significantly influence the outcomes. It advised DMBs to prioritize maintaining deposit growth while diversifying efforts to enhance other financial aspects such as comprehensive financial management.

**Keywords:** Growth indices, outstanding shares, Profits, DMBs.

### 1. INTRODUCTION

The capital market (CM) exerts a crucial role in the economic growth of nations. It serves as a dais where businesses, governments and so on can access long-term funds through securities. Nwude (2004) and Abere et al (2021) highlighted that CM, which consists of both stock and bond markets, is vital for facilitating economic growth via directing resources to productive ventures. This market provides opportunities for wealth transfer, risk-sharing, and

accumulation of funds, all enhancing the long-term stability cum development of the nation's economy. In Nigeria, deposit money banks rely heavily on shares as a significant source of long-term capital within this market. However, the prices of these shares fluctuate based on various factors, including government policies, competitive strategies, and financial performance indicators, as noted by Inyiama and Ozouli (2014).

Investors are fascinated with opportunities that promise favorable returns, making fluctuations in stock prices of paramount relevance (Benedick & Jibrin, 2024). Umar and Musa (2013) emphasized that same stock prices serve as reflections of general public and experts' perception of the companies' values and prospects thereby influencing investment and other decisions. Similarly, the study by Wang et al. (2013) accentuated the diverse factors that affect stock prices, ranging from financial policies, market expectations to specific growth indicators such as total assets, customer deposits, and the number of bank branches. These growth indicators help shape investor perceptions and play a vital role in the performance of the bank's shares. Despite numerous studies on the factors influencing stock prices, there remains a gap in the literature regarding the specific growth indices that impact share prices within the Nigerian banking sector, which this study aims to address.

The share prices of these publicly traded firms accurately measures their financial health and future prospects. A high share price is often associated with positive investor perception, indicating that the company has strong potential for future profitability (Dinh & Thi, 2025). This, in turn, can influence management decisions and compensation. The determination of share price has been widely debated, with many scholars suggesting that financial performance indicators, such as earning histories and price-to-earnings ratios, play a crucial role in shaping stock prices. However, solely relying on financial performance to evaluate the share price movement of DMBs in Nigeria can be misleading, as other factors may also play a significant role in influencing market prices.

*The research seeks to evaluate the growth indices that influence the value of ordinary shares of these DMBs.* Specifically, the study aims to assess the relationship between asset growth, deposit growth, the growth in the number of branches, and share prices. By examining these growth indicators, the study intends to offer a more comprehensive understanding of the various factors that drive share price movements in the Nigerian banking sector. This understanding could provide valuable insights for investors, analysts, and bank management, helping them make more informed decisions regarding investments, financial strategies, and market outlook. It is important to note that these growth indicators may reflect the financial strength and stability of the banks, as well as their potential for future profitability. By exploring these relationships, the study seeks to contribute to the body of knowledge on share price determinants in the sector and offer insights that can help stakeholders better understand the drivers of stock market performance. It is presumed to provide a deeper understanding of the factors beyond financial performance that influence share price movements, thereby

contributing to better investment decision-making and a clearer understanding of the sector's stock market dynamics.

## **2. REVIEW OF RELATED LITERATURE**

### **2.1 Conceptual Review**

#### **2.1.1 Growth**

Firm growth, as outlined by Pass, et al. (2005) and Vukovic et al. (2022) involves the progressive enlargement of a company's scale over time, including varied elements such as higher turnover, increased capital investment, augmented profits, and a larger workforce. In the same vein, Kouser, et al. (2012) characterize firm growth as embracing multiple dimensions such as asset growth, revenue expansion, heightened profitability, workforce expansion, improved share value, growth via product innovation, mergers or acquisitions and business extension. A firm's growth is mostly influenced by many factors and conditions. A critical determinant is the competency and efficiency of its managers in strategic decision-making cum implementation. Effective and forward-thinking leadership plays a crucial role in steering a company's growth trajectory. Further, a firm's financial resources and ability to access capital are pivotal in driving expansion initiatives. Sufficient investment in research and development, coupled with a focus on innovation, empowers companies to remain competitive and stimulate growth. Moreover, the sector and geographical location in which a firm operates also shape its growth potential, as various industries and regions present distinct opportunities and challenges.

