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CAPITAL SURPLUS AS A DRAIN ON SHAREHOLDER WEALTH AMONG LISTED BANKS IN NIGERIA

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ABSTRACT

In practice, many banks in Nigeria maintain capital levels that exceed what is necessary for operational safety and regulatory compliance. This excess capital often remains underutilized, held in low-yield assets, or retained without clear strategies for generating additional revenue. Hence, this study examined the effect of capital surplus on shareholder wealth among listed banks in Nigeria, with the specific objective of determining whether excess capital significantly drains investor value. The research adopted an ex post facto design, using secondary data covering a ten-year period from 2015 to 2024. The population consisted of all deposit money banks listed on the Nigerian Exchange Group as of 2024, with twelve banks selected as the final sample based on data availability. Data were collected from the banks' audited financial statements. Hypotheses were tested using panel generalized least squares estimation, with model diagnostics conducted to account for cross-sectional dependence and panel heteroskedasticity. The finding revealed that capital surplus is a significant drain on shareholder wealth among listed banks in Nigeria (β = -2.129189, p = 0.0111). In conclusion, holding excess capital beyond operational or regulatory requirements appears to limit the banks' ability to generate returns for investors, suggesting that resources tied up in surplus equity may remain underutilized, reducing overall profitability and the efficiency of capital deployment. The study recommended that bank management should actively monitor and

optimize equity levels to ensure that excess capital is efficiently deployed into profitable investments or distributed to shareholders. This approach will enhance returns without compromising financial stability.

KEYWORDS: Capital Surplus, Shareholder Wealth, Total Shareholder Return

1.0 INTRODUCTION

The banking sector has long been recognized as a critical pillar of economic development, serving as the backbone for financial intermediation, mobilization of savings, and provision of credit to individuals and businesses. In emerging economies such as Nigeria, banks play an even more prominent role in facilitating economic growth, supporting entrepreneurship, and sustaining socio-economic stability (Akingbade, 2025). Over the years, regulatory frameworks and corporate governance standards have shaped the capital structures of banks, ensuring that they maintain adequate capital buffers to absorb shocks and remain solvent. These capital requirements are intended to protect depositors, enhance financial system stability, and build investor confidence (Olawale, 2024; Jeleel-Ojuade, 2024). However, beyond regulatory compliance, the management of bank capital has broader implications for financial performance and the wealth of shareholders. Investors often scrutinize capital allocation decisions (Hoang et al., 2025), not only in terms of compliance with minimum requirements but also in relation to how effectively banks deploy their resources to generate returns. The interplay between bank capital and shareholder wealth is therefore of considerable interest, particularly in markets characterized by volatility, competition, and evolving economic policies. The dynamics of this relationship in Nigeria's banking sector present an opportunity to explore how strategic financial decisions influence both institutional resilience and investor outcomes, highlighting the need for a balanced approach that meets regulatory obligations while optimizing shareholder value.

Capital surplus and shareholder wealth are central to contemporary discussions on corporate performance and financial management. Capital surplus refers to the excess funds that banks hold over and above their required regulatory capital (Malovaná & Ehrenbergerová, 2022). This surplus can arise from retained earnings, additional equity issuance, or accumulation of reserves beyond what is necessary for day-to-day operations. Shareholder wealth, on the other hand, represents the value that investors derive from their equity holdings, often measured through indicators such as total shareholder return, which captures both dividends

and capital appreciation (Omabu et al., 2021). In today's competitive business environment, the allocation and management of capital surplus have significant implications for shareholder wealth. Investors expect banks to strike a balance between maintaining financial stability and deploying capital efficiently to generate returns. Inadequate utilization of excess capital may signal inefficiency and result in lower returns on equity, whereas prudent management can enhance investor confidence and long-term profitability (Ojiegbe et al., 2024). The importance of understanding these dynamics is further amplified by the volatility and uncertainty inherent in emerging markets. By examining the relationship between capital surplus and shareholder wealth, this study seeks to illuminate the consequences of financial strategies and provide insights that are relevant not only to bank managers but also to policymakers, regulators, and investors seeking to optimize wealth creation in the Nigerian banking sector.

