4. INSURANCE COMPANIES AND INVESTMENT FUNDS

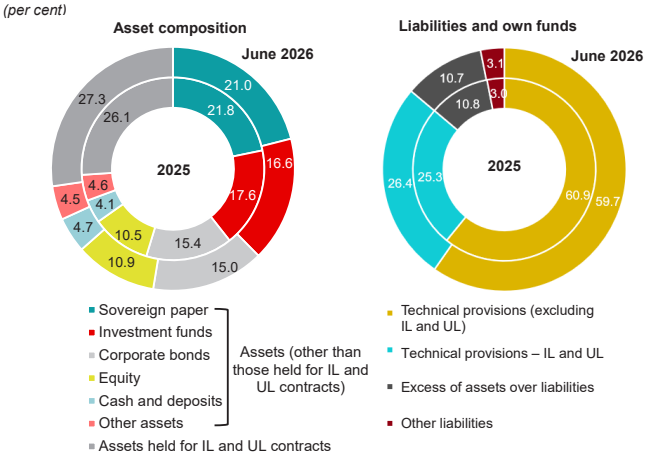
4.1 Domestic insurance companies

The number of active licensed insurance undertakings operating in Malta increased by two to 71 by June 2026, following the licensing of three new entities and the surrender of one licence during the review period. Of these, ten were considered as domestically relevant, and recorded a 3.5% increase in their aggregate balance sheet, with assets standing at €4.1 billion equivalent to 16.2% of GDP.[1] This growth was observed across both life and non-life insurers, with both segments remaining well capitalised and maintaining broadly adequate liquidity levels. Non-life insurers reported an improvement in profitability, whereas life insurers recorded lower profits and a comparatively weaker ROA.

4.1.1 Domestically relevant life insurance companies

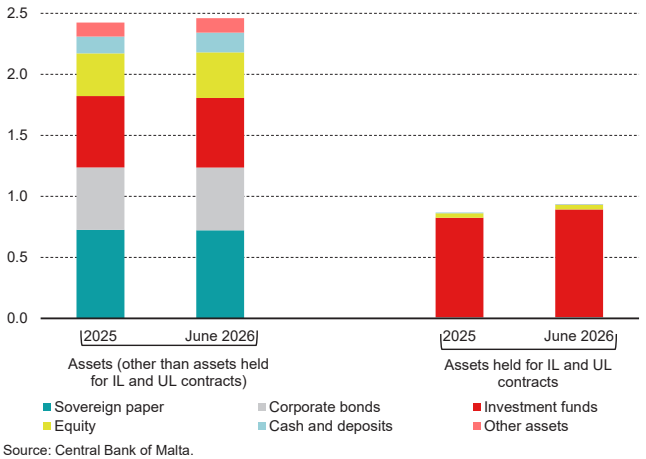
The life insurance sector's assets grew by 3.2% to €3.4 billion, representing 13.3% of GDP. The expansion was mainly driven by assets associated with unit-linked (UL) and index-linked (IL) contracts, which increased by 8.0% to €937 million and accounted for more than one-quarter of the life insurers' balance sheet by June 2026.[2] The increase in this share reflects a greater proportion of life insurers' business being associated with products under which policyholders bear the investment risk and may benefit from investment gains or incur investment losses (see Chart 4.1). Assets excluding UL and IL business also increased, although at a more subdued rate of 1.4%, to €2.5 billion.

Chart 4.1
LIFE SECTOR BALANCE SHEET
(per cent)



Source: Central Bank of Malta.

Chart 4.2
LIFE INSURANCE SECTOR ASSET COMPOSITION
(EUR billions)



Source: Central Bank of Malta.

Asset composition – IL and UL policies

Participations in investment funds remained the principal assets backing IL and UL contracts, accounting for 94% of the portfolio and reflecting the market-linked nature of these products (see Chart 4.2). These holdings consisted mainly of equity, bonds and asset allocation funds. Overall claims on investment funds increased by 7.9%, mainly reflecting higher exposures

[1] Of the ten domestically relevant insurers, four specialise in life insurance and six in non-life insurance. Three non-life insurers also underwrite a small proportion of life business. As this represents only 3.8% of their total gross written premia, these undertakings are included within the non-life segment for analytical purposes.

[2] The performance of IL and UL contracts depends on the underlying investments, with the associated investment risks borne primarily by policyholders. By contrast, other life insurance products may provide guarantees that expose insurers to a greater share of market and balance-sheet risk. IL and UL contracts are therefore assessed separately to reflect their distinct risk profiles and implications for the insurers' financial positions.

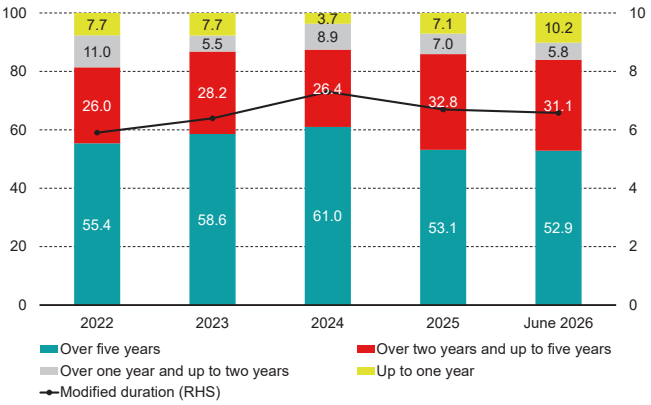
to euro area asset allocation and equity funds. In contrast, investments in bond funds contracted by 6.3%, mainly owing to lower participations in domestically-focused funds. The remainder of IL and UL assets was held predominantly in equities, with only a limited allocation to bonds.

Asset composition – excluding IL and UL policies

Assets excluding IL and UL contracts, which mainly comprise investments backing other life insurance products and insurers' own-account holdings, remained concentrated in fixed-income securities, which accounted for 50.2% of such assets. Sovereign debt remained the largest component of the portfolio, reflecting insurers' preference for relatively lower-risk assets (see Chart 4.2). However, holdings of sovereign securities declined marginally during the first half of the year, mainly reflecting lower exposures to euro area government bonds. In contrast, corporate bond holdings increased by 0.5%, largely due to higher exposures to securities issued by US financial institutions, and NFCs in the US and the euro area. NFC exposures remained concentrated in the manufacturing and energy supply sectors, both of which registered further increases by June 2026.

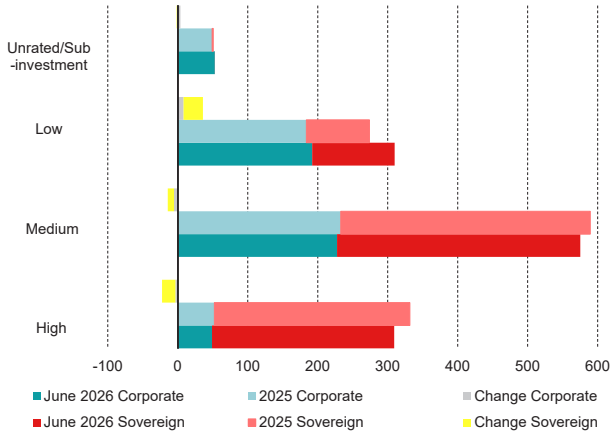
The maturity profile of life insurers' bond portfolios remained broadly stable. Bonds with residual maturities exceeding five years continued to represent the largest segment, accounting for 52.9% of holdings (see Chart 4.3). While the share of bonds maturing within one year increased to 10.2%, the shares of bonds in the one-to-two-year and two-to-five-year maturity buckets declined. These movements had only a limited impact on the portfolio's interest rate risk sensitivity, with modified duration declining marginally to 6.6%. Yields-to-maturity increased across most maturity buckets, particularly for bonds with residual maturities of more than one year, reflecting the rise in bond yields observed during the first half of 2026. While higher yields may weigh on the market value of existing bond holdings, they could support insurers' investment income over time, if maturing assets are reinvested at more favourable rates.

Chart 4.3
LIFE – MATURITY STRUCTURE AND MODIFIED DURATION OF DEBT SECURITIES
(per cent of total debt securities holdings; per cent)



Source: Central Bank of Malta.

Chart 4.4
LIFE – DEBT SECURITIES PORTFOLIO – INVESTMENT RATINGS
(EUR millions)



Source: Central Bank of Malta.

The credit quality of the life insurers' debt portfolios remained broadly sound. Despite a 3.7% decline, medium and high-rated securities accounted for around 70% of holdings (see Chart 4.4). Meanwhile, holdings of lower-rated debt increased by 7.5%, indicating some reallocation towards higher-yielding securities. The overall

credit quality of the portfolio was supported by sovereign bonds, of which more than 80% were rated medium or high investment grade. Corporate bond holdings had a comparatively weaker credit profile, with slightly more than half invested in lower-rated and sub-investment-grade securities.

Investment funds' units other than those backing IL and UL contracts declined by 2.7%, mainly owing to lower exposures to euro area money market funds (MMFs). This could indicate a reallocation towards longer-duration fixed-income instruments amid the higher bond yields observed during the first half of 2026. Direct equity holdings, by contrast, increased by 6.9%, with growth recorded across domestic, euro area and other international exposures, mainly driven by equities issued by NFCs. US equities remained the largest geographical exposure, reflecting the international presence of the underlying companies. Domestic equities accounted for around one-fifth of total equity holdings, with exposures to monetary financial institutions (MFIs) and NFCs collectively representing most of the domestic portfolio.

Cash and cash-equivalents increased by 17.2%, reaching 6.5% of total assets in June 2026. Exposures to other asset classes, including collateralised securities, property, mortgages and loans, as well as recoverables and receivables, remained limited, collectively accounting for around 4.8% of total assets. Overall, assets remained concentrated in fixed-income securities and investment funds, while exposures to less liquid and non-traditional assets remained modest.

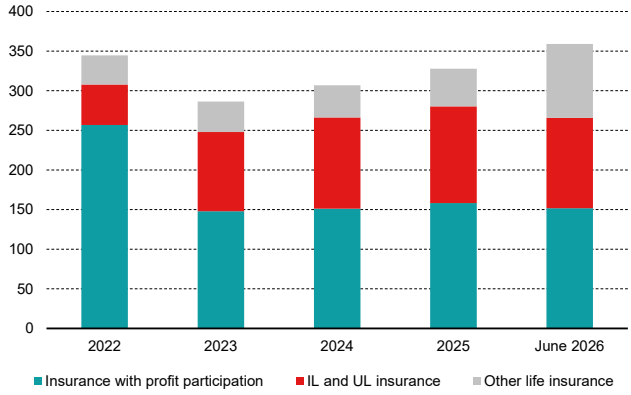
Liabilities and own funds

Liabilities associated with IL and UL contracts rose by 7.9%, in line with the expansion in market-linked business (see Chart 4.1). Technical provisions for other life insurance products remained the largest liability component, but grew more moderately, by 1.2%. Overall, technical provisions increased by 3.2%, broadly mirroring the expansion on the assets side of the balance sheet. The excess of assets over liabilities rose by 2.3% and accounted for 10.7% of total assets. This supported insurers' loss-absorbing capacity, although the adequacy of their solvency position is more directly assessed below.[3]

Gross written premia and claims

Gross written premia (GWP) increased by 9.5% during the first half of 2026, driven by the 'other life' insurance category, where premia almost doubled, partly reflecting the introduction of a new guaranteed savings-type product (see Chart 4.5).[4] Consequently, the share of 'other life' premia rose by 11.2 percentage points to 26.0% of total GWP. By contrast, premia for 'insurance with profit participation' and IL and UL business declined by 4.1% and 6.6%, respectively. Their shares of total GWP consequently fell by 4.8 percentage points to 42.3%, and by 6.4 percentage points to 31.8%, respectively.

