

THE KRM22 CAPITAL MARKETS RISK SENTIMENT INDEX H1 2022

The level of risk facing capital markets has increased significantly over the past six months with over two thirds of respondents to the latest Risk Sentiment Index reporting growing threat levels to their business.

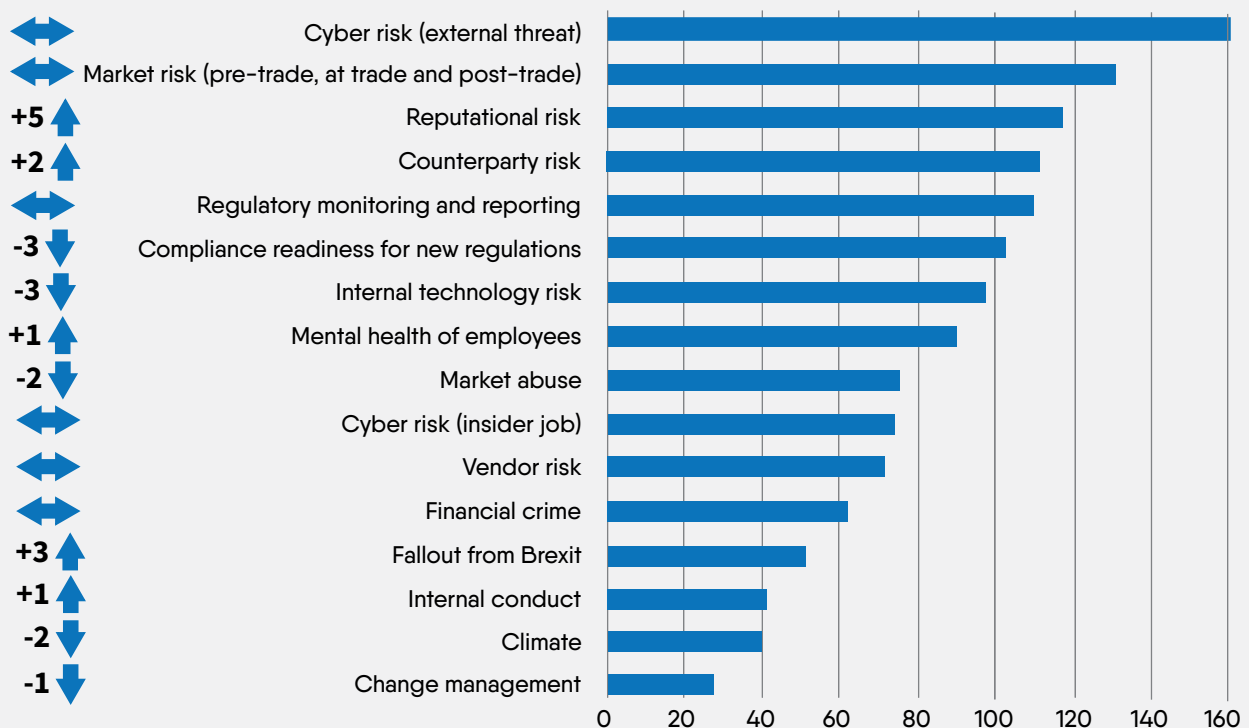
While cyber risk and market risk retain their positions as the top two risks facing the industry, the level of the threat for both has increased significantly in this report.

The Risk Index is compiled by a survey of senior executives from a range of sell-side and buy-side firms. Each respondent is asked to rate the risks in the index according to the threat each poses to their

business from no threat to critical threat. Each threat is then allocated a score representing the overall risk level posed (for more see Methodology at the end of this report).

The latest survey found an elevated risk of an external cyber attack reported by respondents as the total risk score increased from 139 to 161. Market risk also saw its score rise from 129 to 136.

