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The banking sector recorded a number of developments during the third and fourth quarters of 2015. Some of the major highlights of these developments included: fraud desk established by the CBN to fight cybercrimes within the Banking Industry and provide solutions toward addressing frauds arising from increased adoption of electronic payments in the country. Also in other to strengthen the regulations guiding the efficient operations of BDCs in Nigeria the CBN issued a Revised Operational Guidelines for Bureaux de Change (BDC). Other major developments in the banking industry during the period include: Circular on the Implementation of the Global Mobile Payments Monitoring & Regulation System (GMPM), Prohibition of Cash Deposit into Domiciliary Accounts by CBN, CBN Circular on the Need for Banks to Build Adequate Loan Loss reserve, CBN Guidelines on the Management of Dormant accounts and other Unclaimed Funds by Banks and Other Financial Institutions in Nigeria,CBN Circular Deadline for Transfer of Federal Government Funds to Treasury Single Account

During the period under review, the condition and performance of the insured banks showed some positive and negative indices. On the positive side, Total Assets, Shareholders Funds, Recapitalization needs, Total Credits, Total Deposit Base, Liquidity Ratio, and Estimated Insurance Funds, all improved during the quarter; while on the flip side, CAR and Earnings looked down during the period. Despite the mixed performance, the banking industry performed averagely during the period under review.

This paper is therefore concerned with the identification of SIBs (Systemically Important Banks) and measurement of their contribution to systemic shortfall. We measure the systemic risk contributions of Nigerian banks based on several approaches advocated by BIS, regulators and academics using regulatory and publicly available market data. The paper also discusses the tools used in management of systemic risk. The paper finds that an advantage of the SRISK (the model proposed by academics) market data-based approach over the Bank for International Settlement (BIS) Indicator approach is that market data is available at a daily frequency and therefore can capture the changing condition of banks at a daily frequency. The BIS Indicator approach can at most be updated at a monthly frequency and can only capture conditions of banks with a month’s lag. Financial firms’ risks, especially banks’ can change very quickly. This implies that the BIS indicator approach needs to be augmented with a model that uses more up-to-date information like the SRISK approach.

Analyzing Financial System Stability By **60**

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This paper derives default Probabilities of Default and Distance-to-Default from Merton model and applies this to a number of Nigerian financial and non-financial quoted companies. We argue that this model satisfies the macro-prudential approach to financial system stability analysis. On the basis of the Merton model, we constructed a system -wide financial stability measure for Nigeria, which builds on the put options of the banking, insurance, pension sectors, corporate and manufacturing sectors as traded on the floor of the Nigerian Stock Exchange (NSE). The analysis suggests that the Merton model appears to be useful in ranking sectors according to their contribution to financial system stability. The model also provided a means of measuring financial system stability based on individual firms, sectors and the financial system as a whole using several forward-looking measures. The presented measures for financial stability (broken down in probability and distance to default measures) offer a number of insights which may prove useful for policy purposes. First, they contribute to measuring financial system stability, thus facilitating the identification of risks and providing a guideline for policy efforts. This function has been enhanced since the measures were applied to individual firms and sub-sectors as in this paper. This could help to map vulnerabilities more precisely which could form the basis for pre-emptive or corrective action to improve the stability of the system.