

*The NBU has introduced a new semiannual survey on the financial sector's systemic risks. The practice of many central banks has shown that systemic risk surveys are an important tool for tracking the largest market players' perceptions of current and potential risks to the stability of the financial sector. The survey is generally completed by the executives of the largest banks and non-bank financial institutions.*

*The first report comprises the results of a survey of systemic risks as of the end of May 2018. Executives from 15 banks, 4 insurance companies and 4 investment firms took part in this survey. Financial institutions against which sanctions have been imposed were not surveyed. Final results were not weighted on bank/company size or its market share, all responses were assigned equal weights. 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 November 2018.*

**A total of 64% of respondents described the financial sector's current state as satisfactory**, 14% as good, and 23% as bad.

**Some 43% of respondents said the state of the financial sector had improved** over the last six months, while 10% said it had deteriorated.

**A total of 35% of respondents expect the state of the financial sector to improve** over the next six months, 13% expect it to deteriorate, while 52% expect it to remain unchanged.

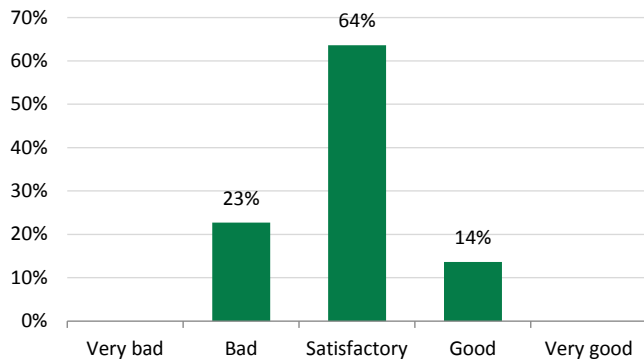
**The total risk level in the Ukrainian financial sector is believed to be high** by 43% of respondents, while 48% described it was medium, and only 9% said it was low.

**The financial sector's resilience to a high-impact negative event was characterized as low** by 43% of respondents, with 4% stating it was very low and 52% stating it was medium.

**Corruption and the performance of the law enforcement authorities and the judicial system were cited as the main sources of risk for the Ukrainian financial sector.** A total of 78% of respondents said that this factor carried a high or very high risk. The top five sources of risk were also said to include the country's political and social conditions (74% of respondents said this factor carried a high or very high risk), the state of cooperation with international financial institutions (65%), fraud and cyber threats (65%) and the current protection of creditor and investor rights (61%).

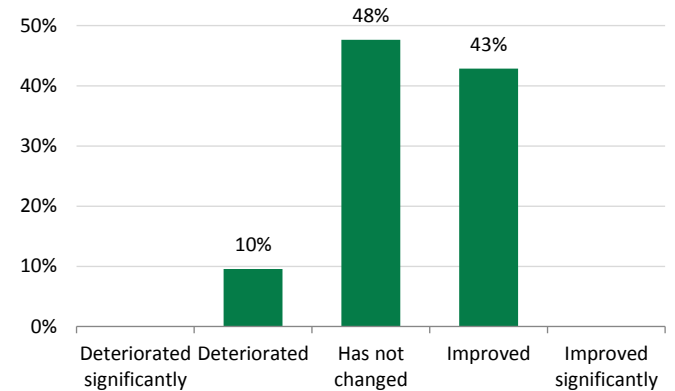
Some 22% of respondents **reported a decrease in their risk appetite** over the last six months, with 13% reporting an increase and 65% saying that it had not changed.

