

*The Systemic Risk Survey looks into perception of current and potential risks to the financial sector by the largest banks and non-bank financial institutions. The NBU will publish the survey twice a year. The first issue was released in May and this is the second one.*

*The report shows how top managers of financial institutions assess the state of the financial sector over past six months and what they expect for the following six months. The survey was conducted from 5 through 15 November 2018. Executives from 19 banks, 4 insurance companies, and 3 investment firms took part in this survey. The survey did not cover financial institutions under sanctions. The survey summary statistics were calculated by giving equal weight to each survey response, disregarding the bank's/company's size or market share.*

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

*The next report will be published in May 2019.*

In November, a total of 69% of respondents described the financial sector's state as satisfactory, 12% as good, and 19% as bad. The assessments remained almost unchanged from the previous survey as seen in the balances of responses<sup>1</sup>: (-5%) in May and (-6%) in November.

The share of respondents who believed that the state of the financial sector has improved over the past six months decreased to 35% in November from 43% in May. The majority of respondents (54%) reported there have been no change.

In November, the survey participants were less optimistic about the sector's prospects for the following six months than in the previous survey. The balance of responses decreased to 2% from 11%. Some 15% of respondent financial institutions (versus 35% in May) projected an improvement in the state of the financial sector over the following six months. Almost three quarters of respondents expected no changes.

The total risk level in the Ukrainian financial sector is believed to be above average by nearly one quarter of respondents (23%), while 69% said it was average, and only 8% described it as low.

The assessment of the financial sector's resilience to high-impact negative events had improved compared with the previous survey. The balance of responses increased to (-8%) from (-26%). In such a way, 19% of respondents (48% in May) considered the sector's resilience as low and very low, 69% believed it was average, and 12% saw it as high (0% in May).

In both surveys, respondents named corruption, actions of law enforcement bodies, and the judicial system the main source of risk to the financial sector. 80% of respondents believed that this factor carried a high or very high risk. According to respondents, the top five sources of risk also included the state of cooperation with international financial institutions (this was a factor of high or very high risk for 69%), the current protection of creditor and investor rights (65%), domestic political and social conditions (65%), and fraud and cyber threats (62%).

Compared to the previous survey, respondents reported higher risks stemming from access to funding (54% in November versus 23% in May) and competition in the financial services markets (38% versus 13%). The most significant decrease was seen in the risks of failure of or major financial difficulties for financial institutions (15% versus 26%) and the threat of changes in asset value and deterioration of asset quality (31% versus 43%).

Some 23% of respondents stated that risk appetite had declined in their financial institutions over the last six months and 62% said that it had not changed. The balance of responses to this question has remained unchanged from May, standing at 4%.

<sup>1</sup> Hereinafter the balances of responses are aggregates calculated as the sum of the number of responses weighted by weight ratios ranging from -1 to 1. For example, 1 for "improved greatly", 0.5 for "improved", 0 for "no change" and so on. The balance of responses can vary within the range of  $\pm 100\%$ . 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