Chart 4.5
GWP OF THE DOMESTIC LIFE INSURANCE SECTOR BY LINE OF BUSINESS
(EUR millions)



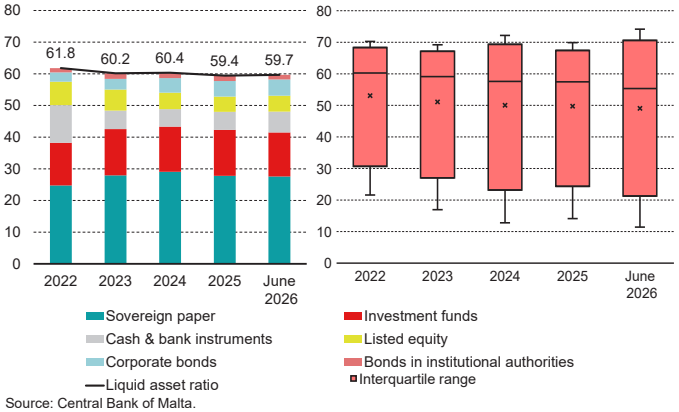
Source: Central Bank of Malta.

Gross claims incurred increased by 5.8%, mainly reflecting higher claims associated with IL and UL products. Claims under the 'other

[3] Under the Solvency II framework, eligible own funds comprise the excess of assets over liabilities determined under regulatory valuation rules, together with eligible subordinated items classified as Tier 1, Tier 2 or Tier 3 capital.
[4] Around 0.7% of total GWP was underwritten outside Malta, mainly elsewhere in the euro area, and were related to IL and UL contracts and other life insurance business.

life' insurance line also increased, albeit to a lesser extent, while claims relating to 'insurance with profit participation' declined slightly.

Chart 4.6
LIQUID ASSETS RATIO OF THE LIFE INSURANCE SECTOR
(per cent)



Source: Central Bank of Malta.
Note: The left panel shows the composition of liquid assets; the right shows the distribution of the indicator, where the box, horizontal line, and × denote the interquartile range, median and unweighted mean, respectively.

Liquidity and capital

The life insurance sector's liquidity position remained broadly stable, with the aggregate liquid assets ratio increasing by 0.2 percentage points to 59.7% (see Chart 4.6). The increase was supported primarily by higher cash holdings, together with increased exposure to listed equities and corporate bonds. These developments more than offset declines in exposures to collective investment undertakings and bonds issued by institutional and supranational entities. Sovereign securities, however, continued to account for the largest share of liquid assets. Liquidity positions nevertheless continued to vary across insurers, reflecting differences in business models and investment strategies. Most insurers continued to maintain sizeable liquidity buffers, with the median liquid assets ratio remaining above 50%.

Life insurers remained well capitalised, with the aggregate SCR coverage ratio standing at 247.7% in June 2026. The ratio declined by 23.8 percentage points from end-2025, mainly reflecting the faster growth in the SCR relative to eligible own funds. Nevertheless, the sector's solvency position remained comfortably above regulatory minimum requirements, indicating a sizeable aggregate buffer to absorb losses arising from market, underwriting and operational risks. The quality of eligible own funds also remained high, consisting mostly of Tier 1 capital.

Profitability

Life insurers' profitability weakened during the period, with profit before tax declining by 14.9% and pre-tax ROA falling to 0.7%. The deterioration reflected weaker financial performance, as the increase in financial expenses, particularly expenses associated with insurance contract liabilities, exceeded the gains from higher investment returns. This was partly offset by stronger underwriting performance, with the insurance service result increasing by 7.6% on the back of higher insurance revenue.

Operational efficiency also improved, as the growth in net premia earned outpaced that of operating expenses. Accordingly, the expense ratio declined by 0.8 percentage points to 16.8%.[5] Nevertheless, it remained above the ten-year average of 13.3%.

4.1.2 Domestically relevant non-life insurance companies

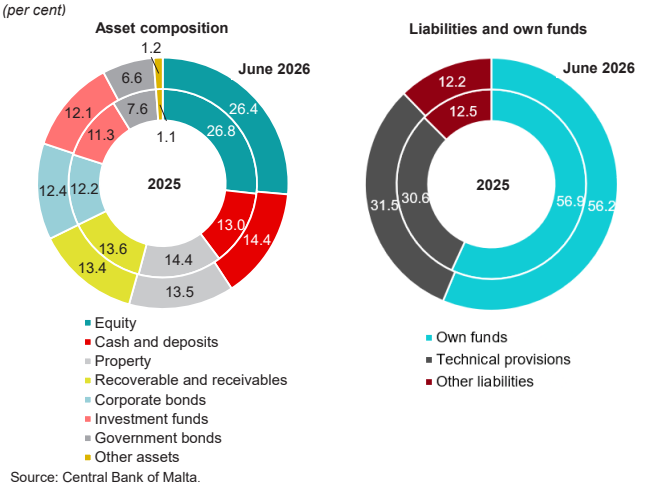
The non-life insurance sector recorded stronger balance sheet growth than the life insurance segment, with total assets increasing by 5.2% during the first half of 2026 and reaching the equivalent of 2.9% of GDP.[6]

[5] The expense ratio is defined as operating expenses, excluding claims, divided by net premia earned.
[6] The June 2026 data for one undertaking were not available by the reporting cut-off date. The latest available data for that undertaking, related to March 2026, were therefore used to ensure full sector coverage.

Asset composition

Growth was recorded across most asset classes. Direct equity holdings remained the largest asset class, accounting for more than one-quarter of total assets and increasing by 3.8% (see Chart 4.7). A substantial share of just over a fourth of these investments consisted of equity participations in affiliated insurance undertakings, reflecting intra-group ownership links within the sector.

Chart 4.7
NON-LIFE SECTOR BALANCE SHEET
(per cent)



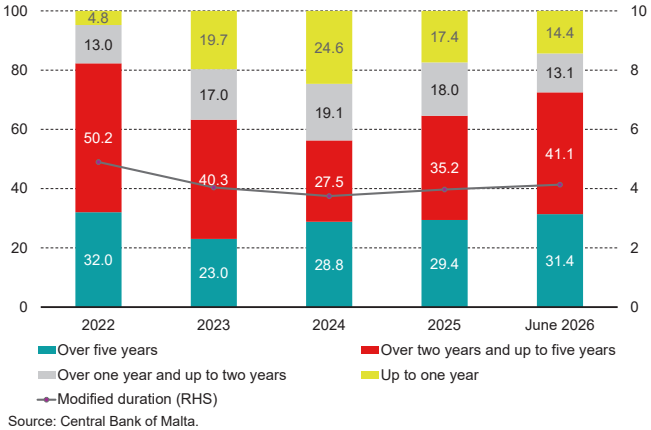
Source: Central Bank of Malta.

Fixed-income securities remained the second-largest asset class, accounting for 19.0% of overall assets. Developments within the bond portfolio, though, were mixed. Government bond holdings declined by 8.5%, mainly reflecting lower exposures to euro-area sovereign issuers. In contrast, corporate bond exposures increased by 7.0%, supported by higher holdings of debt securities issued by euro-area NFCs and by MFIs outside the euro area. NFC bond holdings were primarily concentrated in manufacturing, energy, and information and communication activities, with the latter recording the strongest growth.

The maturity profile of non-life insurers' bond portfolios shifted moderately towards longer-dated securities by June 2026 (see Chart 4.8). Bonds with residual maturities of between two and five years increased by 11.2%, and accounted for 41.1% of total bond holdings, thereby remaining the largest maturity bucket. Exposures to bonds maturing in over five years also rose slightly, reaching 31.4% of the bond portfolio. By contrast, holdings of debt securities maturing within one year, and those maturing between one and two years declined by 21.4% and 30.7%, respectively. These developments resulted in a marginal increase in modified duration to 4.1%, indicating a slight rise in the portfolio's sensitivity to interest rate movements. Higher yields were also recorded across all maturity buckets.

The credit quality of non-life insurers' bond portfolios remained broadly sound during the first half of 2026. High and medium-rated securities continued to represent the majority of holdings, accounting for around 73% of the portfolio in June 2026. Although the share of high-rated securities declined slightly, this was more than offset by an increase in medium-rated exposures. At the same time, holdings of sub-investment-grade debt contracted, reducing their share of the portfolio to 8.8%. Overall, these developments point to a modest improvement in the portfolio's credit profile.

Chart 4.8
NON-LIFE – MATURITY STRUCTURE AND MODIFIED DURATION OF DEBT SECURITIES PORTFOLIO
(per cent of total bond holdings; per cent)



Source: Central Bank of Malta.

Credit quality remained particularly strong within the sovereign bond portfolio, with more than 97% of holdings rated either high or medium-investment grade. The rating distribution of corporate bonds was more mixed. Medium-rated securities represented the largest category, while lower-rated and sub-investment-grade instruments collectively accounted for around 41% of corporate bond holdings.

Cash and deposits increased by 16.3%, making them the third-largest asset class held by the non-life sector. Property holdings remained broadly stable, declining marginally by 0.7%, with property held for own use continuing to account for just over half of the sector's property portfolio. Recoverables and receivables rose by 3.6%, reflecting higher amounts due from policyholders, intermediaries and reinsurers. Investment funds' holdings increased by 12.5%, supported by broad-based growth across all regions, particularly euro-area equity funds.

Liabilities and own funds

Technical provisions increased by 8.5%, accounting for 31.5% of the balance sheet by June 2026, while other liabilities rose by 2.5% to 12.2% of the balance sheet (see Chart 4.7). Nevertheless, the excess of assets over liabilities remained the largest balance-sheet component, increasing by 4.1% and representing more than half of total assets. This surplus is broadly related to, but does not necessarily correspond exactly to, eligible own funds calculated under the Solvency II framework.

Gross written premia and claims

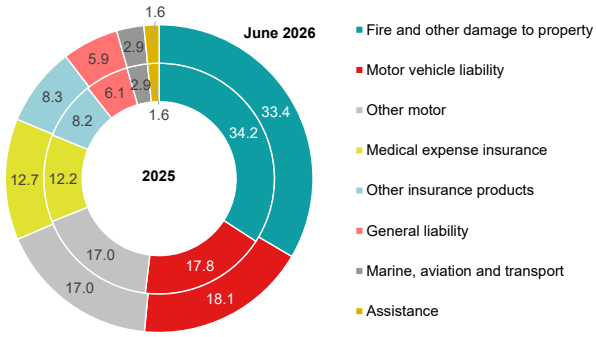
GWP in the non-life insurance sector increased by 2.8%, driven primarily by the health insurance segment, where premia rose by 6.9% and accounted for almost 13% of the total GWP (see Chart 4.9). Motor and property insurance remained the principal lines of business, collectively representing more than two-thirds of total premia. Motor insurance premia increased by 3.7%, while activity within the property segment remained broadly stable.[7]

The increase in GWP was driven entirely by domestic activity, as underwriting abroad contracted marginally. Nevertheless, foreign business remained significant, accounting for 27.4% of overall premia. Such activity remained concentrated among a small number of undertakings and was predominantly written in euro-area markets. Property insurance generated more than 65% of premia written outside Malta, indicating concentration across both undertakings and lines of business.

Gross claims incurred increased by 11.9%, substantially outpacing premium growth. The increase was broad-based across most lines of business, but was driven mainly by property insurance, followed by miscellaneous financial loss and motor vehicle liability business. Higher property claims partly reflected several loss events during the period, including Storm Harry in January and a fireworks factory explosion in June.

