

In November, respondents' assessments of the Ukrainian financial sector's current standing improved to all-time highs<sup>1</sup>. Financial sector conditions have changed for the better over the past six months, respondents said. Most of the polled financial institutions said they did not expect negative changes in the next six months, while one in five respondents said the financial sector's performance would continue to improve. Estimates of overall risk improved, but the risk remained above average. Respondents believed that the financial sector's resilience to high-impact adverse events had increased: the balance of responses came out positive for the first time. Financial institutions reported an increase in their risk appetite.

Top managers of financial institutions named the overall level of corruption, the activities of law enforcement authorities, and the judiciary as the main source of risk, which they said had eased somewhat during the year. The risk of Russia escalating its military aggression in the east of Ukraine has risen over the past 12 months, respondents said. Fraud, cyber attacks, and inadequate protection of creditors' and investors' rights remained major risks. Economic risks, which had loomed large throughout the coronavirus crisis, eased, although inflation risks increased markedly. This was the first time that respondents assessed the risks of quarantine restrictions and climate change, ranking them as low-impact.

In November 2021, the management of Ukraine's largest banks and NBFIs yet again improved their estimates of the financial sector's current performance. This was the second straight survey to show the highest balance of responses since 2018, when these polls began<sup>2</sup>. More than half of respondents rated the financial sector's current standing as good, with only 5% of executives saying it was below satisfactory.

Estimates of changes in the sector over the past six months have also improved during this year. The percentage of respondents who said that performance had deteriorated halved. As positive as it was, the balance of responses has yet to reach the level of 2019: most respondents did not see any changes.

The current poll captured a slight decrease in upbeat estimates of the financial sector's prospects for the next six months. The balance of responses fell by 10 pp, but remained positive.

This was the third poll in a row to show a decline in the share of respondents estimating the overall level of financial sector risk as high or very high. Moreover, the share of those ranking it as low expanded. However, the overall risk was still assessed as above average.

A higher percentage of respondents said in November that the financial sector's resilience to high-impact adverse events was high or very high. The balance of responses came in as positive for the first time since these surveys began.

The survey once again reiterated that corruption, law enforcement, and the judiciary remained the main source of risk for the financial sector. However, the share of respondents who ranked this risk factor as high or very high shrank to its lowest since May 2018.

Over the past 12 months, assessments of the risk that Russia's military aggression against Ukraine may escalate have increased markedly. This is the first time since these polls began that this threat has been cited among the top three risks. Fraud, cyber attacks, and inadequate protection of creditors' and investors' rights remained major threats. Risks of changes in global commodity prices were named among the top five. In November, respondents were asked to assess new risk factors. As a result, "anti-pandemic quarantine measures" ranked eighth, while "climate change" appeared at the bottom of the most risky factors list.

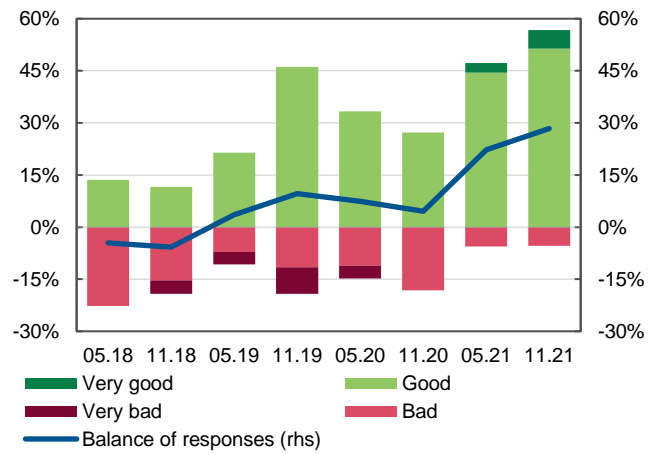
Estimates of economic risk factors continued to improve. Risks eased the most in the following categories: "level of economic activity", "dynamics of foreign capital inflows", "progress of cooperation with IFIs", and "possibility of bankruptcy or significant financial difficulties of financial institutions". In contrast, risks associated with expected inflation and financial market competition increased markedly.

Overall, the risk appetite of Ukraine's financial institutions has slightly risen over the past six months.

