

Even as Russia's military aggression against Ukraine wore on, most survey participants<sup>1</sup> assessed financial sector conditions as satisfactory. Over half of respondents noted a drop in the sector's performance over the past half a year, and predicted that adverse trends would persist in the next six months. However, the share of those who perceived past and future changes in the financial sector as negative shrank significantly. Estimates of the overall risk remained high, but had eased since May. Respondents continued to emphasize the sector's resilience to significant adverse events. The aggregate risk appetite of financial institutions remained unchanged.

Top managers said, as they did six months ago, that the war with Russia was the source of the highest risk. Elevated risks to the financial sector were also driven by inflation, the level of business activity, and exchange rate dynamics. The risk of fraud and cyber threats traditionally stayed in the top five.

In November 2022, top managers of Ukrainian financial institutions slightly improved their assessments of the current standing of the financial sector compared to May. The share of those who rated the sector's conditions as bad or very bad was down 12 pp from May, to 17%. At the same time, three quarters of respondents perceived the financial sector's current standing as satisfactory.

Most respondents highlighted the deterioration in the financial sector's performance in the last six months. However, the share of financial institutions that reported a worsening shrank by 17 pp compared to May, to 72%. One in four managers said that financial sector conditions remained unchanged. At the same time, expectations for the future of financial market players improved. The share of those expecting worse financial sector conditions in the next six months almost halved, to 50% of respondents. Another 43% of respondents anticipate no changes.

With the full-scale war grinding on, the overall level of risk in the financial sector was high or very high, the vast majority of respondents said, as before. However, the proportion of executives who deemed the level of risk very high declined from the May survey, while that of respondents with neutral assessments rose.

Despite heightened risks and rather downbeat expectations for future financial sector dynamics, confidence in the sector's resilience is strong. Specifically, the share of respondents who rated the financial sector's resilience to high-impact

adverse events as high or very high increased in the past six months. About half of the financial institutions rated the sector's resilience as average. The share of respondents who assessed its resilience as low or very low declined notably. As a result, the aggregate balance<sup>2</sup> of responses came in at an all-time high since the surveys began in May 2018.

The list of the main sources of financial sector risks had hardly changed from the May survey. As six months ago, all respondents agreed that the war with Russia posed high or very high risks. Corruption and the performance of law enforcement authorities and courts – a factor that prior to the full-scale invasion was the constant main source of the sector's risks – barely made it to the top ten. Inflation and the exchange rate continued to lead the way as risk drivers. Over the past six months, risks associated with the level of business activity had surged. The risks of fraud and cyber threats also rose: they were by tradition among the top five.

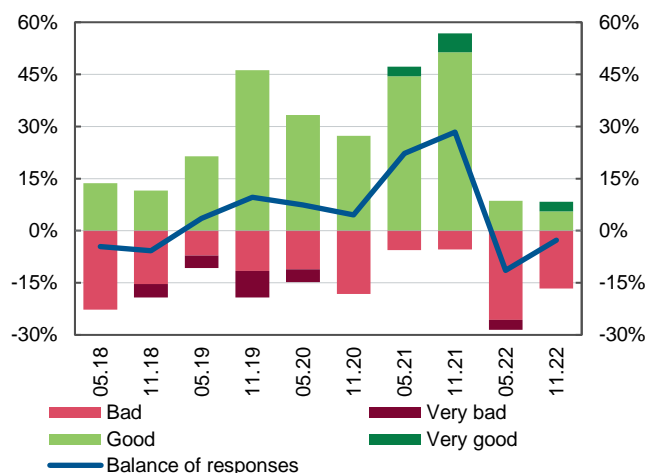
In contrast, factors like foreign capital (investment) inflows, asset prices, quality of collateral, as well as the country's political and social situation, slid noticeably down the ranking relative to six months ago.

Overall, financial institutions' risk appetite did not change in the six months since the decrease in May. This was reported by about half of respondents. The rest of them diverged on the change in risk appetite: half of them said that it had risen, the other that it had continued to fall.

<sup>1</sup> To read about the survey, go to page 5.

