

4. INSURANCE COMPANIES AND INVESTMENT FUNDS

4.1 Domestic insurance companies

The number of licensed insurance companies operating in Malta increased to 69 by the end of 2025, following the licensing of a new entity. However, the number of domestically relevant insurers remained unchanged at ten, with their assets up by 3.5% to almost €4.0 billion, equivalent to 19.5% of GDP.¹ The expansion in assets was underpinned by improved performance across both life and non-life insurance undertakings, though this fell short of the rise in GDP.

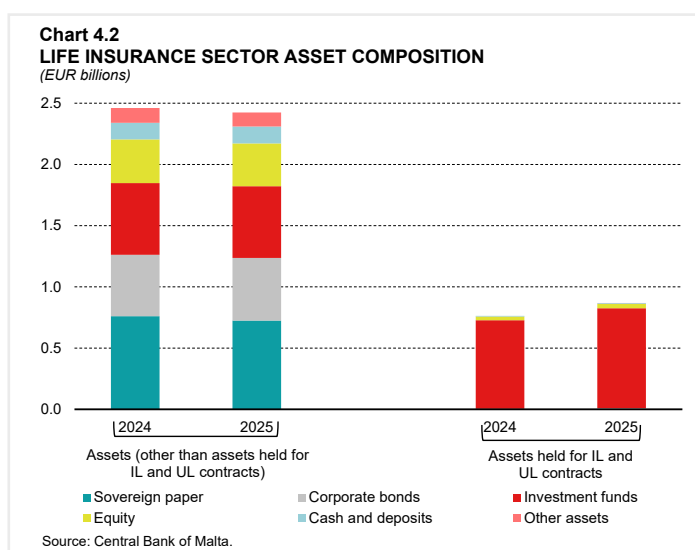
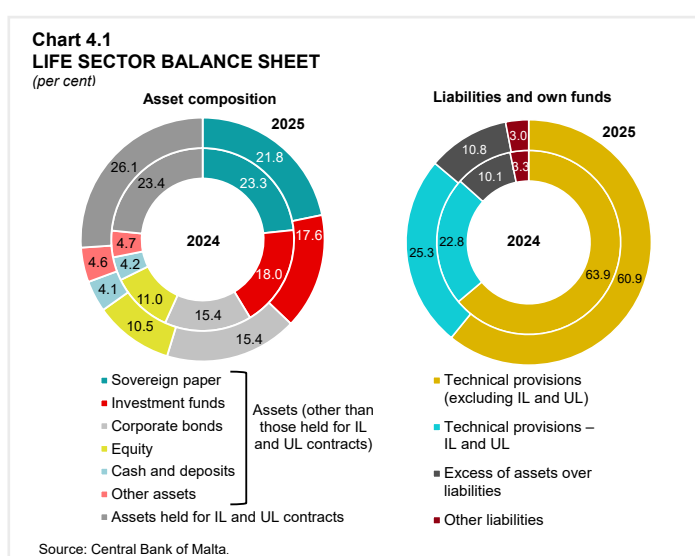
Domestic insurance companies remained well capitalised and broadly resilient in 2025, supported by balance-sheet growth and improved performance across both life and non-life undertakings. Liquidity conditions were generally adequate, but uneven across firms, while the non-life segment's strong expansion was accompanied by higher claims volatility linked to property business written abroad and a continued high reliance on reinsurance.

4.1.1 Domestically relevant life insurance companies

The life insurance sector's balance sheet expanded by 2.1%, reaching €3.3 billion, equivalent to 16.1% of GDP. This growth was largely driven by IL and UL contracts, with the corresponding assets rising by 13.7% to €868 million.² In contrast, assets excluding IL and UL holdings declined by 1.2%, to stand at €2.5 billion as at December 2025. As a result, their share in the sector's total assets decreased (see Chart 4.1). This compositional shift reflected a greater pass-through of both investment risk and return to policyholders.

Asset composition – IL and UL policies

Assets backing IL and UL contracts remained predominantly focused on investment funds, which accounted for approximately 94% of the total. Although these funds span diverse investment strategies, exposures were concentrated mainly in equity, debt, and asset allocation funds. Overall fund holdings increased by 12.9%, driven largely by higher participations in asset allocation and euro-area debt funds, while investments in money market funds (MMFs) declined. The remaining IL and UL assets were mostly held in equities, with a smaller share in bonds (see Chart 4.2).



¹ Of these, four specialise in life insurance and six in non-life. Three of the latter also writing a minor proportion of life business. However, this represents only 3.1% of their total gross written premia and are included within the non-life segment for analytical purposes.

² The performance of IL and UL contracts depends entirely on underlying investments, with investment risks borne by policyholders. By contrast, traditional life insurance products provide guarantees, with insurers retaining a share of market and balance sheet risk. Consequently, IL and UL contracts are assessed separately to reflect their distinct impact on the sector's financial position and stability.

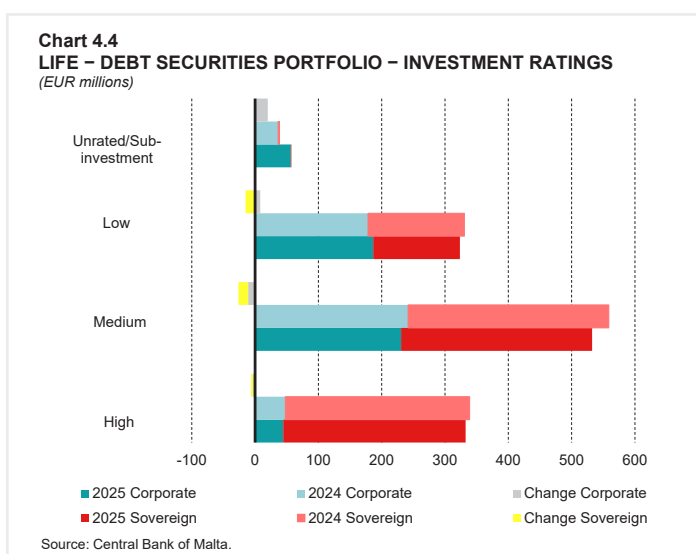
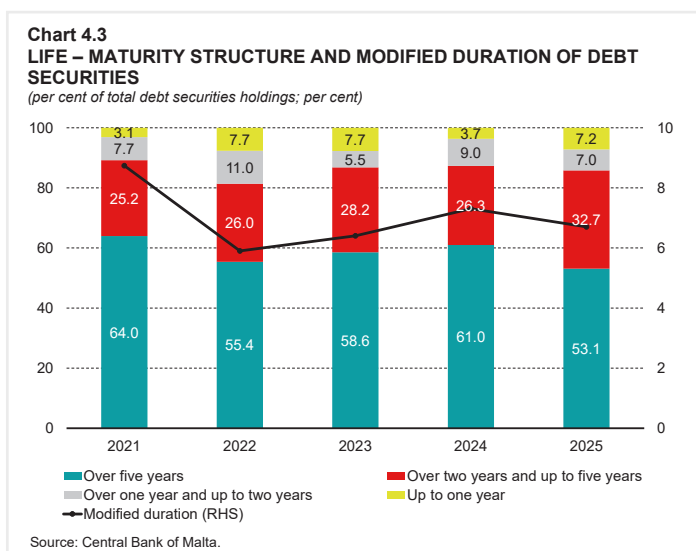
Asset composition – excluding IL and UL policies

Assets excluding IL and UL contracts comprise those backing other life insurance products, as well as assets held on insurers' own account. More than half of these assets remained invested in fixed-income securities, with an ongoing preference for sovereign debt (see Chart 4.2). Nevertheless, holdings of sovereign securities declined by 4.6% in 2025, driven by broad-based declines across jurisdictions, likely reflecting portfolio rebalancing in response to a lower interest rate environment. Conversely, corporate bond holdings increased by 1.9%, primarily due to higher exposures to NFCs in the euro area and the United States.

