

According to the May 2024 survey, almost half of the respondents¹ positively assessed financial sector's state. Top managers continued to report the sector's strong resilience to high-impact adverse events: the balance of responses has hovered around all-time highs for three surveys in a row. Respondents said the overall risk level in the financial sector remained high, but that it had been gradually declining for four surveys running. Financial institutions' risk appetite increased further. Most of the institutions' managers expected no change in financial sector conditions over the next six months. The war with Russia remains the source of the highest risk. Respondents saw the factors of foreign capital inflows and the performance of law enforcement agencies and the judicial system as among the top three threats². For the first time in the history of the survey, the human capital quality risk was ranked among the top five risks for the financial sector.

In May 2024, about 45% of financial institutions' top managers described the sector's current condition as good or very good³. Although decreasing by 5 pp on the previous survey in November 2023, the balance of responses remained positive (+21%).

Most respondents said that the financial sector's state had been unchanged over the last six months. One out of ten respondents reported a deterioration in the financial sector's standing, while no deterioration was reported six months ago. Two thirds of the respondents said they expected no change in financial sector conditions over the next six months. The proportions of respondents who expected the financial sector's state to deteriorate or to improve over the next six months were the same.

Financial institutions' assessments of the overall level of risk in the financial sector continued to improve. Over half of those surveyed referred to the overall level of risk in the financial sector as medium. The percentage of respondents who regard this risk as high or very high has declined to 41%, down from 50%.

For four surveys running (two years), respondents have improved their assessments of the financial sector's resilience to high-impact adverse events. About 95% of

respondents assessed the financial sector's resilience as average or higher. For 12 months in a row, the total balance of responses has been the highest since the survey was launched in 2018.

Financial institutions' managers continued to refer to the war with Russia as the major source of risks in the financial sector. At the same time, the top five risks included risks related to foreign capital inflows (up two positions from November 2023), the performance of law enforcement agencies and the judicial system, as well as risks related to fraud and cyber threats. The risk of human capital quality in the financial sector increased significantly in the previous six months, and is now among the top five threats. Risks related to the protection of creditors' and investors' rights also rose noticeably (up by three positions). At the same time, risks related to changes in global commodity prices, the quality of legislation and the tax system, and to inflationary developments are playing a weaker role.

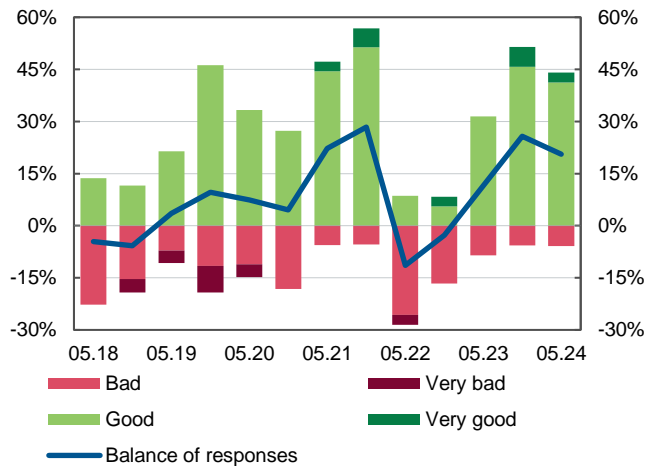
Financial institutions' appetite for risk has edged higher over the past six months. Only 16% of respondents reported a drop in their risk appetite over the past six months. Meanwhile, most respondents said that their risk appetite had remained unchanged.

¹ For information about the survey, see page 5.

² Starting from the current survey, corruption and the performance of the law enforcement agencies and the judicial system will be divided into two separate risk factors: the overall level of corruption in the country, and the performance of the law enforcement agencies and the judicial system. The survey will also include a new risk factor – virtual assets.

