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Abstract

This paper evaluates which would be the probability of default of five Colombian financial institutions using a structural approximation to model their balance sheet. The proposed specification, in which the default probability is determined endogenously, shows a better fit 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 financial institutions and the way they face stress situations.