During 2025, the maturity profile of life insurers' bond portfolio shifted moderately, influenced by a combination of new purchases and the redemption of existing positions. Overall, the portfolio tilted towards shorter maturities (see Chart 4.3). Long-term bonds with residual maturities exceeding five years declined by 14.3%, although they continued to represent the largest segment at 53.1% of total holdings. Exposures in the two to five-year range rose by 22.0%, accounting for 32.7% of the portfolio, driven in part by new purchases.

At shorter maturities, holdings of bonds between one and two-year tenors decreased by 23.6% to 7.0%, while securities maturing within one year nearly doubled to 7.2% of the total. In line with these developments, the modified duration of the bond portfolio declined by 0.6 percentage points to 6.7%, signalling a modest reduction in interest rate sensitivity.

Life insurers' debt portfolios remained largely concentrated in medium and high-rated securities, which, despite a 3.6% decline, continued to account for around 70% of overall holdings (see Chart 4.4). Lower-rated debt increased by 3.2%, primarily driven by higher exposures to sub-investment grade instruments, although part of this increase reflected the growth of unrated securities, which are classified within this category. This shift may be consistent with a degree of search for yield. Sovereign exposures continued to exhibit strong credit quality, with over 80% of holdings rated medium or high. By contrast, the corporate bond portfolio displayed a more balanced distribution, with approximately 53% invested in medium and high-rated securities and the remainder allocated to lower-rated or sub-investment grade instruments.



Holdings in investment funds, excluding those related to IL and UL contracts, remained broadly unchanged and continued to account for around a quarter of overall assets in this segment. These investments were primarily allocated to euro area debt funds and MMFs.

Direct equity holdings declined by 2.3%, driven mainly by reductions in domestic and US exposures, especially securities issued by NFCs. Nevertheless, US exposure remained predominant, while domestic equity portfolios accounted for 20% of overall equity holdings. Around half of domestic holdings were in monetary financial institutions (MFIs), while approximately one-third were in NFCs.

Cash holdings rose by 1.9%, representing 5.6% of total assets. Meanwhile, life insurers' exposure to alternative investments such as collateralised securities, real estate, mortgages and loans remained limited, accounting for around 4.7% of the overall portfolio. This reflects insurers' continued preference for liquid and low-volatility instruments.

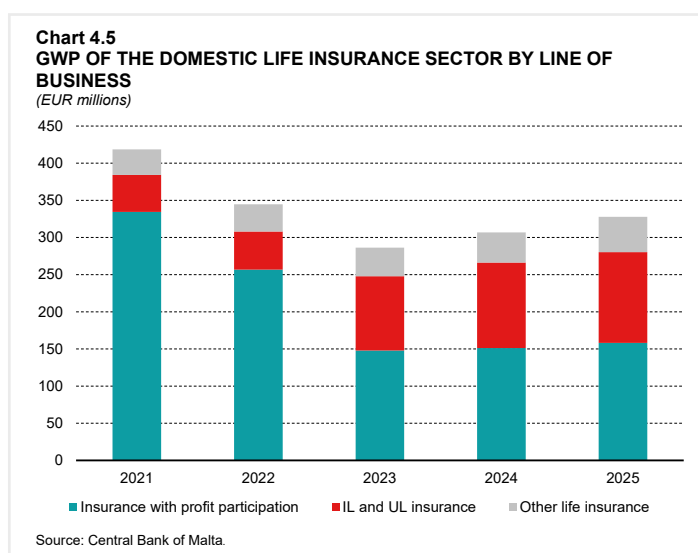
Liabilities and own funds

Developments in technical provisions broadly mirrored those observed on the assets side. Provisions related to IL and UL contracts increased by 13.5%, reaching around one quarter of the balance sheet (see Chart 4.1). Still, most of the provisions, amounting to 61% of the balance sheet, remained concentrated in other life insurance activities, although these declined by 2.6% in 2025. The excess of assets over liabilities increased by about 9%, outpacing overall balance-sheet growth, and rose to 10.8% of total assets. This surplus corresponds to eligible own funds under the Solvency II Directive and enhances life insurers' capacity to absorb unexpected losses and meet future obligations beyond the coverage provided by established technical provisions.³

Gross written premia and claims

Gross written premia (GWP) continued to recover in 2025, increasing by 6.8%, although levels remained below their historical average (see Chart 4.5).⁴ 'Insurance with profit participation' products, while recording year-on-year growth of 4.7%, continued to show a comparatively slower recovery. They nonetheless remained the largest business line, accounting for 48.3% of total written premia. 'IL and UL' contracts similarly maintained positive momentum, with written premia rising by 6.0% and representing a further 37.2% of the total. This trend underscores the ongoing shift towards products that carry lower balance-sheet risk for insurers. Meanwhile, 'other life insurance' products recorded the strongest year-on-year expansion at 17.2%, accounting for 14.5% of total written premia, largely underpinned by the continued demand for mortgage-related life protection policies. Overall, the broad-based recovery across product lines points to stabilising demand conditions following previous years of subdued activity.

Gross claims incurred declined by 8.8% over the same period, largely



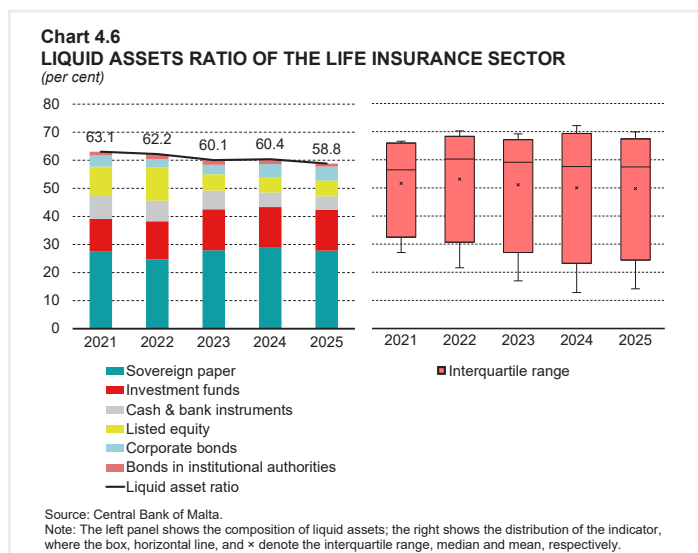
³ Total eligible own funds under the Solvency II Directive represent the excess of assets over liabilities as determined under regulatory rules, comprising primarily Tier 1 capital together with any eligible Tier 2 and Tier 3 capital items.

