

## Abstract of the articles

### **DEFAULT RATE, PROBABILITY OF DEFAULT AND ALL THAT THE HUNGARIAN LEGISLATION REQUIRES**

LÁSZLÓ MADAR

Though the default rate and probability of default are well-known in the Hungarian banking sector, yet they are not always separated as clearly as it is required by the banking logic and also by the regulator. In the capital calculation process, it is imperative for the banks to know what the limitations, strengths and weaknesses of their default rate calculations are, and what corrections are necessary for their probability of default to be predictive. The paper analyses the different methods of default rate calculations and a few possible models for calculating the probability of default, that could be an alternative in the Hungarian banking sector for those who pursue the implementation of the Internal Ratings Based (IRB) method of Basel II

### **METHODOLOGIES FOR MANAGING INTEREST RATE RISK IN THE BANKING BOOK**

PETRA KALFMANN

Managing interest rate risk on its own is not a new issue for banks. The requirements concerning Pillar 2 under the Basel II guidelines hold the newness. In the framework of the new capital requirement banks at a minimum must allocate capital on credit, market and operational risk, while capital measurement and allocation on other relevant risk factors must be managed under Pillar 2. There are no exact rules for the measurement of economic capital, but according to the guidelines concerning this issue the regulators require from banks to measure and allocate capital on interest rate risk in the banking book. The article discusses the methods used for the measurement of interest rate risk of the banking from gap analysis to simulation techniques, analyses the requirements for stress testing and evaluates the methods used by internationally active large banks based on the information excerpted from their annual reports.

### **OPERATIONAL RISK DATA CONSORTIA AND THEIR APPLICABILITY – HUNOR, THE OPPORTUNITY OF HUNGARIAN BANKS**

DÁNIEL HOMOLYA–GERGELY SZABOLCS

European and hungarian regulation of credit institutions based on Basel II principles, inspire the institutions to apply more and more sophisticated techniques for identification, measurement and management of operational risk. The special nature of operational risk

compared to the credit and market risk provides great challenge in terms of methodological issues. Operational risk exposure could not be easily quantified, not only the the high frequency low impact (HFLI) events but the low frequency high impact (LFHI) events have to be taken into consideration as dominating factors in space of operational risk. Although probability of LFHI events could be hardly measured, this is because of the short observation period of internal loss databases. If there is a risk event observed in the past that does not mean, that there is no risk exposure. In case of historically not observed risks expert judgements and scenario analysis techniques or external loss data are usually applied. In this article we concentrate on external loss databases. External loss data could stem from so called public databases and consortium type databases. In 2007 under the umbrella of Hungarian Banking Association the Hungarian Operational Risk Database (HunOR) had been started its operation. HunOR is great opportunity for Hungarian institutions to exploit the advantages of using external data in the management of operational risk

In this article firstly we examines the external operational risk loss data sources, with special attention to data consortia, then we analyse the methodological issues of integrating internal and external loss data. In the third chapter there is a presentation of main features of HunOR. Finally we provide a comparative analysis of different data collection exercises and publicly available data from data consortia. We conclude based on our analysis, that there are similar trends among different loss data exercises, external databases, although the deviations provide evidence for creating data consortia on a regional or country basis.

**SOME THOUGHTS ABOUT THE RISK CHARACTERISTICS  
OF FOREIGN CURRENCY  
DENOMINATED ROLL OVER FINANCING**

ZOLTÁN SCHEPP

This paper investigates the two main reasons for expected cost advantages of foreign currency denominated roll over financing: currency risk premium and term premium required by foreign currency respectively by long term investors. Linear calculated term premium is emphasized as useful measure for study of interaction between interest rate and currency risk, and moreover for international comparisons. A simple cross-section analysis of the last two decades of data shows, that there is a near linear trade off between realized term premium and its standard deviation for the currencies with the most advanced interest rate derivative markets. A clear link to cross section properties of currency excess return is also detected. With this framework it can be shown that Hungarian debtor has low level of risk aversion, and their speculative motivation could be strengthened also by the fact that trade off properties of the forint are worse in international comparison.

**EQUITY RELEASE TRANSACTIONS:  
VALUES AND RISKS, INTERNATIONAL SURVEY**

JÁNOS KUN

Equity release transactions are present in the Hungarian financial market since the end of 2005 and their popularity is increasing. The paper investigates the characteristics, regulation and spreading of the equity release constructions in a number of developed countries: in the United States, United Kingdom, Canada and France, explores their risks and the way of their risk management. It can serve as background material for the enterprises that offer the constructions or wish to introduce them, for the creation of the Hungarian regulation, for the supervision of the constructions and the enterprises offering them.