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



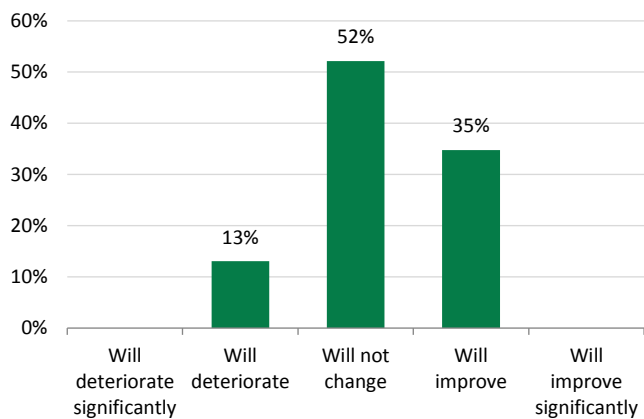
Source: NBU

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



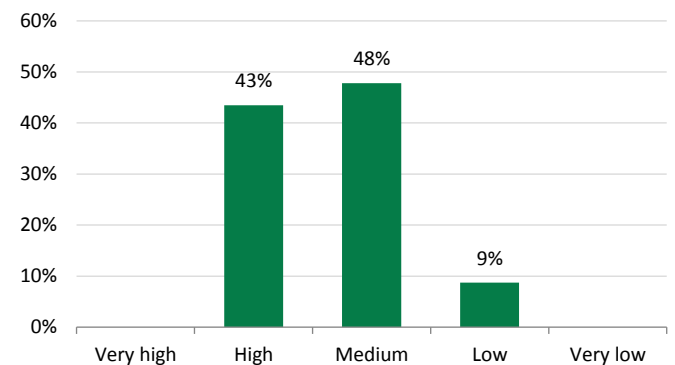
Source: NBU

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



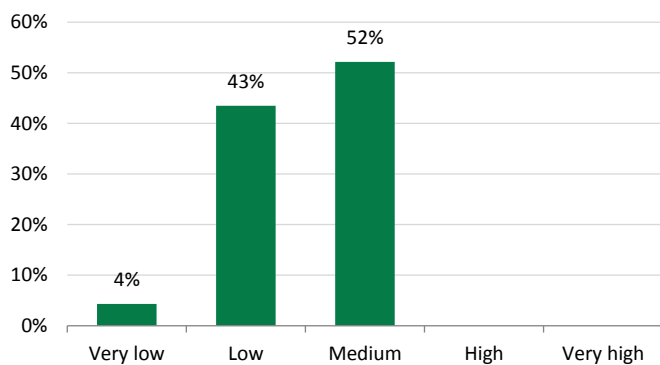
Source: NBU

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



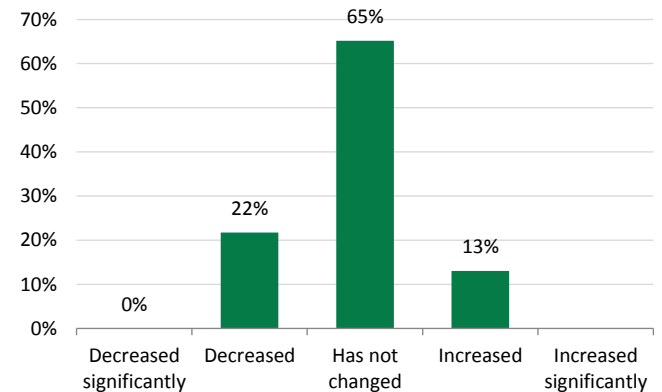
Source: NBU

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



Source: NBU

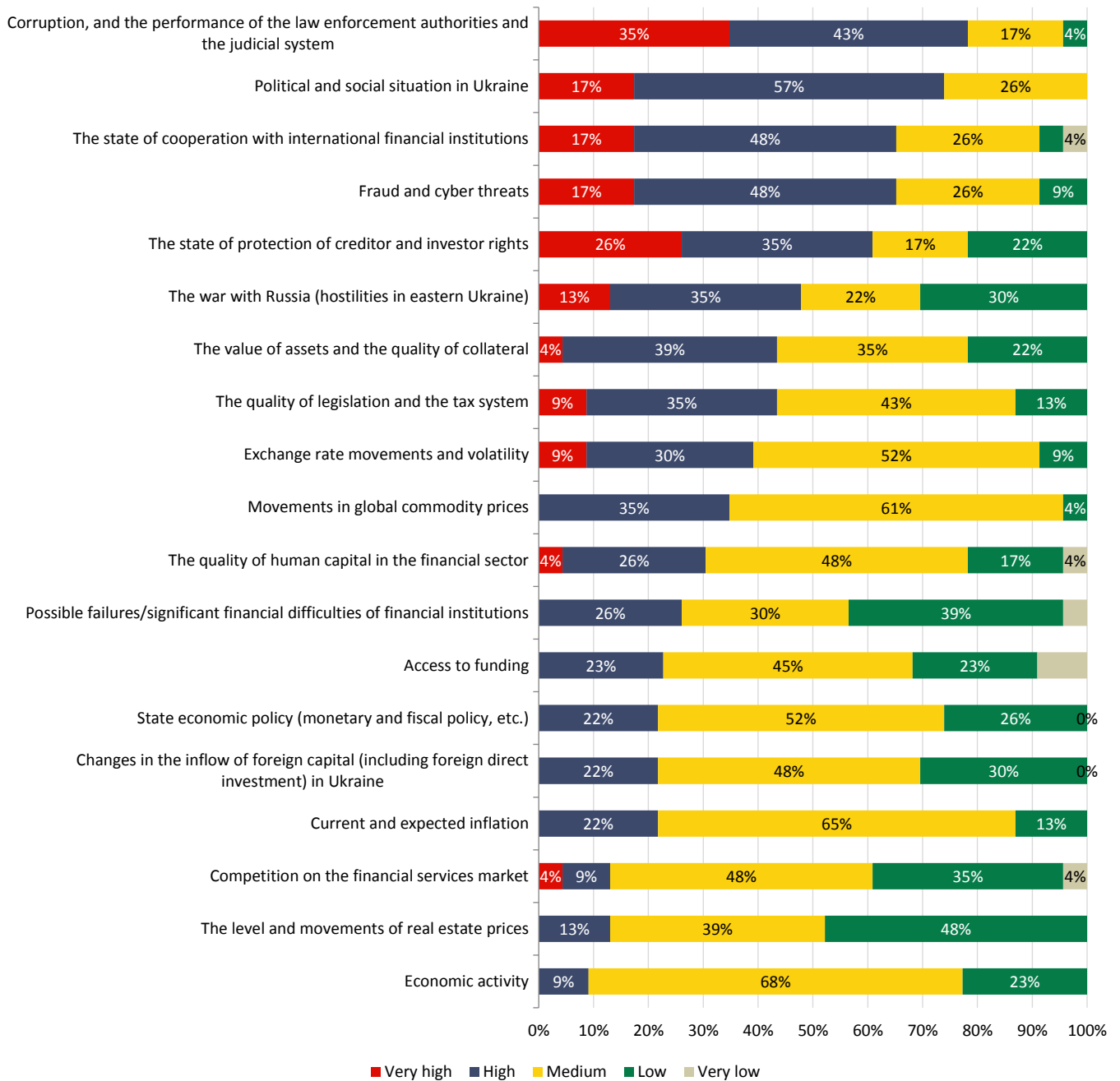
Figure 6. How respondents' risk appetite has changed over the last six months



