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SYSTEMIC RISK PERCEPTIONS OF MALTESE BANKS (H1 2026 SURVEY)

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BOX 3: SYSTEMIC RISK PERCEPTIONS OF MALTESE BANKS (H1 2026 SURVEY)[1]

The Central Bank of Malta conducted its first edition of the SRPS among 11 domestic banks.[2] The survey was conducted between April and May 2026, with responses provided primarily by Chief Risk Officers and other senior risk professionals operating in the Maltese banking sector. The survey captures both quantitative and qualitative assessments of key risks affecting the banking sector, as well as forward-looking views on vulnerabilities and profitability. Results are presented on an unweighted basis, with each responding institution assigned equal weight.

Perceptions on the current risk environment

Survey results indicate that banks' risk perceptions are increasingly shaped by operational and external factors, rather than traditional balance sheet risks (see Chart 3a). Cybersecurity and operational factors were the top risks identified by almost two-thirds of banks. Respondents highlighted the increasing sophistication of cyber threats, reliance on third-party infrastructure, and the potentially severe operational and reputational consequences of a major incident.

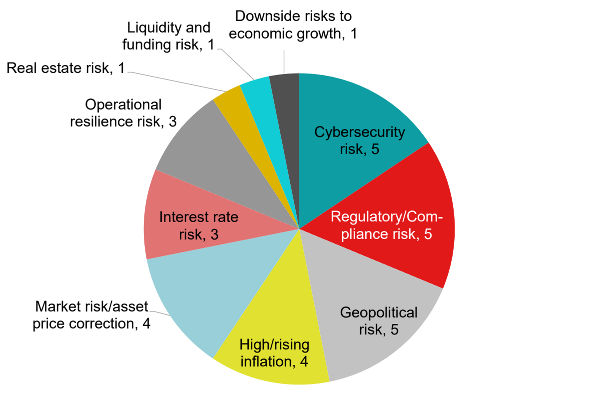
Regulatory and compliance risks were cited by just under half of the banks, reflecting the continued expansion in supervisory expectations, reporting requirements, and capital constraints. Several institutions emphasised the growing operational burden and resource intensity associated with compliance.

GPRs were reported by five out of 11 banks, primarily due to their indirect macro-financial effects, including weaker external demand, supply chain disruptions, and financial market volatility. In this context, inflationary pressures (four banks), market risks (four banks) and interest rate risks (three banks) were also highlighted as key transmission channels affecting borrowers' affordability, funding conditions, and asset valuations.

More traditional risks such as real estate and liquidity risk were generally of secondary importance in banks' current risk assessments. Downside risks to growth were also sparsely mentioned. Overall, results point to a risk environment increasingly driven by external macro-financial shocks and rising operational complexity.

Consistent with these findings, almost two-thirds of banks reported no major concerns regarding systemic risk in the domestic banking sector. However,

Chart 3a
WHICH THREE RISKS DO YOU EXPECT WILL POSE THE GREATEST THREAT TO YOUR INSTITUTION TODAY?
(count)



Source: Central Bank of Malta.

[1] Authored by Mr Andrew Spiteri, Deputy Head within the Financial Stability Surveillance and Risk Assessment Department. The author would like to thank Ms Wendy Zammit, Mr Alan Cassar, Deputy Governors Oliver Bonello and Rita Schembri, and Governor Alexander Demarco for their valuable suggestions. Special thanks are also extended to the survey respondents.

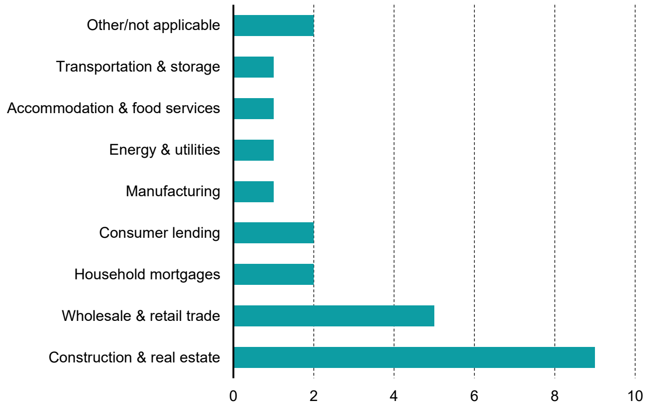
[2] The banks surveyed consist of the six core domestic banks and five of the non-core domestic banks.

36% of banks identified a moderate build-up of systemic risk, citing factors such as macroeconomic uncertainty, sectoral concentration, notably in real estate, and external shocks. This suggests that, while the banking system is perceived as broadly resilient, vulnerabilities remain in specific areas, warranting continued monitoring.

Sectoral sources of credit risk

Credit risk perceptions are strongly concentrated in the construction and real estate sector, which was identified by around four-fifths of banks as one of the most vulnerable sectors (see Chart 3b). This reflects both the significant exposure of banks to property-related lending and concerns regarding sensitivity to interest rate increases, costs escalation, and potential corrections in property valuations. The next most common sector identified was the wholesale and retail trade sector (five banks), reflecting pressures from subdued consumption and structural shifts. Household lending was selected by three banks, including mortgages and consumer credit, which were seen as particularly vulnerable to potential rising debt-servicing costs, especially among the more vulnerable borrower segments and in specific cases such as separations. Additional sector-specific risks (such as commodities or energy) were mentioned by individual banks, typically reflecting business model specialisation.