⁴ Around 0.6% of premia are underwritten outside the domestic market, primarily within the euro area, and relate to IL and UL contracts as well as 'other life insurance' business.

driven by a reduction in claims related to ‘insurance with profits participation’ products, which nonetheless continued to account for the largest share of total claims. A similar downward trend was observed in claims arising from ‘other life insurance’ products. By contrast, claims associated with ‘IL and UL’ contracts increased by 4.6%.

Liquidity and capital

The liquid assets ratio for the life insurance sector declined by 1.6 percentage points to 58.8% (see Chart 4.6). This reduction reflected decreases in sovereign securities, bonds issued by institutional authorities, and equity holdings, all of which are key components of the liquid assets base. Despite the decline, overall liquidity remains broadly sound, supported by the predominance of high-quality fixed-income assets across most portfolios. The ratio continues to vary significantly across individual companies, underscoring the inherent heterogeneity in business models and investment strategies within the sector.



Life insurers maintained robust capital buffers throughout 2025, with the aggregate SCR coverage ratio rising by 22 percentage points to 271.5%. This elevated level of solvency coverage indicates substantial loss-absorbing capacity and provides insurers with a comfortable cushion against potential market or underwriting shocks. Furthermore, this strong position continues to be underpinned by the high quality of own funds, the majority of which comprise Tier 1 capital, the highest quality tier under the Solvency II framework.

Profitability

The profitability of the life insurance sector moderated in 2025, with profit before tax declining by 10.5% and the pre-tax ROA edging down to 0.8%. This moderation was driven by a deterioration in underwriting performance, which weighed on overall results. On the underwriting side, a marginal improvement in insurance revenue was more than offset by higher reinsurance costs, leading to a weaker insurance service result. By contrast, developments on the investment side were more supportive. Although gross investment returns declined, these were more than compensated for by a reduction in financing costs, resulting in a net improvement in the financial result. However, this recovery was insufficient to offset the decline in underwriting profitability.

Operational efficiency also weakened with the expense ratio rising by 1.9 percentage points to 17.6% by year-end.⁵ This reinforces the upward trend observed over the past two years, pointing to a gradual but consistent increase in operating costs across the sector.

4.1.2 Domestically relevant non-life insurance companies

In 2025, domestically relevant non-life insurance companies recorded stronger asset growth than the life sector, with assets expanding by 10.6% to €694 million, equivalent to 3.4% of GDP.

⁵ The expense ratio is defined as operating expenses, excluding claims, divided by net premia earned.

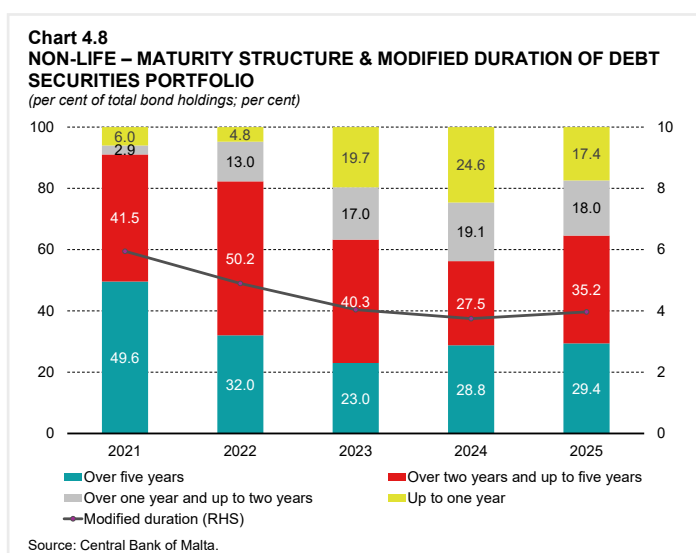
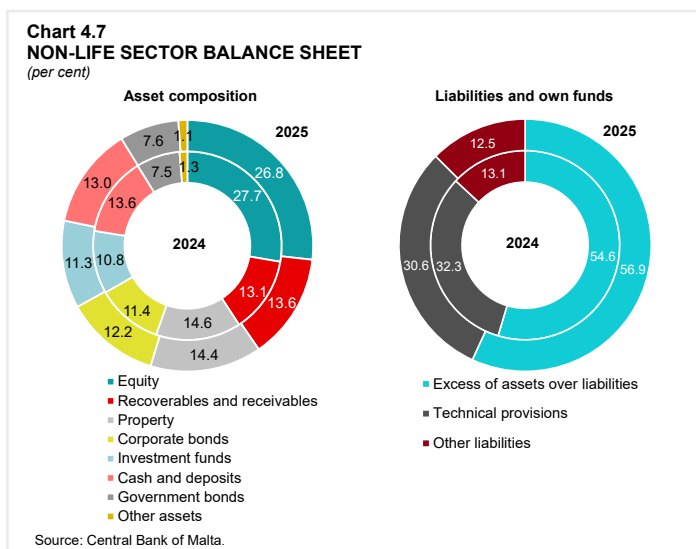
Asset composition

Growth was observed across most asset classes. Direct equity investments remained the largest asset class, accounting for more than one-quarter of non-life insurers' assets and increasing by 6.9% over the year (see Chart 4.7). A significant portion of these holdings consist of equity stakes in related insurance undertakings, highlighting a notable degree of interconnectedness through cross-ownership.

Fixed-income securities represented the second-largest asset category, rising by 16.2% to account for 19.8% of total assets. Within this segment, sovereign bond holdings increased by 12.6%, largely reflecting higher domestic exposures. Corporate bond holdings grew more strongly, rising by 18.6%, mainly driven by debt securities issued by financial institutions outside the euro area.

During the year, the maturity profile of non-life insurers' debt securities portfolio shifted towards longer maturities, reflecting a reallocation across maturity buckets (see Chart 4.8). Short-term securities maturing within one year declined by 17.9%, likely reflecting the redemption of existing positions and proceeds being reinvested into longer-dated securities to take advantage of the relatively higher yields available at longer maturities. Holdings in the one to two-year segment increased by 9.4%. More pronounced increases were recorded at longer maturities, with securities in the two to five-year segment rising by 48.9%, while those exceeding five years rose by 18.6%, with both segments also supported by new purchases. In line with these developments, the modified duration of the bond portfolio increased by 0.3 percentage points to 4.0%, signalling a modest rise in interest rate sensitivity. This contrasts with developments in the life insurance sector, where the bond portfolio shifted towards shorter maturities over the same period, albeit remaining predominantly long-dated.

