

Survey<sup>1</sup> participants reported better assessments of the current state of the financial sector. Almost half of those surveyed said the financial system was functioning well. Respondents said that the state of the financial sector had improved over the last six months. Expectations for the next six months also changed for the better compared to the May survey – twice as many respondents expected the state of the financial sector to improve. As in the previous survey, the overall risk level in the financial sector was believed to be above average, while the sector's resilience to high-impact negative events was characterized as being below average. Financial institutions reported no change in their risk appetite.

In November 2019, respondents cited corruption and the performance of the law enforcement authorities and the judicial system as the main source of risk. Such views have been reported for four reports in a row. The fraud and cyber threat factor was ranked second in terms of significance for the first time since the survey began.

Respondents have been reporting improvements in the current state of the financial sector for two surveys running. The balance of responses<sup>2</sup> turned from negative (-5%) to positive (+10%) compared to the first survey (May 2018). In November 2019, only one out of five participants assessed the state of the financial sector as being below satisfactory.

Most respondents said that the state of the financial sector had changed little over the last six months. Nevertheless, 42% of respondents reported an improvement, with only 4% reporting a deterioration.

There was a noticeable improvement in assessments of the financial sector outlook for the next six months. In the previous survey (May 2019), mostly neutral expectations were reported. The current survey showed an increase in the share of upbeat top managers, who expect an improvement in the state of the financial sector.

Despite relatively high assessments of the current and future state of the financial sector, 23% of the surveyed financial institutions said that the overall risk level was high or very high. That said, there was an improvement in assessments – the balance of responses moved up by 12 pp, from (-18%) to (-6%).

The assessment of the financial sector's resilience to high-impact negative events improved compared to the previous survey, but still remains low. A total of 19% of respondents described the financial sector's resilience as low or very low (compared to 39% in May).

For four reports running, respondents have cited corruption and the performance of the law enforcement authorities and the judicial system as the main source of risk for the financial sector. Some 92% of respondents believed this factor to be a source of high or very high risk. Survey participants ranked fraud and cyber threats as second most important factor, while in the previous survey this factor was ranked fifth in terms of importance. The top five sources of risk also included the state of protection of creditor and investor rights, the political and social situation in Ukraine, and the state of cooperation with international financial institutions. These factors were also cited as the most important factors in the four previous surveys.

Potential risks that could arise from fraud and cyber threats and competition on the financial services market increased the most.

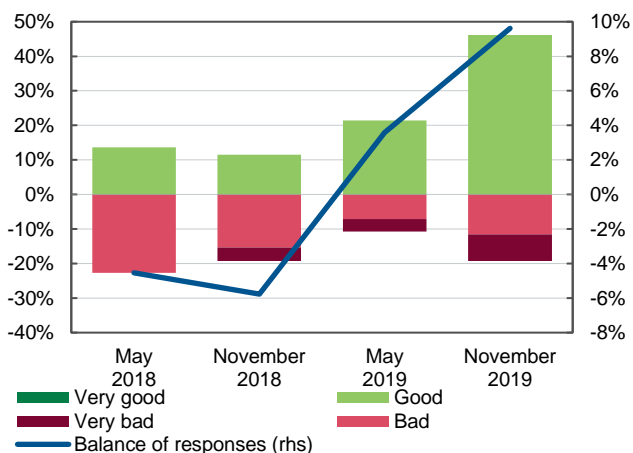
The risk of access to funding decreased most of all. Factors related to economic and financial risks remain of no concern to market participants. In particular, the risk of expected inflation has been ranked as the least important factor for two surveys running. The factor of exchange rate movements and volatility was cited as one of the least significant risks for the financial system.

The surveyed top managers reported no significant change in the risk appetite of their financial institutions over the last six months. Despite that, one out of five respondents reported a higher risk appetite.

