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The financial crisis of the late 2000's underscored the importance of identifying systemically significant institutions and developing mechanisms for the latter to internalize the externalities they create on the economy should they fail. Using monthly data for the period comprised between September, 2001 - March, 2011, we calculated bank-specific probabilities of default and expected losses given default. Subsequently, we estimated the joint distribution of such expected losses and found the aggregate cost of the implicit bailout option for the government. Our results suggest that even though systemic risk is currently not a major concern in the Colombian banking system, it is necessary to enhance the supervisory and regulatory framework to include quantitative measures of this risk.

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