



Foro

Foro de Seguro de Depósitos de las Américas Americas Deposit Insurance Forum

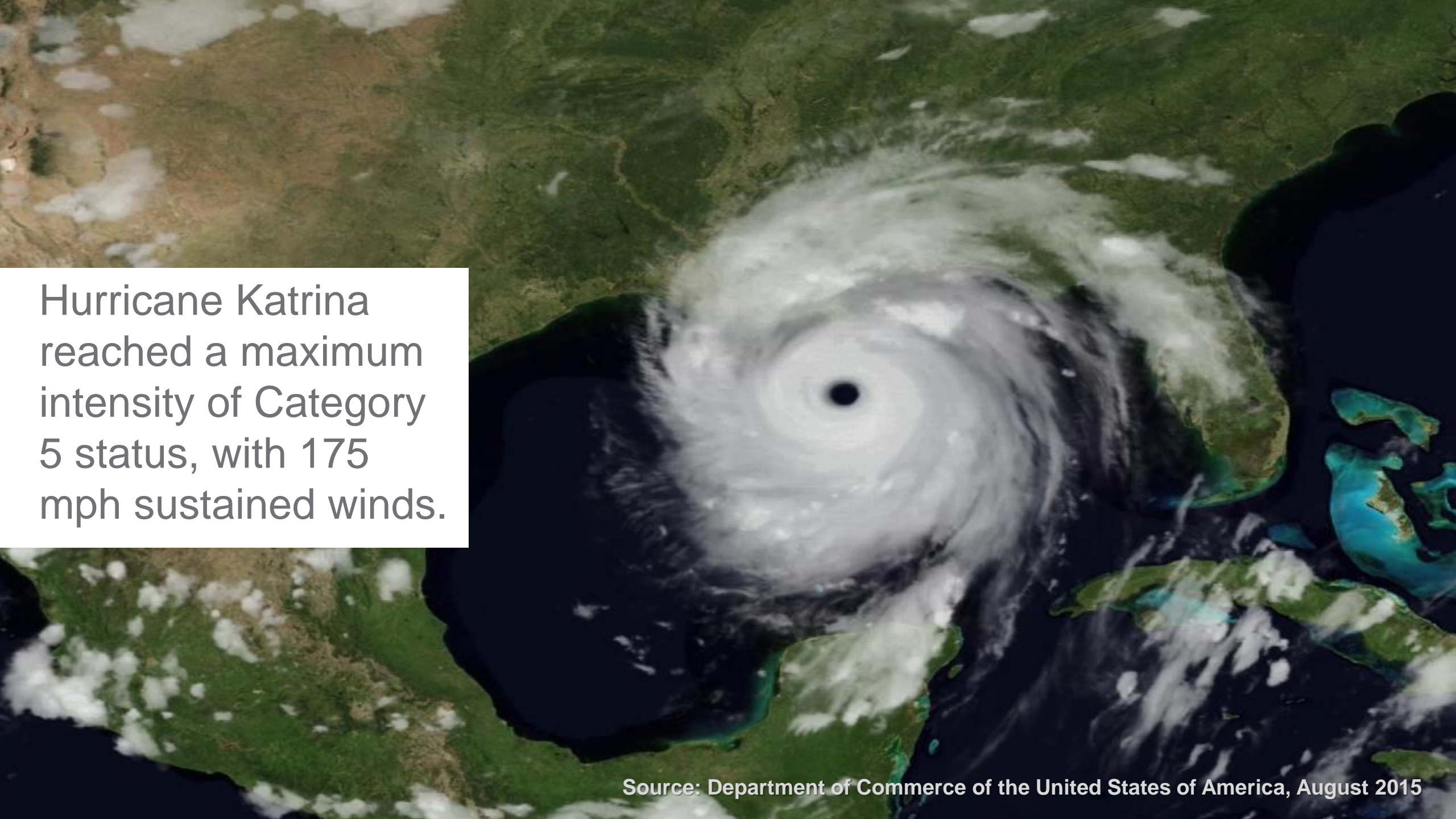


Session I:

