



# Probability of Default of Colombian Financial Institutions: A Structural Approach

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## Abstract

This paper evaluates which would be the probability of default of ve colombian nancial institutions using a structural approximation to model their balance sheet. The proposed specication, in which the default probability is determined endogenously, shows a better t with respect to Merton's classical model, which was used as benchmark. The model reduces some of the limitations found in the models that have been used traditionally to evaluate the probability of default, and allows a better understanding of the balance sheet structure of the nancial institutions and the way they face stress situations.