Palomar®

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Earnings Call Transcript

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CORPORATE PARTICIPANTS

Chris Uchida, *Chief Financial Officer*

Mac Armstrong, *Chairman and Chief Executive Officer*

Jon Christianson, *President*

CONFERENCE CALL PARTICIPANTS

David Motemaden, *Evercore*

Mark Hughes, *Truist Securities, Inc.*

Pablo Singzon, *JPMorgan Chase & Co.*

Paul Newsome, *Piper Sandler & Co.*

PRESENTATION

Operator

Greetings, and welcome to the Palomar Holdings, Inc. Second Quarter 2026 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference line will be open for questions and answers. Instructions will be given at that time.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Chris Uchida, Chief Financial Officer. Please go ahead, sir.

Chris Uchida

Thank you, Operator, and good morning, everyone. We appreciate your participation in our earnings call.

With me here today is Mac Armstrong, our Chairman and Chief Executive Officer. Additionally, Jon Christianson, our President, is here to answer questions during the Q&A portion of the call.

As a reminder, a telephonic replay of this call will be available on the Investor Relations section of our website through 11:59 PM Eastern time on August 19, 2026.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about Management's future expectations, beliefs, estimates, plans, and prospects. Such statements are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from those indicated or implied by such statements. Such risks and other factors are set forth in our quarterly report on Form 10-Q filed with the Securities and Exchange Commission. We do not undertake any duty to update such forward-looking statements.

Additionally, during today's call, we will discuss certain non-GAAP measures which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to their most comparable GAAP measure can be found in our earnings release.

At this point, I'll turn the call over to Mac.

Mac Armstrong

Thank you, Chris, and good morning, everyone.

We delivered another strong quarter highlighted by record adjusted net income, our 15th consecutive earnings beat, and the third increase to our full-year adjusted net income guidance. Gross written premium increased 27% year-over-year. Adjusted net income grew 31%. Adjusted earnings per share grew 34%. Our adjusted combined ratio was 77% and our adjusted return on equity was 26%. These results demonstrate our ability to execute in a dynamic insurance market while maintaining discipline in underwriting and capital allocation.

Our diversified portfolio remains one of Palomar's greatest strengths, and we believe it truly is one of one within the specialty insurance market. No single product group represented more than one-third of gross written premium during the quarter. Approximately half of our portfolio is property business. Nearly 20% is generated from lines of business that are not correlated to traditional P&C market cycles, and 52% of the book is written on an admitted basis. The deliberate diversification strategy we have executed over the past half decade bolstered and enhanced our business model and financial results. It has translated directly into strong profitable growth and an industry-leading ROE that has proven durable through all market cycles.

A combination of admitted and E&S products, residential and commercial property lines, niche casualty businesses, and the growing contribution from crop insurity allows us to navigate changing market conditions. As portions of the commercial property market continue to soften, the breadth of our portfolio provides stability and opportunities to deploy capacity into areas where risk-adjusted returns remain attractive. We believe this unique mix of business differentiates Palomar and is a key reason we have consistently generated profitable growth and maintained best-in-class financial metrics throughout varied market cycles.

Now let's turn to the performance of our product groups. For the Earthquake franchise, year-to-date written premium is up 1% year-over-year. During the quarter, gross written premium was down less than a percentage point. As said before, the continued strength in Residential Earthquake is offsetting ongoing pressure in the Commercial Earthquake business. Residential Earthquake, which represents approximately 64% of the Earthquake book, continues to serve as a stable and predictable foundation for both the franchise and Palomar overall.

New business production was very strong in the quarter with both new business premium and policy count increasing year-over-year from the second quarter of 2025. Premium retention exceeded 96%, and renewal policies continue to include a 10% inflation guard. We continue to closely monitor the inflation guard and price elasticity and are encouraged by the residential book's strong premium and policy retention.

In Commercial Earthquake, which now constitutes 36% of the Earthquake premium, market conditions remain highly competitive. Average rate decrease in the book was more than 20% with decreases more pronounced in large, commercial, layered, and shared business. In addition to the rate pressure on renewals, large commercial new business pricing is under even greater pressure. In certain instances, we are seeing new business account prices below what we consider technical pricing levels, pricing that adequately compensates for expected loss load, reinsurance cost, acquisition and underwriting expenses, and capital requirements.

While these conditions remain challenging, we hope pricing at these levels is indicative of a market approaching a bottom. We are optimistic the pace of rate declines could moderate, but not dissipate in the large account space over the remainder of 2026.