Source: NBU

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

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



Source: NBU

**Annex: Survey findings**

Questions	Answer options					Number of responses
	Very bad	Bad	Satisfactory	Good	Very good	
<b>1. What is your perception of state of the Ukrainian financial sector today?</b>	0%	23%	64%	14%	0%	22
<b>2. How do you think the state of the Ukrainian financial sector has changed over the last six months?</b>	Deteriorated significantly 0%	Deteriorated 10%	Has not changed 48%	Improved 43%	Improved significantly 0%	21
<b>3. How do you think the state of the financial sector will change over the next six months?</b>	Will deteriorate significantly 0%	Will deteriorate 13%	Will not change 52%	Will improve 35%	Will improve significantly 0%	23
<b>4. What is your perception of the total risk level in the financial sector?</b>	Very high 0%	High 43%	Medium 48%	Low 9%	Very low 0%	23
<b>5. What is your assessment of the financial sector's resilience to high-impact negative events?</b>	Very low 4%	Low 43%	Medium 52%	High 0%	Very high 0%	23
<b>6. What are your perceptions of the financial sector's risks stemming from the following factors<sup>1</sup></b>	Very high	High	Medium	Low	Very low	
6.1. Political and social situation in Ukraine	17%	57%	26%	0%	0%	23
6.2. The war with Russia (hostilities in eastern Ukraine)	13%	35%	22%	30%	0%	23
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	35%	43%	17%	4%	0%	23
6.4. The quality of legislation and the tax system	9%	35%	43%	13%	0%	23
6.5. The state of protection of creditor and investor rights	26%	35%	17%	22%	0%	23
6.6. Economic activity	0%	9%	68%	23%	0%	22
6.7. Current and expected inflation	0%	22%	65%	13%	0%	23
6.8. State economic policy (monetary and fiscal policy, etc.)	0%	22%	52%	26%	0%	23
6.9. Exchange rate movements and volatility	9%	30%	52%	9%	0%	23
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	0%	22%	48%	30%	0%	23
6.11. Movements in global commodity prices	0%	35%	61%	4%	0%	23
6.12. The state of cooperation with international financial institutions	17%	48%	26%	4%	4%	23
6.13. Possible failures/significant financial difficulties of financial institutions	0%	26%	30%	39%	4%	23
6.14. Competition on the financial services market	4%	9%	48%	35%	4%	23
6.15. Access to funding	0%	23%	45%	23%	9%	22
6.16. The quality of human capital in the financial sector	4%	26%	48%	17%	4%	23
6.17. The value of assets and the quality of collateral	4%	39%	35%	22%	0%	23
6.18. The level and movements of real estate prices	0%	13%	39%	48%	0%	23
6.19. Fraud and cyber threats	17%	48%	26%	9%	0%	23
<b>7. How has the risk appetite of your institution changed over the last six months?</b>	Decreased significantly 0%	Decreased 22%	Has not changed 65%	Increased 13%	Increased significantly 0%	23

<sup>1</sup> Two respondents added their risk perceptions in two instance. They clarified their perceptions but were not representative for the selection.