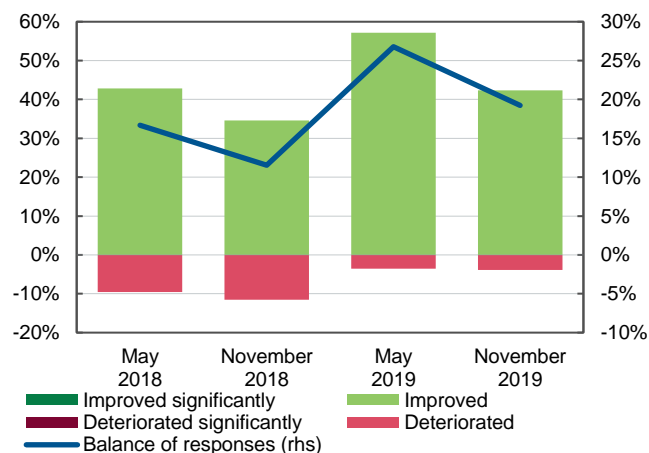
<sup>1</sup> See page 5 for information about the survey.

<sup>2</sup> Here and below, the balances of responses are aggregates, calculated as the sum of the numbers of each response, weighted by weight coefficients ranging from -1 to 1. For example, 1 for "improved greatly," 0.5 for "improved," 0 for "no change" and so on. Balances of responses can lie between ±100. A positive balance of responses shows that respondents generally estimate that an indicator has improved or a risk has declined.

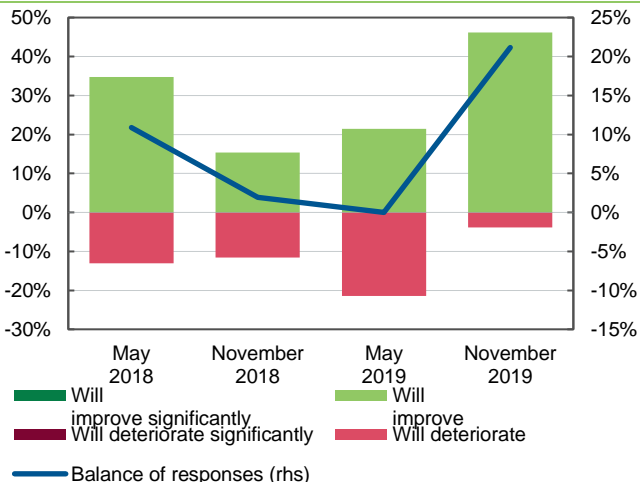
**Figure 1. How respondents assess the current state of the Ukrainian financial sector**



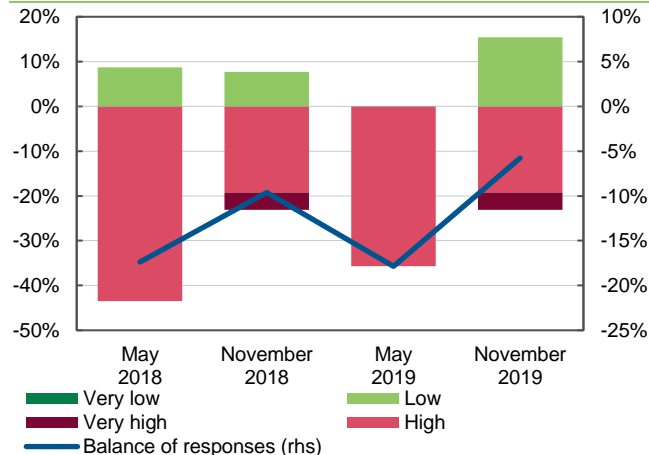
**Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months**