Despite its intended benefits, capital surplus can sometimes act as a drain on shareholder wealth, particularly when it is not employed effectively to generate returns. Excess capital that sits idle or is allocated to low-yield investments may reduce the overall profitability of the bank and, consequently, the returns available to shareholders (Hasan et al., 2019). In practical terms, when a bank holds more capital than is required for regulatory compliance or operational safety, the opportunity cost of this surplus becomes significant. Funds that could have been distributed as dividends, used for share buybacks, or invested in high-return projects remain unutilized, leading to suboptimal outcomes for investors. Additionally, over-capitalization may signal a conservative management approach that prioritizes risk avoidance over wealth creation, which can be perceived negatively by shareholders seeking growth and returns (Mohammad et al., 2021). Empirical studies in other banking contexts have highlighted that while adequate capital buffers are essential for stability (Orando et al., 2025), maintaining excessive capital beyond optimal levels may constrain financial performance and erode investor confidence (Okwudili et al., 2025).

Banks are expected to maintain sufficient capital to ensure financial stability, support lending activities, and meet regulatory requirements. When capital is managed effectively, it enables banks to expand operations, invest in profitable ventures, and provide consistent returns to shareholders (Ihejirika et al., 2024). In this situation, shareholders benefit from both dividends and appreciation in the value of their investments, while the bank maintains a strong reputation for sound financial management. A balance between sufficient reserves for

safety and active deployment of funds for growth contributes to sustained shareholder wealth and supports the overall development of the banking sector.

In practice, many banks in Nigeria maintain capital levels that exceed what is necessary for operational safety and regulatory compliance. This excess capital often remains underutilized, held in low-yield assets, or retained without clear strategies for generating additional revenue. While such surplus may provide a sense of financial security (Success et al., 2024), it reduces the efficiency of capital utilization. Shareholders may see lower returns on their investments, and the bank may forego opportunities to fund profitable projects, increase dividends, or execute share buybacks. The accumulation of surplus capital, rather than enhancing financial strength, can become a limitation on the bank's ability to generate wealth for its investors. The consequences of holding excess capital in this manner can be significant for both shareholders and the bank. Investors may experience slower growth in their wealth, and confidence in the bank's management decisions could be weakened. Reduced returns can also affect the attractiveness of the bank's shares, limiting its ability to raise capital in the future. For the banking sector as a whole, widespread accumulation of surplus capital without productive deployment may constrain the flow of funds into the economy, limiting credit availability and slowing economic development.

Despite the growing body of research on capital adequacy and financial performance, gaps remain in understanding the specific impact of excess capital on shareholder wealth in Nigerian banks. Studies such as Okwudili et al. (2025) and Success et al. (2024) highlight that components of capital adequacy, including paid-up share capital and share premium, may negatively affect earnings per share, while Ihejirika et al. (2024) found that total qualifying capital reduces profit before tax. Conversely, Ojiegbe et al. (2024), Ugwuka et al. (2019), and Livingstone et al. (2025) report positive effects of capital adequacy on return on equity and return on assets, suggesting that appropriate capitalization enhances profitability. Orando et al. (2025) and Anetoh et al. (2021) further emphasize the role of capital adequacy in ensuring stability and value creation in both Kenyan and Nigerian financial institutions, while Ogunode et al. (2022) highlight that excessive capital may constrain performance in non-financial firms. Hasan et al. (2019) adds an international perspective, showing that high capital adequacy can negatively affect return on investment in Bangladeshi banks. These mixed findings indicate a lack of consensus on whether capital surplus serves as a benefit or a drain on investor returns. In particular, while several studies focus on overall capital

adequacy and regulatory compliance, few directly investigate the effect of capital surplus on shareholder wealth, measured through total shareholder return, in Nigerian listed banks. This gap underscores the need for empirical analysis that isolates capital surplus from general capital adequacy measures to determine its direct impact on investor value. By addressing this gap, the present study contributes to a clearer understanding of how excess capital affects shareholder wealth, providing evidence-based guidance for bank managers and policymakers in optimizing capital management strategies.