Reinsurance continued to play a central role in non-life insurers' risk management strategies, with 39.2% of GWP ceded to reinsurers. Dependence on reinsurance was especially prominent in the property line of business, where more than three-quarters of written business

Chart 4.9
GROSS WRITTEN PREMIUM OF THE DOMESTIC NON-LIFE INSURANCE SECTOR BY LINE OF BUSINESS
(per cent)

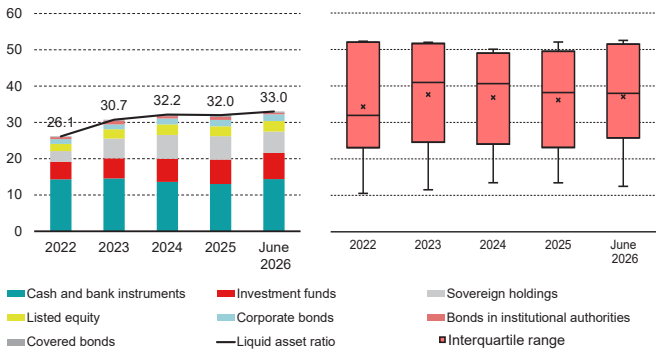


Source: Central Bank of Malta.
Note: Solvency II Reporting. Other insurance products include workers' compensation, income protection, miscellaneous, other life insurance and profit participation, IL and UL insurance.

[7] Motor vehicle liability insurance covers liabilities to third parties from accidents, including bodily injury and property damage. Other motor insurance covers damage to or loss of the insured vehicle but does not cover third-party liabilities.

was reinsured. While this reduced net exposure to large losses, it also left underwriting capacity and profitability more sensitive to changes in reinsurance pricing, availability and counterparty performance.

Chart 4.10
LIQUID ASSETS RATIO OF THE NON-LIFE INSURANCE SECTOR
(per cent)



Source: Central Bank of Malta.
Note: The left panel shows the composition of liquid assets; the right shows the distribution of the indicator, where the box, horizontal line, and × denote the interquartile range, median and unweighted mean, respectively.

Liquidity and capital

The liquid assets ratio increased to 33.0% by June 2026, reflecting an improvement in the sector's overall liquidity position. Higher holdings of cash and investment funds were the main contributors to the increase in liquid assets (see Chart 4.10). Significant differences nevertheless persisted across insurers, reflecting heterogeneity in asset allocation, business models and funding structures. While most undertakings maintained liquidity ratios above the euro area median, some continued to fall below this level, highlighting the importance of monitoring firm-specific liquidity positions.[8]

The non-life insurance sector remained strongly capitalised, with the aggregate SCR coverage ratio standing at 231.6% as at June 2026, despite a decline of 6.9 percentage points from end-2025. The decrease reflected stronger growth in the SCR than in eligible own funds. Solvency positions varied across undertakings, but all insurers remained comfortably above the regulatory minimum, with firm-level ratios ranging from 191.2% to 292.5%. The quality of eligible own funds also remained high, with capital consisting predominantly of Tier 1 own funds.

Profitability

The non-life insurance sector remained profitable during the first half of 2026, with profit before tax increasing by 8.1% and pre-tax ROA standing at 12.1%. Profitability nevertheless varied across insurers, with firm-level pre-tax ROA ranging from 2.9% to 17.9%. The improvement in overall profitability was driven by stronger investment performance, with investment returns increasing by 44.8% and contributing to a 48.4% rise in the net financial result.

This increase was partly offset by a weaker underwriting performance. Underwriting profitability deteriorated moderately, as insurance service expenses increased at a faster pace than insurance revenue, largely reflecting the rise in claims incurred discussed earlier. The increase in claims-related expenses was only partially offset by a decline in net expenses from reinsurance contracts, primarily reflecting a larger amount recoverable from reinsurers. As a result, the underwriting result declined by 2.6%.

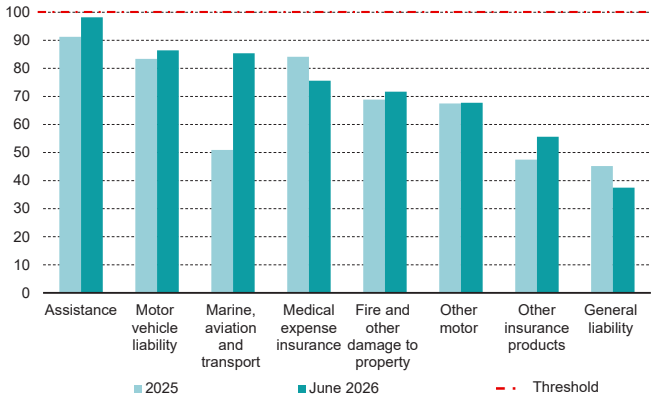
The weaker underwriting performance was also reflected in the combined ratio, which increased by 1.6 percentage points to 73.2%, indicating that claims and expenses accounted for a larger share of premia earned. The increase was driven mainly by developments in the marine, aviation and transport, and motor vehicle liability segments (see Chart 4.11). Nevertheless, the ratio remained comfortably below the 100% threshold, indicating that the sector continued to generate a technical profit from its underwriting activities.

[8] See the EIOPA Insurance Risk Dashboard, July 2026.

4.1.3 Risk outlook

Both the life and non-life insurance sectors entered the second half of 2026 with sound capital positions and continued balance-sheet growth. Nevertheless, the outlook remains uncertain amid persistent geopolitical tensions, volatile commodity prices and an elevated risk of abrupt corrections in financial markets, including in market segments with relatively high valuations. In particular, uncertainty surrounding global energy markets remained elevated, increasing the risk of renewed inflationary pressures and adverse second-round effects. More persistent inflation could raise claims and operating costs, weaken household demand for insurance and savings products, and tighten financial conditions. Financial market volatility could also weigh on insurers' investment performance and, if sufficiently severe, reduce their capital headroom.

Chart 4.11
NET COMBINED RATIO BY LINE OF BUSINESS
(per cent)



Source: Central Bank of Malta.
Note: Solvency II reporting. Other products include income protection, miscellaneous financial loss and workers' compensation insurance. Bars are ranked by June 2026 net combined ratio, from highest to lowest.

Risks differ across the two insurance segments. For life insurers, premium growth was supported primarily by a new guaranteed savings product, while premia from 'insurance with profit participation' and IL and UL business declined. Demand could therefore weaken if uncertainty surrounding household incomes, interest rates and financial market performance persists. Life insurers also remain exposed to movements in interest rates and credit spreads, through their fixed-income portfolios. While higher reinvestment yields may support returns on new investments, further increases in market yields could reduce the value of existing bond holdings. The net effect on capital and profitability would depend on the accounting and regulatory treatment of these assets. The increase in lower-rated debt and the recent deterioration in net financial result warrant continued monitoring.

For non-life insurers, the principal risk arises from claims outpacing premia, particularly if recent increases in claims frequency were to become a persistent feature. Although underwriting remained profitable, sustained claims inflation or further catastrophe-related losses could place additional pressure on margins. Extensive reinsurance coverage limits insurers' net exposure to large losses but also increases sensitivity to changes in reinsurance pricing and capacity, and to reinsurer counterparty risk, particularly in the property business. These risks are more pronounced given the concentration of foreign property underwriting among a small number of undertakings.

Operational and cyber risks also remain important across both segments. The emergence of increasingly capable frontier AI models may facilitate more sophisticated and scalable cyber-attacks, exposing insurers to potential business disruption, data losses, higher operating costs and cyber-underwriting losses. Reliance on external information and communications technology and other critical service providers further reinforces the need for effective third-party risk management and business-continuity planning. Regulatory changes and the transition towards more climate-resilient business models may create adjustment costs. Continued investment in operational resilience and effective risk management will therefore remain important in preserving the sector's capacity to absorb future shocks.

Private credit exposure in the domestically relevant insurance companies

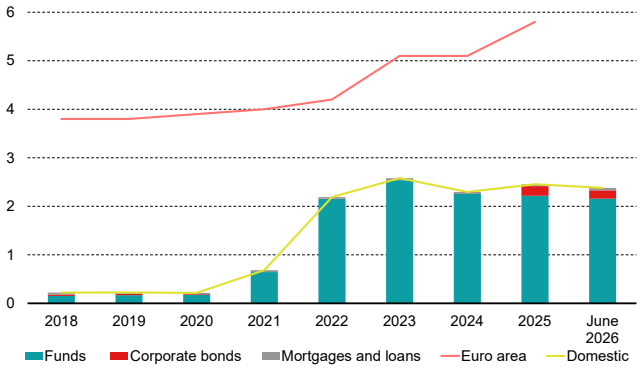
Private credit generally refers to financing provided outside the traditional banking system and public debt markets. Globally, this form of financing has expanded as businesses seek alternative sources of funding and institutional investors pursue higher returns and greater portfolio diversification. For insurers, private credit may offer a liquidity premium and broaden exposure beyond traditional fixed-income securities. However, it can also entail heightened credit and liquidity risks, less frequent and potentially less transparent valuations, and greater complexity than publicly-traded instruments. These features may make exposures more difficult to assess and monitor, particularly during periods of market stress. Moreover, the absence of a universally accepted definition complicates comparisons across jurisdictions and institutions.

Against this background, the European Insurance and Occupational Pensions Authority (EIOPA) examined insurers' private credit exposures in its December 2025 *Financial Stability Report* using a broad classification based on Solvency II reporting.[9] Under this approach, private credit includes selected non-listed or non-tradable debt instruments, mortgages and loans, structured notes and collateralised credit securities subject to credit risk, as well as relevant indirect holdings through investment funds.[10] Lending to banks and intra-group transactions are excluded. Consequently, investments that otherwise exhibit characteristics of private credit, such as loans or non-listed corporate bonds, are not included where the counterparty is a bank or another entity within the same group.

Using this definition, private credit exposures held by European insurers increased from 3.9% of total assets in Q4 2016 to 5.8% in Q2 2025, with the most significant increase taking place since 2023. In absolute terms, related exposures rose by around 80% over the period assessed, underscoring the growing importance of private credit.

Domestically relevant insurers followed a similar trajectory, with exposures increasing more noticeably from 2022 onwards (see Chart 4.12). Following a period of very limited exposures between 2018 and 2020, the share of private credit increased steadily, reaching 2.4% by June 2026, while remaining below the European average. Exposures were concentrated in the life insurance sector, where private credit represented 2.7% of total assets, compared with 0.8% for non-life insurers.

Chart 4.12
PRIVATE CREDIT EXPOSURES AND COMPOSITION OF DOMESTIC INSURERS' PORTFOLIOS
(per cent of total assets)



Sources: EIOPA; Central Bank of Malta.
Note: Euro area data for 2025 refer to June 2025, the latest available observation, while domestic insurers' data refer to December 2025.

[9] European Insurance and Occupational Pensions Authority (EIOPA), (2025), Financial Stability Report 2025, Topical Focus: *Private Credit Investments by EEA Insurers and IORPs: Exposures, Trends and Vulnerabilities*.

[10] Following EIOPA's methodology, private credit comprises selected direct and indirect credit exposures identified through Solvency II CIC classifications. Direct exposures include non-listed or non-tradable corporate debt (CIC 21, 22, 25, 28 and 29), mortgages and loans (CIC 8), structured notes subject to credit risk (CIC 54), and collateralised securities subject to credit risk (CIC 64). Indirect exposures include relevant holdings through investment funds (CIC 4), including alternative investment funds (CIC 46), private equity funds (CIC 47) and infrastructure funds (CIC 48).

The composition of domestic insurers' exposures also differed from the broader European pattern. Whereas mortgages and loans constituted the largest component of private credit exposures across European insurers, domestic exposures were held predominantly through investment funds, particularly infrastructure and alternative investment funds. This comparatively limited contribution from direct loans partly reflected the exclusion of intra-group lending, which represented a significant share of domestic loan exposures.

