

Predicting the Probabilities of Default for Privately Held Banks: The Case of *Shinkin* Banks in Japan

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Abstract

Using the statistical relationships between market values of banks' assets and their volatilities that are implied from banks' shareholders' values of publicly held banks and their financial statement-based variables, which are used to compute banks' probabilities of default, we conduct out of sample predictions for these two variables for the sample of privately held *shinkin* banks. We, then, use estimates of these two variables to estimate *shinkin* banks' probabilities of default. We find that estimated probabilities of default predict *shinkin* banks' ex-post failures that are not predicted based on such financial statement-based variables as the regulatory capital adequacy ratio well.

Keywords: probability of default, privately held bank

JEL classification: G21, G22