#### **2.1.2 Total Deposits Growth**

Bank deposits are money placed into a deposit account at a banking institution, such as savings accounts, checking accounts and money market accounts. Deposit mobilization is one of the most important tasks of deposit money banks. It is the bank's main source of working capital. Deposit mobilization is a critical component that allows deposit money banks to efficiently serve their objectives. Deposit growth refers to the year-over-year change of the commercial bank's deposits. Nigerian Banks grew their deposits by 11.5% in the first 9 months of 2021 as competition to grow deposits intensified. Data from Nairalytics Research show total customer deposits held in ten of Nigeria's largest banks topped N34. 4 trillion in the first 9 months of 2021 about N3.55 trillion higher than what was reported at the end of 2020 (Nairametrics, 2021). Nigerian banks have deployed mobile technology, agency banking, business strategies and other traditional forms of marketing in driving deposits. Competition has been intense with the advent of challenger banks offering zero or next to nothing in charge to migrate. All 10 banks now have deposits of over N1 trillion.

#### **2.1.3 Total Asset Growth**

Asset growth refers to the increase in the total value of a bank's assets over a specific period (Altunbaş et al., 2011; Nweze, 2024). Banks aim for asset growth to expand their lending activities, generate interest income, and increase their market presence. It can be driven by

both organic and inorganic means, where organic growth involves internal activities, and inorganic growth involves mergers, acquisitions, or strategic partnerships (Evanoff & Fortier, 2013). Managing asset growth is crucial for banks to maintain a healthy balance sheet and mitigate risks. Excessive asset growth without adequate risk assessment and underwriting practices can lead to a higher proportion of non-performing loans and negatively impact the bank's profitability and stability. Regulators closely monitor asset growth to assess banks' risk profiles and compliance with prudential regulations (Demirgüç-Kunt & Huizinga, 2010).

#### **2.1.4 Profit Growth**

Profit growth is a key metric that reflects a company's ability to increase its profitability over time. It is an important indicator of financial performance and can be analyzed to assess a company's operational efficiency, revenue generation, and cost management strategies. Profit growth demonstrates the company's success in generating higher earnings and creating value for shareholders. It is often a result of factors such as revenue growth, improved margins, effective cost controls, and operational efficiencies. By achieving sustainable profit growth, companies can enhance their financial stability, reinvest in their business, and provide returns to shareholders. Research has shown the significance of profit growth in driving shareholder value and sustainable business growth. For example, a study by Dimovski et al (2015) examined the relationship between profit growth and shareholder wealth in Australian firms. The findings revealed a positive and significant association between profit growth and market value, indicating that higher profit growth contributes to increased shareholder value. Further, a study by Cheng et al. (2016) investigated the factors influencing profit growth in Chinese listed companies. It underscored the importance of effective and effective revenue generation, cost management and strategic investments in driving growth of profits.

#### **2.1.5 Share Price**

A share price is the price of a single share of a firm's stock. Share prices of listed company are determined by market supply and demand. It is volatile because it mostly depends upon the expectations and sentiments of investors (buyers and sellers). For this study, share price refers to the price of each firm's stock as at December 31, 2025. It has been proven that share price is directly related to earnings of firms cum dividends declared by same firm in the long run. However, when viewed over short periods, the relationship between share price, earnings, and dividends could be irrational. Given that a firm should strive to maximize the value of its share price, the success of management decisions can only be evaluated in this light. Stock prices have direct effect on managerial efficiency which is one of the signals of firm performance. Share investors desire to earn money that is normally higher than the return from a bank deposit (Gao et al., 2022).

### **2.2 Theoretical Framework**

The study is based on two key financial theories: the Efficient Market Hypothesis (EMH) and the Dividend Discount Model (DDM). The Efficient Market Hypothesis, proposed by

Professor Eugene Fama, suggested that financial markets, including stock markets, are efficient and reflect all available information in the prices of securities. In the context of Nigerian deposit money banks, this theory suggests that growth indices like profitability, asset quality, capital adequacy, and liquidity would already be reflected in the market prices of bank shares. Any changes in these indices would quickly adjust the value of the shares in the market.