Growth in fixed-income investments was concentrated in medium and high-rated debt securities, contributing to a marked improvement in the overall portfolio quality. Within sovereign holdings, the share of medium and high-rated securities increased by 2.5 percentage points to nearly 96% of the total. An even more pronounced shift was observed in corporate bonds, where the proportion of medium and high-rated instruments rose by 5 percentage points to over 50% of the total.



Recoverables and receivables increased markedly by 15.4%, mainly reflecting higher outstanding premiums and commissions. Property holdings also rose, increasing by 8.6% to account for 14.4% of total assets. This increase was driven by properties held for own use, which represented around 55% of total property holdings, while the remainder was held for investment purposes.

Participation in investment funds grew by 15.8%, raising their share to 11.3% of total assets. Around 73% of these holdings were allocated to other euro area countries, while around 24% were invested domestically. These investments were predominantly concentrated in equity and debt funds. Finally, cash holdings increased by 5.5%, although their share of total assets edged down to 13.0%.

Liabilities and own funds

At the end of 2025, technical reserves increased by 4.8%, representing approximately 30.6% of the balance sheet, while other liabilities rose by 5.9%, accounting for 12.5% (see Chart 4.7). The largest portion of the balance sheet, more than half, remained as the excess of assets over liabilities, which grew by 15.2%, in line with the own funds' requirements under the Solvency II Directive.

Gross written premia and claims

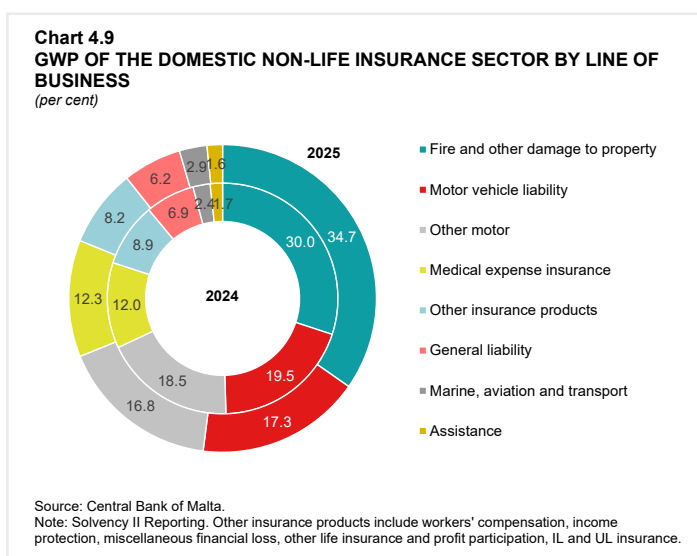
In 2025, the non-life insurance sector recorded robust growth in GWP, which rose by 18.6% over the previous year. Motor, property, and health insurance remained the dominant segments, together accounting for over 80% of overall premia (see Chart 4.9). Growth was particularly pronounced in property insurance, which expanded by 36.9%, and in health insurance, which rose by 21.2%, while motor-related premia grew more moderately by 5.8%.⁶

Gross claims incurred also rose sharply, up by 34.8%, driven almost entirely by property claims written abroad. This development highlights the risk implications associated with a growing and increasingly concentrated cross-border exposure. Cross-border underwriting accounts for around 30% of GWP and is concentrated among a small number of entities that have been actively expanding their international footprint, predominantly within the euro area. While cross-border business spans all major non-life products, property insurance alone accounts for nearly 70% of total premia written abroad, followed by miscellaneous financial loss and general liability, amplifying concentration risk at both the entity and sector level. Malta's Protected Cell Company (PCC) framework and the EU passporting regime, are central to this business model, enabling Maltese-licensed insurers to write business efficiently across member states under a single licence.

Non-life insurers continued to rely significantly on reinsurance for risk mitigation purposes, ceding 39.4% of GWP during the year. Reliance was especially pronounced in property insurance, where approximately three-quarters of written business was transferred to reinsurers. Such high cession rate implies that the sector's resilience is closely tied to the strength and pricing conditions of the global reinsurance market.

Liquidity and capital

The liquid assets ratio improved to 32.7% in 2025, strengthening insurers' capacity to meet short-term obligations. This improvement was broad-based, with investment fund holdings and corporate bonds making



⁶ Motor vehicle liability insurance covers third-party liabilities arising from accidents, including bodily injury and property damage. In contrast, other motor insurance protects the insured vehicle against damage or loss but does not cover third-party liabilities.

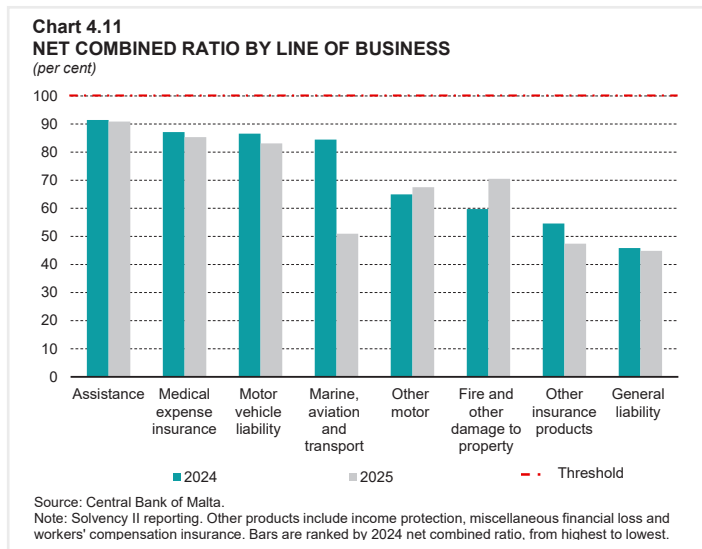
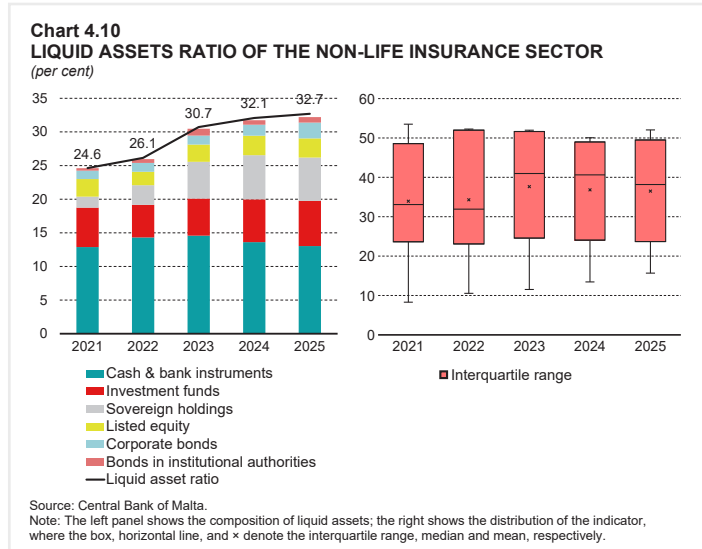
the largest contributions (see Chart 4.10). Despite this overall strengthening, marked dispersion persisted across individual insurers, reflecting differences in liquidity management strategies. Notably, a subset of non-life insurers remained below the euro area benchmark range, indicating that liquidity risk persisted for some entities.⁷

The non-life sector remained strongly capitalised in 2025, with a SCR coverage ratio of 238.3%, despite an 8.3 percentage points decline from the previous year. The decline primarily reflected the faster growth in SCR relative to eligible own funds. The expansion in the SCR was driven in part by robust balance sheet growth in 2025, which drove higher premium and reserve risk volumes and consequently raised capital requirements. Nevertheless, capitalisation levels continued to comfortably exceed the regulatory minimum, supported by a high-quality own funds base composed predominantly of Tier 1 capital.