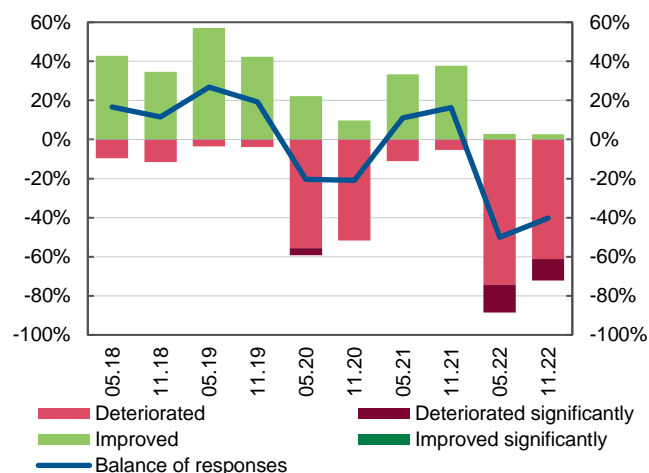
<sup>2</sup> Hereinafter, the balances of responses are aggregate indicators calculated as the sum of the quantities of each response to a question that are assigned weights ranging from -1 to 1. Specifically, 1 stands for "significantly improved", 0.5 for "improved", 0 for "unchanged", and so on. A 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**

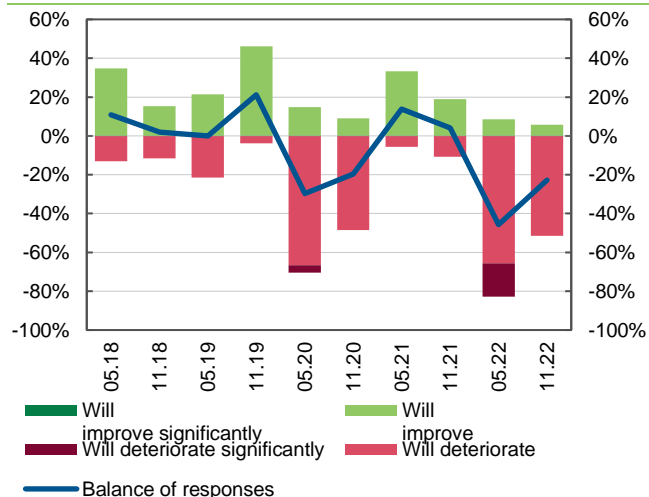


The sum of responses may differ from 100% due to response options "has not changed" or "moderate". These responses were not reflected on graphs as they do not affect the balance of responses.

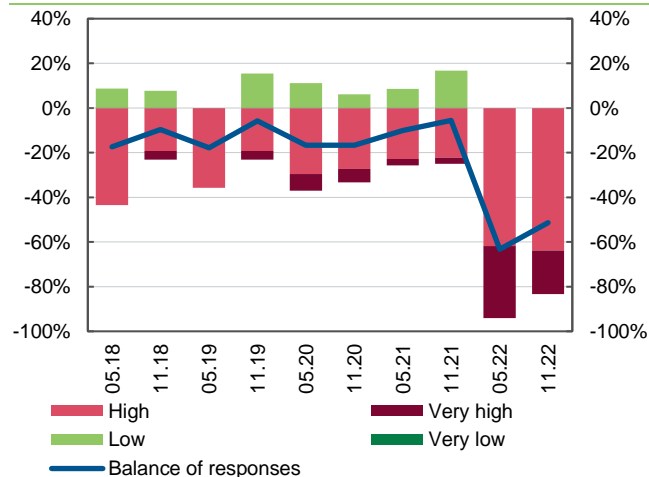
**Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months**



