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Distance to default

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This Book is posted at Research Online.
This poster addresses one particular chapter of the thesis on default risk. It assesses the significance of the Distance to Default (DD) model in predicting financial distress for 6 countries in the ASEAN region.

The firm defaults when asset volatility causes the market value of assets to fall below its debt values.

\[ DD = \ln \left( \frac{V}{F} \right) + (\mu - 0.5\sigma^2)T \]

The data includes 120 firms (listed and delisted) from 1997 to 2016 for each of 6 Southeast Asian countries.

The aggregate prediction scores based on DD models will be compared to aggregate corporate nonperforming loans (NPLs) and interest cover (ICRT).

The DD model can provide an early warning indicator of potential financial problems.