2.0 Literature Review

2.1 Conceptual Issues

Empirical studies on the relationship between capital adequacy and financial performance reveal mixed results, reflecting the complex role of capital management in banking institutions. Okwudili et al. (2025) and Success et al. (2024) examined Nigerian deposit money banks over the 2014–2023 period and found that components of capital adequacy, including capital adequacy ratio, paid-up share capital, and share premium, negatively influenced earnings per share. While CAR had an insignificant effect, PUSC and SP significantly reduced financial growth, indicating that higher equity capital does not automatically translate into enhanced profitability. Similarly, Ihejirika et al. (2024) observed that total qualifying capital negatively and significantly affected profit before tax, although adjusted shareholders' fund had a positive impact. These findings suggest that excessive capital accumulation may lead to inefficiencies, tying up resources that could otherwise be deployed to generate returns, thereby supporting the notion that surplus capital can drain shareholder wealth.

In contrast, other studies highlight positive contributions of capital adequacy to bank performance, often emphasizing the importance of regulatory compliance and financial stability. Ojiegbe et al. (2024) reported that total qualifying capital, adjusted shareholders' fund, and capital-to-risk-weighted asset ratio positively and significantly influenced return on equity in Nigerian banks, confirming that adequate capitalization enhances profitability. Similarly, Ugwuka et al. (2019) and Livingstone et al. (2025) found positive relationships between capital adequacy and bank performance measures such as return on assets and return on equity, with the latter demonstrating that variations in capital adequacy explained 79.4 percent of performance variance in the insurance sector. Orando et al. (2025) also confirmed a significant positive impact of capital adequacy on financial performance in Kenyan banks,

reinforcing the importance of strong capitalization for operational efficiency and investor confidence. These studies collectively suggest that while capital adequacy is necessary for stability and regulatory compliance, the efficiency with which surplus capital is deployed is a determining factor in whether it enhances or diminishes shareholder wealth.

Several studies further indicate that the impact of capital adequacy may depend on contextual factors and firm characteristics. Ogunode et al. (2022) observed that in non-financial Nigerian firms, capital adequacy ratios negatively affected performance, whereas firm size and efficient use of debt capital had positive effects, highlighting that excessive capital may constrain value creation if not strategically managed. Anetoh et al. (2021) reported a positive effect of capital adequacy risk on firm value, suggesting that careful risk management can enhance wealth, while Hasan et al. (2019) found that higher capital adequacy negatively affected return on investment in Bangladeshi banks, further underscoring the trade-off between security and profitability. Collectively, these findings indicate that although capital adequacy serves as a buffer against risk and a requirement for regulatory compliance, excess capital without strategic deployment may impede profitability and reduce shareholder wealth. This body of literature supports the need for empirical examination of capital surplus as a potential drain on investor returns in Nigerian banks, aligning with the focus of this study.

2.2 Theoretical Framework and Development of Research Hypothesis

The Shareholder Wealth Maximization Theory originated in the field of finance and corporate management as a response to the need for a clear objective in business decision-making (King et al., 2025). It was formally propounded in the 1960s, gaining prominence through the works of scholars such as Alfred Rappaport, who emphasized that the primary goal of a firm should be to enhance the wealth of its shareholders (Follert, et al., 2023). The theory arose from the recognition that traditional measures of corporate success, such as profit maximization or sales growth, were insufficient in capturing the long-term value creation for owners of the firm. By focusing on the overall value of shareholders' investments, the theory provided a framework for evaluating financial policies, investment decisions, and managerial performance in terms of their contribution to the wealth of investors. Over time, it has become a guiding principle in corporate finance, particularly in markets where ownership and control are separated, helping managers prioritize decisions that increase the value of the firm in a sustainable manner.

