

## **APPLICATION OF INTERNAL RATINGS-BASED METHODS ON CREDIT RISK MEASUREMENT**

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### **ABSTRACT**

This paper presents the concepts and methods used for credit risk measurement. The main objective was to explain Internal Ratings Based Methods. The application and analysis was performed on financial information for a supposed business case loan, as well as a simulated banking transaction database used to develop a credit scoring model. The results obtained from a Structural Model and Reduced Form Model showed significant differences in credit risk measures with respect to requirements established by applicable law for regulated financial entities in Bolivia. The study revealed that the application of advanced models for measuring credit risk requires adequate estimates of business volatility and credit scoring models that allow deeply analyze of a credit transaction.

**Keywords:** Credit Risk, Credit Scoring, Structural Models, Reduced Form Models, Expected Loss, Probability of Default.