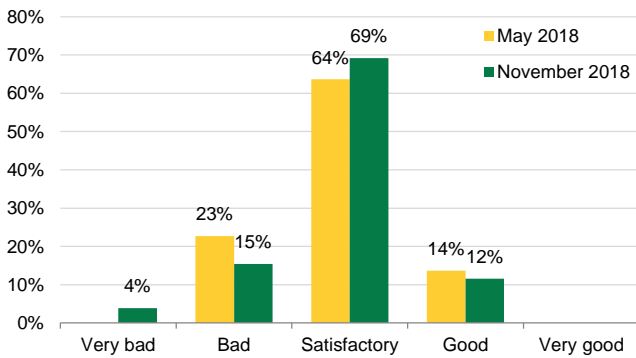


Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months

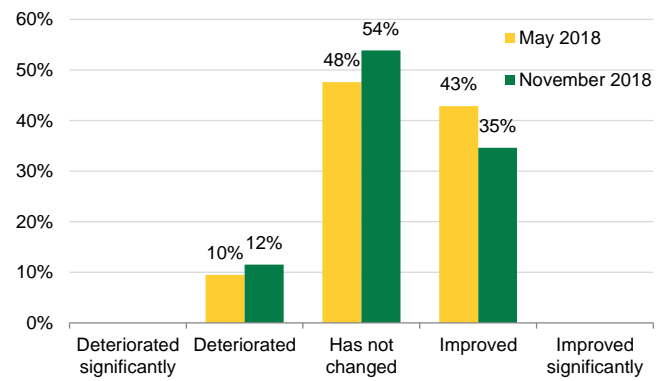


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

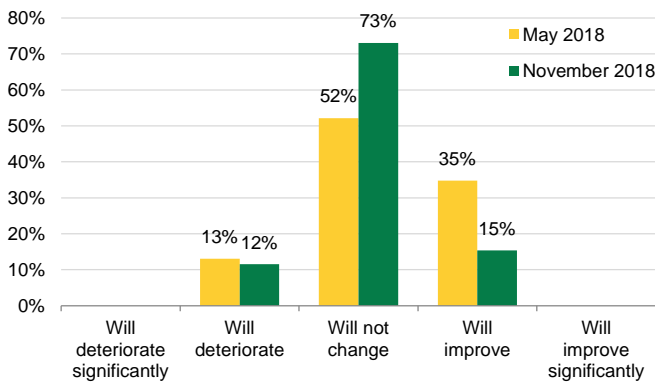


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector