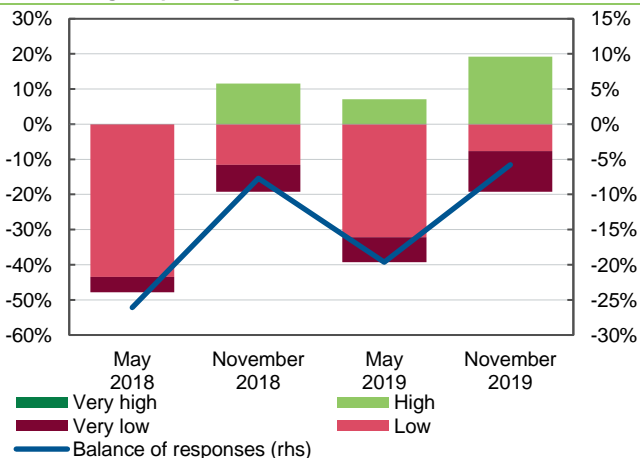
**Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months**



**Figure 4. Perceptions of the total risk level in the Ukrainian financial sector**



**Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events**



**Figure 6. How respondents' risk appetite has changed over the last six months**

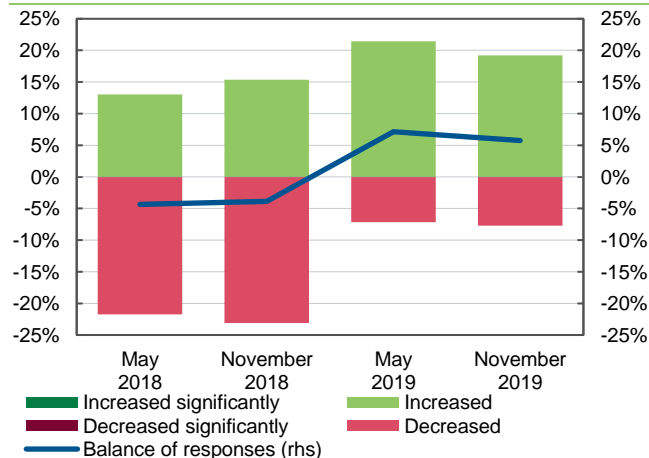
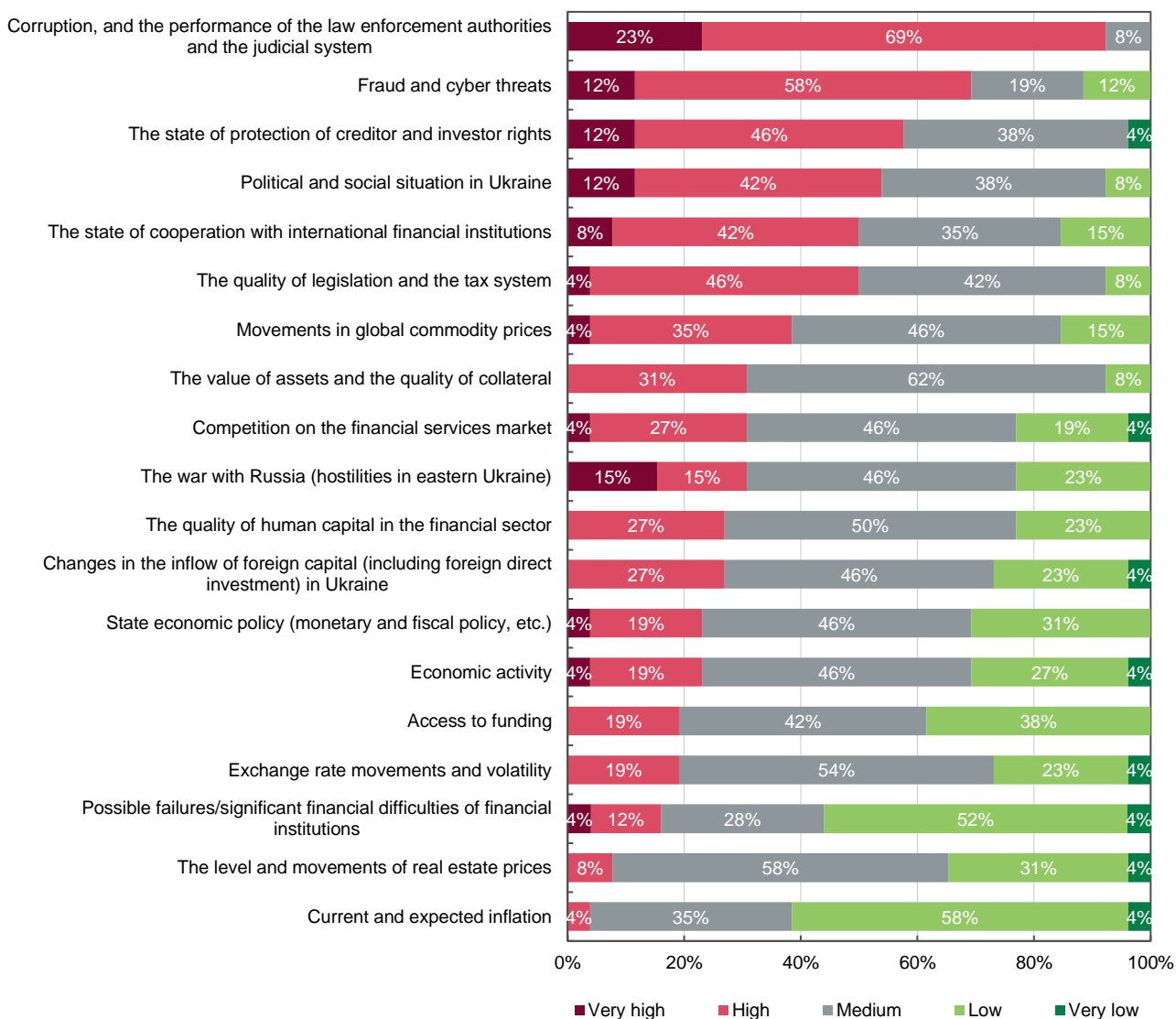