Private credit exposures varied considerably across insurers. While some insurers reported no private credit exposure, others exhibited higher concentrations, with the highest share standing at 4.7% of total assets. Although the sector-wide exposure remains contained, firm-level concentrations may create vulnerabilities through credit losses, illiquidity and valuation uncertainty. Indirect exposures through investment funds may also increase interconnectedness with the broader non-bank financial sector and make the ultimate counterparties and underlying risks more difficult to identify. These developments highlight the importance of continued monitoring, particularly in relation to concentrated exposures, valuation practices and the underlying composition of investment-fund holdings.

BOX 4: HOW SIGNIFICANT IS CATASTROPHE RISK FOR MALTESE NON-LIFE INSURERS' SOLVENCY CAPITAL REQUIREMENT?[1]

Introduction

Catastrophe events are typically low-frequency but high-impact events that can give rise to severe and concentrated losses, posing significant risks to the financial resilience of insurance undertakings. The Solvency II framework therefore requires insurers to hold capital against catastrophe exposures as part of the SCR. This helps to ensure that sufficient financial resources are available to absorb unexpected losses and continue meeting policyholder obligations following a major catastrophic event.[2] Catastrophe risk has also attracted increasing attention at European level, reflecting concerns about the financial impact of natural catastrophe events, insurance protection gaps and the resilience of the insurance sector to severe losses.

This article examines the significance of catastrophe risk within the SCR of domestically relevant non-life insurers over the period 2016–2025.[3] To establish the regulatory context for the subsequent analysis, it first explains how catastrophe risk enters the SCR calculation. It then assesses the contribution of catastrophe risk to insurers' capital requirements and its evolution over time. The analysis focuses on changes in the composition of catastrophe risk across categories and perils, the geographical distribution of underlying exposures, including exposures located outside Malta, and the effects of risk mitigation and diversification. Particular attention is paid to observed gaps in the Malta-specific calibration of the Solvency II Standard Formula at present, and their implications for the interpretation of reported natural catastrophe capital requirements. Consequently, the findings should be interpreted in the context of the existing calibration and should not be taken as a comprehensive assessment of Malta's underlying catastrophe risk profile.

Catastrophe risk under the Solvency II Standard Formula

Under Solvency II, insurers are required to hold eligible own funds to cover the SCR, which is calibrated to a 99.5% confidence level over a one-year horizon. Under the standard formula, the SCR covers a range of risks, including non-life underwriting risk. This module comprises premium and reserve risk, lapse risk, and catastrophe risk, with the latter capturing potential losses arising from extreme or exceptional events.

The relative importance of catastrophe risk within the total SCR increased over the period under review, rising from around 10% in 2016 to more than 13% in 2025. However, the contribution of catastrophe risk to total SCR varied considerably across undertakings, ranging from 4% to 19% in 2025, reflecting differences in underwriting profiles and risk exposures.

Unlike claims arising from more typical loss experience, catastrophe risks are calibrated using low-frequency, high-severity scenarios that may generate exceptionally large and concentrated losses. They may arise from a natural catastrophe affecting numerous policyholders simultaneously or from a major man-made event, such as a large-scale marine or aviation accident, a significant fire, or an event generating multiple motor or liability claims.

Catastrophe risk comprises three broad categories of exposures: natural catastrophe risk, man-made catastrophe risk, and other non-life catastrophe risk. Natural and man-made catastrophe risks are further subdivided into individual perils. Natural catastrophe risk encompasses windstorm,

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[1] Written by Ms Luana Camilleri, Senior Expert within the Financial Stability Surveillance and Risk Assessment Department. The author would like to thank Mr Andrew Spiteri, Ms Wendy Zammit, Mr Alan Cassar, Deputy Governors Oliver Bonello and Rita Schembri, and Governor Alexander Demarco for their valuable suggestions.

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) (Text with EEA relevance).

[3] Argus Insurance (Europe) Limited is included in the sample from 2024 onwards.

earthquake, flood, hail and subsidence, while man-made catastrophe risk comprises motor vehicle liability, marine, aviation, fire, general liability, and credit and suretyship risks.[4,5]

Other non-life catastrophe risk is reported as a separate category and primarily relates to certain marine, transport, casualty, and miscellaneous financial loss exposures not captured within the dedicated natural and man-made catastrophe risk sub-modules.

For the natural and man-made catastrophe perils considered here, the calculation starts with the undertaking's underlying exposures. The relevant parameters or stress scenarios prescribed under the Solvency II standard formula are then applied to determine the capital requirement before risk mitigation. For natural catastrophe risk, the calculation relies on country-specific factors and prescribed scenarios intended to reflect the severity of natural hazards across jurisdictions. These calibrations are periodically reviewed by EIOPA to reflect available evidence and modelling developments.

The coverage of Malta-specific factors in the natural catastrophe calibration is relevant to interpreting the results. Earthquake is currently the only natural catastrophe peril with a Malta-specific country factor in that calibration. Although flood risk for Malta was considered during EIOPA's 2023–2024 reassessment of natural catastrophe perils and country factors, no Malta-specific flood factor was proposed owing to the absence of a suitable model, with Malta identified for reconsideration in a future review.[6,7] Hail, windstorm and subsidence were not assessed for Malta and therefore remain outside the Malta-specific calibration of the standard formula. The absence of country-specific factors does not imply that these hazards are absent or immaterial, but rather that the current standard formula does not quantify the associated capital requirements for exposures located in Malta.

Once the pre-mitigation capital requirements are estimated, recognised risk-mitigation techniques, principally reinsurance, are applied to determine the corresponding post-mitigation capital requirements. These are then aggregated using the prescribed Solvency II methodology, which recognises diversification effects arising from the fact that different catastrophe risks are unlikely to materialise simultaneously at their stressed levels.

Composition of catastrophe risk by category and peril

In 2025, the aggregate pre-mitigation peril-level capital requirements of domestically relevant undertakings amounted to approximately €1.2 billion for man-made catastrophe risk and €464 million for natural catastrophe risk. Following reinsurance, the corresponding requirements declined to around €18.9 million and €14 million, respectively. An additional €2.2 million relates to other non-life catastrophe risk. Post-mitigation capital requirements were therefore equivalent to approximately 1.5% and 3.0% of the corresponding pre-mitigation requirements for man-made and natural catastrophe risk, respectively.

The impact of risk mitigation varied across catastrophe perils. Fire and earthquake recorded the largest proportionate reductions, consistent with the extensive use of reinsurance arrangements for

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4 Subsidence refers to damage caused by the sinking or settlement of the ground beneath a property. Liability catastrophe risk captures the possibility that a single event could give rise to a large number of third-party compensation claims, resulting in a significant accumulation of losses for insurers.

5 Wildfire is not currently included as a separate natural catastrophe peril under the Solvency II standard formula. While EIOPA is considering its potential inclusion, fire damage is already captured under the fire risk sub-module of the man-made catastrophe risk module, giving rise to potential double-counting concerns.

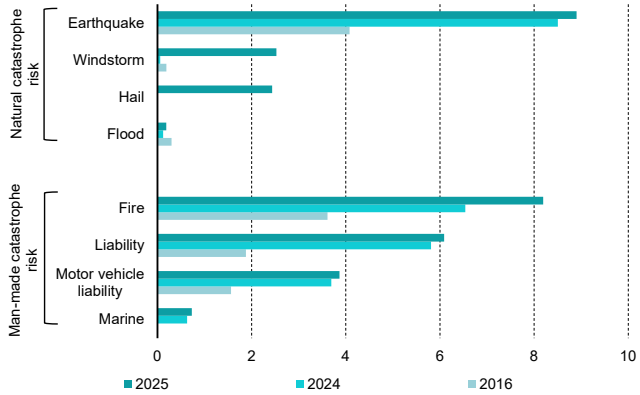
6 European Insurance and Occupational Pensions Authority (EIOPA), (2025, January 30), *Opinion on the 2023/2024 Reassessment of the Nat Cat Standard Formula*.

7 Recent experience illustrates the potential relevance of flood-related losses in Malta. Claims associated with Storm Harry in 2026 amounted to around €12 million, with flooding and other water damage accounting for approximately two-thirds of the total claims cost. While a single event is insufficient to support a regulatory calibration, it highlights the value of systematically collecting granular claims and exposure data to inform future Malta-specific flood-risk assessment and modelling.

these risks. Among the main perils, liability risk remained comparatively less affected by risk mitigation.

After risk mitigation but before peril-level diversification, man-made catastrophe risk remained the largest component throughout the period under review, driven by fire and liability risk (see Chart 4a). While the capital requirement for liability risk rose only marginally between 2024 and 2025, the increase in fire risk reinforced the contribution of man-made catastrophe risk.

Chart 4a
AGGREGATE CATASTROPHE RISK BY PERIL (2016, 2024 and 2025)
(EUR millions)



Source: Central Bank of Malta.
Note: Figures represent catastrophe capital requirements after recognised risk-mitigation arrangements and before the recognition of diversification benefits.

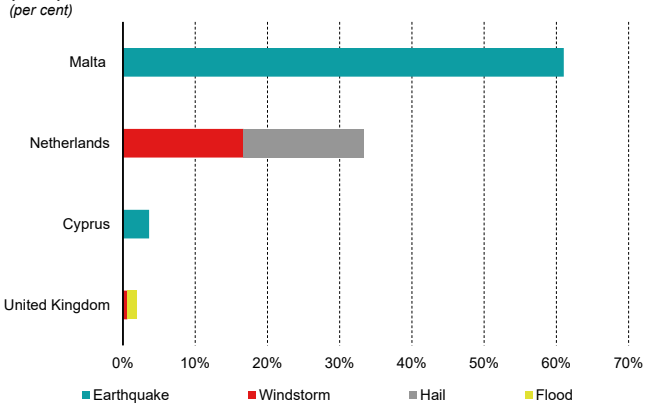
The capital requirement for natural catastrophe risk increased markedly in 2025, driven primarily by higher capital requirements for windstorm and hail. However, these increases were associated with a limited set of foreign exposures and did not reflect a broad-based increase across the insurers analysed. Despite these developments, earthquake remained the largest natural catastrophe peril by capital requirement and was broadly stable relative to the previous year. Its continued prominence is consistent with the standard formula calibration applicable to the reporting period, under which earthquake is the only natural catastrophe peril subject to a Malta-specific country factor. This should not be interpreted as evidence of dedicated earthquake products but rather reflects the insurers' exposure to the earthquake scenario prescribed under the standard formula.

Geographical distribution of natural catastrophe risk

Although the analysis covers domestically relevant insurers, their underlying exposures are not confined to Malta. Since natural catastrophe scenarios are calibrated according to the location of the insured risk, the geographical distribution of these exposures provides important context for interpreting the reported capital requirements (see Chart 4b).

At aggregate level, exposures located in Malta accounted for just under 60% of post-mitigation natural catastrophe capital

Chart 4b
GEOGRAPHICAL DISTRIBUTION OF NATURAL CATASTROPHE RISK (2025)
(per cent)



Source: Central Bank of Malta.
Note: Figures represent catastrophe capital requirements after recognised risk-mitigation arrangements and before the recognition of diversification benefits.

requirements in 2025, making Malta the largest geographical contributor. The remaining requirements arose from risks located in foreign jurisdictions, with the Netherlands representing the largest foreign component. Malta's predominance reflects the orientation of insurers' portfolios towards domestic risks, while the composition of its natural catastrophe capital requirement is also influenced by earthquake being the only peril with a Malta-specific country factor in the calibration examined. These shares relate to calculated capital requirements, rather than shares of total insured exposure. A comparable geographical breakdown is not available for man-made catastrophe risk.

At peril level, capital requirements for windstorm risk were primarily associated with exposures in the Netherlands, with a smaller share relating to the United Kingdom, while those for hail risk related to exposures in the Netherlands. Capital requirements for earthquake risk were primarily linked to exposures in Malta and, to a lesser extent, Cyprus, while those for flood risk were driven by exposures in the United Kingdom.