The main postulations of the Shareholder Wealth Maximization Theory are that the ultimate goal of a firm is to maximize the market value of its shares and the total returns to shareholders (Yan, 2017). This includes both dividends distributed and the capital gains realized from changes in stock prices. The theory assumes that shareholders are rational investors who seek to achieve the highest possible returns on their investments while bearing acceptable levels of risk (King et al., 2025). It also posits that managerial actions should be aligned with shareholder interests, and any decision that reduces the value of shareholder investments, whether through inefficient capital allocation or unnecessary retention of funds, is considered suboptimal (Frances & Nworie, 2025; Efenyumi & Nworie, 2025; Ikwuo et al., 2025). The theory further emphasizes the importance of long-term wealth creation over short-term profit goals, suggesting that sustainable growth and prudent financial management ultimately serve the interests of investors.

The relevance of this theory to the study lies in its direct focus on shareholder wealth, which is the central concern of the research. By examining how capital surplus functions within Nigerian banks, the theory provides a framework for evaluating whether excess funds contribute positively or negatively to shareholder returns. If surplus capital is retained without being effectively utilized, it may lead to lower dividends or slower growth in share prices, which aligns with the theory's assertion that firm decisions should enhance investor wealth. Applying the Shareholder Wealth Maximization Theory enables the study to assess capital management strategies, measure their impact on total shareholder return, and determine the extent to which excess capital serves as a drain on shareholder value. This makes the theory an appropriate lens through which to analyze the financial decisions of listed banks in Nigeria and their consequences for investors. Based on the above, we hypothesise that:

Ha: Capital surplus is a significant drain on shareholder wealth among listed banks in Nigeria.

3.0 Methodology

This study adopted an ex post facto research design to examine the effect of capital surplus on shareholder wealth among listed banks in Nigeria. This design was appropriate because the variables under investigation, including capital surplus and total shareholder return, are historical and documented in the banks' audited financial statements. The researcher had no control over these events (John-Akamelu et al., 2025; Amedu et al., 2025), as they occurred

within the period 2015 to 2024. The design allowed for the use of secondary data to analyze how variations in capital surplus influence shareholder wealth over time. The population of the study consisted of all deposit money banks listed on the Nigerian Exchange Group as of 2024. These banks represent the major players in Nigeria's formal banking sector and provide consistent and reliable financial information necessary for panel data analysis.

The study focused on twelve banks as the final sample. Unity Bank was excluded because its audited financial statements for 2024 were unavailable at the time of data collection. The selected banks provided sufficient coverage over the ten-year period and offered adequate representation for empirical analysis. These banks included Access Bank Plc, Ecobank Transnational Incorporated, Fidelity Bank Plc, First Bank of Nigeria Holdings Plc, First City Monument Bank Plc, Guaranty Trust Holding Company Plc, Stanbic IBTC Bank Plc, Sterling Bank Plc, United Bank for Africa Plc, Wema Bank Plc, Zenith Bank Plc, and Jaiz Bank Plc. Secondary data were sourced from their annual reports and audited financial statements, providing information on total equity, total assets, dividends, debt, and share prices, which were used to calculate capital surplus, total shareholder return, and the control variables.

The study employed one dependent variable, one independent variable, and two control variables. The dependent variable was shareholder wealth, measured using total shareholder return (TSR), which accounts for both dividends and capital gains to provide a comprehensive measure of investor value. Total Shareholder Return was calculated using this formula:

$$\frac{\textit{Share price at the end of the period} - \textit{share price at the start of the period} + \textit{Dividend Per Share}}{\textit{share price at the start of the period}}$$

The independent variable was capital surplus, calculated as the ratio of total equity to total assets, representing the extent to which banks hold excess capital beyond operational and regulatory requirements. The control variables included bank size (BSZ), measured as the natural logarithm of total assets, and debt-to-equity ratio (DER), which captures the financial leverage of the banks. The functional form of the model is expressed as:

$TSR_{it} = \alpha + \beta_1 CAS_{it} + \beta_2 BSZ_{it} + \beta_3 DER_{it} + \varepsilon_{it}$ _____eqi

Where:

TSR_{it} = Total shareholder return of bank i at time t

CAS_{it} = Capital surplus of bank i at time t

BSZ_{it} = Bank size of bank i at time t

DER_{it} = Debt-to-equity ratio of bank i at time t

α = Intercept

$\beta 1, \beta 2, \beta 3$ = Coefficients of the explanatory and control variables

