

Case Study

Analysis of Risks facing Danish Mortgage Banks

About the Client

- The client is one of UK's leading private bank with more than £1 billion in invested assets
- The bank also manages a global portfolio of alternative investments encompassing real estate, currency and commodities

Business Objective

- The client wanted to develop an accurate understanding of the risks facing Danish mortgage banks, and their sustainability over the medium term. It wanted to:
 - Evaluate the risks facing the Danish economy and its mortgage banks and to determine whether they can withstand stringent regulatory changes
 - Identify structural issues and the possibility of their resolution
 - Ascertain the fair value of assets and take a decision to go long or short

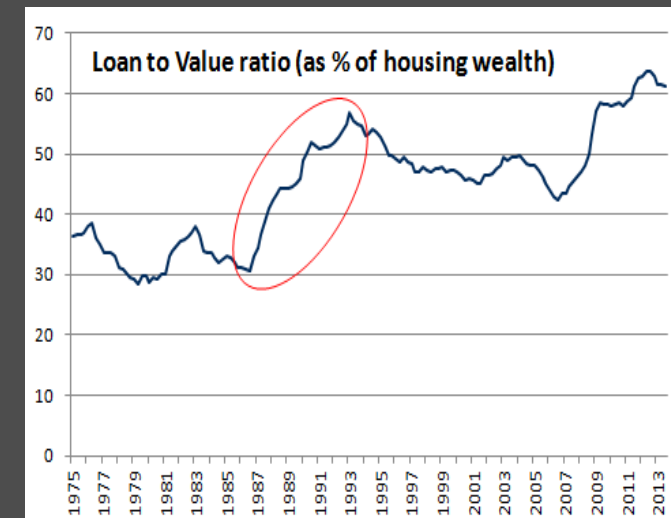
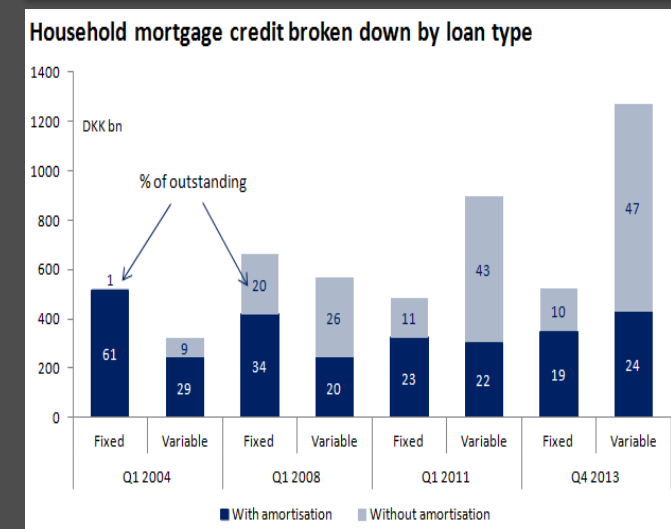
Results & Value Add

- The client was featured by a leading global financial magazine
- European covered bond council also invited the client to present its bearish view about Denmark, for which the client leveraged the report created by RocSearch

Research Methodology and Approach

- The team identified the specific characteristics of the Danish mortgage market through various academic literature, financial stability assessments, banks' financial analysis and statistical scenario analysis
- We extensively analysed working papers of multilateral institutions and other regulatory briefings to separate the hard facts from the surrounding propaganda. This enabled us to provide an impartial fundamental evaluation of the situation
- An initial understanding of the project was developed by reading through research articles from secondary sources. Next, we identified critical institutions that could come under duress due to nation-wide credit quality deterioration and maturity mismatch. This was followed by a comparative analysis of the Danish system with its European peers. We designed a primary survey to be conducted in Denmark for assessing borrowers' perception of the situation. Once it corroborated with our initial findings, we did a fair assessment of the situation and concluded that the market, regulators, borrowers and the mortgage banks are undervaluing the impending risks in the system. This helped the client to take a top-down negative view on the economy and position short on most of Danish assets

Screenshots





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Contact Us

Business Enquiries – sales@rocsearch.com

General Enquiries – info@rocsearch.com

www.rocsearch.com