³ Here and below, the balances of responses are aggregate indicators calculated as the sum of the quantities of each response to a question. The quantities are assigned weights ranging from -1 to +1. Specifically, +1 stands for "significantly improved," +0.5 for "improved," 0 for "unchanged," -0.5 for "deteriorated," and -1 for "significantly deteriorated." The balance of responses can take on values in the range of $\pm 100\%$. A positive balance of responses means that, overall, respondents believe that an indicator has improved or a 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

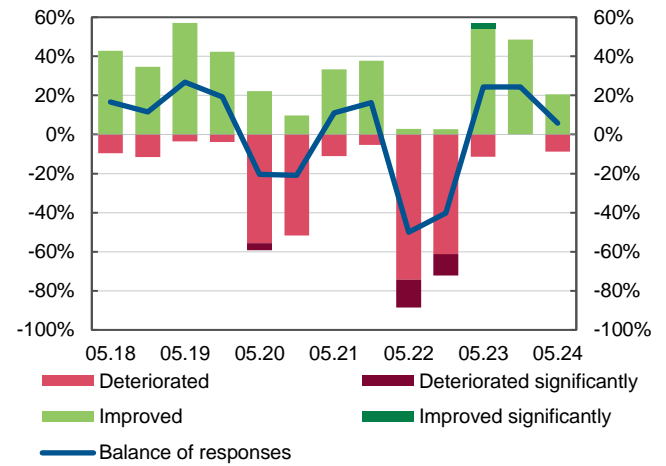
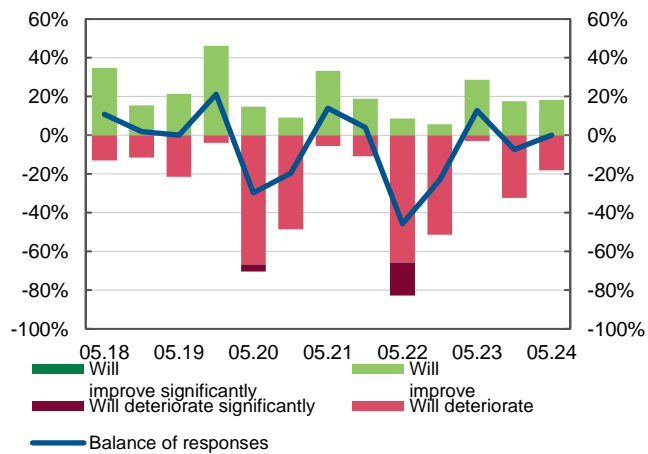


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months



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

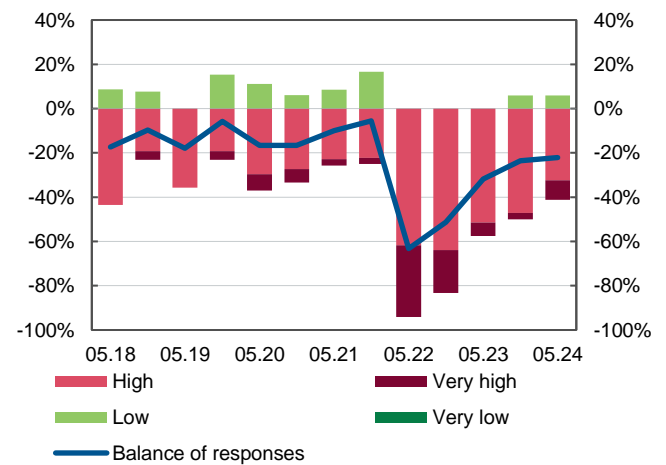
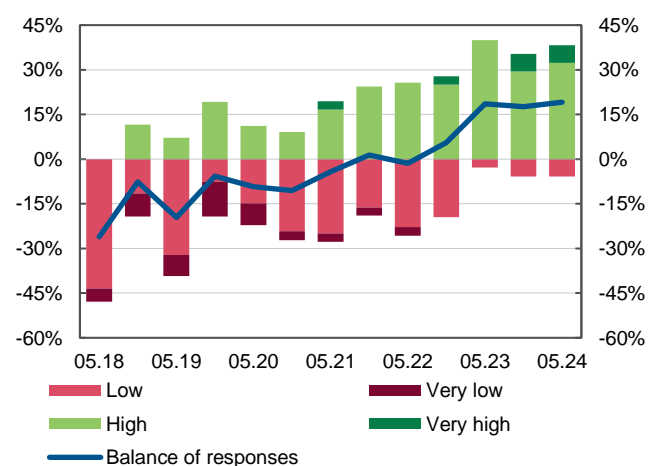


Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events



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

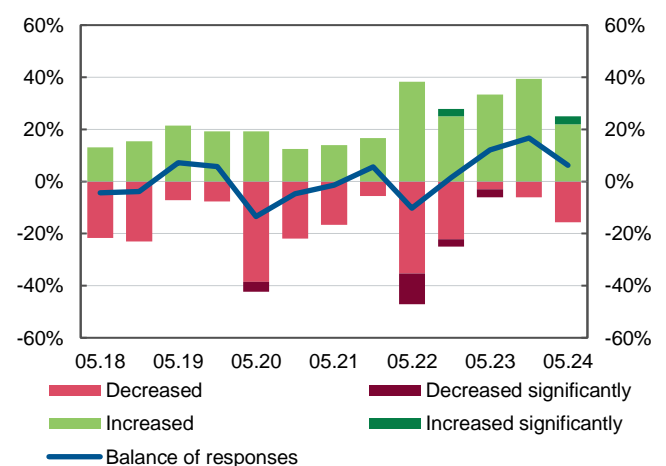
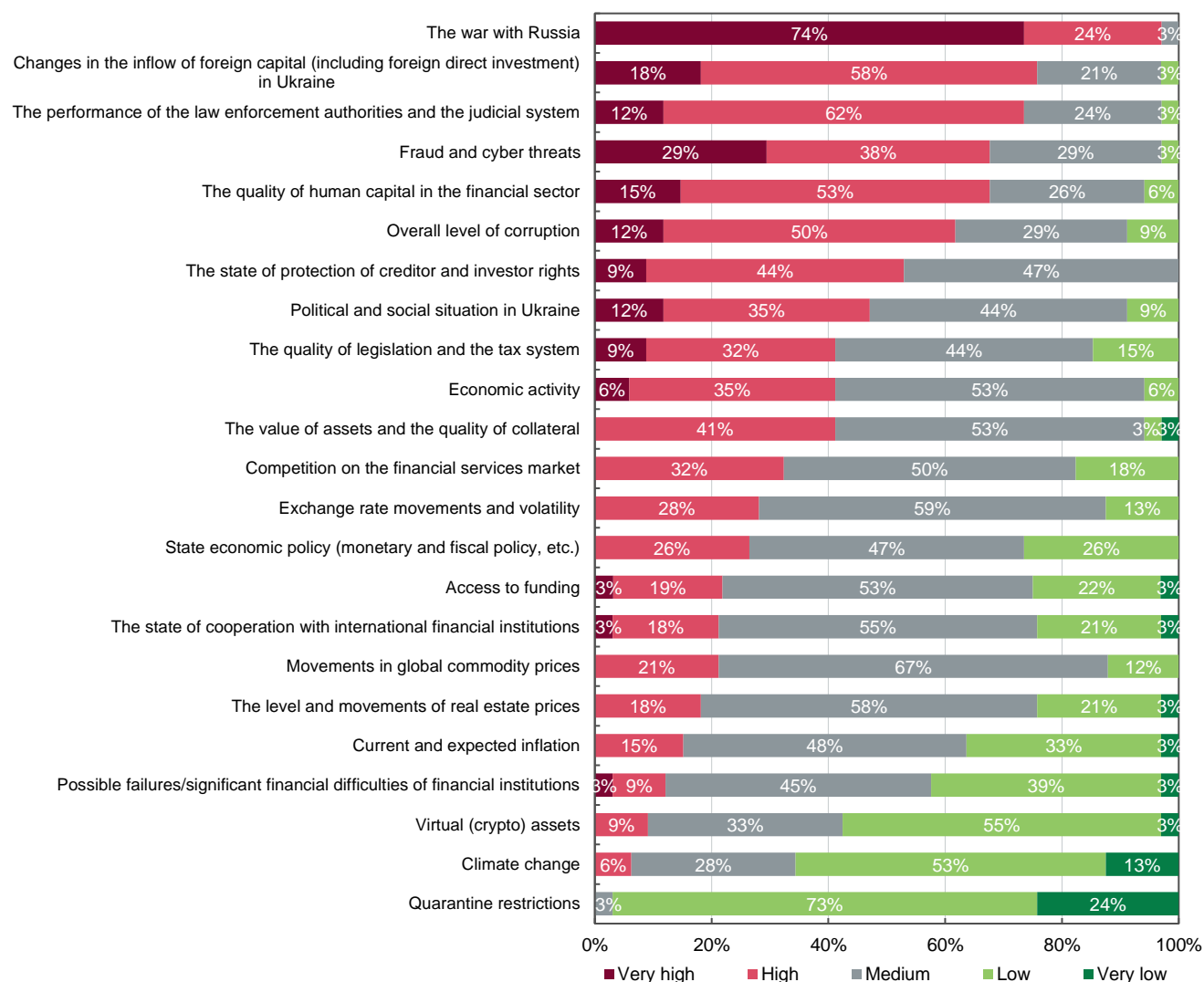


