Univerza v Ljubljani
EKONOMSKA FAKULTETA

The Research Centre of the Faculty of Economics
cordially invites you to a research seminar
on **Wednesday**, **28th October 2015** at **12 p.m.** in **P-109** at the **Faculty of Economics, University of Ljubljana**

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will present the article:

"Use of Market Information in the Analysis of Financial Stability of Banks"

"A distance to default indicates the distance measured in standard deviations of the market value of assets from the default point where liabilities exceed assets. The indicator encompasses the most important determinants of the default risk of the institution in question or the banking sector as a whole if applied at the aggregate level. The direct use of the calculated distance to default indicator from a time series of market prices of banks' shares is limited in the case of Slovenian banks as only a few banks were listed on the stock exchange. Therefore, we have adjusted the methodology by using indirect market information (e. g. changes in the stock market index, specialised indices or an individual share price representative of a specific sector) which supplements static accounting data and brings market dynamics (volatility), which has a significant impact on the value of the banks' portfolios. The hypothesis that distance to default is indicative of changes in the levels of risk of the banking system since it precedes accounting data that indicate similar changes with a time lag was tested on the basis of selected financial ratios. We have applied a modification developed by Toda and Yamamoto of the standard Granger causality test to see whether there is causality between lags of variables for distance to default and the selected financial ratios, which are based on accounting information. Contrary to expectations we could only prove Granger causality from lagged values of distance to default (6 – 12 months) to a share of equity in total assets, whereas we were not able to obtain similar relationship with other ratios. Some other empirical studies also point out the relevance of a share of equity in total assets as a reliable indicator of market discipline and insolvency risk. The conclusion from our study is that changes of distance to default precede changes in a share of equity in total assets with 6 – 12 monthly time lags."

You can register for the free seminar by phone (01) 58-92-490, or via e-mail: research.seminars@ef.uni-lj.si by Tuesday, 27th October 2015.

We look forward to seeing you!