Fogafín's Target Fund

David Salamanca
Managing Director

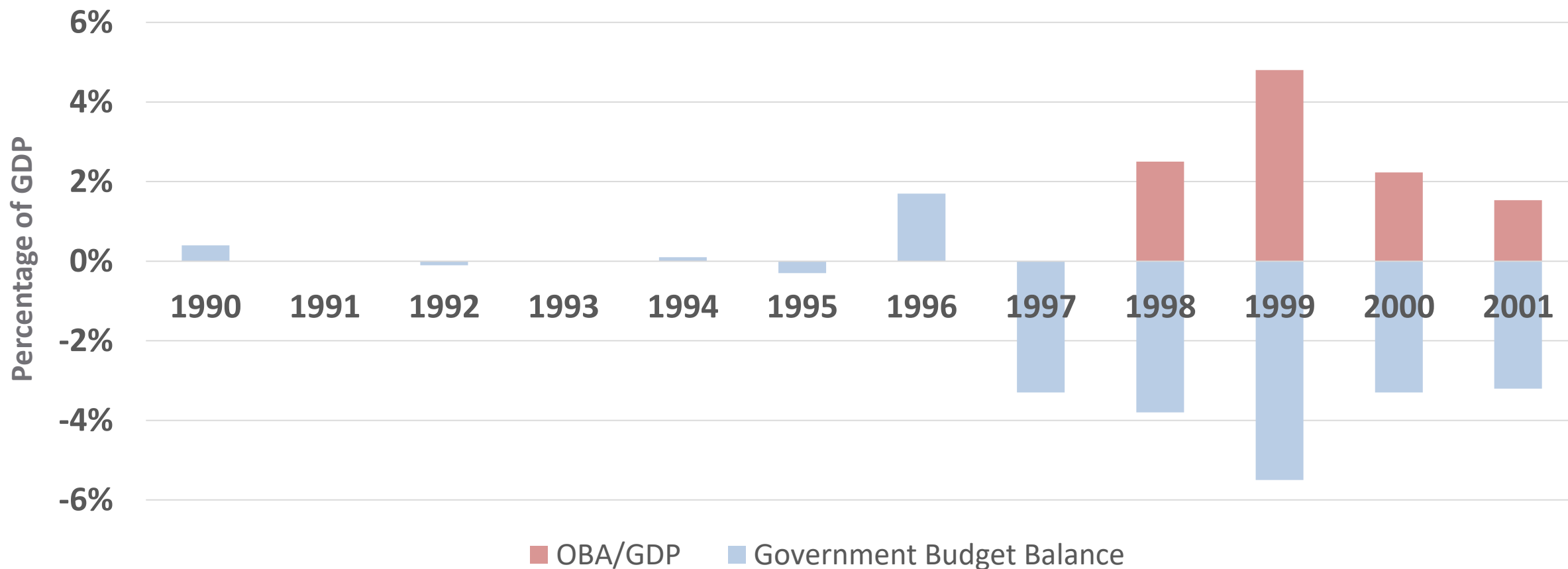
Fogafín – CO

A satellite image of Hurricane Katrina, showing a well-defined eye and a dense, swirling cloud structure over the Gulf of Mexico. The hurricane is positioned in the center-right of the frame, with the Gulf of Mexico coastline visible on the left and the Florida peninsula on the right. The image is a false-color composite, with the ocean appearing dark blue, the land in shades of green and brown, and the hurricane's clouds in white and light gray.