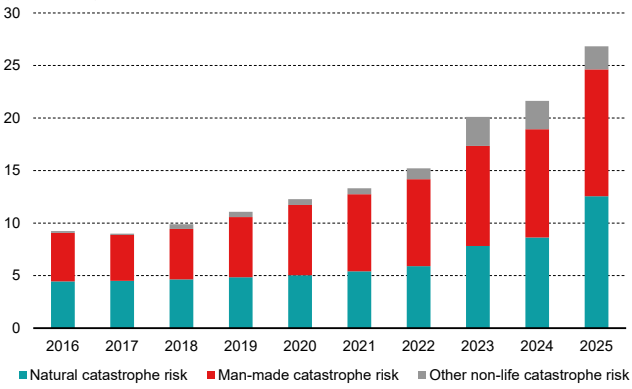
Diversification effects

Diversification reduces catastrophe-related capital requirements. In 2025, the sum of post-mitigation peril-level capital requirements for man-made, natural, and other non-life catastrophe risk, before diversification, amounted to approximately €35.1 million. After recognising diversification within and across the catastrophe risk sub-modules, the overall capital requirement for non-life catastrophe risk declined to €20.5 million, representing a reduction of around 41.6%. This percentage reduction remained broadly stable throughout the period under review.

This reduction can be assessed in two stages. First, diversification among the individual perils within the natural and man-made catastrophe risk sub-modules reduces the combined capital requirement by approximately €8.3 million, to €26.8 million. The diversification benefit is greater for man-made catastrophe risk than for natural catastrophe risk. Consequently, following peril-level diversification, natural catastrophe risk becomes marginally larger, with a capital requirement of approximately €12.6 million, compared with €12.1 million for man-made catastrophe risk (see Chart 4c). Other non-life catastrophe risk remains comparatively small, at €2.2 million, and therefore does not materially affect the overall composition of catastrophe risk.

Second, diversification across natural, man-made and other non-life catastrophe risks at undertaking level achieves a further reduction of approximately €6.3 million, bringing the overall capital requirement for the non-life catastrophe risk sub-module to €20.5 million.

Chart 4c
COMPOSITION OF AGGREGATE CATASTROPHE RISK BY TYPE
(EUR millions)



Source: Central Bank of Malta.
Note: Figures reflect capital requirements after the application of risk mitigation techniques and diversification within each catastrophe risk category, but before diversification across catastrophe risk categories.

Conclusion

The analysis shows that catastrophe risk is becoming an increasingly important component of non-life insurers' capital requirements within the context of the current Solvency II standard-formula calibration. For exposures located in Malta, earthquake is currently the only natural catastrophe peril subject to a country-specific factor. Consequently, the prominence of earthquake within the results reflects the risks explicitly captured by the framework and should not be interpreted as a comprehensive assessment of Malta's natural catastrophe risk profile.

The findings therefore point to a gap between the risks captured by regulatory capital requirements and the broader range of natural catastrophe risks that may be relevant to the Maltese insurance market. Addressing the significance of this gap would benefit from further development of the underlying exposure and claims data, together with suitable hazard assessments and catastrophe models. Continued engagement between national supervisory authorities and EIOPA would support future assessments of whether additional Malta-specific calibrations are warranted and whether the prudential framework adequately reflects catastrophe risks relevant to the Maltese market. It should be noted, however, that the absence of a dedicated country factor does not, by itself, establish that insurers' overall capital is inadequate.

The analysis also highlights the substantial but distinct roles of risk-transfer arrangements and diversification in determining the final catastrophe capital requirement reflected in insurers' solvency positions. Reinsurance reduces insurers' direct exposure to catastrophe losses by transferring part of the risk to reinsurers, while diversification lowers aggregate capital requirements by recognising that different catastrophe risks are unlikely to materialise simultaneously at their stressed levels. Together, these effects materially reduce the capital impact of catastrophe exposures. However, reliance on reinsurance also creates counterparty exposures that require appropriate risk management.

From a prudential and financial stability perspective, the assessment of catastrophe risk should extend beyond the resulting capital requirement and consider the broader range of natural hazards potentially relevant to Malta, the nature and geographical concentration of underlying exposures, and the distribution of these exposures across insurers. Continued monitoring of these dimensions remains important for assessing the sector's resilience to severe catastrophe events and identifying emerging changes in the nature, concentration, and transmission of catastrophe risk over time.

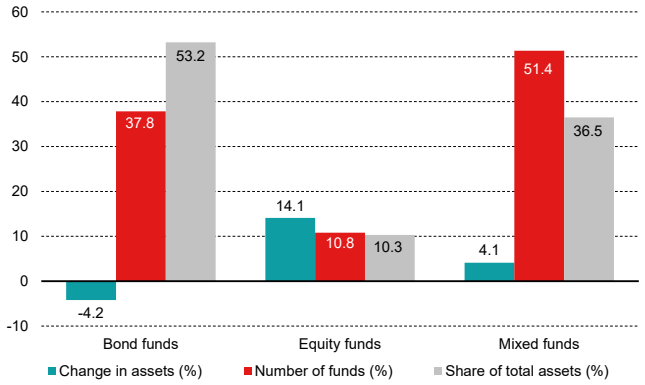
4.2 Domestically relevant investment funds

At the end of June 2026, 37 subfunds were identified as domestically relevant, one fewer than that reported in the *FSR 2025*.[11] Their combined assets grew marginally by 0.4% to €1.73 billion, equivalent to 6.8% of GDP. Exposures to equities and investment fund units rose, reflecting both increased portfolio allocations and a favourable market performance, while bond holdings declined. Maltese households remained the largest investor group and increased their net asset value (NAV). Overall, resilience continued to be supported by very low leverage and strong reported redemption coverage. Although the HQLA ratio declined, largely reflected changes in portfolio composition, it remained at a relatively strong level.

Developments by fund strategy

Investment funds are classified according to their predominant investment strategy. Mixed funds accounted for just over half of the number of domestically relevant sub-funds at the end of June 2026. However, in terms of assets under management (AUM), bond funds remained the dominant category, accounting for 53.2% of the sector's assets, compared with mixed funds at 36.5% and equity funds at 10.3% (see Chart 4.13).

Chart 4.13
DOMESTICALLY RELEVANT SUB-FUNDS BY MAIN STRATEGY
(per cent)



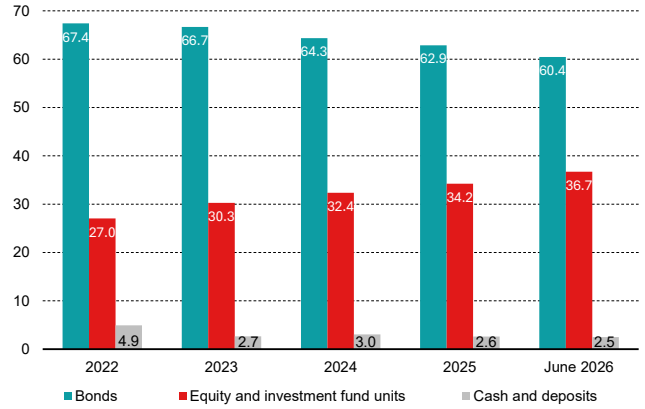
Source: Central Bank of Malta.
Note: Teal indicates the change in assets compared with 2025. Red represents the share by number of funds, while grey denotes the share of total assets.

4.2.1 Asset composition and investment strategies

Holdings of equities and investment funds' units increased by 11.7%, reflecting both higher portfolio allocations and favourable market performance. Consequently, their share in total assets rose by 2.5 percentage points to 36.7% (see Chart 4.14). The increased allocation raised the funds' sensitivity to equity-market corrections and broader changes in investor risk sentiment, in an environment of heightened volatility and geopolitical uncertainty.

By contrast, the share of debt securities declined by 2.4 percentage points, although these remained the dominant asset class, accounting for 60.4% of total assets. As a result, developments affecting bond markets are likely to have a proportionately larger impact on the domestic funds sector. Cash and deposits remained broadly stable at 2.5% of the overall portfolio and continued to stand below their historical levels following a gradual decline in recent years. While this indicates that only a small share of assets was held in cash, the overall liquidity position

Chart 4.14
ASSETS COMPOSITION OF THE DOMESTICALLY RELEVANT INVESTMENT FUNDS
(per cent)



Source: Central Bank of Malta.

[11] The BOV Capital Guaranteed Fund 2026 matured in April 2026 and was therefore discontinued in accordance with its prospectus.

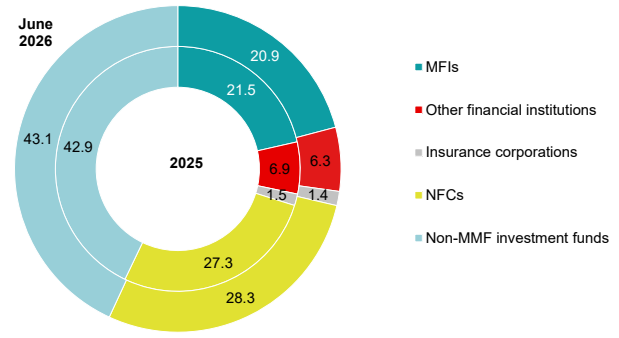
also depends on the market liquidity of the remaining assets (see Section 4.2.3). Other assets remained marginal at 0.4%.

Equities and participations in investment funds

The increase in the sector's holdings of equities and investment fund units was driven primarily by higher direct equity exposures. Holdings of equities issued by NFCs increased by 11.2%, making them a key contributor to the overall growth in equities and investment funds, accounting for just above 28% of the overall increase in this asset category. Although holdings of bank equities rose by 4.5%, their share fell to about 21%, reflecting stronger growth in other components (see Chart 4.15). By contrast, holdings of equities issued by other financial institutions and insurance corporations declined slightly.

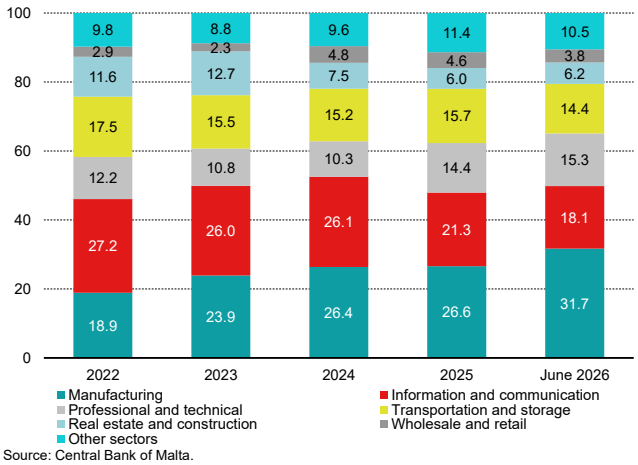
Holdings of investment fund units also increased substantially in absolute terms, although their share of the combined category remained broadly unchanged. Exchange-traded funds (ETFs) accounted for 62.9% of investment funds' unit holdings, representing a slight increase from December 2025. Most of the ETFs were held by mixed funds, with exposures concentrated mainly in broad market indices and complemented by allocations to sector-specific and fixed-income ETFs. Their prominence may reflect the diversification, tradability, cost and transparency benefits commonly associated with these instruments. The continued importance of index-tracking ETFs is also consistent with the broader shift towards passive investment strategies observed internationally.[12]

Chart 4.15
EQUITY HOLDINGS COMPOSITION OF DOMESTICALLY RELEVANT INVESTMENT FUNDS
(per cent)



Source: Central Bank of Malta.
Note: Other financial institutions includes other financial intermediaries (OFIs), financial auxiliaries and captive financial institutions and money lenders.

Chart 4.16
SECTORIAL DISTRIBUTION OF NFC HOLDINGS



Source: Central Bank of Malta.