Profitability

The non-life insurance sector recorded another year of strong profitability in 2025, with pre-tax ROA reaching 11.8%, up by one percentage point compared with the previous year. On the underwriting side, insurance expenses increased at a faster pace than revenue. However, a significant reduction in reinsurance costs more than offset this, contributing to an 8.6% improvement in the insurance service result. Reinsurance costs fell by 57.7%, the largest decline observed in recent years, suggesting that this may be largely one-off in nature.

This improvement was reflected in the net combined ratio, which declined marginally by 0.3 percentage points to 71.8%, supported by robust growth in net written premia, particularly in medical expense and in the marine, aviation, and transport lines of business (see Chart 4.11). Motor insurance also contributed positively, with an average 0.5 percentage point improvement in its combined ratio, driven by declining claims and stronger premium performance. By contrast, the property line experienced a deterioration in its combined ratio, as both claims and operating expenses outpaced premium growth. As discussed above, this



⁷ See [Insurance Risk Dashboard](#), January 2026.

deterioration was largely driven by higher claims associated with property business written outside the domestic market.

Profitability was further strengthened by a robust investment performance, with investment returns increasing by 17.2%, resulting in a 44% rise in the net financial result. Collectively, these developments contributed to an 18.9% increase in pre-tax profits.

4.1.3 Risk outlook

Both the life and non-life sectors started 2026 from a position of strength, underpinned by robust premium growth, balance-sheet expansion, and capital ratios that remain comfortably above regulatory requirements. Nevertheless, the environment is expected to remain challenging, shaped by persistent geopolitical tensions, international macro-financial uncertainty, and ongoing technological, regulatory, and climate-related developments. These factors may adversely affect insurers, with potential implications for margins, capital strength, and long-term business sustainability.

On the demand side, the macroeconomic outlook points to a possible moderation in premium growth across both sectors. As real GDP growth eased from its previously elevated pace, model-based estimates point to a softening in real premium growth particularly for the life insurance segment, where premium dynamics are historically more sensitive to changes in overall economic conditions.^{8,9} For non-life insurance, the adjustment is expected to be more gradual, reflecting the more structural and less discretionary nature of demand in that segment. Beyond GDP developments, possible changes in interest rate conditions in response to the latest energy shock could dampen demand for investment-linked products. This would operate through the substitution effect in favour of higher-yielding alternative instruments, with impact on premium growth likely to materialise with a lag.

For life insurers, these macroeconomic headwinds are reinforced by sector-specific dynamics. The shift towards shorter-dated assets could gradually weigh on investment income. Additionally, the growing share of IL and UL products, while reducing balance-sheet risk for insurers, implies a greater pass-through of market risk to policyholders, heightening their exposure to financial market volatility.

Non-life insurers, while well-capitalised, face a distinct but equally challenging risk landscape. Exposure to a potential resurgence in claims, driven by renewed geopolitical tensions and increasingly frequent and severe climate-related loss events, could place pressure on underwriting margins and reinsurance costs, testing the adequacy of current pricing and risk transfer strategies.

Beyond sector-specific risks, insurers face a common set of structural challenges cutting across both segments. Cyber threats and supply-chain disruptions require sustained investment in data capabilities, modelling techniques, and operational resilience frameworks. From a financial aspect, while diversification across asset classes and geographies remains an important risk-management tool, it may also give rise to cross-sectoral exposures that may warrant continued monitoring and robust governance.

Overall, the sector's strong solvency position provides a solid foundation to navigate these challenges and adapt to evolving market conditions.

4.2 Domestically relevant investment funds

In 2025, 38 sub-funds were identified as domestically relevant, representing a net decrease of two sub-funds from the 40 assessed in this FSR for 2024.¹⁰ The sector's combined assets grew by 2.0%, reaching €1.7 billion, equivalent to 7.0% of GDP, supported by favourable market conditions. At the same time, the sector

⁸ Central Bank of Malta, [Outlook for the Maltese Economy 2026:1](#).

⁹ Camilleri, L., [Macroeconomic Drivers of Insurance Premia in Malta](#), Central Bank of Malta.

¹⁰ Compared with the previous FSR, three additional sub-funds were identified as domestically relevant in 2024. Accordingly, the number of sub-funds for 2024 has been revised to 40, from the previously considered 37. These newly identified sub-funds have also been included in earlier periods' data.

recorded notable shifts in portfolio composition and investment strategy, including higher exposure to equities and investment fund units, lower liquidity buffers, and some reallocation within bond portfolios. Despite a gradual rebalancing in the investor base, households remained the largest investors, while liquidity and leverage indicators continued to suggest that the sector remained broadly resilient.

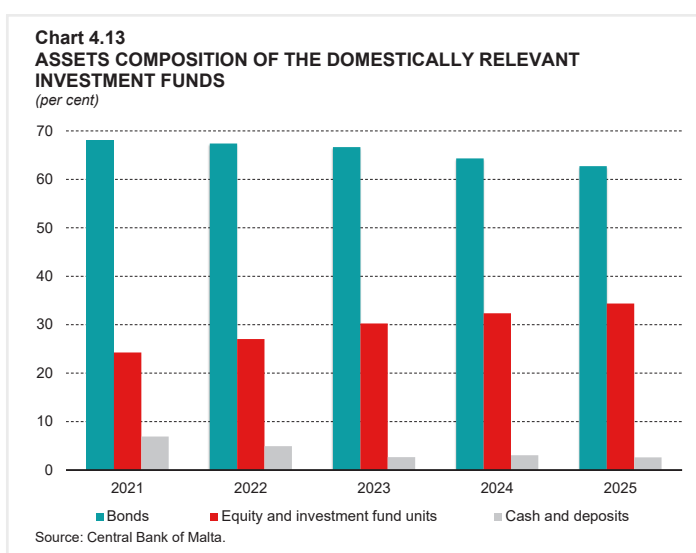
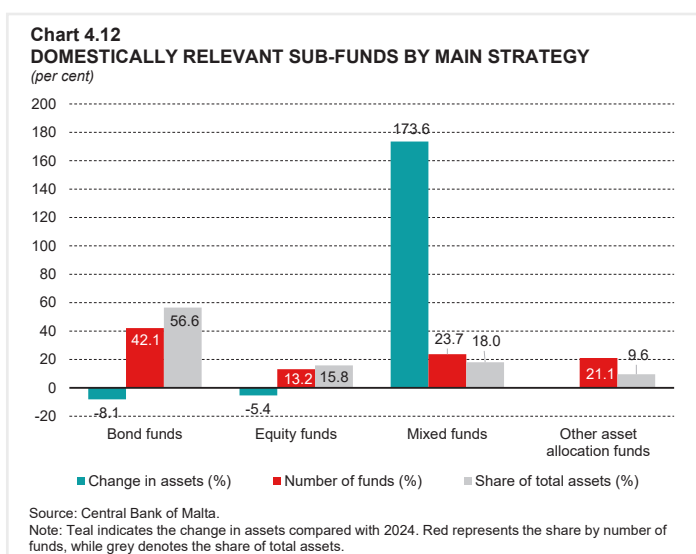
Developments by fund strategy