Chart 3b
WHICH SECTORS POSE THE GREATEST CREDIT RISK TO YOUR INSTITUTION OVER THE NEXT 12 MONTHS?
(count)

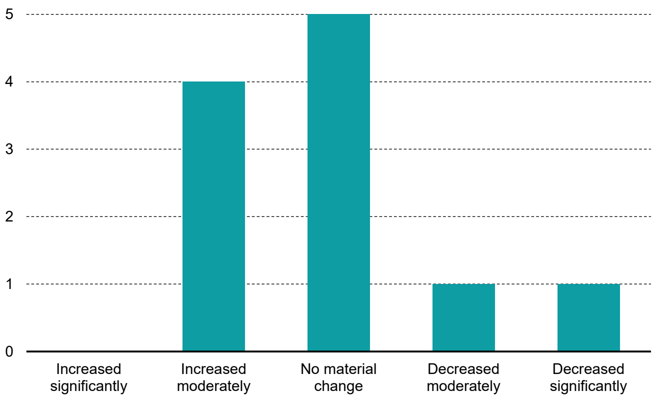


Source: Central Bank of Malta.

Evolution of risk over the past 12 months

Almost half of the banks (five out of 11 banks) reported no material change in their overall risk profile over the past year (see Chart 3c). At the same time, four banks indicated a moderate increase in risk, often associated with balance sheet expansion, digital transformation, or adverse external developments. Two banks reported a decrease in risk exposure, reflecting their de-risking strategies.

Chart 3c
THINKING ABOUT YOUR INSTITUTION'S AGGREGATE RISK PROFILE, HOW HAS YOUR OVERALL RISK EXPOSURE CHANGED IN THE PAST 12 MONTHS?
(count)

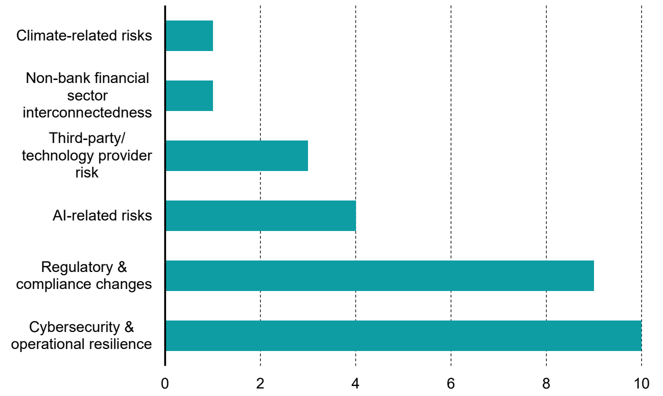


Source: Central Bank of Malta.

Emerging and rapidly evolving risks over the medium term

Looking ahead, banks expect structural and technology-driven risks to play an increasingly important role. Cybersecurity risks and operational resilience were identified as a key and intensifying concern by almost all respondents, underscoring their systemic relevance and expected persistence (see Chart 3d).

Chart 3d
WHICH EMERGING OR RAPIDLY EVOLVING RISKS ARE MOST CONCERNING FOR YOUR INSTITUTION OVER THE NEXT THREE YEARS?
(count)



Source: Central Bank of Malta.

In addition, banks identified a range of related technology-driven risks, including AI-related risks (four banks), reflecting growing awareness of model risk, governance challenges, and data integrity concerns, as well as third-party and technology provider risk (three banks), pointing to increasing reliance on external service providers.

Regulatory and compliance risks were cited by around four-fifths of banks, reflecting expectations of continued regulatory tightening and increasing complexity, as well as the associated operational and resource burden on institutions. Meanwhile, climate-related risks were mentioned only by one bank, suggesting that these remain less immediate relative to other emerging vulnerabilities.

Profitability outlook

Banks' profitability expectations for the next 12 months are generally stable to moderately positive. Slightly less than half expect a broadly unchanged ROA. Meanwhile, four banks anticipate an increase in profitability, including two banks expecting increases of above 10 basis points, while two banks expect a decline in profitability, including one anticipating a pronounced reduction.

Respondents identified a number of negative factors, such as lower market interest rates, higher funding costs and rising operating expenses. At the same time, supportive factors include balance sheet growth, cost containment, digitalisation, and the expansion of fee-based income. Overall, profitability is expected to remain resilient, albeit subject to potential margin compression and rising cost pressures.

Conclusion

The survey results suggest that the risk landscape for Maltese banks is increasingly shaped by external, operational, and structural factors, with cybersecurity and operational resilience emerging as the most prominent concerns, alongside regulatory and compliance changes. Geopolitical developments continue to be viewed mainly through their macro-financial effects, including related inflationary pressures, market risks, and interest rate risks.

At the same time, more traditional vulnerabilities remain concentrated in specific areas, particularly in the construction and real estate sectors reflecting banks' significant exposure. Notwithstanding, overall risk levels are perceived as broadly stable.

Looking ahead, the growing importance of technology-driven and system-wide risks, including AI-related challenges and dependence on third-party service providers, highlight the need for continued adaptation of risk management frameworks and supervisory approaches. This underscores the importance for continued vigilance and further strengthening of risk management frameworks, particularly in the areas of operational risk and sectoral concentration, consistent with the Bank's macroprudential policy stance aimed at addressing sectoral vulnerabilities.