Equity exposures increased across all geographical categories during the first half of 2026. The euro area accounted for the largest increase in absolute terms and remained the largest geographical allocation, accounting for 44.9% of total equity holdings. US equities registered the strongest percentage growth and the largest increase in portfolio share, rising to 14.1%. Domestic holdings also rose, although their share declined to 35.9% as they grew more slowly than the overall equity portfolio. Exposures to the rest of the world increased only marginally, while emerging-market holdings grew more strongly but remained negligible.

NFC equity exposures remained moderately concentrated across economic sectors, with manufacturing accounting for almost a third of holdings (see Chart 4.16). This broad sector also includes

[12] See ECB (2024), "Passive investing and its impact on return co-movement, market concentration and liquidity in euro area equity markets", *Financial Stability Review*, November; and European Fund and Asset Management Association (2025), "The rise of active ETFs in Europe: A short overview".

the manufacturing of electronic components, computers and peripheral equipment. Information and communication represented the second-largest exposure accounting for around 18% of holdings. Within the latter sector, exposures were concentrated mainly in the wired telecommunications activities. As a result, these holdings may be sensitive to broader digitalisation trends, including shifts in demand for connectivity services, evolving technological requirements, infrastructure investment needs and competitive pressures within the telecommunications industry. Given the concentration of exposures, developments affecting these activities warrant continued monitoring. Overall, sectoral distribution of NFC equity holdings has remained broadly stable throughout the past five years.

Bond holdings

Bond holdings declined by 3.6% during the first half of 2026, driven by an 8.0% fall in sovereign bonds, whose share of the overall bond portfolio declined to 33.4% (see Chart 4.17). Holdings also declined across several non-sovereign bond categories. Bank bonds fell by 5.5%, while NFC bonds declined by a more modest 0.8%. As a result, the share of NFC bonds increased to 22.6% of overall bond holdings. Holdings of bonds issued by OFIs rose marginally by 0.9%, while units in bond funds increased sharply from a very low base and remained negligible. Overall, bonds issued by financial corporations accounted for 43.9% of bond holdings.

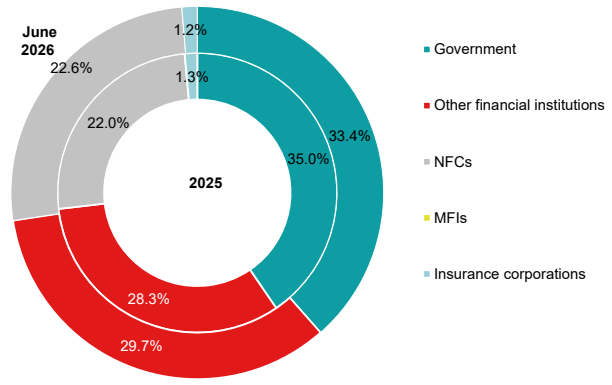
NFC bond exposures were concentrated in some economic sectors, with information and communication representing the largest exposure at 20.1%, followed by professional, scientific and technical activities at 18.9%. Together, these exposures indicate a notable concentration in knowledge-intensive and technology-related activities, warranting continued monitoring of sector-specific developments.

Despite this decline, the portfolio remained strongly domestically oriented. MGSs and Treasury bills accounted for nearly 77% of sovereign bond holdings, while domestic issuers represented 53.2% of the overall bond portfolio, broadly unchanged from December 2025. From a broader geographical perspective, bonds issued in other euro area countries represented the second-largest allocation, with their share increasing marginally to 21.4%, followed by issuers from the rest of the world at 13.6%. Exposures to the United States and emerging markets remained limited.

During the first half of 2026, the maturity profile of bond portfolios shifted towards shorter maturities. The share of long-dated bonds[13] declined by 4.3 percentage points but remained the largest component of bond portfolios, at 48.7% (see Chart 4.18). Meanwhile, the share of medium-term bonds increased to 41.9%, while short-term bonds rose to 9.5%. Consequently, the portfolio's estimated modified duration declined slightly to 5.3%. Overall, these developments suggest a modest reduction in the portfolio's sensitivity to changes in interest rates.

The credit quality of the bond portfolios improved modestly during the first half of the year, with the share of investment-grade fixed-income securities increasing by 4.8 percentage points to almost 64% of the bond holdings. Within

Chart 4.17
BOND HOLDINGS COMPOSITION OF DOMESTICALLY RELEVANT INVESTMENT FUNDS
(per cent)

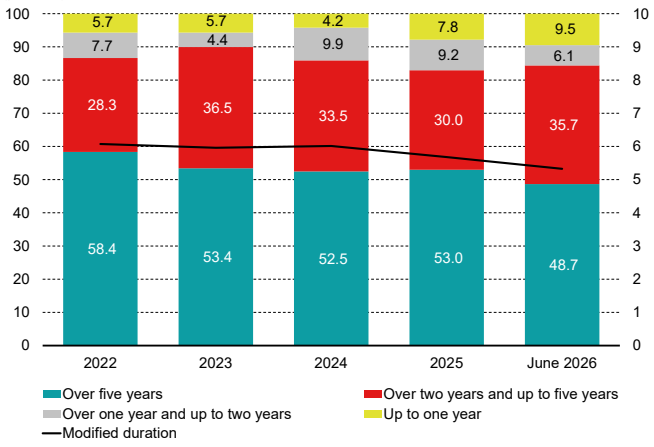


Source: Central Bank of Malta.
Note: Other financial institutions includes other OFIs, financial auxiliaries and CFIML.

[13] Short-dated bonds are defined as those with maturities of up to one year; medium-term bonds as those with maturities between one and five years; and long-term bonds as those with maturities exceeding five years.

this category, the shares of high and medium-rated bonds rose to 8.7% and to 39.4%, respectively, while that of lower-rated investment-grade securities declined to 15.7%. However, the share of speculative-grade securities edged up by 0.5 percentage points to 16.1%. Unrated bonds continued to represent a material share of the portfolio, at around 20%, although this was down from 25.5% in 2025. While unrated status does not necessarily imply weaker credit quality, the sizeable share of such securities limits the extent to which overall credit quality can be assessed solely based on external ratings. Overall, the shift towards high-rated investment-grade securities points to a moderate improvement in the portfolio's credit quality. Nevertheless, the concurrent increase in speculative-grade and the continued material exposure to unrated securities remain relevant.

Chart 4.18
OUTSTANDING MATURITY STRUCTURE AND MODIFIED DURATION
(per cent)



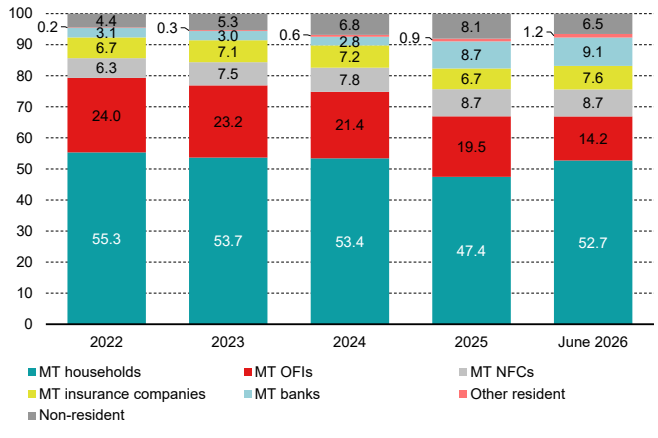
Source: Central Bank of Malta.

4.2.2 Investors

Maltese households remained the largest investors in domestically relevant sub-funds, increasing their share of NAV by 5.3 percentage points to 52.7% in June 2026 (see Chart 4.19). OFIs remained the second-largest investor group, accounting for 14.2% of NAV, notably lower than in December 2025. Insurance corporations also increased their share to 7.6%. By contrast, the shares held by NFCs and local domestic banks declined to 8.7% and 9.1%, respectively, while the share held by other residents remained marginal at 1.2%.

In line with the domestic relevance of these funds, the investor base remained predominantly domestic, with resident investors collectively accounting for 93.5% of NAV. Valuation losses could affect households' financial wealth, although the potential impact is largely mitigated by the relatively limited share of financial assets invested in these funds relative to households' substantial holdings of cash and deposits. In fact, holdings in these funds represented around 16% of households' financial assets. Furthermore, around half of the households' financial wealth is in cash and deposits providing further cushioning. Nevertheless, their prominence in the investor base increases the relevance of retail investor behaviour for fund liquidity, particularly if deteriorating market conditions or investment performance were to lead to more widespread redemption activity.

Chart 4.19
DOMESTIC INVESTMENT FUNDS' NAV BY COUNTERPART
(per cent)



Source: Central Bank of Malta.

Moreover, the participation of OFIs and insurance corporations provides a potential channel through which market stress affecting investment funds could be transmitted to other

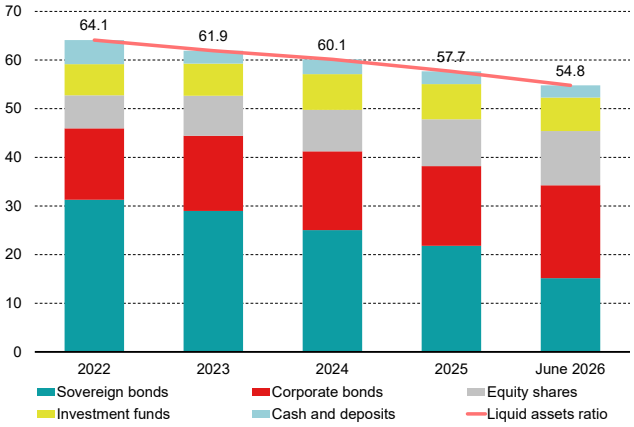
parts of the domestic financial system. The importance of these channels would, however, depend on the materiality of such exposures relative to the investors' overall balance sheets.

Foreign participation declined during the review period. The share held by euro area investors fell from 5.6% to 4.7% of NAV, while that of investors from the rest of the world declined from 2.5% to 1.8%. Consequently, the overall non-resident shares fell by 1.5 percentage points to 6.5%, further reinforcing the domestic orientation of the investor base.

4.2.3 Liquidity and leverage

The HQLA ratio declined by 2.9 percentage points during the first half of 2026 to 54.8% in June 2026 (see Chart 4.20). This mainly reflected the reduction in sovereign bond holdings, which generally carry higher liquidity weights under the applied methodology, together with the increased allocation of equities, which receive lower weights. Cash and deposits also retained a limited share of total assets. Although the ratio continued to indicate a substantial stock of liquid assets, its decline points to some moderation in the sector's aggregate liquidity buffer, albeit from a relatively strong level.

Chart 4.20
LIQUIDITY RATIO
(per cent)



Source: Central Bank of Malta.

The RCR, assessed against the most severe quarterly outflows observed since 2016, decreased slightly to 5.6 times from 6.1 in December 2025.[14] This decrease reflected both a reduction in HQLA and a notable increase in the estimated outflows. Nevertheless, aggregate liquid assets remained well above the estimated quarterly redemption requirement, indicating that redemption coverage remained robust. The aggregate ratio should, however, be considered alongside differences across individual sub-funds (see Special Feature B).

Leverage remained very low. The aggregate AUM-to-NAV ratio increased from 100.3% as at end 2025 to 100.6% by June 2026. This indicates limited reliance on borrowed funds at sector level, consistent with the regulatory framework, as most of these funds are licensed and supervised under the Undertakings for the Collective Investment in Transferable Securities (UCITS) Directive.[15]

4.2.4 Interconnectedness

Domestically relevant investment funds maintained direct links with other parts of the domestic financial system. On the assets side, holdings of bonds and equities issued by key domestic financial institutions accounted for 13.2% of total funds' assets in June 2026, marginally higher than in December 2025, with exposures to domestic banks representing the largest component. Investment funds also continued to support domestic market-based financing, holding around 8.1% of the outstanding value of corporate bonds listed on the MSE.