Investment funds are generally classified according to their investment mandate, namely the types of assets to which they are primarily exposed. While some funds pursue relatively focused strategies concentrated in a single asset class, others allocate their investments across a range of asset classes (mixed funds). Over the course of the year, several funds updated their investment strategies. As a result, mixed funds accounted for almost one quarter of the domestically relevant sub-funds, and 18% of the sector's assets (see Chart 4.12). Bond funds nevertheless remained the dominant investment category, holding 56.6% of total assets, although this share declined by 6.2 percentage points when compared to 2024. Equity funds accounted for 15.8% of total assets, reflecting a decrease of 1.2 percentage points. The share of other asset allocation funds also declined, falling by 3.9 percentage points to 9.6% of total assets.

4.2.1 Asset composition and investment strategies

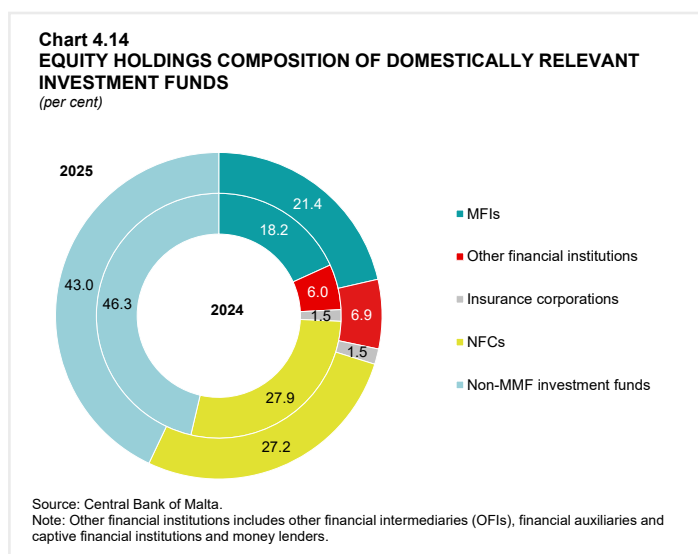
The shift in asset allocation continued across all domestically relevant sub-funds in 2025. Holdings of equities and investment fund units increased by 8.3%, reflecting both higher portfolio allocations towards this segment and favourable market performance. As a result, their share in total assets rose by 1.4 percentage points to 34.2% (see Chart 4.13). By contrast, debt securities declined marginally by 0.5%, reducing their portfolio weight by 2.8 percentage points, although at 62.7%, they remained the dominant asset class.

Increased investment activity was accompanied by a reduction in liquidity buffers, with cash and deposits falling by almost 13% to a modest 2.6% of the overall portfolio, while other assets remained marginal at 0.7%.



Equities and participations in investment funds

The overall increase in these funds' holdings of equities and investment fund units was driven almost entirely by direct equity exposures. This expansion was primarily attributable to a sharp rise in holdings of bank equities, which increased by 27.4% and accounted for nearly 60% of the absolute growth in the combined equity and investment fund units. Holdings of equities issued by other non-bank financial institutions also rose markedly, bringing the overall share of these entities and credit institutions to almost 30% of the overall holdings in equities and investment fund units (see Chart 4.14). Similarly, investments in NFCs rose by 5.6% and accounted for 27.2% of overall equities and investment funds units.

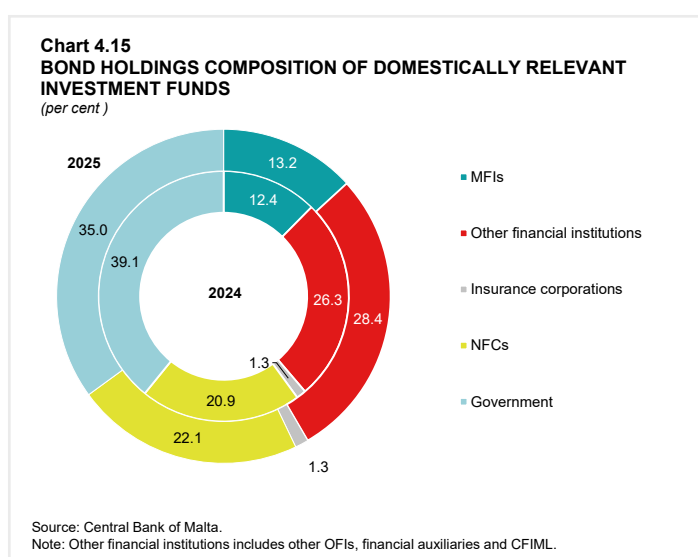


By contrast, the share of investment fund units declined to 43.0% in 2025, as holdings increased only marginally in absolute terms. Of these holdings, 61.4% were allocated to exchange-traded funds (ETFs), potentially indicating a preference for more passive, cost-effective and liquid investment vehicles.

From a geographical perspective, growth was driven primarily by domestic exposures, mainly through bank equities which increased by 13.2%, and represented over 37% of the combined equity and investment fund units. Strong growth was also recorded in non-euro area holdings. In particular, exposures to the United States increased by 12.1%, while holdings in the rest of the world rose by 23.9%. By contrast, growth in euro area holdings was more moderate, rising by 2.3%, although at 44.5%, they continued to account for the largest share of the combined category. Exposure to emerging market economies declined further and remained marginal, accounting for just 0.2% of overall holdings.