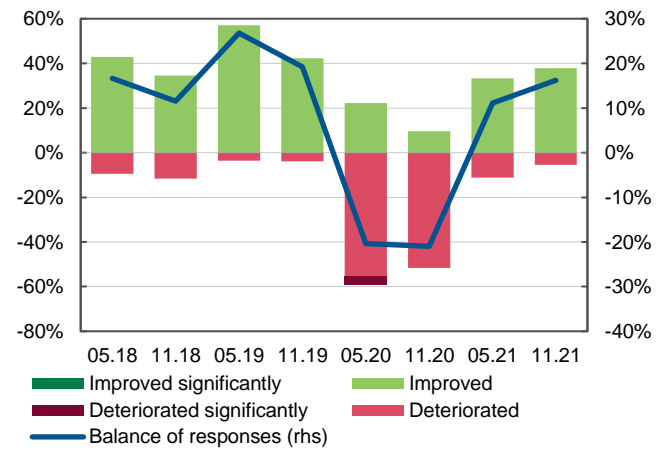
<sup>1</sup> See page 5 for [information about the survey](#).

<sup>2</sup> Hereinafter, the balances of responses are aggregate indicators calculated as the sum of the quantities of each response to a question that are assigned weights ranging from -1 to 1. Specifically, 1 stands for "significantly improved", 0.5 for "improved", 0 for "unchanged", and so on. A balance of responses can have a value in the range of  $\pm 100\%$ . A positive balance of responses means that, overall, respondents believe that the indicator has improved or the risk has eased.

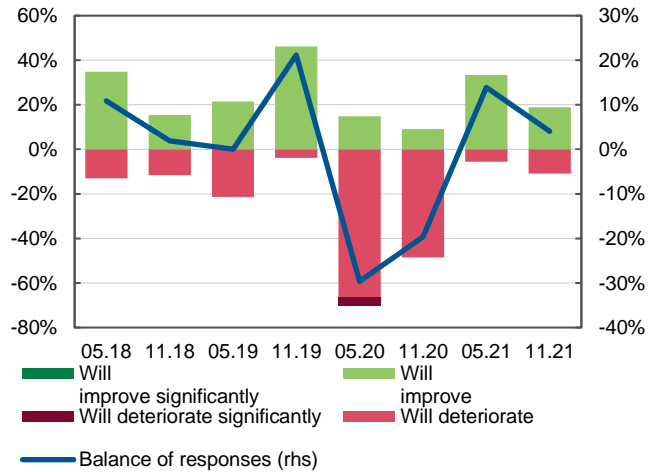
**Figure 1. How respondents assess the current state of the Ukrainian financial sector**



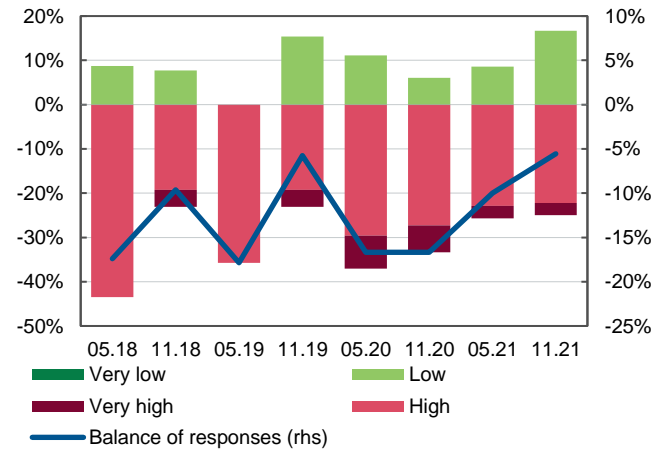
**Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months**



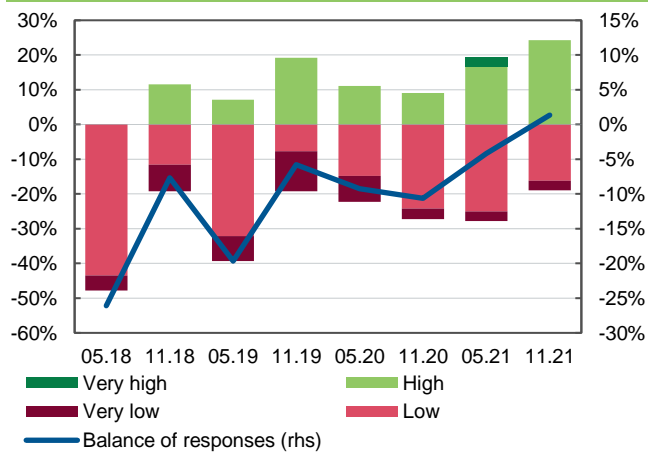
**Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months**