Using the EMH as a framework, the study examines whether the Nigerian stock market efficiently incorporates information about growth indices in the valuation of bank shares. Researchers can explore how the market reacts to changes in factors such as profitability or asset quality and determine how swiftly these factors are reflected in share prices. However, EMH has faced criticism, with some arguing that market inefficiencies, behavioral biases, and information asymmetry can prevent markets from being perfectly efficient. Thus, the study must also consider alternative theories to provide a more complete understanding (Hamza and Muhammad, 2016; Ehiedu & Obi, 2022).

In addition to EMH, the Dividend Discount Model (DDM) is also used to anchor the study. The DDM is a valuation method based on the idea that the value of a stock is the present value of its expected future dividends. This model, developed through contributions from economists like Irving Fisher and Myron J. Gordon, helps analysts determine the worth of a stock by assessing its ability to pay dividends in the future. For the Nigerian banking sector, this means evaluating how growth indices (such as capital adequacy and profitability) affect a bank's future dividend payments and, consequently, its stock price.

With the DDM, the study aims to assess how growth indices impact the value of ordinary shares in Nigerian banks. If a bank's growth indices are strong, it may be able to generate higher future profits and pay larger dividends, increasing its share value. By anchoring the study in this model, researchers can estimate the relationship between these indices and the future dividends that investors expect, providing deeper insights into the factors that influence the valuation of bank shares in Nigeria.

### **2.3 Empirical Review**

Several studies have looked at how different factors affect the share price of banks and companies. Silwal and Napit (2019) studied commercial banks in Nepal using 10 years of data. They found that book value per share, price-earnings ratio, and return on equity all had a positive relationship with stock prices. Similarly, Darami et al (2022) examined banks listed on the Malaysian Stock Exchange from 2011 to 2020. They found that earnings per share, dividend payout ratio, dividend yield, and bank size positively and significantly affected share prices. Mukhtar and others (2022) checked manufacturing companies in Indonesia and found that return on investment and debt-to-equity ratio both had a positive effect on stock prices, while earnings per share had a negative but not significant effect. Magdalena and others

(2023) studied mining companies in Indonesia and found that company profits and book value equity had a positive effect on share prices, but operating cash flow had no significant effect.

Looking at asset growth, Thomas and Ilat (2021) investigated financial sector companies in Indonesia and found that asset growth had a significant effect on stock prices, but debt solvency did not. Haque (2021) studied international equity markets and discovered that the link between asset growth and stock returns was more due to smart investment decisions rather than mistakes or mispricing. In Nigeria, Chucks and others (2021) looked at banks and found that earnings per share had a positive but not significant relationship with market share price. Overall, the studies suggest that asset growth often affects stock prices, although other factors like debt may not always be important.

As regards profit growth, Yussof et al (2020) looked at government-linked firms in Malaysia between 2013 and 2017. Their study showed that dividend per share, price-earnings ratio, and acid test ratio were all positively and significantly related to share prices. Wulandari (2020) focused on consumer goods companies in Indonesia and found that while net profit margin and earnings per share did not affect stock prices, dividend per share had a positive and significant effect. These studies show that while profit indicators are important, not all profit measures directly influence share prices.

Another study by Ningsih and others (2022) analyzed food and beverage companies in Indonesia. They found that the debt-to-equity ratio had a significant effect on stock prices, and earnings per share also influenced stock prices. This means that a company's debt levels and its profits per share are important in determining how its shares perform in the market. Companies that manage their debt well and maintain strong earnings tend to have better stock prices. Salim and Pardiman (2022) also studied Indonesian manufacturing firms. They looked at how dividend policies might mediate the effect of earnings per share, debt-equity ratio, and price-book value on stock prices. Their study found that dividend performance itself did not affect stock prices. However, earnings per share and debt-equity ratio did have a direct effect on stock prices. This suggests that while paying dividends is good, investors pay more attention to company profits and debt levels when valuing stocks.