The Risk Index



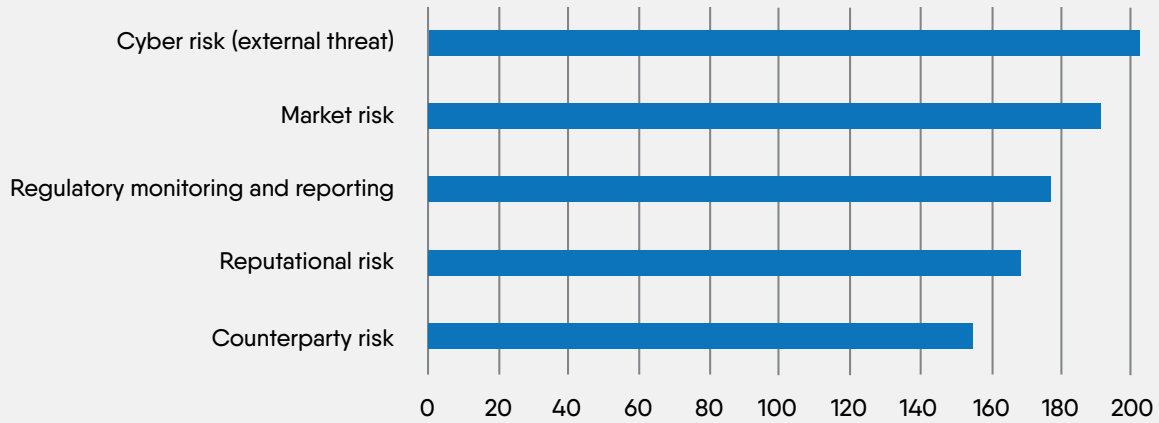
During the period of data collection, Russia moved closer to its invasion of the Ukraine with war breaking out when around half the total responses were collected. Cyber risk was already trending higher but counterparty risk and the risk of reputational damage soared in the wake of the invasion resulting in both moving up the index. In addition, views of market risk spiked following the volatility in the wake of the invasion.

Banks continued to report elevated risk levels (see

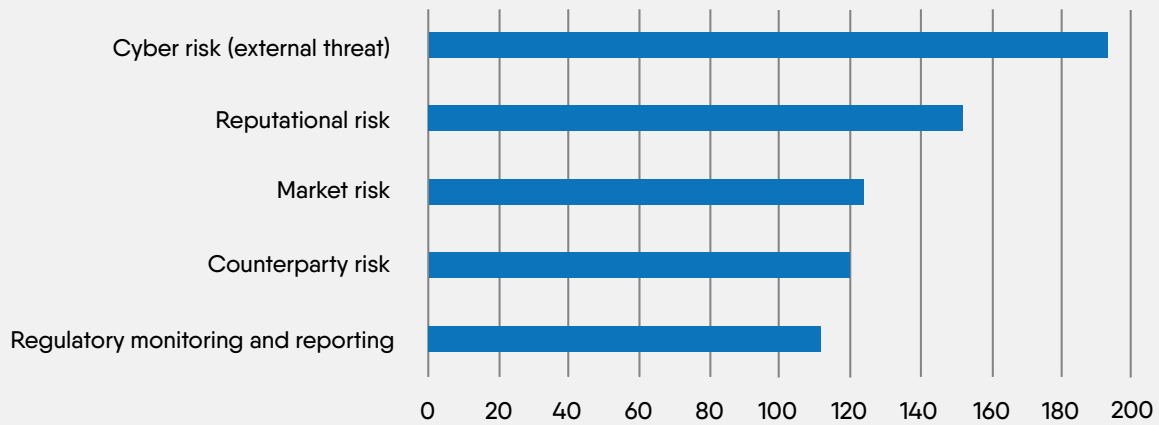
next page), however, increased risk scores were seen among all company types compared to the previous report released in H2 2021. Cyber risk was the top threat to banks, up from the third in the last report. Regulatory monitoring and reporting also shot up the list of concerns for banks in the face of sanctions against Russian individuals and entities.

Elsewhere, market risk increased significantly for brokers and the buy-side and retained its position as the top concern for proprietary trading firms.