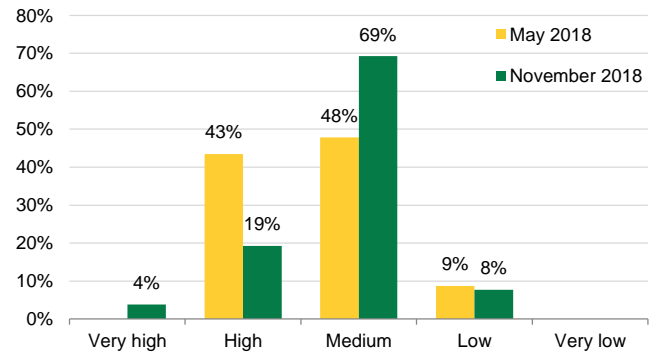


Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events

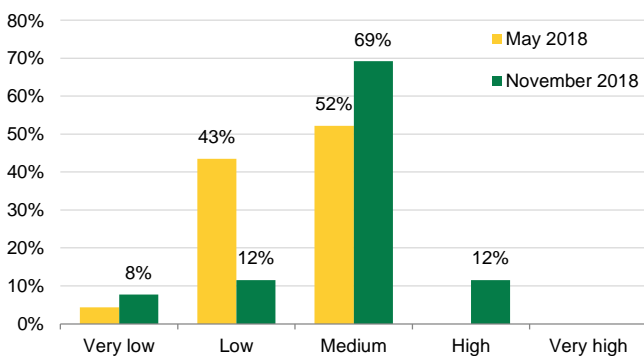


Figure 6. How respondents' risk appetite has changed over the last six months

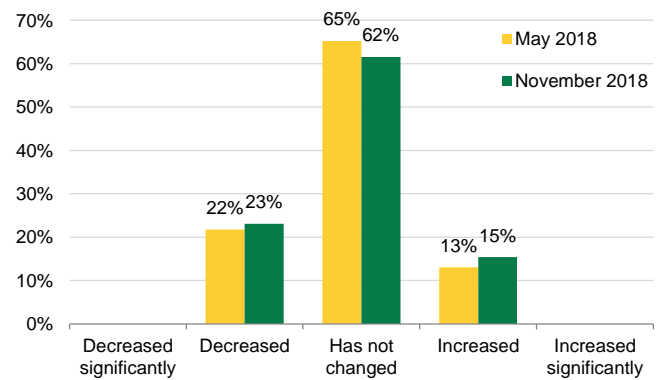
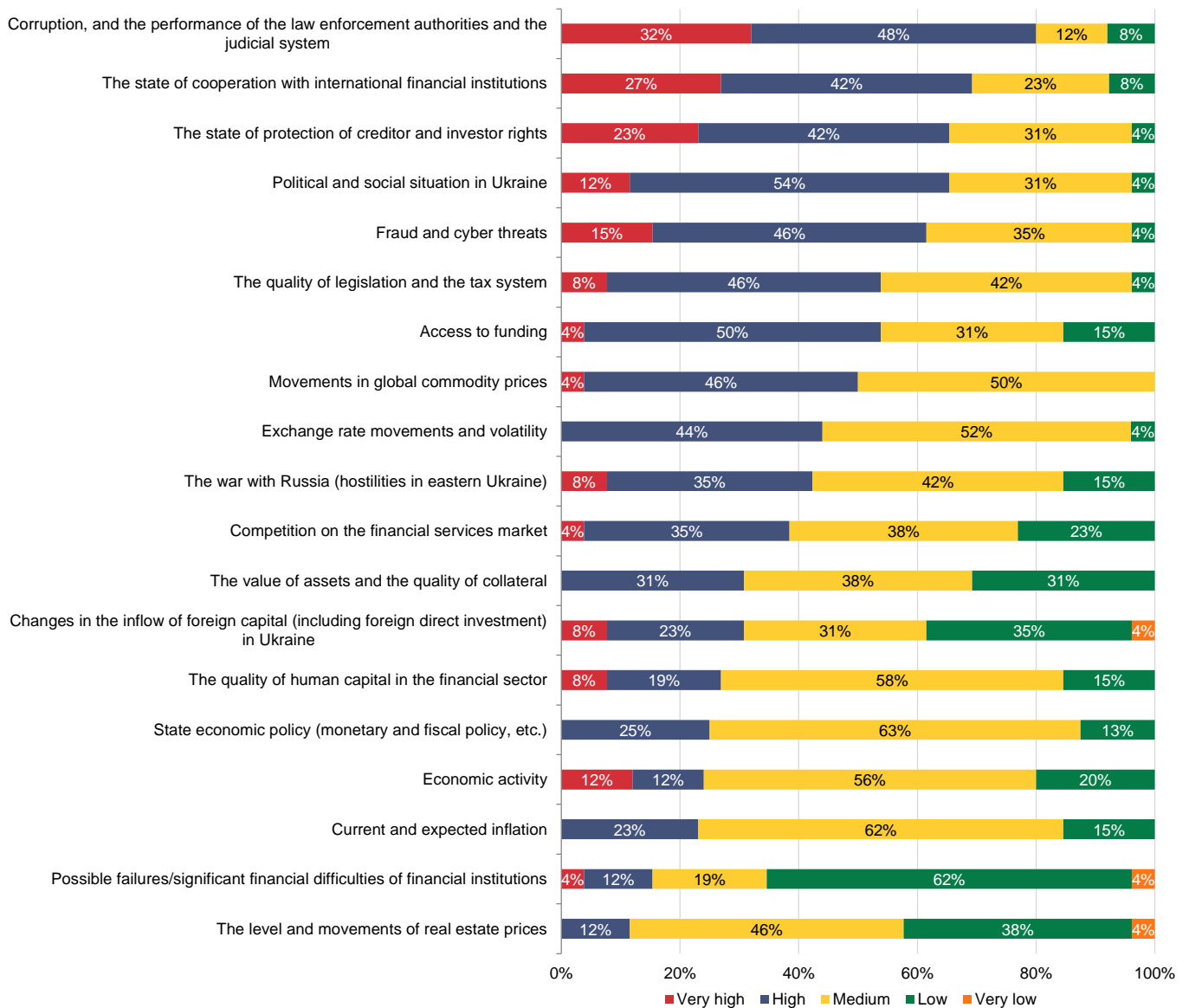