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

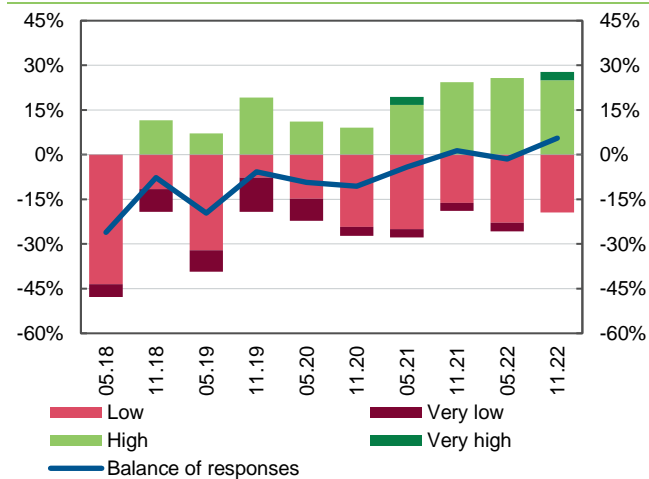


**Figure 4. Perceptions of the total risk level in the Ukrainian financial sector**

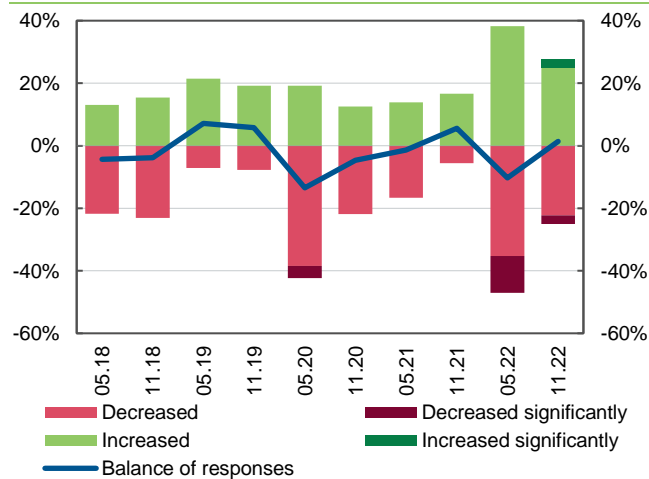


The sum of responses may differ from 100% due to response options "has not changed" or "moderate". These responses were not reflected on graphs as they do not affect the balance of responses.