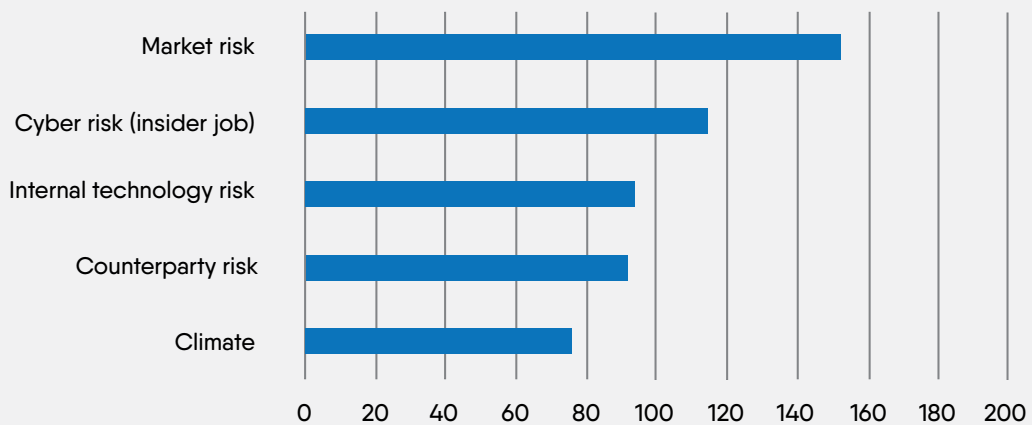
WHAT WERE THE TOP RISKS FOR BANKS?



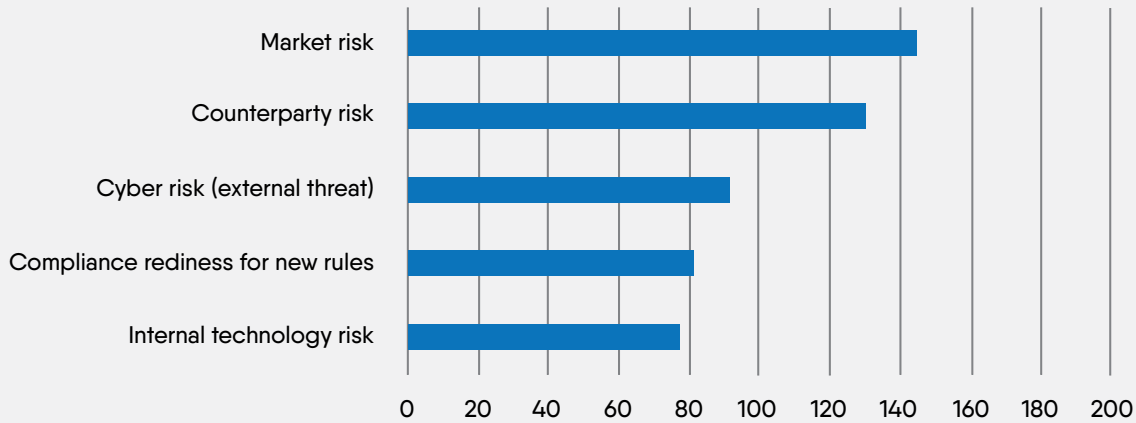
WHAT WERE THE TOP RISKS FOR BROKERS?



WHAT WERE THE TOP RISKS FOR BUYSIDE?



WHAT WERE THE TOP RISKS FOR PROPRIETARY TRADING FIRMS?