Small Commercial Earthquake, which we define as less than $40 million of total insured value, is not experiencing the magnitude of rate degradation that the large commercial, layered, and shared market has, although the market remains quite competitive. During the quarter, pricing declined in the low double digits. As the business we write is predominantly admitted and we generally insure the full policy limit, we maintain greater control over renewals and therefore are slightly more insulated from the rate environment of the layered and shared large commercial segment. While competition continues to pressure new business, we remain disciplined in our underwriting. We will not pursue business that does not meet our return thresholds.

Looking at the profitability metrics of the Earthquake book, specifically the AAL to premium ratio, the overall portfolio ended the quarter at the same level as that at the end of the second quarter of 2023. Importantly, the Residential Earthquake book's metrics have remained stable over the last three years, while the Commercial Earthquake book increased and then subsequently declined by approximately 30% over the same period. This consistency underscores the benefits of our balanced approach to portfolio management and reflects our discipline in allocating capacity across the franchise.

Overall, the strength and spread of risk of the book, as well as what we are seeing in the third quarter to date, provide confidence that we will achieve our previously stated outlook for premium growth in the Earthquake book this year.

The story for our Inland Marine and Property group is very similar to that of our Earthquake book. We saw strong performance from our residential and admitted property products and intense competition in layered and shared large account business, where rates in the quarter were down 16%. The diversity within the Inland Marine and property group also allows us to lean into markets generating compelling returns and walk away from business scenarios lacking attractive economics.

Gross written premium for Inland Marine and Property increased 11% year-over-year, driven by strong performance in admitted builder's risk, construction engineering, residential property, and motor truck cargo. Residential property, which is 36% of our Inland Marine and Property franchise, performed well, led by Hawaiian Hurricane, which continues to benefit from limited competition, rate adequacy, and the forthcoming earn-in of our approved 12% rate increase.

Importantly, Laulima, the reciprocal we manage and use to write Hawaii Hurricane business, purchases its own reinsurance and maintains 1.5 million event retention. This limits our direct balance sheet and earnings exposure to Hawaii Hurricane, which certainly helps manage the potential impact of an El Nino-driven wind season.

Additionally, our residential flood partnership with Neptune generated solid growth while improving our geographic spread of risk. Although still a relatively small contributor today, we believe it further strengthens our residential property portfolio.

Our motor truck cargo program grew 22% and is well positioned to maintain that growth level in the second half of the year as it just received approval for a 13% increase on policies written in California, its largest state.

We continue to invest in our Builders Risk franchise, adding underwriting talent in Texas and New York to broaden our reach and product offerings. This led to another strong quarter in construction engineering for which we expanded the range of technically complex projects we support, including data centers, during the course of construction.

Our Builders Risk book remains well diversified across admitted and EMS products, residential and commercial exposures, and projects ranging from smaller local developments to technically complex engineered risks. Supported by our experienced underwriting team and enhanced reinsurance capacity, we believe our Builders Risk book is well positioned to drive profitable long-term growth.

Additionally, we have brought on a new leader to build out our home builders practice, which is currently limited to a single state in Texas. The addition of a seasoned professional should allow us to establish a national home builder's presence.

While competitive pressure persists in the large commercial property market, we are disciplined and are not chasing growth. The luxury of the balanced property portfolio, admitted and EMS, residential and commercial, allows us to be steadfast in our appetite and underwriting discipline. We will source and invest in attractive long-term opportunities and prioritize underwriting profitability over premium growth.

Turning to Casualty, our portfolio of seven niche lines and selected third-party administered programs grew gross written premium 37% year-over-year. This growth is a function of the investments we have made in new products, systems, underwriting talent, distribution relationships, and select program partnerships over the past several years.

Underpinning this performance is our portfolio management strategy. We manage the business as a collection of distinct specialty lines, each with its own underwriting objectives, profitability targets, and growth expectations.

Additionally, each line has its own market pricing dynamics. For instance, excess casualty average rate increases up more than 10% over the last four quarters and was up 5.8% this quarter, whereas real estate

E&O has averaged a 1.6% decline over the last four quarters and was down 3.9% in the second quarter of 2026. The portfolio is unified in the approach to limit management, reinsurance strategy, and discipline underwriting. We maintain modest line sizes and conservative attachment points that contribute to a shorter tail development dynamics across the Casualty portfolio. In addition, auto exposure is intentionally limited. Notably, we do not write auto within our E&S Casualty business and only 9% of our primary general liability policies have auto coverage.