Numerous studies have delved into the factors that exert influence on the share price of listed companies across different countries, encompassing economies ranging from developing to emerging and developed. These investigations have explored a wide array of factors, including both industry-specific and firm-specific variables, in order to understand the determinants of share prices in the context of listed banks. Additionally, internal factors such as asset growth, deposit growth, and the expansion of branch networks have been examined as potential drivers of share price variations. Furthermore, certain studies have focused specifically on the impact of dividend payouts on the share price of listed firms in diverse countries. Consequently, the present study aims to bridge existing knowledge gaps by

assessing the relationship between asset growth, deposit growth, and growth of share prices of deposit money banks in Nigeria.

### 3. METHODOLOGY

The study used an ex-post facto research design because it worked with already existing data from audited annual reports of Nigerian banks. It focused on the banking sector in Nigeria, looking at how growth indicators affect the value of ordinary shares. Data were collected from these annual reports of sampled banks. The study population included all 24 banks listed on the Nigerian Exchange Group as 31 December 2024. A purposive sampling method was used to select eight (8) major banks for the study, including Access Bank, FCMB, First Bank, Zenith Bank, GT Bank, Sterling Bank, Union Bank, and UBA. These banks were chosen because they are active on the stock exchange and consistently released their audited annual reports.

#### *Model Specification*

The study employed a correlation model to ascertain the relationship between growth indices and the value of ordinary shares, otherwise, market capitalization of DMBs in Nigeria. The correlation model was specified as follows:

$$r_{xy} = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum(x_i - \bar{x})^2 \sum(y_i - \bar{y})^2}}$$

Where:

$r_{xy}$  is the correlation coefficient of the linear relationship between the variables x and y

$x_i$  is the value of the x-variable in the sample

$\bar{x}$  is the mean of the values of the x-variable

$y_i$  is the value of the y-variable in the sample

$\bar{y}$  is the mean of the values of the y-variable

x represents Share Price

y represents other variables (Total Deposit Growth, Total Asset Growth, & Profit Growth) taken separately in each case.

**Decision Rule:** The decision rule regarding the correlation coefficient (r) is as follows:

- i. If the calculated correlation coefficient (r) is greater than 0.7, the Null Hypothesis is rejected.
- ii. If the calculated correlation coefficient (r) is less than 0.7, the Null Hypothesis is accepted.

#### *Description of Variable*

The variables, herein, are classified into dependent and independent variables for the purpose of data analysis. The dependent variable is the total share price, which represents the value of

the ordinary shares of the banks being studied. The independent variables include total deposit growth, total asset growth, and profit growth.

**Table 3.1: Description of Variables**

Short Form	Variable Name	Variable Type	Definition and Measurement	Sources
SP	Share Price	Dependent	The share price is the variable of interest and serves as the dependent variable because it is influenced by various factors and is expected to be affected by changes in the independent variables.	OECD, (2023)
TAG	Total Asset Growth	Independent	Asset growth measures the increase in the total assets of the banks over a specified period, indicating the expansion of their financial resources. The formula for calculating asset growth is:  $\text{Asset Growth} = (\text{Current Year's Total Assets} - \text{Previous Year's Total Assets}) / \text{Previous Year's Total Assets}$	Schneider & Enste, (2000)
TDPG	Total Deposit Growth	Independent	Deposit Growth: Deposit growth captures the growth in customer deposits, which signifies the banks' ability to attract and retain funds from depositors. The formula for calculating deposit growth is:  $\text{Deposit Growth} = (\text{Current Year's Deposits} - \text{Previous Year's Deposits}) / \text{Previous Year's Deposits}$	Schneider & Enste, (2000)
PFTG	Profit Growth	Independent	Profit growth indicates the growth in profitability, reflecting the banks' ability to generate earnings over time. The formula for calculating profit growth is:  $\text{Profit Growth} = (\text{Current Year's Net Profit} - \text{Previous Year's Net Profit}) / \text{Previous Year's Net Profit}$	Mazhar & Méon, (2017)