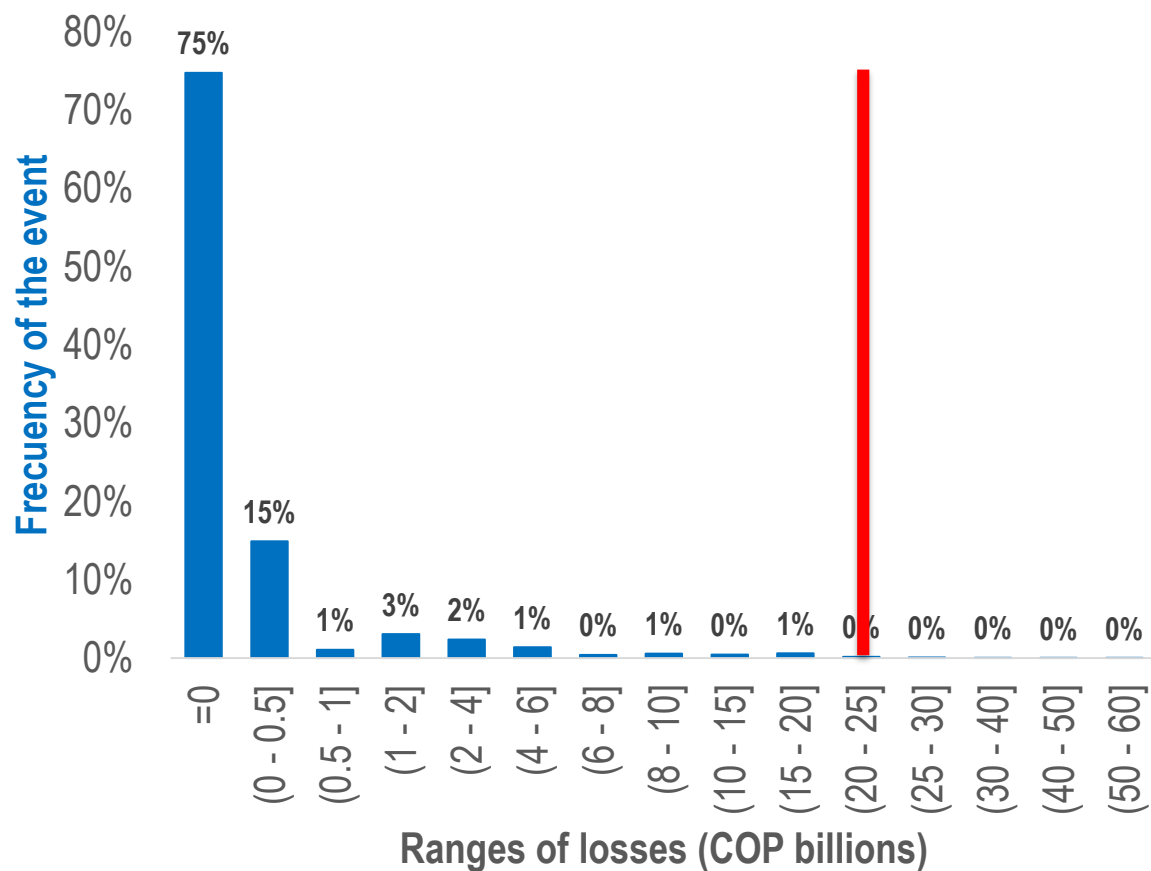
Hurricane Katrina
reached a maximum
intensity of Category
5 status, with 175
mph sustained winds.