**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**

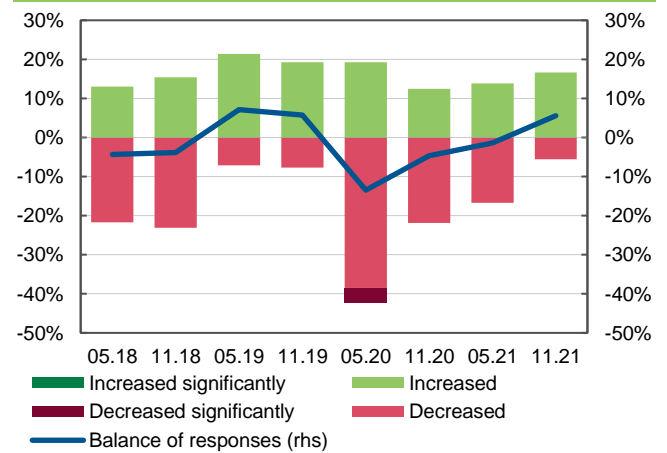
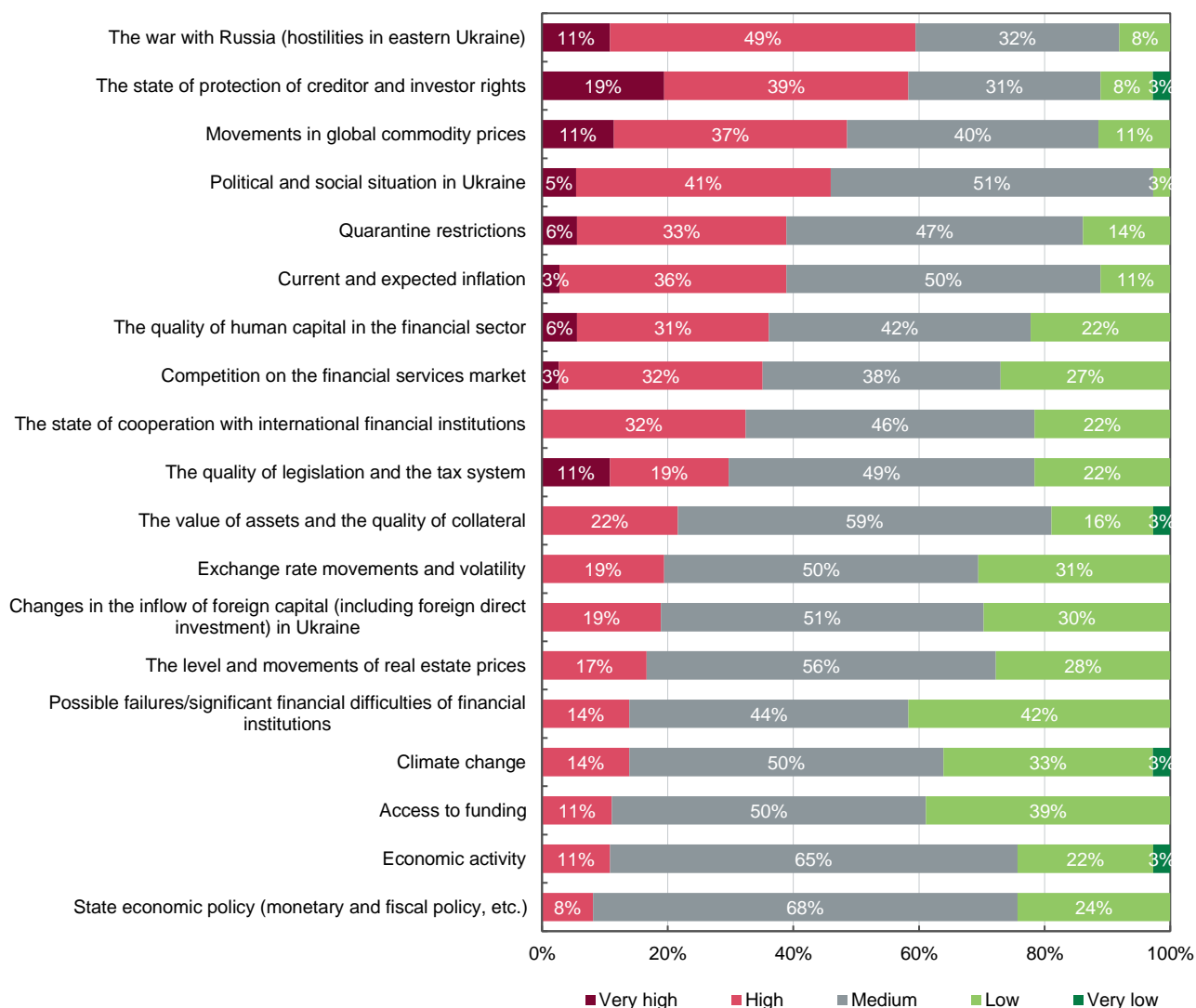


