

Respondents<sup>1</sup> view the current state of the financial sector as satisfactory, although their assessments declined for the second survey in a row. Almost half of respondents pointed to a deterioration in the state of the financial sector over the previous six months. The majority of the surveyed financial institutions have pessimistic expectations for the following six months. However, the share of respondents that negatively assessed the state of the financial sector was smaller compared to May. The overall risk level is still above average, with assessments remaining practically unchanged since the May survey. Respondents believe the sector has become slightly less resilient to high-impact adverse events. Financial institutions' risk appetites have also decreased somewhat.

In November 2020, top managers of financial institutions continued to cite corruption and the performance of the law enforcement authorities and the judicial system as the main sources of risk. The balance of responses for this risk was the worst since the survey was launched in May 2018. Respondents noted sharp rises in the risk to cooperation with international financial institutions (IFIs) and the risk of a deterioration in Ukraine's political and social conditions. Economic risks, which prevailed in the May survey, were reported as less important. The risk to the protection of creditor and investor rights returned to the top five. Despite the crisis, threats to accessing funding and the risk of the bankruptcy of financial institutions were rated the lowest among the sources of risk.

For the second survey in a row, respondents provided slightly gloomier assessments of the current state of the financial sector. That said, the balance of responses<sup>2</sup> remained positive (5%). Only a fifth of top managers assessed current conditions in the financial sector as worse than satisfactory.

Respondents' opinions about how the state of the sector has changed over six months were split: 42% of respondents reported no change in the state of the financial sector, while 48% pointed to a deterioration. The balance of responses thus remained negative (-21%) for the second time in a row.

Respondents were mainly pessimistic in their assessments of the outlook for the financial sector over the next six months. However, the share of respondents with downbeat expectations decreased markedly. In May 2020, 71% of respondents expected a deterioration, while now 48% of respondents expect a deterioration.

Assessments of the overall level of risk in the financial sector have remained negative since May 2018. For the second survey in a row, around a third of respondents saw the level of risk as high or very high.

According to responses in the two latest surveys, the financial sector's resilience to high-impact adverse events has been decreasing. The sector's resilience was viewed as low or very low by 27% of respondents, while 64% assessed it as medium.

The latest survey once again showed that corruption and the performance of the law enforcement authorities and the judicial system remain the main source of risk for the financial sector. Some 91% of respondents believed this factor to be a source of high or very high risk. The balance of responses was the worst since the survey was launched in May 2018.

The risks to cooperation with IFIs grew the most over the six months, with the proportion of respondents who assessed these risks as very high being the largest since May 2019. The top three threats also included a deterioration in political and social conditions in the country, which ranked only fifth in the previous survey. The main sources of risk included, as usual, fraud, cyber threats, and creditor and investor rights protection.

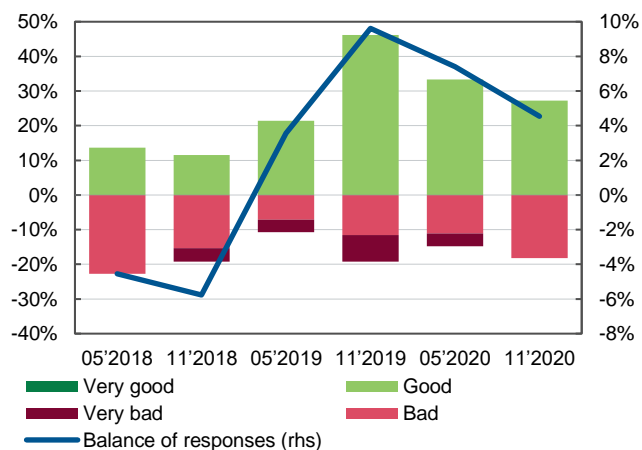
Economic factors dropping to the bottom of the list indicated a reduction in the risk of worsening economic conditions. Risks declined the most for unfavorable changes in economic activity and raw material prices. A total of 35% and 36% respondents respectively said in November 2020 that these risks were high, compared to 74% and 67% in May 2020. Despite the reported serious threats to the financial system, respondents viewed the risks of accessing funding or going bankrupt as the lowest.

Financial institutions' risk appetites have decreased somewhat over the past six months, according to 22% of top managers.