Source: Department of Commerce of the United States of America, August 2015

Colombian financial crisis 1998-2001

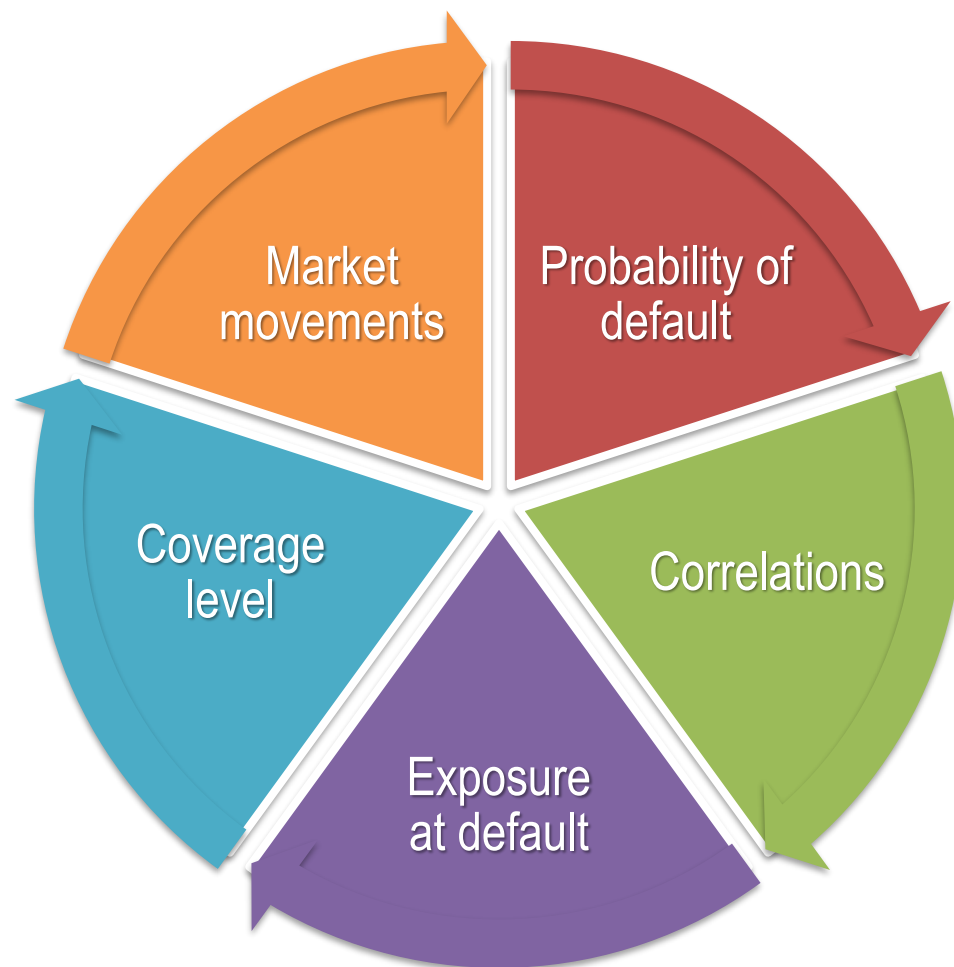


Fogafín model



- Loss distribution of failure events in the upcoming year
- 40,000 MonteCarlo simulations
- Defines a specific coverage level