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

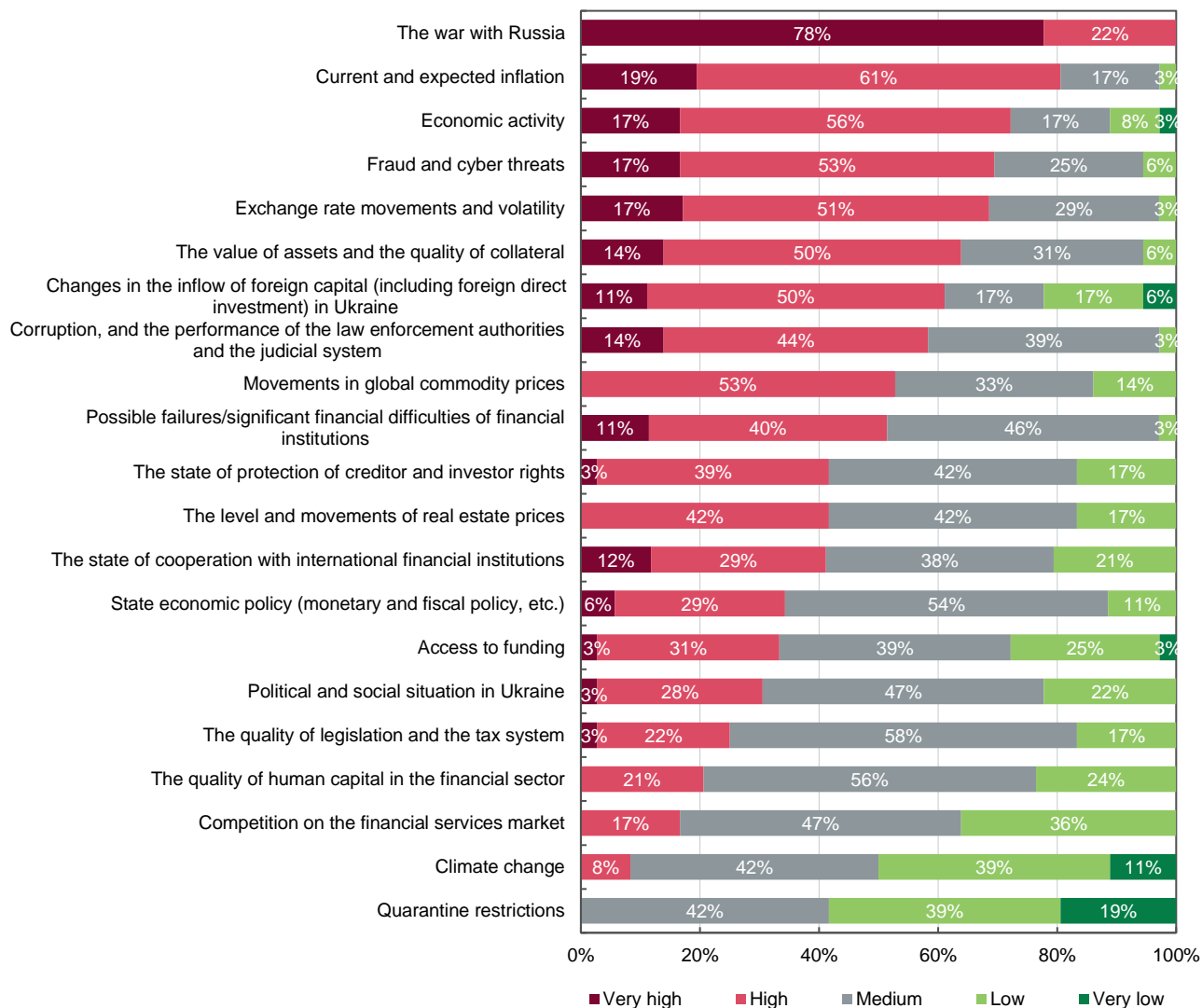


**Figure 6. How respondents' risk appetite has changed over the last six months**



The sum of responses may differ from 100% due to response options "has not changed" or "moderate". These responses were not reflected on graphs as they do not affect the balance of responses.

Figure 7. The risk level in the financial sector, as determined by specific factors, November 2022\*



\* 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 2022	Rank, May 2022	Difference, +/-
The war with Russia	1	1	0
Current and expected inflation	2	2	0
Economic activity	3	7	4
Fraud and cyber threats	4	6	2
Exchange rate movements and volatility	5	5	0
The value of assets and the quality of collateral	6	3	-3
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	7	4	-3
Corruption, and the performance of the law enforcement authorities and the judicial	8	12	4
Movements in global commodity prices	9	8	-1
Possible failures/significant financial difficulties of financial institutions	10	9	-1
The state of protection of creditor and investor rights	11	12	1
The level and movements of real estate prices	11	11	0
The state of cooperation with international financial institutions	13	19	6
State economic policy (monetary and fiscal policy, etc.)	14	15	1
Access to funding	15	14	-1
Political and social situation in Ukraine	16	10	-6
The quality of legislation and the tax system	17	16	-1
The quality of human capital in the financial sector	18	17	-1
Competition on the financial services market	19	18	-1
Climate change	20	20	0
Quarantine restrictions	21	21	0

## Annex. Survey findings

Balance of responses	2018		2019		2020		2021		2022	
	May	November	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%	-11%	-3%
<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%	-50%	-40%
<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%	-46%	-23%
<b>4. What is your perception of the total risk level in the financial sector?</b>	-17%	-10%	-18%	-6%	-17%	-17%	-10%	-6%	-63%	-51%
<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%	-1%	6%
<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%	-30%	-6%
6.2. The war with Russia	-15%	-17%	-18%	-12%	0%	-8%	-24%	-31%	-93%	-89%
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	-51%	-46%	-19%	-35%
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	-9%	-11%	-6%
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	-32%	-21%	-14%
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	8%	-31%	-38%
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	-15%	-56%	-49%
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	8%	-10%	-14%
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	6%	-51%	-41%
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	-13%	5%	-37%	-22%
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	-24%	-43%	-19%
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	-5%	7%	-16%
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	14%	-41%	-30%
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	-5%	6%	10%
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	14%	-7%	-3%
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	-10%	2%	1%
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%	-47%	-36%
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	6%	-17%	-13%
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	-35%	-51%	-40%
6.20. Climate change	x	x	x	x	x	x	x	13%	26%	26%
6.21. Quarantine restrictions	x	x	x	x	x	x	x	-15%	40%	39%
<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%	-10%	1%

## 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 2022. Executives from 22 banks, 11 insurance companies, and three investment firm took part in this survey. The Survey did not cover sanctioned financial institutions. 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 2023.