εit = Error term

Panel generalized least squares estimation was used to test the hypothesis that capital surplus is a significant drain on shareholder wealth. This method was chosen because it accounts for heteroskedasticity and autocorrelation commonly observed in panel data while capturing variations across banks and over time. Model diagnostics were conducted to assess cross-sectional dependence and panel heteroskedasticity, ensuring the reliability and validity of the results. Descriptive statistics, including mean, minimum, maximum, and standard deviation, were used to summarize the characteristics of the data. Hypothesis testing was conducted at a five percent significance level, with a p-value below 0.05 indicating a significant effect of capital surplus on shareholder wealth.

4.0 Data Analysis

4.1 Descriptive Analysis

Table 4.1 Descriptive Statistics.

	TSR	CAS	BSZ	DER
Mean	0.346494	0.115133	9.441270	8.666781
Median	0.093194	0.109143	9.470900	7.845537
Maximum	3.157155	0.217537	10.63651	59.30158
Minimum	-0.535519	0.016583	7.721310	1.576449
Std. Dev.	0.700593	0.036205	0.556160	5.563332
Skewness	1.873752	0.445631	-0.597528	6.399411
Kurtosis	6.900942	3.204748	3.776993	58.40767
Jarque-Bera	146.3057	4.181341	10.15939	16169.10
Probability	0.000000	0.123604	0.006222	0.000000
Sum	41.57931	13.81601	1132.952	1040.014
Sum Sq. Dev.	58.40884	0.155986	36.80839	3683.129
Observations	120	120	120	120

Source: Researchers' Computation Using Eviews 10 Software (2025)

From Table 4.1, the mean TSR is 0.346494, indicating that, on average, shareholders earned about 34.65 percent over the period studied. The maximum value of 3.157155 and minimum of -0.535519 show considerable variation in shareholder returns across the banks, with some achieving over 300 percent return while others recorded losses. The standard deviation of 0.700593 suggests moderate dispersion around the mean, implying that returns varied but not excessively for most banks. The positive skewness of 1.873752 indicates a distribution with a longer right tail, meaning higher-than-average returns occurred less frequently but were substantial. The kurtosis of 6.900942, along with a Jarque-Bera probability of 0.000000, signals a leptokurtic and non-normal distribution. However, by the central limit theorem, the sample size of 120 observations is large enough to justify the use of parametric statistical methods despite the non-normality.

The mean capital surplus of 0.115133, as shown in Table 4.1, indicates that, on average, the banks held equity equivalent to about 11.5 percent of total assets in excess of operational requirements. The maximum value of 0.217537 and minimum of 0.016583 show that some banks maintained considerably higher excess capital while others held minimal surplus. The standard deviation of 0.036205 reflects relatively low dispersion around the mean, suggesting that most banks' capital surplus levels were fairly consistent. Skewness of 0.445631 shows a mild right-skew, indicating a slight tendency for a few banks to maintain higher-than-average surplus. Kurtosis of 3.204748 and a Jarque-Bera probability of 0.123604 suggest the distribution is approximately normal, which is appropriate for regression analysis. With 120 observations, the central limit theorem supports reliable inference for CAS despite minor deviations from normality.

In Table 4.1, the mean bank size, measured as the natural logarithm of total assets, is 9.441270, reflecting moderate variation in the scale of the banks studied. The maximum value of 10.63651 and minimum of 7.721310 indicate substantial differences between the largest and smallest banks in the sample. The standard deviation of 0.556160 shows moderate dispersion around the mean, suggesting that most banks' sizes are clustered fairly closely around the average. The negative skewness of -0.597528 indicates that smaller banks are slightly more frequent than larger banks in the sample, while the kurtosis of 3.776993 points to a mildly peaked distribution. The Jarque-Bera probability of 0.006222 suggests some

departure from normality, but with 120 observations, the central limit theorem ensures that parametric tests remain valid for analyzing BSZ.