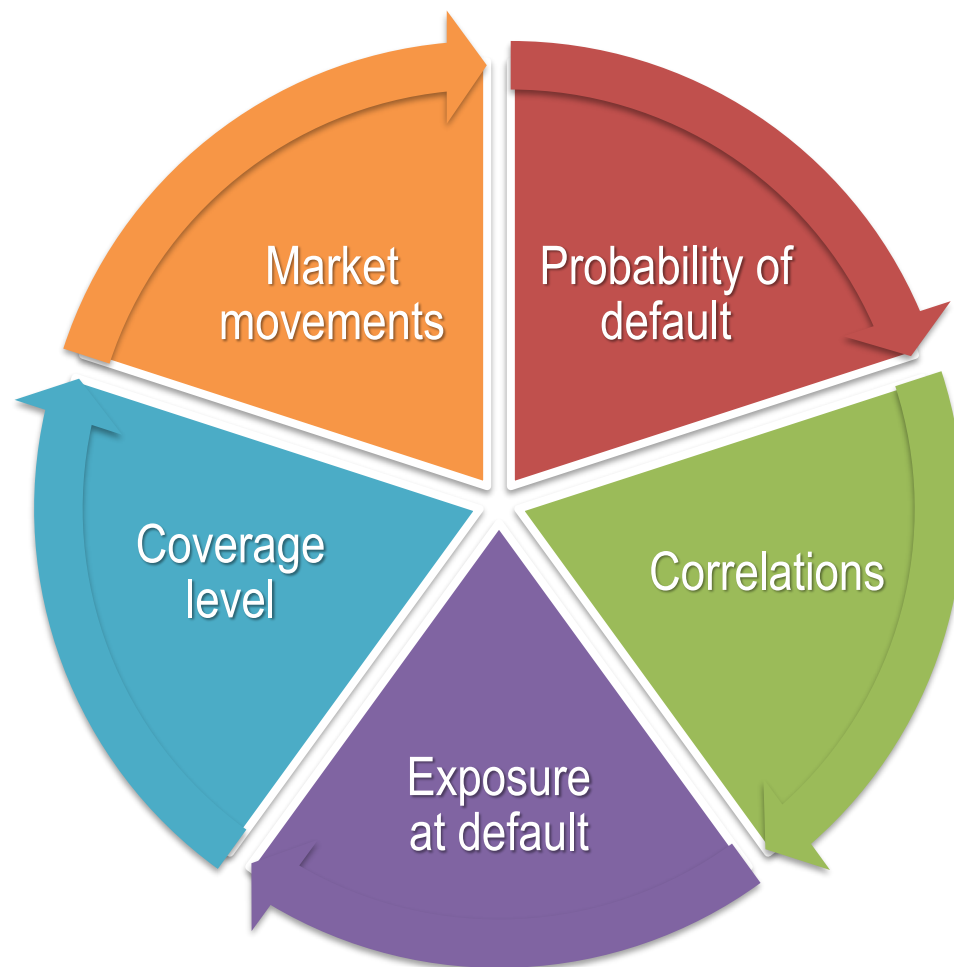
The model



Variables:

1. **Probability of default:** estimated using historical information (for each institution) and the transition-matrix.
 - Information collected between 1997 and 2017.
2. **Correlations between institutions:** for the base scenario we use historical information; for the stressed scenario we use information from previous crisis.
 - Base scenario (0.3 – 0.5)
 - Stressed scenario (0.35 – 0.7).

The model



3. Exposure at default:

- Systemic: 1.5 minimum solvency
- Non-systemic: insured deposits

4. Coverage level: desired credit rating.

5. Market movements: effect due to portfolio composition (85-15)

- USD appreciates 30% and TES lose 300 bps

Coverage level

From/to	D
AAA/Aaa	0.00%
AA/Aa	0.02%
A	0.06%
BBB/Baa	0.18%
BB/Ba	0.83%
B	3.66%
CCC/C	18.66%
Grado de inversión	0.10%
Grado especulativo	4.04%

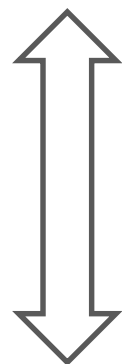
From/to	D
BBB+	0,12
BBB	0,17
BBB-	0,26

Percentile	Loss (% eligible deposits)
98,5%	2,50%
99,0%	3,77%
99,5%	4,51%
99,6%	4,86%
99,7%	5,45%
99,74%	5,70%
99,8%	6,35%