[14] The RCR is calculated as the ratio of HQLA to the estimated worst-case quarterly redemptions observed since 2016. Closed-ended funds are excluded from the analysis because their structure generally limits investors' ability to redeem their holdings.
[15] Article 83 of the UCITS Directive restricts borrowing by retail funds to up to 10% of their assets and only on a temporary basis (as found in Directive 2009/65/EC).

On the liability side, domestic financial institutions collectively remained an important investor group, accounting for 17.9% of NAV, with banks representing approximately half of these holdings.

While direct exposures appear contained at aggregate level, they may provide channels through which developments affecting investment funds could be transmitted to other parts of the domestic financial system and vice versa. Additional indirect links may arise where funds have ownership, management, branding or distribution arrangements with domestic banking groups. Such affiliations may give rise to reputational or operational interdependencies under stressed conditions, notwithstanding the separate legal status of the entities concerned. The relevance of these linkages depends on the scale of the respective exposures and the extent of common asset holdings.

4.2.5 Profitability

Aggregate operating profitability weakened during the first half of 2026 with the operating profit margin declining by 2.0 percentage points to 69.2%.[16] The deterioration was driven by a 2.2% fall in income, largely reflecting lower dividend income, while operating expenses increased by 4.7%. The rise in expenses was mainly driven by higher management and legal and professional fees and commission expenses. Despite this deterioration, the sector continued to report a positive aggregate operating result. If sustained, lower income and higher operating costs could weigh on fund performance and, indirectly, influence investor sentiment. Across fund categories, operating profitability improved slightly among bond funds, but declined within mixed funds and equity funds.

4.2.6 Risk outlook

Looking ahead, domestically relevant investment funds will remain influenced by global financial market developments, including geopolitical uncertainty, changing interest-rate expectations and shifts in investor risk sentiment. The increase in equity exposures has raised the sector's sensitivity to market movements, particularly in international market segments where valuations remain elevated, including segments associated with strong investor interest in AI-related themes. This could potentially raise the risk of a sharper repricing if macro-financial conditions deteriorate or if the gains from AI do not match the market's expectations. Bond portfolios also remain exposed to changes in yields and credit spreads, while higher financing and refinancing costs could weaken corporate credit quality. However, the shift towards shorter maturities and the decline in estimated modified duration have moderately reduced sensitivity to interest rate movements.

The sector enters the outlook period with very low leverage, substantial holdings of liquid assets and an improved credit quality profile within its bond portfolio. Despite a moderately lower HQLA ratio, liquidity remains relatively strong, while aggregate redemption coverage remained robust. Speculative-grade and unrated bonds continued to represent a material share of fixed-income portfolios. Under less favourable market conditions, individual sub-funds' resilience would depend, among other factors, on their liquidity profiles, redemption activity and ability to realise assets without material valuation effects. In addition, elevated asset valuations in international equity markets may increase the risk of abrupt price corrections and portfolio repricing should investor sentiment deteriorate.

Persistent concentration in domestic issuers and links with domestic financial institutions may limit diversification and provide channels through which market developments could be transmitted within the financial system. The predominance of households in the investor base further increases the relevance of retail investor behaviour. At the same time, as in other parts of the financial sector, operational dependencies on technology and increasing reliance on third-party service providers remain relevant from a resilience perspective as related disruptions could have implications for business continuity, investor confidence and market functioning. Overall, while the sector remains exposed to market, liquidity and concentration risks, these are mitigated at aggregate level by its low leverage, substantial liquidity holdings and strong reported redemption coverage.

[16] The margin is calculated as the difference between total income and expenses, excluding other income, other expenses, and capital gains or losses, expressed as a percentage of total income.

BOX 5: STABLECOIN ACTIVITY AMONG LICENSED CRYPTO-ASSET SERVICE PROVIDERS[1]

The Markets in Crypto-Assets Regulation (MiCA) provides a harmonised European Union (EU) framework for issuers of asset-referenced tokens and e-money tokens, the two categories generally associated with stablecoins, as well as for CASPs. The provisions relating to asset-referenced and e-money tokens have applied since 30 June 2024, while the broader MiCA framework, including the provisions governing CASPs, has applied since 30 December 2024.[2] Stablecoins are crypto-assets designed to maintain a stable value by referencing one or more official currencies or other assets. At end-June 2026, stablecoins in circulation worldwide were valued at around USD 311 billion.[3] Tokens referenced to the US dollar accounted for 99.5% of the total, while euro-referenced tokens accounted for only 0.2%. The two largest tokens, Tether (USDT) and USD Coin (USDC), together accounted for around 83% of the global market. This high degree of concentration means that the de-pegging of a major token or disruption affecting one of the leading issuers could have broader effects across the stablecoin market. Within crypto-asset markets, stablecoins serve mainly as a bridge between trades and a temporary store of value, and they provide a significant share of the liquidity in decentralised finance applications.[4] As issuers back their tokens with reserve assets such as bank deposits and government bonds, large redemptions may give rise to asset sales and could transmit stress to parts of the banking system and sovereign bond markets.[5]

This box draws from the regulatory returns submitted by CASPs licensed by the MFSA to assess the materiality, currency composition and concentration of reported stablecoin activity within Malta's licensed CASP population, using end June 2026 as the reference date. After providing context on the size, business models and overall client base of the sector, the box examines the importance of stablecoins within crypto-assets reported as held for sale, their currency composition, their concentration across reporting entities and how stablecoins held in custody for clients are stored. It does not assess stablecoin issuance in Malta, the overall crypto-asset holdings of Malta residents, part of which may be held with CASPs authorised in other Member States, or the potential transmission of risks from Malta-licensed CASPs to other European jurisdictions, as the returns submitted by CASPs do not cover stablecoin issuance or provide a breakdown of stablecoin positions by the client's residence.

The licensed CASP population

Ten CASPs submitted returns for end June 2026, with combined total assets of €5.2 billion.[6] This sector is highly concentrated in terms of total assets, as reflected in a Herfindahl-Hirschman Index (HHI) well above 1,800, a threshold commonly associated with a highly concentrated market.[7] Crypto-assets dominate the aggregate balance sheet, with those reported as held for sale accounting for 81.0% of total assets. As discussed below, however, this category also includes crypto-assets held on

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[1] Written by Mr Mohamed Yagob, Senior Analyst within the Financial Stability Surveillance and Risk Assessment Department. The author would like to thank Mr Andrew Spiteri, Deputy Head, and Ms Wendy Zammit, Head, within the same Department and Mr Alan Cassar, Chief Officer Financial Stability and Statistics Division, for their valuable suggestions.

[2] Article 149 of Regulation (EU) 2023/1114.

[3] Source: DefiLlama, Stablecoins dashboard, data downloaded on 8 October 2026.

[4] Adachi, M. et al. (2022), Stablecoins' role in crypto and beyond: functions, risks and policy, *Macroprudential Bulletin*, Issue 18, Frankfurt: European Central Bank.

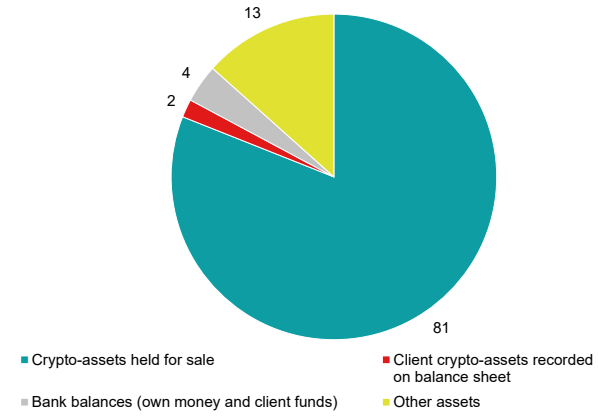
[5] Born, A. et al. (2026), Euro stablecoins and their potential effect on sovereign bond markets, *Macroprudential Bulletin*, Issue 33, Frankfurt: European Central Bank.

[6] Of the 22 CASPs authorised by the MFSA at end-June 2026, 10 submitted returns for the reference period and are included in the analysis. The remainder mainly comprised CASPs authorised towards the end of June, for which a return was not yet available. Entities operating solely under a Virtual Financial Assets Act licence were also excluded, as the transitional period expired on 30 June 2026.

[7] The HHI is the sum of the squared market shares of all firms, where market shares are expressed as percentages. It ranges from close to 0, in a market with many small firms, to 10,000 in a pure monopoly. The threshold of 1,800 follows the 2023 Merger Guidelines issued by the US Department of Justice and Federal Trade Commission.

behalf of clients (see Chart 5a). Client crypto-assets recorded separately on the balance sheet accounted for a further 1.8%. Bank balances held for the CASPs' own purposes or on behalf of clients represented 3.8%, while other assets, mainly 'amounts receivable from' and 'loans to group entities', accounted for the remaining 13.4%.

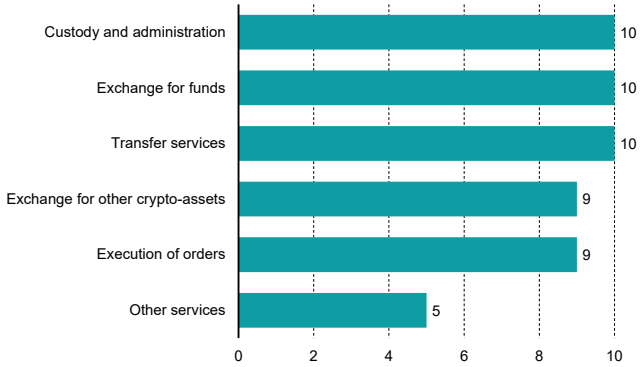
Chart 5a
BALANCE-SHEET COMPOSITION OF REPORTING CASPs
(per cent of total assets; end-June 2026)



Source: Central Bank of Malta.

In terms of business models, all ten CASPs reported providing the exchange of crypto-assets for funds, as well as custody and transfer services. Most also reported exchanging crypto-assets for other crypto-assets and executing client orders, while fewer reported providing other services, such as operating a trading platform or placing crypto-assets (see Chart 5b). At end June 2026, CASPs held €3.9 billion of client crypto-assets in custody and reported 9.7 million client relationships, of which 1.3 million were classified as active, having undertaken at least one trade during the preceding 12 months.[8] Retail clients accounted for almost all active client relationships at sector level, with fewer than 1,000 active corporate clients reported. However, four of the ten CASPs primarily served corporate clients, highlighting differences in business models across the sector.[9] Almost all client crypto-assets held in custody were recorded on the CASPs' balance sheets, mainly within crypto-assets held for sale. This category therefore includes assets held on behalf of clients and should not be interpreted as representing crypto-assets owned by the CASPs.

Chart 5b
SERVICES PROVIDED BY REPORTING CASPs
(number of CASPs; end-June 2026)



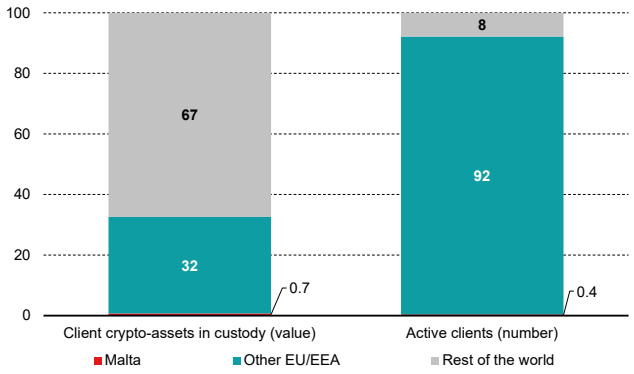
Source: Central Bank of Malta.
Note: Services reported as being provided by each CASP in the June 2026 return. Other services comprise operating a trading platform, placing of crypto-assets, and receiving and transmitting orders. A CASP providing more than one of these services is counted only once in this category.