Table 4.1 shows a mean DER of 8.666781, indicating that, on average, banks maintained debt levels nearly nine times their equity, suggesting high leverage. The maximum of 59.30158 and minimum of 1.576449 demonstrate extreme variation, with some banks heavily leveraged while others maintained very low debt relative to equity. The large standard deviation of 5.563332 reflects substantial dispersion in the data. The extremely high positive skewness of 6.399411 indicates that a few banks have unusually high debt-to-equity ratios compared to the majority, and the kurtosis of 58.40767 highlights extreme outliers in the distribution. The Jarque-Bera probability of 0.000000 confirms non-normality; however, the central limit theorem provides confidence that the large sample size of 120 observations allows for valid parametric analyses despite the skewed and leptokurtic nature of DER.

Table 4.2 Model Diagnostics

Test	**Statistic / Value**	**Probability**
Residual Cross-Section Dependence Test (Pesaran CD)	13.11658	0.0000
Panel Cross-section Heteroskedasticity LR Test (Likelihood ratio)	27.62878	0.0063

Source: Researchers' Computation Using Eviews 10 Software (2025)

Table 4.2 presents the results of the Residual Cross-Section Dependence Test using the Pesaran CD statistic, which is designed to detect whether residuals from different cross-sectional units are correlated. The test statistic is 13.11658 with a probability of 0.0000, indicating strong evidence of cross-sectional dependence among the banks in the panel. This suggests that shocks affecting one bank are likely to influence other banks, meaning that their financial behaviors are not completely independent. Identifying cross-sectional dependence is important because ignoring it can lead to biased and inconsistent parameter estimates, and it informs the choice of an appropriate estimation method, such as panel GLS, which accounts for such dependencies.

The Panel Cross-Section Heteroskedasticity Likelihood Ratio test, also shown in Table 4.2, examines whether the variance of residuals is constant across banks, which is a key

assumption in panel data analysis. The test yielded a statistic of 27.62878 with a probability of 0.0063, indicating the presence of heteroskedasticity in the panel. This means that the variability of errors differs across banks, which, if uncorrected, can distort standard errors and affect hypothesis testing. Detecting heteroskedasticity is essential because it justifies the use of estimation techniques like panel GLS that adjust for non-constant variance, ensuring the results are efficient and reliable.

4.2 Test of Hypothesis

Ha: Capital surplus is a significant drain on shareholder wealth among listed banks in Nigeria.

Table 4.2 Test of Hypothesis

Dependent Variable: TSR				
Method: Panel EGLS (Period SUR)				
Date: 11/15/25 Time: 14:21				
Sample: 2015 2024				
Periods included: 10				
Cross-sections included: 12				
Total panel (balanced) observations: 120				
Linear estimation after one-step weighting matrix				
Period SUR (PCSE) standard errors & covariance (d.f. corrected)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
CAS	-2.129189	0.825248	-2.580058	0.0111
BSZ	0.149705	0.041619	3.597034	0.0005
DER	0.004221	0.008454	0.499248	0.6186
C	-0.879192	0.450869	-1.949994	0.0536
	Weighted Statistics			
R-squared	0.515695	Mean dependent var		1.075592
Adjusted R-squared	0.503170	S.D. dependent var		1.459548
S.E. of regression	1.009833	Sum squared resid		118.2926
F-statistic	41.17285	Durbin-Watson stat		2.038805

Prob(F-statistic)	0.000000			

Source: Researchers' Computation Using Eviews 10 Software (2025)

Table 4.2 presents the results of the panel EGLS estimation used to test the effect of capital surplus on shareholder wealth among listed banks in Nigeria. The adjusted R-squared of 0.503170 indicates that approximately 50.3% of the variation in total shareholder return (TSR) is explained by the model, suggesting a moderate level of explanatory power. The Durbin-Watson statistic of 2.038805 is close to 2, implying that there is no serious issue of autocorrelation in the residuals. The Prob(F-statistic) of 0.000000 confirms that the model is statistically significant at the 5% level, meaning the explanatory variables jointly explain TSR. The constant term (C) has a coefficient of -0.879192 with a probability of 0.0536, which is slightly above the 5% significance level. This indicates that when capital surplus, bank size, and debt-to-equity ratio are zero, TSR would be negative at approximately -0.879, though this effect is not statistically significant at the 5% level.