Figure 7. The risk level in the financial sector, as determined by specific factors, May 2024*



* 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, 05.24 | Rank, 11.23 | Difference, +/- |
|---|-------------|-------------|-----------------|
| The war with Russia | 1 | 1 | 0 |
| Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine | 2 | 4 | +2 |
| The performance of the law enforcement authorities and the judicial system | 3 | - | - |
| Fraud and cyber threats | 4 | 3 | -1 |
| The quality of human capital in the financial sector | 5 | 7 | +2 |
| Overall level of corruption | 6 | - | - |
| The state of protection of creditor and investor rights | 7 | 10 | +3 |
| Political and social situation in Ukraine | 8 | 6 | -2 |
| The quality of legislation and the tax system | 9 | 5 | -4 |
| Economic activity | 10 | 8 | -2 |
| The value of assets and the quality of collateral | 11 | 8 | -3 |
| Competition on the financial services market | 12 | 13 | +1 |
| Exchange rate movements and volatility | 13 | 16 | +3 |
| State economic policy (monetary and fiscal policy, etc.) | 14 | 12 | -2 |
| Access to funding | 15 | 17 | +2 |
| The state of cooperation with international financial institutions | 16 | 14 | -2 |
| Movements in global commodity prices | 17 | 11 | -6 |
| The level and movements of real estate prices | 18 | 18 | 0 |
| Current and expected inflation | 19 | 15 | -4 |
| Possible failures/significant financial difficulties of financial institutions | 20 | 18 | -2 |
| Virtual (crypto) assets | 21 | — | — |
| Climate change | 22 | 18 | -4 |