The sector's business is largely cross-border. Across the ten reporting CASPs, the median number of jurisdictions served was more than 40. Residents of Malta accounted for 0.7% of the value

[8] Client numbers are reported by each CASP and may count the same person more than once where a client uses more than one CASP.
[9] Active clients by client type. Business-to-business clients are corporate clients and business-to-consumer clients are non-corporate clients. See MFSA, *Guidance Notes on the Compilation of Crypto-Asset Service Providers' Return*, version 2.0, August 2025.

of client crypto-assets held in custody by the reporting CASPs, or around €27.5 million, and for 0.4% of their active clients (see Chart 5c).[10] Most active clients were resident in EU/EEA countries, while around 8% were resident in the rest of the world. The geographical distribution differed when measured by the value of crypto-assets held in custody, with around two-thirds of that value belonging to clients resident in the rest of the world. However, the two measures are not directly comparable. The client count covers only active clients, whereas the custody measure covers crypto-assets held for all clients, irrespective of their activity status. Identifiable links with the domestic banking system are also limited. CASPs' own balances with domestic banks amounted to €6.2 million, or less than 5% of their own bank balances.[11] These indicators describe the general business profile of the CASP sector and are not specific to stablecoin activity.

Chart 5c
CLIENTS AND CUSTODY ASSETS BY RESIDENCY
(per cent of total; end-June 2026)

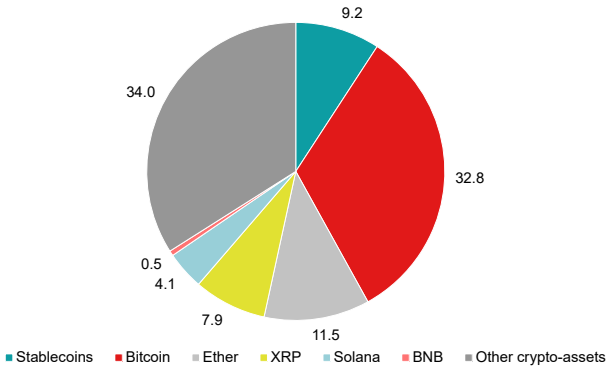


Source: Central Bank of Malta.
Note: Custody covers the value of crypto-assets held for all clients, whatever their activity status. Residency by number is reported only for active clients, who made at least one trade in the preceding 12 months and accounted for 13% of all clients. Malta-resident shares are below 1% in both cases.

Size and currency composition of reported stablecoins

A breakdown by crypto-asset category is only available for assets reported as held for sale. The return distinguishes between Bitcoin, Ether, USD and EUR-denominated stablecoins, BNB, Solana, XRP and a residual category of other crypto-assets.[12] Stablecoins reported within the held-for-sale category amounted to around €385 million as at end-June 2026, equivalent to 9.2% of that category (see Chart 5d). This was equivalent to 7.4% of the sector's total assets, although the ratio should not

Chart 5d
COMPOSITION OF CRYPTO-ASSETS HELD FOR SALE
(per cent; end-June 2026)



Source: Central Bank of Malta.
Note: Crypto-assets reported as held for sale, converted to euro at end-June 2026 exchange rates. The category includes crypto-assets held on behalf of clients and should not be interpreted as comprising only CASPs' own-account holdings. Stablecoins comprise the dedicated USD and EUR-denominated stablecoin lines and exclude any stablecoins within the residual category.

[10] These figures cover only Malta residents who are clients of the ten reporting CASPs. They do not include holdings with CASPs providing services in Malta on a cross-border basis under Article 65 of Regulation (EU) 2023/1114, providers established outside the EU, or in self-hosted wallets. Accordingly, they do not provide a comprehensive measure of total crypto-asset holdings or users among Malta residents.

[11] Residency refers to the institution with which the account is held and follows the centre of economic interest, not the licence of the institution. CASPs report balances as resident in Malta where a split is not possible. See footnote 9.

[12] Source: MFSA, *Crypto-Asset Service Providers' Return*, template version 25-03.

be interpreted as a measure of CASPs' own stablecoin exposure. Among the identified categories, stablecoins were the third largest, after Bitcoin and Ether, and exceeded the reported amounts of XRP, Solana and BNB. The residual category of other crypto-assets, which groups a wide range of tokens, was the largest single item. As the held-for-sale category includes crypto-assets held on behalf of clients, the returns do not permit reported stablecoins to be reliably separated into CASPs' own-account positions and assets associated with client balances.

Reported stablecoins were almost entirely denominated in US dollars, accounting for 99.9% of the total. EUR-denominated stablecoins were reported by four CASPs, amounting to only €0.2 million.[13] Stablecoins denominated in other currencies, such as the pound sterling or the Brazilian real, are not reflected separately in dedicated return lines and instead are included within the residual category.

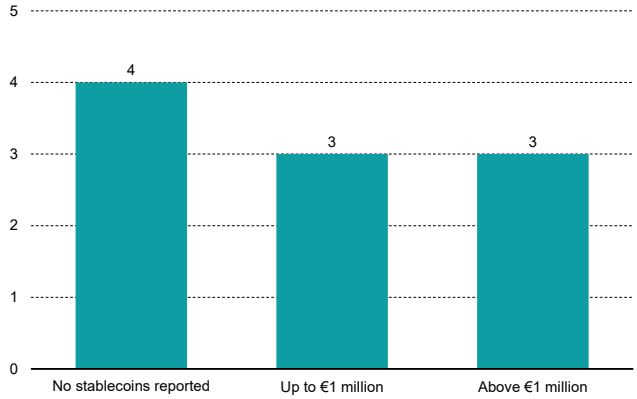
Concentration of reported stablecoins

As holdings are not valued by individual token, the return does not permit an assessment of token- or issuer-level concentration. However, reported stablecoins are almost entirely denominated in USD, broadly mirroring the global currency composition of the stablecoin market. The return does not reveal, however, whether the reported positions are similarly concentrated in the two largest global tokens. The custody data discussed below provide a partial indication.

Reported stablecoins were also highly concentrated across entities. Six of the ten CASPs reported stablecoins, although only three reported amounts exceeding €1 million (see Chart 5e). The findings therefore point to concentration both in terms of currency denomination and across reporting entities (see Table 5a).

Qualitative information on the five largest crypto-assets held in custody for clients provides some indication of the tokens used by the sector.[14] Seven of the ten CASPs listed a USD-denominated stablecoin among these assets, all of them naming USDC, while none listed a EUR-denominated stablecoin.[15] As values by token are not available, this information cannot be used to measure token-level concentration. It nevertheless supports the broader finding that the stablecoin activity reported by these CASPs is predominantly linked to USD-referenced tokens.

Chart 5e
CASPs BY SIZE OF REPORTED STABLECOINS
(number of CASPs; end-June 2026)



Source: Central Bank of Malta.
Note: Stablecoins reported within crypto-assets held for sale, converted to euro at end-June 2026 exchange rates.

[13] The denomination of a stablecoin is distinct from the currency in which a CASP compiles its return. Both USD and EUR-denominated stablecoins are expressed in euro before they are added together. Figures were converted to euro at the ECB euro foreign exchange reference rate for 30 June 2026, which was USD 1.1394 per euro (EUR 0.878 per US dollar).
[14] The return reports the overall top five crypto-assets held in custody and the share of each held in hot, warm and cold wallets. The box uses the split reported for the stablecoins among these assets.
[15] The custody information covers crypto-assets held for clients, including those not recorded on CASPs' balance sheets, whereas the number of CASPs reporting stablecoins refers only to the dedicated USD and EUR-denominated lines within crypto-assets held for sale. The two counts are therefore not directly comparable, and stablecoins reported within the residual category of other crypto-assets are not included in the latter.

Table 5a
STABLECOIN MONITORING INDICATORS, JUNE 2026

(per cent; unless otherwise stated)

	June 2026
Stablecoins reported within crypto-assets held for sale (EUR millions)	384.6
Stablecoins as a share of crypto-assets held for sale	9.2
Stablecoins as a share of total assets	7.4
USD-denominated share of stablecoins	99.9
CASPs reporting stablecoins (number)	6
CASPs reporting stablecoins above €1 million (number)	3

Source: Central Bank of Malta.

Note: Stablecoins comprise USD and EUR-denominated tokens reported within crypto-assets held for sale, converted into euro using the ECB euro foreign exchange reference rates applicable on 30 June 2026. As crypto-assets held for sale also include assets held on behalf of clients, the ratio of reported stablecoins to the sector's total assets is a scale comparison and should not be interpreted as a measure of CASPs' own stablecoin exposure. Stablecoins included within the residual crypto-asset category are excluded. The €1 million cut-off is an indicative analytical threshold used to distinguish small residual positions from larger holdings and has no regulatory meaning.

The custody information also indicates how these stablecoins are stored, as the split between hot, warm and cold wallets is available for each listed stablecoin. Hot wallets are connected to the internet and allow more immediate access and transfer but are generally more exposed to cyber and operational risks. Cold wallets are kept offline, providing greater protection from online threats, while warm wallets combine features of both arrangements.[16] All seven CASPs that listed a stablecoin held at least part of it in hot or warm wallets. Three held the majority in cold storage, while the remaining four held their listed stablecoins entirely in hot or warm wallets.

Financial stability considerations

The available data do not provide evidence of significant direct links between reported stablecoin activity and the wider domestic financial system. At end-June 2026, stablecoins accounted for 9.2% of crypto-assets reported as held for sale and were concentrated in a small number of CASPs. The entities' overall business is predominantly cross-border and retail: almost all of their active clients are retail clients, and only a small share are resident in Malta. This reflects the client base of Malta-licensed CASPs and does not capture crypto-asset activity by Malta residents through providers authorised in other jurisdictions. The observable links with domestic banks are also limited. These indicators relate to CASPs' broader activities, however, and are not specific to stablecoins.

The predominance of USD-referenced stablecoins is the main common feature across reporting entities. All six CASPs reporting stablecoins held USD-denominated positions, indicating common sensitivity to developments in this segment of the global market. However, the regulatory reporting does not identify the individual tokens held and therefore cannot establish whether the entities share material exposure to the same issuers. The custody data nevertheless suggest that USDC is the most commonly held stablecoin in client custody.

The information currently available does not allow stablecoins held on CASPs' own account to be distinguished from those held on behalf of clients. It is therefore not possible to gauge whether the effects of a de-pegging or an issuer disruption would fall mainly on the CASPs or on their clients. Similarly, the purpose for which stablecoins are held and their distribution by client type and residence cannot yet be determined from the available returns. Even where the economic risk rests with clients, safeguarding client assets may expose CASPs to operational, conduct and reputational risks,

[16] US Securities and Exchange Commission (2025), Crypto Asset Custody Basics for Retail Investors, *Investor Bulletin*, Investor.gov.

particularly as all CASPs that listed a stablecoin among their largest custody assets held at least part of it in hot or warm wallets.

Notwithstanding improvements in regulatory reporting under MiCA, data limitations remain an important challenge for crypto-asset monitoring, particularly when assessing exposures and potential channels of transmission to the wider financial system.[17] Continued monitoring, especially of the concentration of reported stablecoins within a small number of entities and the overwhelmingly USD-denominated composition, together with greater reporting granularity where feasible, could support a more comprehensive assessment of potential financial stability implications. More granular data could also support scenario analysis of the possible impact of an issuer's failure on the system as well as modelling market-wide stress. Greater consistency in stablecoin-related reporting across EU jurisdictions would also improve comparability and facilitate the assessment of cross-border activity and common exposures.

[17] Kochanska, U. (coord.) (2026), Crypto-Asset Monitoring Expert Group (CAMEG) 2025 Conference – Book of abstracts, ECB *Occasional Paper Series* No. 382, Sections 2.1.1 and 2.5, Frankfurt: European Central Bank.