Reviewing loss costs and related rate adequacy remains an important area of focus. We are encouraged that the annual ISO general liability loss cost change across our top five states was 4.4%, compared with the blended 7.5% rate increase across our GL portfolio. This framework gives us the flexibility to actively manage the portfolio by allocating capital to the most attractive opportunities while reducing exposure where returns no longer justify the risk. That was evident this quarter as we reduced our exposure to transactional liability and cyber. In both cases, pricing no longer met our return hurdles. Just like our property team, our Casualty underwriters are willing to walk away from business when economics no longer meet our standards.

As the Casualty books mature, we continue to gain confidence in our own loss trends while benchmarking our experience against broader industry data. We are not facing the legacy reserve issues affecting some peers and are comfortable with the pricing we are achieving. Our reinsurance treaty renewals have continued to price favorably reflecting our reinsurer's confidence in our underwriting performance. Lastly, we maintain a conservative reserving philosophy with more than 84% of Casualty reserves held as IBNR.

One other Casualty matter worth noting is that the growth in the book continues to benefit from the rollover of established Casualty books migrating to Palomar from long-standing program administrators. These are seasoned portfolios from well-established program administrators with in-place distribution and reinsurance. As the policies convert onto our paper, our underwriters and program teams can price, improve, optimize, and manage these books under our framework. Additionally, certain of these new programs are supported by meaningful risk participation from affiliated carriers or sidecar reinsurers, aligning our interests.

Turning to Crop, gross written premium increased 96% year-over-year, significantly exceeding our initial expectations in reflecting the continued success of our franchise and the experience and expertise of our leadership team. The crop business has rapidly become a contributor to our earnings base in addition to diversification and top-line growth. The resounding success of our Crop team is a clear demonstration of our ability to build specialty franchises.

Beyond the strong production, the highlight of the quarter was the launch of plmr.farm, our innovative AI-developed policy administration platform, what we believe is the first new software policy administration in the crop industry in over a decade. The platform encompasses underwriting, customer service and claims administration, while providing a scalable foundation to efficiently support the growth of our business as well as our agent partners. In the crop market, an AIP's differentiation is established through service claims and technology, plmr.farm should prove to be a differentiator.

It is worth providing a brief update on crop conditions. Some winter wheat experience challenging conditions early in the growing year in portions of Oklahoma and Kansas. However, weather has subsequently improved in certain areas, and our use of the standard reinsurance agreement and third-party reinsurance should mitigate a meaningful portion of the impact.

Current crop conditions within our Midwestern footprint would indicate profit expectations within historical norms. Additionally, developing El Nino conditions should not affect our 2026 crop year results. Combination of strong production, continued investment in the platform, talent additions and stellar operational execution reinforces our confidence in the long-term trajectory of the business. Our strong year-to-date performance and up-to-date sales results inform the increase of our full-year crop premium outlook to more than $400 million for calendar year 2026, up from our previous outlook of approximately $320 million.

Twenty-twenty-six's performance further strengthens our conviction that Crop can ultimately become a $1 billion franchise. As a reminder, the higher Crop premium naturally results in a higher current quarter loss ratio for Palomar due to the margin profile of the business.

Moving on to Surety and Credit, gross written premium increased 236% year-over-year to approximately $39 million, incorporating the full quarter's results from Gray Surety. The integration of the acquired business is substantially complete, and our focus is now pivoting to franchise building through the addition of new underwriting talent, geographic expansion, and new product capabilities. Typically, in the quarter, we hire new commercial surety underwriters to expand that practice and hone our fast app credit platform, which will enable us to streamline the underwriting process for smaller bonds.

As well, we successfully completed our surety excess of loss reinsurance program on July 1. The new treaty allows us to write our full T-listing limit bond authorization of $70 million while keeping a net retention of $3.5 million. Together, these new initiatives and investments provide a clear path toward building a Top 20 surety franchise and enhancing another source of earnings that is largely independent of the traditional P&C market cycle.

Palomar was both very busy and successful in the reinsurance market in the second quarter. As previously announced, we successfully completed our June 1 reinsurance placement on attractive terms. We added approximately $421 million of incremental limit, bringing our total coverage to $3.92 billion for earthquake events and $135 million for continental U.S. hurricane events.

Importantly, we maintain our earthquake and hurricane event retentions at $20 million and $11 million, respectively, despite growth in our earnings and capital. These retentions remain modest relative to our earnings and stockholders' equity supporting the consistency of our results while preserving the opportunity to generate additional savings in future renewals.