The coefficient for capital surplus (CAS) is -2.129189 with a probability value of 0.0111, as shown in Table 4.2. This indicates that a one-unit increase in capital surplus leads to an average decrease of approximately 2.13 units in TSR, holding other factors constant. In practical terms, higher capital surplus significantly reduces shareholder wealth among listed banks in Nigeria. Since the p-value is less than 0.05, this negative effect is statistically significant at the 5% level. This confirms the hypothesis that capital surplus acts as a drain on investor value, supporting the notion that retaining excess capital reduces the funds available for profitable investment or distribution to shareholders, thereby lowering total returns.

The coefficient for bank size (BSZ) is 0.149705 with a probability of 0.0005, indicating a positive and significant effect on TSR. Specifically, a one-unit increase in the natural logarithm of total assets results in an increase of approximately 0.15 units in TSR, ceteris paribus. This effect is statistically significant at the 5% level, suggesting that larger banks tend to generate higher shareholder wealth. This may be attributed to economies of scale, greater market presence, and more diversified operations in bigger banks, which enable them to deliver better returns to investors.

For debt-to-equity ratio (DER), the coefficient is 0.004221 with a probability of 0.6186, indicating a very small positive effect on TSR. However, this effect is not statistically

significant at the 5% level. This suggests that variations in leverage do not have a meaningful influence on shareholder wealth in the sample of Nigerian listed banks during the period studied. Although DER is positive, its insignificance implies that capital structure, in terms of debt relative to equity, does not meaningfully affect total shareholder returns in this context.

4.3 Discussion of Finding

The result showing that capital surplus significantly drains shareholder wealth among listed banks in Nigeria (β = -2.129189, p = 0.0111) aligns with several empirical findings that highlight the potential inefficiencies of holding excessive capital. Okwudili et al. (2025) and Success et al. (2024) observed that while capital adequacy ratios had insignificant effects, components such as paid-up share capital and share premium negatively influenced earnings per share, indicating that retaining high levels of equity can reduce financial growth. Similarly, Ihejirika et al. (2024) found that total qualifying capital significantly lowered profit before tax, suggesting that over-capitalization may tie up resources that could otherwise be deployed for productive investments. Hasan et al. (2019) also reported that high capital adequacy negatively affected return on investment in Bangladeshi banks, reinforcing the idea that excessive equity can limit profitability. These findings contrast with studies like Ojiegbe et al. (2024) and Ugwuka et al. (2019), which show that adequate capitalization improves bank performance; however, the key distinction is that their analyses focused on sufficient or optimal capital rather than surplus beyond operational or regulatory needs. The negative effect in this study can be attributed to the fact that excess capital reduces the funds available for lending, investment, or dividend distribution, ultimately diminishing returns to shareholders, which is consistent with the notion that surplus capital, if not efficiently utilized, may act as a drain on investor wealth.

Bank size was found to have a positive and significant effect on shareholder wealth (β = 0.149705, p = 0.0005), suggesting that larger banks are better positioned to generate higher returns. This result is supported by Ogunode et al. (2022), who found that firm size positively affects corporate performance, and Orando et al. (2025), which emphasized that larger, well-capitalized banks exhibited superior financial outcomes. The positive effect may stem from economies of scale, diversified operations, and greater market influence that enable larger banks to efficiently convert resources into value for shareholders. Livingstone et al. (2025) also noted that well-capitalized firms in the insurance sector achieved higher return on equity, implying that operational scale amplifies the benefits of adequate capital. In contrast, the

advantage of size may not offset the negative consequences of excessive capital if the surplus is not strategically managed, which explains the nuanced interplay observed in this study.