Bond holdings

The decline in bond holdings was mainly driven by a sharp contraction in sovereign securities. The latter fell by 11.0% and accounted for 35.0% of total bond holdings (see Chart 4.15). This decline primarily reflected reduced exposures to domestic sovereign paper, which fell by 9.6%, although lower holdings were also reported across most other geographical areas. It was followed by lower euro area sovereign holdings, which fell by 26.8%. Bond holdings from emerging markets and the rest of the world also fell by 21.8% and 18.0%, respectively. On the contrary, US sovereign holdings rose



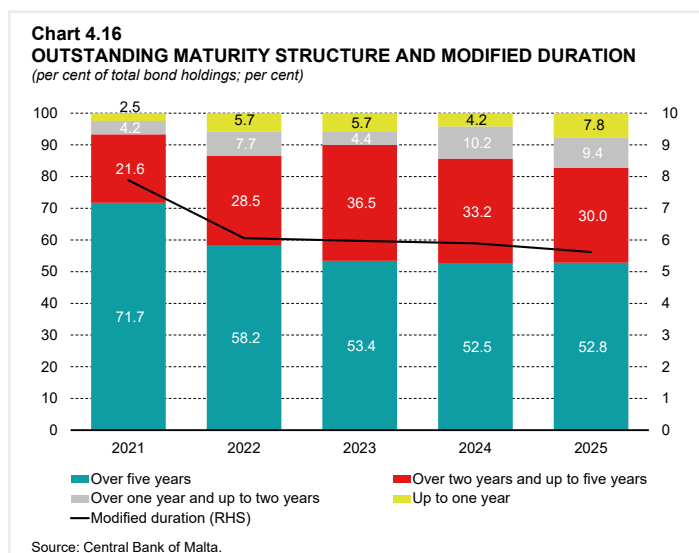
markedly, by almost 40%, although they continued to account for a limited share of total sovereign bond holdings at 4.1%. Notwithstanding the overall decrease, domestic sovereign securities continued to represent the largest sub-category of sovereign holdings, accounting for nearly 78% of all sovereign bond holdings. This reallocation may partly reflect changes in the yield curve environment, particularly periods of steepening at the longer end, which may have reduced the attractiveness of longer-duration sovereign exposures and encouraged a shift in portfolios towards shorter maturities or alternative assets.

In contrast, most of the other bond categories recorded growth. The largest increase was observed in bonds issued by other financial institutions, which rose by 7.3%, raising their share to 28.4%. Bank bonds also recorded robust growth of 6.0%, with their share increasing to 13.2%. Meanwhile, holdings of bonds issued by insurance companies and investment funds remained limited.¹¹ Taken together, debt securities issued by financial corporations accounted for 42.9% of total bond holdings. Debt issued by NFCs also expanded, growing by 5.3% to account for the remaining 22.1%.

Despite the contraction, overall bond holdings remained heavily skewed towards domestic issuers. These accounted for 52.5% of total holdings, pointing to a persistent degree of home bias. However, such increase was partly offset by a notable increase in euro area bonds, driven mainly by higher holdings of debt issued by NFCs. As a result, the share of euro area bond holdings increased by 2 percentage points to 22.6%. Conversely, the allocation to US securities declined by 0.3 percentage points to 8.4%, as the increase in US Treasuries was more than offset by reduced holdings of debt issued by financial institutions. Exposures to emerging market securities also decreased, falling by 0.8 percentage points to 3.3%.

In 2025, some changes were observed in the maturity profile of bond portfolios. At 52.8%, long-term bonds¹² continued to represent the largest share of the portfolio (see Chart 4.16). By contrast, medium-term bonds decreased to 39.4% of overall holdings, while shorter-dated bonds increased to 7.8%. As a result, the portfolio's estimated modified duration edged down slightly to 5.6%. These developments suggest that investment managers are repositioning the portfolio to be less affected by potential increases in interest rates, by adopting a more defensive stance amid heightened volatility.

Asset quality weakened slightly in 2025. The share of investment-grade fixed-income securities fell by 5 percentage points to 59.0% of the portfolio, as these holdings declined in absolute terms. Within the investment-grade segment, holdings of high-rated bonds decreased to 5.5%, mid-rated bonds fell to 37.1%, and low-rated bonds declined to 16.4%.¹³ While the share of speculative-grade securities also decreased marginally, down by 0.3 percentage points to 13.2% of the overall bond portfolio. The share of unrated holdings increased to around a quarter of the portfolio by the end of 2025. Taken together, these developments may point to a modest search-for-yield behaviour, reflected



¹¹ Bonds issued by Investment funds are very limited, accounting for just 0.02% of total bond holdings, and are therefore not plotted in Chart 4.15.

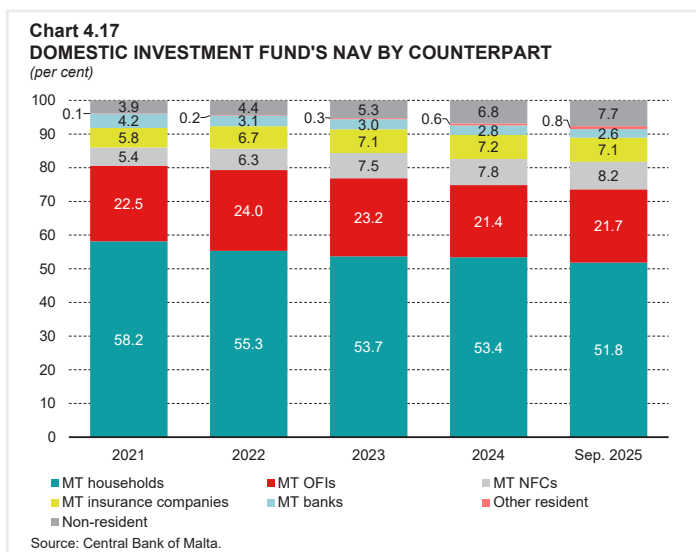
¹² Short-dated bonds are defined as those with maturities of up to one year; medium-term bonds as those with maturities between one and five years; and long-term bonds as those with maturities exceeding five years.

¹³ Investment-grade bonds carrying a rating of AA- or above are considered as 'high-rated bonds'. 'Medium-rated bonds' are those rated between A- and A+, whereas 'low-rated bonds' are those rated between BBB- and BBB+.

in the increased shift towards higher credit risk, in response to evolving market conditions.

4.2.2 Investors

Maltese households remained the largest investors in domestically relevant sub-funds, although their share declined marginally by 1.6 percentage points to 51.8% of NAV as at September 2025 (see Chart 4.17).¹⁴ In contrast, participation by domestic OFIs and NFCs increased to 21.7% and 8.2%, respectively, consolidating their positions as the second and third-largest investor groups.