Figure 7. The risk level in the financial sector, as determined by specific factors, November 2019\*



\* The order in which the factors appears in this figure has been determined on the basis of “very high” and “high” responses.

Table 1. Ranks of risk factors (determined on the basis of “very high” and “high” responses)

Risk factors	Rank, November 2019	Rank, May 2019	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial system	1	1	0
Fraud and cyber threats	2	5	3
The state of protection of creditor and investor rights	3	4	1
Political and social situation in Ukraine	4	2	-2
The state of cooperation with international financial institutions	5	3	-2
The quality of legislation and the tax system	5	10	5
Movements in global commodity prices	7	6	-1
The value of assets and the quality of collateral	8	12	4
Competition on the financial services market	8	15	7
The war with Russia (hostilities in eastern Ukraine)	8	8	0
The quality of human capital in the financial sector	11	11	0
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	11	9	-2
State economic policy (monetary and fiscal policy, etc.)	13	14	1
Economic activity	13	17	4
Access to funding	15	7	-8
Exchange rate movements and volatility	15	12	-3
Possible failures/significant financial difficulties of financial institutions	17	15	-2
The level and movements of real estate prices	18	18	0
Current and expected inflation	19	18	-1

## Annex: Survey findings

Balance of responses, %				Answer options, November 2019, %					N
05'18	11'18	05'19	11'19						
<b>1. What is your perception of state of the Ukrainian financial sector today?</b>									
				Very bad	Bad	Satisfactory	Good	Very good	
-5%	-6%	4%	10%	8%	12%	35%	46%	0%	26
<b>2. How do you think the state of the Ukrainian financial sector has changed over the last six months?</b>									
				Deteriorated significantly	Deteriorated	Has not changed	Improved	Improved significantly	
17%	12%	27%	19%	0%	4%	54%	42%	0%	26
<b>3. How do you think the state of the financial sector will change over the next six months?</b>									
				Will deteriorate significantly	Will deteriorate	Will not change	Will improve	Will improve significantly	
11%	2%	0%	21%	0%	4%	50%	46%	0%	26
<b>4. What is your perception of the total risk level in the financial sector?</b>									
				Very high	High	Medium	Low	Very low	
-17%	-10%	-18%	-6%	4%	19%	62%	15%	0%	26
<b>5. What is your assessment of the financial sector's resilience to high-impact negative events?</b>									
				Very low	Low	Medium	High	Very high	
-26%	-8%	-20%	-6%	12%	8%	62%	19%	0%	26
<b>6. What are your perceptions of the financial sector's risks stemming from the following factors</b>									
				Very high	High	Medium	Low	Very low	
6.1. Political and social situation in Ukraine									
-46%	-37%	-57%	-29%	12%	42%	38%	8%	0%	26
6.2. The war with Russia (hostilities in eastern Ukraine)									
-15%	-17%	-18%	-12%	15%	15%	46%	23%	0%	26
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system									
-54%	-52%	-57%	-58%	23%	69%	8%	0%	0%	26
6.4. The quality of legislation and the tax system									
-20%	-29%	-14%	-23%	4%	46%	42%	8%	0%	26
6.5. The state of protection of creditor and investor rights									
-33%	-42%	-36%	-31%	12%	46%	38%	0%	4%	26
6.6. Economic activity									
7%	-8%	7%	4%	4%	19%	46%	27%	4%	26
6.7. Current and expected inflation									
-4%	-4%	16%	31%	0%	4%	35%	58%	4%	26
6.8. State economic policy (monetary and fiscal policy, etc.)									
2%	-6%	0%	2%	4%	19%	46%	31%	0%	26
6.9. Exchange rate movements and volatility									
-20%	-20%	-9%	6%	0%	19%	54%	23%	4%	26
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine									
4%	2%	-10%	2%	0%	27%	46%	23%	4%	26
6.11. Movements in global commodity prices									
-15%	-27%	-24%	-13%	4%	35%	46%	15%	0%	26
6.12. The state of cooperation with international financial institutions									
-35%	-44%	-54%	-21%	8%	42%	35%	15%	0%	26
6.13. Possible failures/significant financial difficulties of financial institutions									
11%	25%	18%	20%	4%	12%	28%	52%	4%	25
6.14. Competition on the financial services market									
13%	-10%	5%	-4%	4%	27%	46%	19%	4%	26
6.15. Access to funding									
9%	-21%	-18%	10%	0%	19%	42%	38%	0%	26
6.16. The quality of human capital in the financial sector									
-4%	-10%	-13%	-2%	0%	27%	50%	23%	0%	26
6.17. The value of assets and the quality of collateral									
-13%	0%	-7%	-12%	0%	31%	62%	8%	0%	26
6.18. The level and movements of real estate prices									
17%	17%	18%	15%	0%	8%	58%	31%	4%	26
6.19. Fraud and cyber threats									
-37%	-37%	-25%	-35%	12%	58%	19%	12%	0%	26
<b>7. How has the risk appetite of your institution changed over the last six months?</b>									
				Decreased significantly	Decreased	Has not changed	Increased	Increased significantly	
-4%	-4%	7%	6%	0%	8%	73%	19%	0%	26

## Information about the survey

In May 2018, the NBU introduced a survey of the financial sector's systemic risks. Twice a year, top managers from the largest Ukrainian banks and non-bank financial institutions respond to the questions of this survey of financial sector risks. Central banks use such surveys to monitor perception of such risks by market participants, and to respond to them in a timely manner.

This report shows how top managers of financial institutions assessed the state of the financial sector over the past six months, and what they expect for the following six months. This survey was carried out from 11 November through 22 November 2019. Executives from 18 banks, 6 insurance companies, and 2 investment firms took part in this survey. The survey did not cover financial institutions under sanctions. Final results were calculated by giving equal weight to each survey response, regardless of the size of the bank/company, or its market share.

The results are based on the respondents' opinions and do not necessarily reflect the NBU's views.

The next report will be published in May 2020.