9 February 2026

Banking Supervision
Tel: (+356) 21441155

Dear Chief Executive Officer,

Re: Targeted review of commercial real estate (CRE) lending

The European Systemic Risk Board recommendation on vulnerabilities in the commercial real estate sector (ESRB/2022/9) highlights the importance of the CRE sector for financial stability. In line with this recommendation, supervisory authorities are encouraged to ensure that financial institutions providing financing for CRE have prudent risk management practices in place. Such practices may include measures that involve the application of prudent lending standards for new loans, adequate provisioning practices, and the regular assessment of the quality of existing CRE exposures, with particular attention to borrowers' debt-servicing capacity and collateral values. Additional measures may also include the proactive and regular adjustment of capital projections under both baseline and adverse scenarios, the adequate reflection of identified risks, and alignment with supervisory guidance and expectations.

At national level, the Malta Financial Services Authority (MFSA) performed a targeted review of CRE lending, focusing on a sample of Banks with material CRE portfolios. The review was part of the MFSA's outcomes-based[1] supervisory activities aimed at assessing the adequacy of Banks' risk management policies and practices related to CRE lending.

The objective of the targeted review was to assess the Banks' compliance with the provisions pertaining to CRE lending emanating from the:

- Banking Rule BR/09 issued in January 2023[2];
- Banking Rule BR/24 issued in May 2025[3];
- Banking Rule BR/28 issued in June 2023[4];
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012 (Capital Requirements Regulation).

[1] MFSA's Supervision Priorities 2025; Outcome 5 – Credit Risk Management of Commercial Real Estate Exposures.
[2] In drafting this Rule, the Authority has been guided by the following: The Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07), issued on 18 January 2017; The Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), issued on 12 May 2017; The Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), issued on 31 October 2018; The Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13); The European Central Bank (ECB) Guidance to banks on non-performing loans (2017) and its amendment (2019), as well as the Addendum to the ECB Guidance to banks on non-performing loans (2018).
[3] The scope of the Rule is to transpose Articles 77(1) and (3), 78(1) and (6), 80-87, 88(1), and 91(9)-(12) of the CRD; and implement the EBA Guidelines on internal governance under Directive 2013/36/EU issued on 2 July 2021 (EBA/GL/2021/05).
[4] Implementing the EBA Guidelines on loan origination and monitoring issued on 29 May 2020 (EBA/GL/2020/06).

The Authority's assessment included key areas, namely the risk appetite framework, loan origination, early warning and credit rating systems, the identification of significant increase in credit risk and unlikeliness to pay, ongoing credit monitoring, forbearance, default, collateral management and provisioning.

The review covered a total of 637 assessment points across a selected sample of banks, with 106 points per bank[5]. The review identified regulatory gaps in several instances and across multiple key areas within the sample. The table below illustrates the distribution of these gaps, highlighting the four areas with the highest concentration. Figures represent totals across all banks in the selected sample, not per individual bank.

Key Area	Total No. of Regulatory Gaps Identified	Gap Rate (%)[6]
Collateral Management	75	12%
UTP	71	11%
SICR	52	8%
Forbearance	33	5%

While the review focused on a selected sample of Banks, the MFSA is issuing this communication to outline the following key supervisory expectations applicable to all credit institutions operating under the Banking Act.[7]

- **Risk Appetite Framework:** The Management Body is expected to establish and oversee strategy, governance, and risk appetite, supported by independent controls, defined limits, and transparent reporting, to ensure risks are continuously identified, managed, and escalated in line with prudent and effective management.

- **Loan Origination:** Banks are expected to maintain robust credit assessment and monitoring processes, using reliable and up-to-date borrower information, addressing credit deterioration, and ensuring proper documentation and compliance with regulatory expectations.

- **Early Warning System:** Banks are expected to implement robust, proactive, and risk-sensitive credit risk governance and monitoring frameworks including early warning indicators and escalation procedures to ensure timely identification, assessment, and mitigation of deteriorating credit quality.

[5] The figure of 106 points per bank is an approximation based on the overall distribution of assessment points covered during the review.
[6] Percentages are rounded to the nearest percent
[7] Chapter 371 of the Laws of Malta.

- **Credit Rating System:** Banks are expected to maintain a comprehensive, independent, and responsive credit risk rating system that enables timely identification, review, and adjustment of credit risk grades across all exposures, ensuring accurate and forward-looking measurement of expected credit losses.

- **Significant Increase in Credit Risk:** Banks are expected to establish robust, forward-looking credit risk monitoring frameworks integrating early warning indicators, borrower-level analysis, and macroeconomic sensitivity to ensure timely identification of significant credit deterioration and prompt, documented escalation and remediation actions.

- **Unlikeliness to Pay:** Banks are expected to implement a forward-looking, well-governed framework for identifying default and unlikeliness to pay and supported by documented indicators, timely monitoring, and consistent application across exposures to ensure accurate classification, escalation, and remediation of credit deterioration.

- **Credit Monitoring:** Banks are expected to maintain a robust, data-driven credit monitoring framework that includes regular borrower reviews, collateral revaluation, and granular information collection particularly for commercial real estate lending to ensure timely detection of credit deterioration and alignment with risk appetite and supervisory expectations. In addition, Banks are expected to incorporate forward-looking assessments of property income and sector trends, such as rental forecasts, vacancy rates, and construction costs to support timely risk detection and informed provisioning.

- **Forbearance:** Banks are expected to implement robust governance, risk management, and operational frameworks to ensure timely identification, classification, and resolution of non-performing and forborne exposures.

- **Default:** Banks are expected to apply a consistent, well-documented, and timely default identification framework ensuring accurate recognition of default events, including distressed restructuring, material past due amounts, and unlikeliness to pay, supported by robust governance, documentation, and reclassification procedures.

- **Collateral Management:** Banks are expected to maintain Board-approved policies ensuring independent, conflict-free and regularly reviewed collateral valuations, with frequent monitoring, robust quality assurance, rotation of appraisers, and stricter requirements for non-performing exposures.

- **Provisioning:** Banks are expected to ensure robust governance, internal controls, and sound credit risk methodologies to support accurate and timely recognition, measurement, and oversight of expected credit losses.

Credit institutions are reminded of their obligation to comply with the applicable regulatory framework, including Banking Rules BR/09, BR/24, BR/28, and the Capital Requirements Regulation (CRR). Banks are expected to take a proactive approach in reviewing their internal frameworks, identifying any gaps or weaknesses, and implementing timely and effective remedial measures to ensure alignment with regulatory requirements and sound risk management practices.

The MFSA expects credit institutions to give due consideration to the areas noted during the review and, where relevant, to take appropriate action to ensure compliance with the applicable regulatory framework and to uphold supervisory expectations.

Yours Sincerely,
Malta Financial Services Authority

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