

Exposure at Default Modeling with Default Intensities

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Jiří Witzany

Chairman of Scientific Program

Jiří Witzany

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The most recent EAD definitions and methodologies are given in ECFIN (2006). The concept is further specified and implemented in the European legislation. Credit risk and default probabilities and intensities can be found in ECFIN (2006). According to ECFIN (2006) the *Exposure at Default* (EAD) is an estimate of the balance sheet exposure to default as the estimated gross exposure of the liability upon default at theorigins. The EAD estimates are based on the following formula:

The approach has been supported by the Credit Score Formation model and the study "Credit Risk and Credit Decisioning" carried by the group of RNDr. Ondřej Mařík and František Černý, the leading expert from Masaryk University (2006), the committee of 2006.

The current credit risk exposure at default, default intensity, includes capital, risk-free rate, CDS, CDS spread.