Annex. Survey findings

| Balance of responses | 2018 | | 2019 | | 2020 | | 2021 | | 2022 | | 2023 | | 2024 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | 05' | 11' | 05' | 11' | 05' | 11' | 05' | 11' | 05' | 11' | 05' | 11' | 05' |
| 1. What is your perception of state of the Ukrainian financial sector today? | -5% | -6% | 4% | 10% | 7% | 5% | 22% | 28% | -11% | -3% | 11% | 26% | 21% |
| 2. How do you think the state of the Ukrainian financial sector has changed over the last six months? | 17% | 12% | 27% | 19% | -20% | -21% | 11% | 16% | -50% | -40% | 24% | 24% | 6% |
| 3. How do you think the state of the financial sector will change over the next six months? | 11% | 2% | 0% | 21% | -30% | -20% | 14% | 4% | -46% | -23% | 13% | -7% | 0% |
| 4. What is your perception of the total risk level in the financial sector? | -17% | -10% | -18% | -6% | -17% | -17% | -10% | -6% | -63% | -51% | -32% | -24% | -22% |
| 5. What is your assessment of the financial sector's resilience to high-impact negative events? | -26% | -8% | -20% | -6% | -9% | -11% | -4% | 1% | -1% | 6% | 19% | 18% | 19% |
| 6. What are your perceptions of the financial sector's risks stemming from the following factors | | | | | | | | | | | | | |
| 6.1. Political and social situation in Ukraine | -46% | -37% | -57% | -29% | -35% | -44% | -21% | -24% | -30% | -6% | -11% | -29% | -25% |
| 6.2. The war with russia | -15% | -17% | -18% | -12% | 0% | -8% | -24% | -31% | -93% | -89% | -77% | -81% | -85% |
| Corruption, and the performance of the law enforcement authorities and the judicial system (discontinued) | -54% | -52% | -57% | -58% | -57% | -65% | -51% | -46% | -19% | -35% | -49% | -41% | x |
| 6.3. Overall level of corruption | x | x | x | x | x | x | x | x | x | x | x | x | -32% |
| 6.4. The performance of the law enforcement authorities and the judicial system | x | x | x | x | x | x | x | x | x | x | x | x | -41% |
| 6.5. The quality of legislation and the tax system | -20% | -29% | -14% | -23% | -15% | -17% | -21% | -9% | -11% | -6% | -14% | -25% | -18% |
| 6.6. The state of protection of creditor and investor rights | -33% | -42% | -36% | -31% | -22% | -26% | -25% | -32% | -21% | -14% | -21% | -10% | -31% |
| 6.7. Economic activity | 7% | -8% | 7% | 4% | -30% | -12% | -7% | 8% | -31% | -38% | -24% | -19% | -21% |
| 6.8. Current and expected inflation | -4% | -4% | 16% | 31% | 17% | 17% | -3% | -15% | -56% | -49% | -11% | 7% | 12% |
| 6.9. State economic policy (monetary and fiscal policy, etc.) | 2% | -6% | 0% | 2% | -6% | -5% | 3% | 8% | -10% | -14% | -14% | -9% | 0% |
| 6.10. Exchange rate movements and volatility | -20% | -20% | -9% | 6% | -6% | -2% | 4% | 6% | -51% | -41% | -12% | 3% | -8% |
| 6.11. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine | 4% | 2% | -10% | 2% | -19% | -12% | -13% | 5% | -37% | -22% | -21% | -27% | -45% |
| 6.12. Movements in global commodity prices | -15% | -27% | -24% | -13% | -30% | -6% | -6% | -24% | -43% | -19% | -17% | -3% | -5% |
| 6.13. The state of cooperation with international financial institutions | -35% | -44% | -54% | -21% | -22% | -41% | -29% | -5% | 7% | -16% | -6% | -9% | 2% |
| 6.14. Possible failures/significant financial difficulties of financial institutions | 11% | 25% | 18% | 20% | 13% | 8% | 6% | 14% | -41% | -30% | 1% | 14% | 15% |
| 6.15. Competition on the financial services market | 13% | -10% | 5% | -4% | 2% | -3% | 3% | -5% | 6% | 10% | 0% | -3% | -7% |
| 6.16. Access to funding | 9% | -21% | -18% | 10% | 6% | 21% | 19% | 14% | -7% | -3% | -3% | 10% | 2% |
| 6.17. The quality of human capital in the financial sector | -4% | -10% | -13% | -2% | -4% | 9% | -1% | -10% | 2% | 1% | -7% | -19% | -38% |
| 6.18. The value of assets and the quality of collateral | -13% | 0% | -7% | -12% | -9% | -9% | 0% | 0% | -47% | -36% | -34% | -16% | -16% |
| 6.19. The level and movements of real estate prices | 17% | 17% | 18% | 15% | 4% | 12% | 8% | 6% | -17% | -13% | -6% | 13% | 5% |
| 6.20. Fraud and cyber threats | -37% | -37% | -25% | -35% | -33% | -27% | -31% | -35% | -51% | -40% | -41% | -34% | -47% |
| 6.21. Climate change | x | x | x | x | x | x | x | 13% | 26% | 26% | 29% | 24% | 36% |
| 6.22. Quarantine restrictions | x | x | x | x | x | x | x | -15% | 40% | 39% | 60% | 48% | 61% |
| 6.23. Virtual assets | x | x | x | x | x | x | x | x | x | x | x | x | 26% |
| 7. How has the risk appetite of your institution changed over the last six months? | -4% | -4% | 7% | 6% | -13% | -5% | -1% | 6% | -10% | 1% | 12% | 17% | 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 7 through 21 May 2024. Executives from 22 banks, ten insurance companies, and two 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 Survey will be published in November 2024.