Figure 7. The risk level in the financial sector, as determined by specific factors, November 2021\*



\* 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 2021	Rank, May 2021	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial	1	1	0
Fraud and cyber threats	2	2	0
The war with Russia (hostilities in eastern Ukraine)	3	5	2
The state of protection of creditor and investor rights	4	3	-1
Movements in global commodity prices	5	9	4
Political and social situation in Ukraine	6	6	0
Quarantine restrictions	7	14	7
Current and expected inflation	8	x	x
The quality of human capital in the financial sector	9	12	3
Competition on the financial services market	10	15	5
The state of cooperation with international financial institutions	11	4	-7
The quality of legislation and the tax system	12	8	-4
The value of assets and the quality of collateral	13	11	-2
Exchange rate movements and volatility	14	16	2
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	15	7	-8
The level and movements of real estate prices	16	17	1
Possible failures/significant financial difficulties of financial institutions	17	12	-5
Climate change	17	x	x
Access to funding	19	17	-2
Economic activity	20	9	-11
State economic policy (monetary and fiscal policy, etc.)	21	17	-4

## Annex. Survey findings

Balance of responses	2018		2019		2020		2021	
	May	November	May	November	May	November	May	November
<b>1. What is your perception of state of the Ukrainian financial sector today?</b>	-5%	-6%	4%	10%	7%	5%	22%	28%
<b>2. How do you think the state of the Ukrainian financial sector has changed over the last six months?</b>	17%	12%	27%	19%	-20%	-21%	11%	16%
<b>3. How do you think the state of the financial sector will change over the next six months?</b>	11%	2%	0%	21%	-30%	-20%	14%	4%
<b>4. What is your perception of the total risk level in the financial sector?</b>	-17%	-10%	-18%	-6%	-17%	-17%	-10%	-6%
<b>5. What is your assessment of the financial sector's resilience to high-impact negative events?</b>	-26%	-8%	-20%	-6%	-9%	-11%	-4%	1%
<b>6. What are your perceptions of the financial sector's risks stemming from the following factors</b>								
6.1. Political and social situation in Ukraine	-46%	-37%	-57%	-29%	-35%	-44%	-21%	-24%
6.2. The war with Russia (hostilities in eastern Ukraine)	-15%	-17%	-18%	-12%	0%	-8%	-24%	-31%
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	-51%	-46%
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	-9%
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	-32%
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	8%
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	-15%
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	8%
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	6%
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	-13%	5%
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	-24%
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	-5%
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	14%
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	-5%
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	14%
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	-10%
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	6%
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	-35%
6.19. Climate change	x	x	x	x	x	x	x	13%
6.21. Quarantine restrictions	x	x	x	x	x	x	x	-15%
<b>7. How has the risk appetite of your institution changed over the last six months?</b>	-4%	-4%	7%	6%	-13%	-5%	-1%	6%

## 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 10 through 24 November 2021. Executives from 22 banks, 12 insurance companies, and three 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 2022.