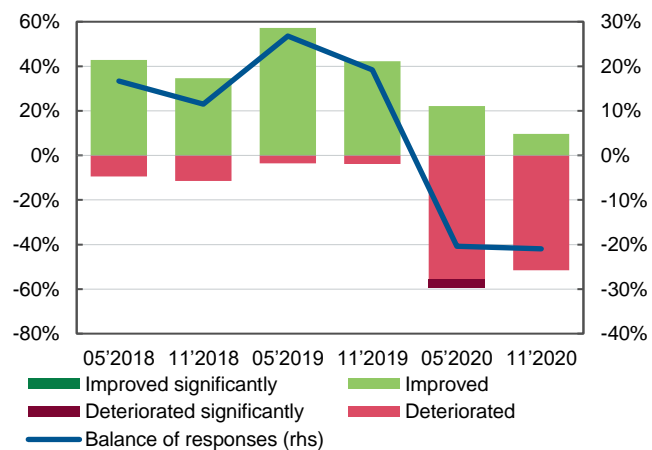
<sup>1</sup> See page 5 for information about the Survey.

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

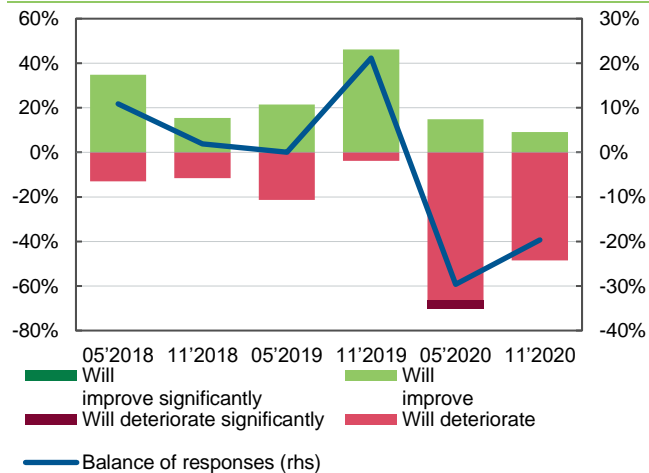
**Figure 1. How respondents assess the current state of the Ukrainian financial sector**



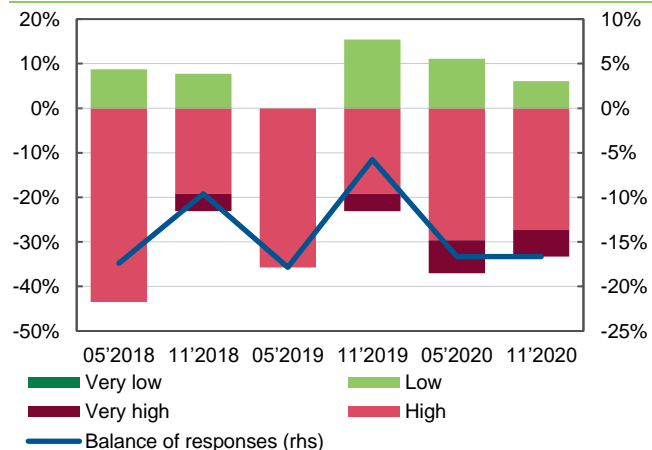
**Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months**



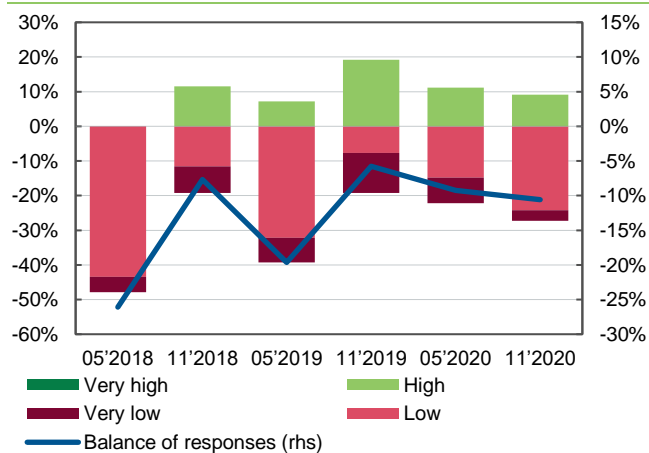
**Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months**