Source: Researchers' Arrangement, 2025

#### 4. DATA ANALYSIS

*Table 4.1 Descriptive Statistics*

	SP	TDPG	TAG	PFTG
Mean	10.54288	15.18633	14.71464	0.305983
Median	7.650000	0.152184	0.161581	0.087948
Maximum	40.75000	1202.563	1164.729	5.992961
Minimum	0.760000	-0.099178	-0.085102	-0.964449
Std. Dev.	9.354714	134.4333	130.2031	0.884352
Skewness	1.244474	8.775674	8.775676	4.062147
Kurtosis	3.638990	78.01252	78.01255	24.14268
Jarque-Bera	22.01058	19783.10	19783.11	1710.057
Probability	0.000017	0.000000	0.000000	0.000000
Sum	843.4300	1214.906	1177.171	24.47861
Sum Sq. Dev.	6913.343	1427712.	1339275.	61.78414
Observations	80	80	80	80

Source: E-views 10 software

Table 4.1 above reveals the variable description of the 80 observations of the panel data for the sampled DMBs in Nigeria. The normality of the distribution of the data series is judged by the outcome of the coefficients of Skewness (positively skewed), Kurtosis (leptokurtic), and Jarque-Bera Probability. From the table above, the probability of the Jarque-Bera Statistics for all the variables (focal and explanatory) have a significant p-values as follows share price (0.000017), deposits growth (0.000000), total assets growth (0.000000), and profit growth (0.000000). The significance of p-values depicts a non-normal distribution for all the variables. This was further confirmed by the skewness coefficients which are greater than one in all the variables share price (1.244474), deposits growth (8.775674), total assets growth (8.775676), and profit growth (4.062147). The kurtosis coefficient provides a second level of confirmation that all the variables are non-normally distributed: share price (3.638990), deposits growth (78.01252), total assets growth (78.01255), and profit growth (24.14268).

*Table 4.2: Covariance Analysis Result*

	SP / TDPG	SP / TAG	SP / PFTG
<b>Correlation</b>	0.203133	0.136606	-0.179199
<b>t-Statistic</b>	1.832221	1.217887	-1.608684
<b>P-Values</b>	0.0707	0.2269	0.1117
<b>Observation</b>	80	80	80

Source: Eviews 10.0 Software

Table 4.2 above depicted the covariance results of the variables of the study. The table shows how the various independent variables of the study relate with the dependent variable. The

table depicts that there is a weak (20.3%) and positive relationship between share price and total deposit growth (SP / TDPG) with t-Statistic of 1.8322 and probability of the t-Statistic of 0.0707. Share price and total asset growth (SP / TAG) also share a positive and weak relationship (13.7%) with t-Statistic of 1.2179 and probability of the t-Statistic of 0.2269. Further, share price and profit growth (SP / PFTG) shared a weak negative relationship (17.9%) with t-Statistic of -1.6087 and probability of the t-Statistic of 0.1117.

### ***Test of Hypotheses***

$H_{01}$ : Total deposits growth does not have a strong relationship with share price of DMBs in Nigeria.

***Decision:*** The correlation coefficient in Table 4.2 is 0.203133 which is less than the benchmark of 0.7. Hence, the null hypothesis is accepted and the alternative hypothesis rejected. This implies that increase in total deposit growth results in a statistically non-significant increase in the share price of deposit money banks in Nigeria. That is, total deposit growth does not have a strong relationship with share price and cannot be used to predict the share price of Nigerian listed banks.

$H_{02}$ : Total asset growth does not have a strong relationship with share price of DMBs in Nigeria.

***Decision:*** The correlation coefficient in Table 4.2 is 0.1366 which is less than the benchmark of 0.7. Hence, the null hypothesis is accepted and the alternative hypothesis rejected. This implies that increase in total asset growth results in a statistically non-significant increase in the share price of DMBs in Nigeria. That is, total asset growth does not have a strong relationship with share price and cannot be used to predict share price in the Nigerian banking sector.

$H_0$ : Profit growth does not have a strong relationship with share price of DMBs in Nigeria.