The debt-to-equity ratio (DER) had a positive but insignificant effect on shareholder wealth ($\beta = 0.004221$, $p = 0.6186$), indicating that leverage did not meaningfully influence total returns in this sample. This aligns with Ogunode et al. (2022), who observed that debt-equity ratio positively affects performance in non-financial firms, yet its significance depends on operational efficiency and resource utilization. Anetoh et al. (2021) reported that capital adequacy risk positively influenced firm value, suggesting that moderate leverage may be beneficial when combined with strong capital management, but in this study, the effect was negligible. Ugwuka et al. (2019) similarly noted that while capital adequacy and deposits positively affect bank performance, the contribution of leverage alone may be insufficient to alter shareholder returns substantially. The lack of significance here may reflect cautious borrowing practices among Nigerian banks or the predominance of other factors, such as capital surplus and bank size, which have more direct effects on shareholder wealth.

5.1 CONCLUSION AND RECOMMENDATION

The finding that capital surplus significantly reduces shareholder wealth among listed banks in Nigeria highlights important considerations for the allocation and management of financial resources within the banking sector. Holding excess capital beyond operational or regulatory requirements appears to limit the banks' ability to generate returns for investors, suggesting that resources tied up in surplus equity may remain underutilized, reducing overall profitability and the efficiency of capital deployment. This outcome may influence investor perceptions and confidence, as shareholders seeking optimal returns could view large capital buffers as a sign of conservative or inefficient management, potentially affecting market valuations and share prices. Moreover, the result underscores the delicate balance between maintaining financial stability and ensuring value creation for shareholders, revealing that an overly cautious approach to capital retention may inadvertently constrain the capacity of banks to invest in profitable opportunities or reward shareholders through dividends. In a broader context, this finding contributes to the understanding of how capital structure decisions affect wealth distribution within financial institutions, highlighting the tension between regulatory compliance, risk management, and shareholder expectations. It also emphasizes that financial strategies must carefully consider the trade-off between liquidity, safety, and the productive use of equity, as excessive conservatism may have unintended

consequences for investor returns and the attractiveness of banks to current and potential shareholders. This observation adds to the ongoing debate on how banks can balance sound capital management with the pursuit of competitive financial performance in a dynamic economic environment. Based on the findings, the study recommends that bank management should actively monitor and optimize equity levels to ensure that excess capital is efficiently deployed into profitable investments or distributed to shareholders. This approach will enhance returns without compromising financial stability.

5.2 Contribution to Knowledge

This study contributes to the literature by specifically examining the effect of capital surplus on shareholder wealth in Nigerian listed banks, addressing the gaps left by previous research that largely focused on overall capital adequacy and regulatory compliance. While studies such as Okwudili et al. (2025), Success et al. (2024), and Ihejirika et al. (2024) highlighted the negative impacts of certain capital components on profitability, and others including Ojiegbe et al. (2024), Ugwuka et al. (2019), and Livingstone et al. (2025) emphasized the positive role of adequate capitalization, there was limited evidence on how surplus capital, beyond regulatory requirements, directly affects investor returns. By isolating capital surplus and using total shareholder return as a measure of wealth, this research provides empirical evidence on whether holding excess capital enhances or diminishes shareholder value in Nigerian banks. The study also considers the influence of bank size and debt-to-equity ratio as control variables, adding depth to the analysis. In doing so, it offers practical guidance for bank managers on capital management and informs policymakers on strategies to optimize shareholder wealth without compromising financial stability.

5.3 Limitations of the Study and Suggestion for Further Studies

This study is limited to listed deposit money banks in Nigeria, which means the findings may not apply to non-listed banks or financial institutions in other countries. The research relied entirely on secondary data from audited financial statements, so any errors or omissions in the reported data could affect the results. The study also focused on a ten-year period from 2015 to 2024, which may not capture longer-term trends or unusual economic events outside this timeframe. Additionally, only capital surplus, bank size, and debt-to-equity ratio were considered, so other factors influencing shareholder wealth were not included.

Future studies could expand the scope by including non-listed banks or comparing banks across multiple countries to see if the findings hold in different contexts. Researchers could also examine additional factors that may affect shareholder wealth, such as liquidity management, operational efficiency, or macroeconomic conditions. Longer periods of analysis or different measures of investor value could provide a more complete understanding of how capital surplus affects shareholder wealth. Qualitative approaches, such as interviews with bank managers, could also be used to explore the reasons behind capital management decisions.

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