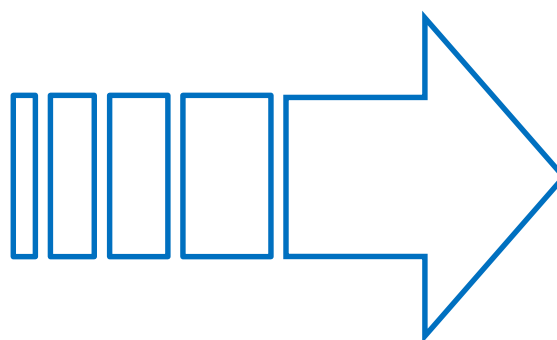
Objective range for Fogafín

Base target range

Upper limit (Crisis correlations) **7.2%**



Lower limit (Historical correlations) **5.7%**



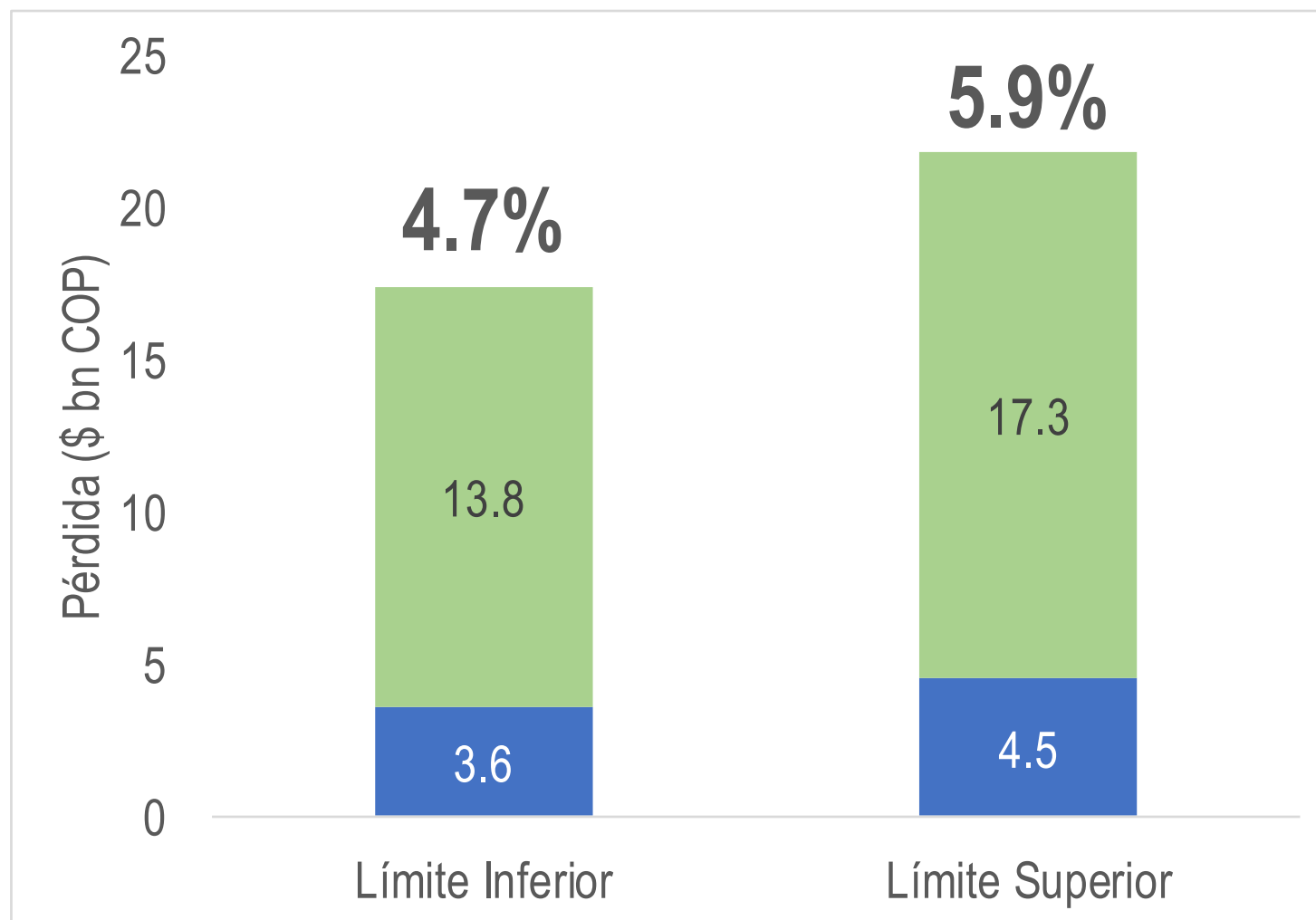
Adjusted by market effects

5.9%

4.7%

Adjusted target range

Resolution / Deposit insurance



Addressing the systemic and non-systemic events, the objective range can be split in two tranches:

Resolution fund:

3.7% y 4.7%

Deposit insurance:

1% y 1.2%