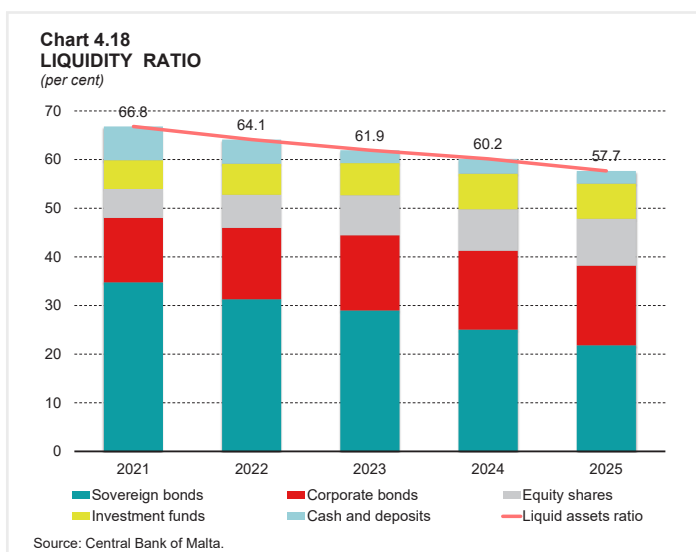
Participation by insurance companies also increased marginally in absolute terms over the period, although their share declined to 7.1% of NAV. In contrast, holdings by domestic banks continued to decrease, accounting for just 2.6% of NAV. Participation by other resident investors increased during the year, driven by pension funds, although these remained limited. Meanwhile, participation by non-resident investors, largely originating from outside the euro area, rose further to account for 7.7% of total NAV.

Overall, these developments suggest a continued gradual rebalancing of fund ownership towards institutional and corporate investors with generally higher risk-bearing capacity and longer investment horizons. At the same time, the continued predominance of households as investors implies that developments in fund valuations remain an important channel for the transmission of market risk to the household sector. Systemic risks to households are, however, mitigated by ample liquidity, with around half of their financial assets held in cash and deposits.

4.2.3 Liquidity and leverage

In 2025, the liquid assets ratio of domestically relevant investment funds stood at 57.7%, down from 60.2% in December 2024 (see Chart 4.18). This decline mainly reflected lower exposure to sovereign bonds, which carry a higher liquidity factor. Although exposures to corporate bonds increased, their lower liquidity factor weighed on the overall ratio. Cash and deposits also fell and continued to account for only a limited share of assets.

The Redemption Coverage Ratio (RCR), calibrated using the worst-case quarterly outflows, decreased slightly to 6.3 times from 6.5 in



¹⁴ Investor composition is reported as at September 2025 to ensure consistency of classification, given the implementation of revised reporting templates towards the end of the year.

2024.¹⁵ This reflected both a modest reduction in HQLA and a slight increase in the estimated worst-case outflows. Notwithstanding, the ratio remained robust, indicating coverage of worst-case redemptions for more than a year and a half on average across sub-funds.

Leverage within domestically relevant sub-funds decreased slightly, with the AUM-to-NAV ratio declining to 100.2% by end-2025 from 100.6% in 2024. This level of leverage remained very low, reflecting a conservative approach to risk-taking. This is consistent with the regulatory framework, as most of these funds are licensed and supervised under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive.¹⁶

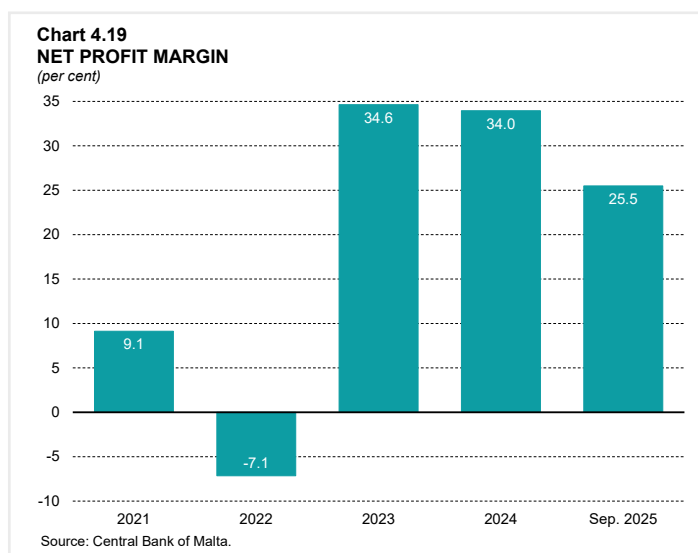
4.2.4 Interconnectedness

Domestically relevant investment funds remain closely interconnected with other segments of the domestic financial system. On the assets side, investments in bonds and equities issued by key domestic financial institutions accounted for 12.7% of total assets, with exposures to banks representing the largest component. In parallel, these funds continued to play a consistent role in financing the domestic financial and non-financial corporate sector, holding around 8.2% of the outstanding market capitalisation of corporate bonds listed on the Malta Stock Exchange. At the same time, the domestic financial sector remained the main investor on the liabilities side, accounting for 10.6% of NAV, with insurance companies representing approximately two-thirds of these holdings.

Although these exposures remain contained at present, the interconnectedness between investment funds and the broader financial system could amplify the transmission of shocks, particularly under conditions of heightened market volatility and sharp asset price movements. These vulnerabilities are compounded by group-level linkages, as a number of funds, while operating as separate legal entities, are affiliated with financial groups that include systemically-important banking institutions. In this context, step-in risk remains relevant, as reputational considerations or strategic incentives may prompt intra-group support during periods of financial stress.

4.2.5 Profitability

Profitability weakened somewhat in the four quarters ending September 2025, relative to the year ending December 2024, with the net profit margin declining to 25.5% (see Chart 4.19).¹⁷ Although revenue increased by 10.0%, expenses rose by a considerably faster rate of 24.1%, resulting in a 17.4% decline in net profit. As a result, profitability came under pressure, with the growth in income insufficient to offset the broad-based increase in costs. Changes in income were driven mainly by developments in dividend and other income, while the higher expenses are mainly due to an increase in other expenses.



¹⁵ The RCR is defined as the ratio of HQLA to the estimated worst-case quarterly outflows observed since 2016.

¹⁶ 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](#)).

¹⁷ Profitability is assessed using data up to September 2025 to ensure consistency in the analysis, given the implementation of revised reporting templates towards the end of the year.

4.2.6 Risk outlook

Overall, domestically relevant investment funds recorded a resilient performance in 2025, supported by favourable market conditions. Looking ahead, however, the outlook remains subject to downside risks stemming from persistent global uncertainty, heightened market volatility, and the possibility of renewed repricing across financial markets, including from resurgence of inflationary pressures.

In this context, the increase in equity exposures, together with lower modified duration and lower liquidity buffers, suggests continued portfolio rebalancing in response to evolving risk-return conditions. Elevated bond yields have continued to shape fixed-income market performance, with the observed reduction in modified duration consistent with a shift towards shorter to medium-term debt securities. This adjustment helps limit sensitivity to interest-rate shocks while preserving flexibility in responding to future changes in the interest-rate outlook.

Liquidity and leverage indicators continue to point to an overall resilient sector, supported by Malta's stable macroeconomic conditions, strong government support, and the generally conservative nature of the domestic financial services sector. Nonetheless, the more challenging global environment implies that effective risk management remains essential. Persistent volatility in international markets could weigh on the valuation and liquidity of foreign asset holdings. In this context, fund managers should continue to monitor downside risks closely, maintain adequate liquidity buffers, and pursue portfolio diversification to mitigate the potential impact of adverse market developments.