**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**

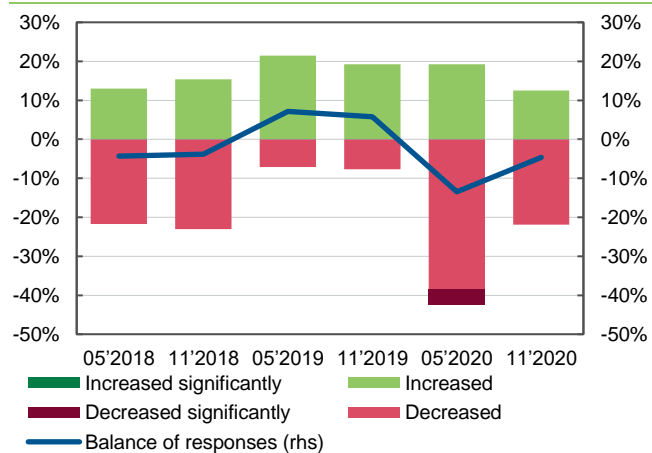
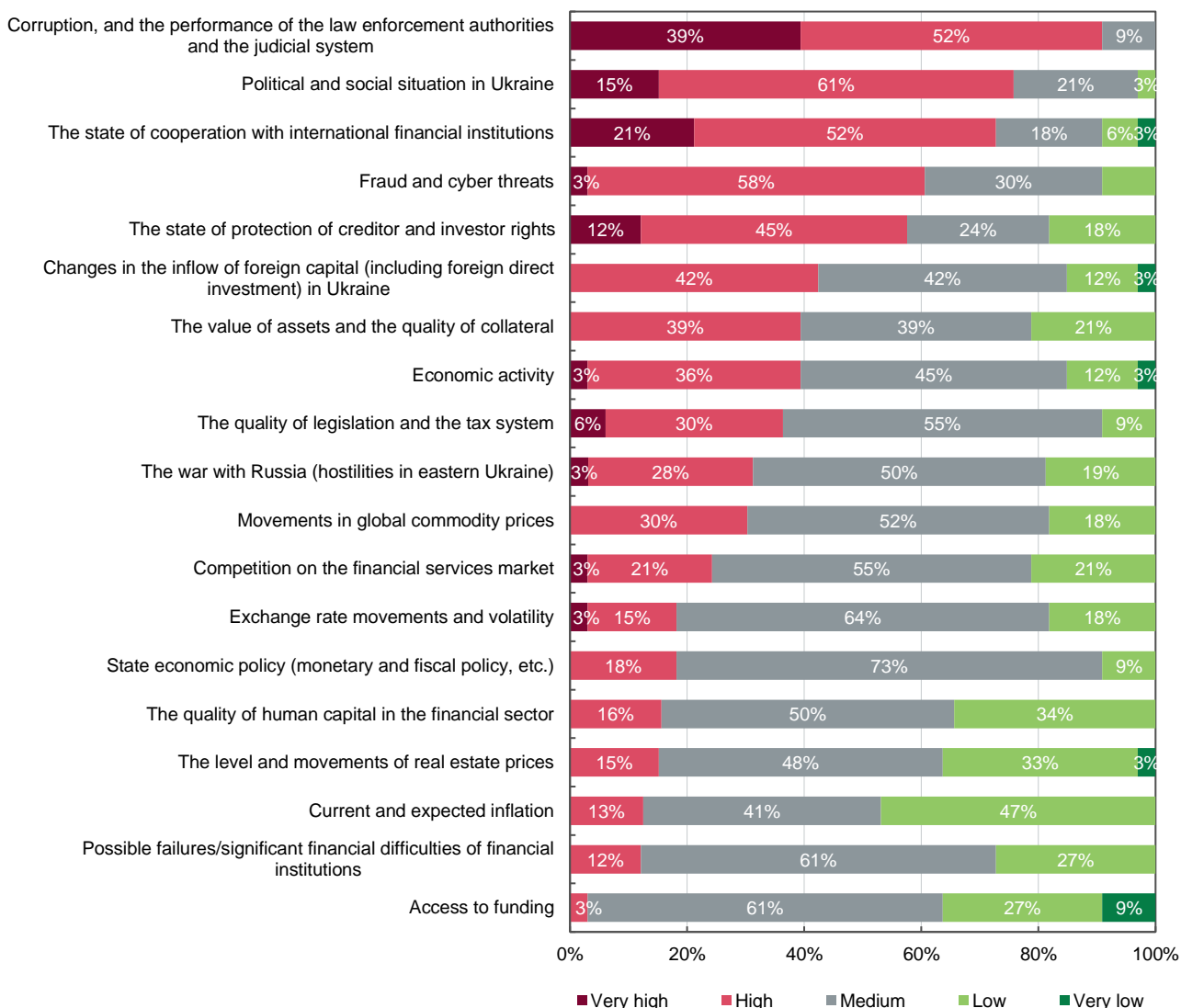