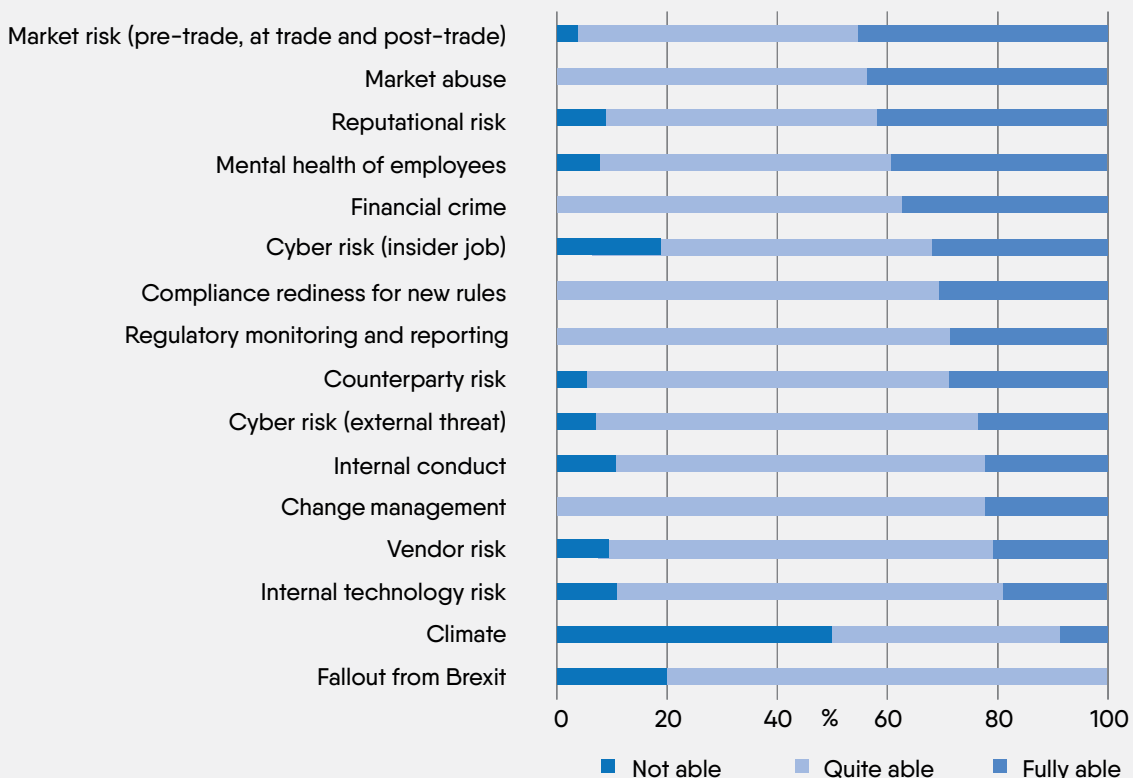


LEVELS OF PREPAREDNESS

Respondents to the survey are asked to rate their ability to deal with risks they rated severe or critical. The biggest mismatch between the extent of the risk and the ability to mitigate it was seen in counterparty risk, which has increased sharply in terms of the threat posed, and cyber risk. Conversely, respondents were more able to deal with risks that have seen significant technology investment over

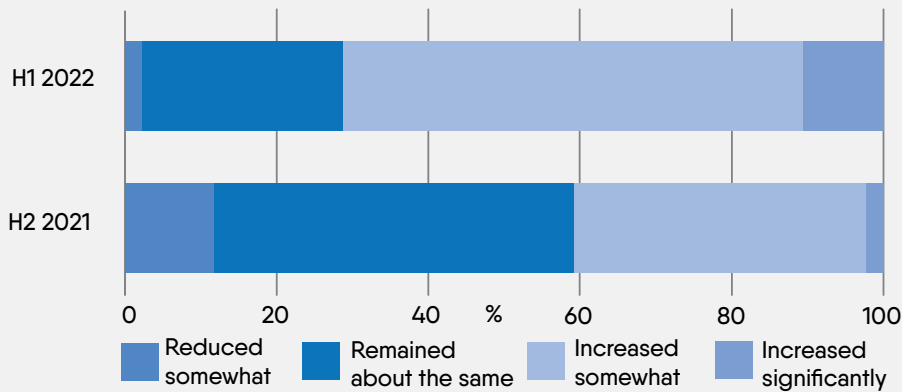
the past decade, such as market risk and market abuse. Despite this, less than half of respondents felt fully able to deal with the challenges posed by market risk. The fallout from Brexit and Climate risk remain the risks that respondents felt least able to deal with. However, there was a significant increase in the number of respondents who said they were quite able to deal with Brexit.

To what extent is your company's strategies able to mitigate risk in each metric?



How has the overall level of risk your organisation faces increased over the past six months?

Over two thirds of respondents said that the overall level of risk facing their organisation had increased over the past six months compared to just over a third in H1 2022.



WHAT ARE THE TOP INVESTMENT PRIORITIES PER COMPANY TYPE?

 <p>Banks</p> <ol style="list-style-type: none"> 1. Market risk 2. Regulatory risk 3. Operational risk 	 <p>Brokers</p> <ol style="list-style-type: none"> 1. Cyber risk 2. Operational risk 3. Technology risk 	 <p>Buyside</p> <ol style="list-style-type: none"> 1. Market risk 2. Liquidity risk 3. Cyber risk 	 <p>Prop trading firms</p> <ol style="list-style-type: none"> 1. Market risk 2. Regulatory risk 3. Technology risk
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METHODOLOGY

These findings are based on a survey of 84 senior respondents. To calculate the risk index, respondents were asked to rate the risk facing their business from low, medium, high and critical. Total responses for each risk were then split into a % with low risks being multiplied by -0.5, medium by 1, high by 2 and critical by 3 to arrive at the total risk score for each risk metric. All other findings outside the risk index are based on the % of respondents answering a specific question unless otherwise indicated.