Figure 7. The risk level in the financial sector, as determined by specific factors, November 2018

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



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

Risk factors	Rank, November 2018	Rank, May 2018	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial system	1	1	0
The state of cooperation with international financial institutions	2	3	1
The state of protection of creditor and investor rights	3	2	-1
Political and social situation in Ukraine	3	5	2
Fraud and cyber threats	5	3	-2
The quality of legislation and the tax system	6	8	2
Access to funding	7	13	6
Movements in global commodity prices	8	10	2
Exchange rate movements and volatility	9	9	0
The war with Russia (hostilities in eastern Ukraine)	10	6	-4
Competition on the financial services market	11	17	6
The value of assets and the quality of collateral	12	14	2
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	12	7	-5
The quality of human capital in the financial sector	14	11	-3
State economic policy (monetary and fiscal policy, etc.)	15	14	-1
Economic activity	16	19	3
Current and expected inflation	17	14	-3
Possible failures/significant financial difficulties of financial institutions	18	12	-6
The level and movements of real estate prices	19	17	-2

## Annex: Survey findings

Questions	Balance of responses, %		Answer options, November 2018, %					N
	May 2018	November 2018	Very bad	Bad	Satisfactory	Good	Very good	
<b>1. What is your perception of state of the Ukrainian financial sector today?</b>	-5%	-6%	4%	15%	69%	12%	0%	26
<b>2. How do you think the state of the Ukrainian financial sector has changed over the last six months?</b>	17%	12%	Deteriorated significantly	Deteriorated	Has not changed	Improved	Improved significantly	26
<b>3. How do you think the state of the financial sector will change over the next six months?</b>	11%	2%	Will deteriorate significantly	Will deteriorate	Will not change	Will improve	Will improve significantly	26
<b>4. What is your perception of the total risk level in the financial sector?</b>	-17%	-10%	Very high	High	Medium	Low	Very low	26
<b>5. What is your assessment of the financial sector's resilience to high-impact negative events?</b>	-26%	-8%	Very low	Low	Medium	High	Very high	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%	12%	54%	31%	4%	0%	26
6.2. The war with Russia (hostilities in eastern Ukraine)	-15%	-17%	8%	35%	42%	15%	0%	26
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	32%	48%	12%	8%	0%	25
6.4. The quality of legislation and the tax system	-20%	-29%	8%	46%	42%	4%	0%	26
6.5. The state of protection of creditor and investor rights	-33%	-42%	23%	42%	31%	4%	0%	26
6.6. Economic activity	7%	-8%	12%	12%	56%	20%	0%	25
6.7. Current and expected inflation	-4%	-4%	0%	23%	62%	15%	0%	26
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	25%	63%	13%	0%	24
6.9. Exchange rate movements and volatility	-20%	-20%	0%	44%	52%	4%	0%	25
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	8%	23%	31%	35%	4%	26
6.11. Movements in global commodity prices	-15%	-27%	4%	46%	50%	0%	0%	26
6.12. The state of cooperation with international financial institutions	-35%	-44%	27%	42%	23%	8%	0%	26
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	4%	12%	19%	62%	4%	26
6.14. Competition on the financial services market	13%	-10%	4%	35%	38%	23%	0%	26
6.15. Access to funding	9%	-21%	4%	50%	31%	15%	0%	26
6.16. The quality of human capital in the financial sector	-4%	-10%	8%	19%	58%	15%	0%	26
6.17. The value of assets and the quality of collateral	-13%	0%	0%	31%	38%	31%	0%	26
6.18. The level and movements of real estate prices	17%	17%	0%	12%	46%	38%	4%	26
6.19. Fraud and cyber threats	-37%	-37%	15%	46%	35%	4%	0%	26
<b>7. How has the risk appetite of your institution changed over the last six months?</b>	4%	4%	Decreased significantly	Decreased	Has not changed	Increased	Increased significantly	26