Figure 7. The risk level in the financial sector, as determined by specific factors, November 2020\*



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

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

Risk factors	Rank, November 2020	Rank, May 2020	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial system	1	1	0
Political and social situation in Ukraine	2	5	3
The state of cooperation with international financial institutions	3	8	5
Fraud and cyber threats	4	4	0
The state of protection of creditor and investor rights	5	7	2
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	6	6	0
Economic activity	7	2	-5
The value of assets and the quality of collateral	7	10	3
The quality of legislation and the tax system	9	9	0
The war with Russia (hostilities in eastern Ukraine)	10	12	2
Movements in global commodity prices	11	3	-8
Competition on the financial services market	12	14	2
State economic policy (monetary and fiscal policy, etc.)	13	11	-2
Exchange rate movements and volatility	13	14	1
The quality of human capital in the financial sector	15	12	-3
The level and movements of real estate prices	16	14	-2
Current and expected inflation	17	17	0
Possible failures/significant financial difficulties of financial institutions	18	19	1
Access to funding	19	18	-1

## Annex. Survey findings

	Balance of responses, %						Answer options, November 2020, %					N
	05'18	11'18	05'19	11'19	05'20	11'20						
<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%	7%	5%	0%	18%	55%	27%	0%	33
<b>2. How do you think the state of the Ukrainian financial sector has changed over the last six months?</b>							Deteriorated significantly	Deteriorated as not changed	Improved	Improved significantly		
	17%	12%	27%	19%	-20%	-21%	0%	52%	39%	10%	0%	31
<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%	-30%	-20%	0%	48%	42%	9%	0%	33
<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%	-17%	-17%	6%	27%	61%	6%	0%	33
<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%	-9%	-11%	3%	24%	64%	9%	0%	33
<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%	-35%	-44%	15%	61%	21%	3%	0%	33
6.2. The war with Russia (hostilities in eastern Ukraine)	-15%	-17%	-18%	-12%	0%	-8%	3%	28%	50%	19%	0%	32
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	39%	52%	9%	0%	0%	33
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	6%	30%	55%	9%	0%	33
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	12%	45%	24%	18%	0%	33
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	3%	36%	45%	12%	3%	33
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	0%	13%	41%	47%	0%	32
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	0%	18%	73%	9%	0%	33
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	3%	15%	64%	18%	0%	33
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	0%	42%	42%	12%	3%	33
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	0%	30%	52%	18%	0%	33
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	21%	52%	18%	6%	3%	33
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	0%	12%	61%	27%	0%	33
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	21%	55%	21%	0%	33
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	0%	3%	61%	27%	9%	33
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	0%	16%	50%	34%	0%	32
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	39%	39%	21%	0%	33
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	0%	15%	48%	33%	3%	33
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	3%	58%	30%	9%	0%	33
<b>7. How has the risk appetite of your institution changed over the last six months?</b>							Decreased significantly	Decreased as not changed	Increased	Increased significantly		
	-4%	-4%	7%	6%	-13%	-5%	0%	22%	66%	13%	0%	32

## Survey Information

In May 2018, the National Bank of Ukraine introduced a survey of the financial sector's systemic risks. This survey of financial sector risks is completed twice a year by executives from the largest banks and nonbank financial institutions of Ukraine. Central banks use such surveys to monitor how market participants perceive such risks, so as to be able to respond in good time.

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. The survey was conducted from 11 through 25 November 2020. Executives from 19 banks, 12 insurance companies, and two investment firms took part in this survey. Financial institutions against which sanctions have been imposed were not surveyed. Summary 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 presented are based on the respondents' opinions and do not necessarily reflect the views of the National Bank of Ukraine.

The next report will be published in May 2021.