

**EFFECT OF BANKS' FINANCIAL PERFORMANCE ON SHARE PRICES:  
EVIDENCE FROM NIGERIAN BANKING INDUSTRY (2004 – 2013)**

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**ABSTRACT**

The research examines the effects, magnitude, strength, causalities and cointegration of the relationships between banks' financial performance indicators and share prices in Nigeria banking sector. The research made use of secondary data obtained from annual report and accounts of the First Bank Plc, Access Bank Plc, Zenith Bank Plc and United Bank for Africa Plc from 2004 to 2013. The nature and magnitude of association between the dependent variable (MPS) and the independent variables Bank Age, Earnings Per Share (EPS) and Return on Assets (ROA) were determined using the multiple regression model. Granger causality procedure was applied to determine causalities while Johansen Cointegration test was administered to verify sustainability of the short run relationships. It was found that only EPS, amongst the other variables has both positive and significant relationship with MPS. About 33% of the variations in market price of ordinary shares could be explained by changes in earnings per share, returns on assets and the age of the banks and there is a fairly strong relationship between MPS and earnings per share (55%). There is a unidirectional granger causality running from market price to earnings per share and a bidirectional granger causality running from return on assets to earnings per share and from earnings per share to return on assets. The implication is that EPS is the major determinant of movement of market price of shares with regards to the explanatory variables under consideration. Hence, to grow the share price, banks should apply critical cost reduction strategies, aggressive marketing, and diversification strategies to improve on its net earnings which by extension, could lead to enhanced dividend pay-out.

**Keywords:** Shares, Returns, Earnings, Banks, Cointegration, Regression.