***Decision:*** The correlation coefficient in Table 4.2 is -0.1792 which is less than the benchmark of 0.7. Hence, the null hypothesis is accepted and the alternative hypothesis rejected. This implies that an increase in profit growth results in a statistically non-significant increase in the share price of DMBs in Nigeria. That is, profit growth does not have a strong relationship with share price and cannot be used to predict share price in the Nigerian banking industry.

### ***Discussion of Findings***

It studied the connection between key growth factors and outstanding share prices of DMBs in Nigeria. It depicted that total deposit growth (TDPG) exerted a weak and positive relationship with share prices of listed banks. As deposits increase, investors tend to see it as a sign that the bank is growing and performing well. This, in turn, builds market confidence and may lead to rises in share prices. However, the weak association indicates that other factors, such as economic conditions, management decisions and market sentiment do play roles in share price movements.

Similarly, the connection between total asset growth and share prices exhibited a weak positive correlation. When a bank's total assets grow, it often signals to investors that the bank is strengthening financially and has the potential for future profitability. This positive sentiment do lead to higher share prices. However, the weak relationship indicates that other factors such as regulatory changes, macroeconomic trends and so on affect share price movements. This implied that asset growth albeit important should not be the sole focus for investors / experts when evaluating a bank's potential.

It also investigated the link between profit growth and share price. Results indicated a weak negative association. Profit growth is seen as a sign of a bank's success, which naturally leads to significant increase in share prices. Nonetheless, investors do consider various factors when making investment decisions. These include quality of profit growth (unsustainable or based on non-recurring items) and overall market conditions. Investors, most likely, are concerned about profit growth's long-term sustainability. Factors such as industry trends, economic cycles and regulatory changes may eclipse the profit growth thereby affecting investors' perception of DMBs future prospects.

Findings on profit growth contradict previous studies by Thomas and Ilat (2021) and Haque (2021) which found a positive relationship between asset growth and share price. This highlights the complexity of financial markets, where multiple variables interact and influence share price movements in ways that are not always predictable. In a nutshell, results showed that investors must consider a wide range of factors, including bank deposit and asset growths, including external market conditions, profit quality and so on.

## 5. CONCLUSION

Most organizations strive to increase their size and profits in real terms. The size and profitability of a firm signals to investors regarding the business. This study scrutinized the effect of growth indices on value of ordinary shares of DMBs in Nigeria. Theoretically, these indices are expected to be positively related to market capitalization i.e. value of outstanding share of these DMBs. A positive correlation albeit weak between total deposit growth and share price aligns with prior expectations, depicting that increased deposits are viewed favorably by investors. However, other factors influence share prices, necessitating restraint in solely attributing changes to deposit growth. A positive albeit weak association between total asset growth and share price depicts that expanded assets signal improved financial strength and significantly increased profits to investors. The later always lead to a rise in the share price. However, share prices are also affected by investors' sentiments, macro trends, and so on. Unexpectedly, a weak negative association between profit growth and share price showed that profit growth alone does not guarantee higher share prices. Share prices react to such factors as macro conditions, financial health, sentiment and investor expectations. That is,

while growth indices play a key role, other variables significantly influence the share price fluctuations.

## 6. RECOMMENDATIONS

- i. DMBs should focus on sustaining and enhancing their deposit growth strategies. However, since the relationship is not exceedingly strong, banks should also diversify their efforts to improve other aspects of their financial performance including asset quality, operational efficiency and customer satisfaction.
- ii. DMBs ought to continue pursuing growth strategies that align with the interests of investors and other relevant parties. While asset growth is a positive indicator, the weak correlation implies that other factors significantly influence share prices as well. Therefore, banks should focus on holistic corporate management including enterprise risk assessment, liquidity maintenance, and capital allocation.
- iii. DMBs must focus on delivering quality profit growth that is sustainable in the long run. This includes transparently communicating the sources of profit growth, avoiding reliance on non-recurring items, and aligning growth strategies. Additionally, they should also consider as pertinent non-financial aspects such as corporate governance, strategic direction and risk management practices.

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