It is also worth mentioning that the lowest layers of our reinsurance program were the most competitively priced in the tower. In fact, they were technical levels that made the decision to maintain existing retention levels very easy.

We also executed our seventh Torrey Pines Re catastrophe bond and expanded La Lima's Hawaii hurricane coverage to $865 million while maintaining its $1.5 million event retention, a level that we were particularly comfortable with in an El Nino year. Beyond our catastrophe programs, we placed 14 treaties during the quarter, all of which were renewed at either better or existing economics from the expiring program. We secured additional capacity for builders' risk, excess national property, and our high-value residential builders' risk program, enabling us to write larger limits while not disproportionately stressing the balance sheet.

We also placed five casualty treaties in the quarter, all of which saw improved economics as well as the maintenance of our session percentages. In one instance, we chose to increase our session. This is a nice validation of the underwriting performance of our Casualty team as well as the strict adherence to our risk-adjusted rate targets.

Lastly, as we mentioned, we placed our surety excess of loss treaty to support our go-forward surety plan. Collectively, these actions position Palomar for continued profitable growth and limited earnings volatility.

I want to highlight two recent additions to our leadership team. First, Sheri Scott joined us as Chief Actuarial Officer. Sheri is a highly experienced actuary who spent almost two decades at Milliman and strengthens our actuarial analytics and risk management capabilities. Sheri has been an advisor and a pioneering actuary and a strategic partner for Palomar since our inception. We are thrilled to have her on the team.

Second, we welcome Madison Ragozin as our Head of AI. Madison joined us from Intuit and is championing the deployment of AI across the enterprise. Her initial focus will be managing four existing high-impact AI initiatives, an underwriting workbench for our property team, enhanced claims capabilities, efficient operations and customer service, and the continuing rollout of plmr.farm. Beyond these initiatives, Madison is responsible for prioritizing AI investments based on ROI and ensuring we allocate capital to the highest value opportunities.

Our strong and consistent earnings, attractive returns, and healthy balance sheet provide ample capacity to not only invest in the business driving of Palomar 2X strategy, but also return capital to Shareholders. During the quarter, we repurchased 368,719 shares at attractive prices.

In addition, our Board authorized the introduction of a quarterly dividend of $0.45 per share, payable on September 2 to Shareholders of record as of August 19. Importantly, the dividend does not change our growth strategy or limit our ability to execute Palomar 2X. Our attractive returns and the growing contribution from less capital-intensive businesses such as Crop surety and selected Casualty lines provide the flexibility to fund organic growth, maintain a strong balance sheet, repurchase shares opportunistically, and return capital through a regular dividend.

In summary, our results demonstrate the strength of our business model and our continued strong execution. We manage each business against defined underwriting and profitability objectives and are willing to reduce participation, non-renew accounts, and shrink selected areas of the portfolio when pricing and projected returns do not meet our standards. Simply put, we will always sacrifice premium for profitability, but we will not sacrifice profitability for premium.

Based on our record-setting second quarter performance and outlook for the balance of the year, we are increasing our full-year adjusted net income guidance to $270 million to $280 million. The updated range continues to include our expected catastrophe loss provision. At the midpoint, the revised range implies adjusted net income growth of approximately 27% and an adjusted return on equity of 26%.

With that, I'll turn the call over to Chris to discuss our financial results and guidance assumptions in greater detail.

Chris Uchida

Thank you, Mac.

Before I begin, please note that during my portion of the call, when referring to any per-share figure, I'm referring to per diluted common share as calculated using the Treasury stock method. This methodology requires us to include common share equivalents, such as outstanding stock options, during profitable periods and exclude them in periods when we incur a net loss.

For the second quarter of 2026, our adjusted net income was $63.8 million, or $2.36 per share, compared to adjusted net income of $48.5 million, or $1.76 per share, in the second quarter of 2025. Adjusted net income grew 31%, reflecting the continued strength of our diversified specialty portfolio, higher net earned premiums coupled with disciplined underwriting and strong investment income. Our earnings per share grew at a greater rate of 34%, driven by opportunistic buybacks over the last 12 months.

Adjusted underwriting income for the second quarter was $67 million, an increase of 38%, compared to $48.4 million in the prior-year quarter. Our adjusted combined ratio was 76.7%, compared to 73.1% in the second quarter of 2025, and compared sequentially to 76% in the first quarter of 2026. Our growth and diversification resulted in an increase of our adjusted combined ratio, primarily driven by higher underlying loss ratio, partially offset by a lower adjusted expense ratio. We expect this dynamic between loss ratio and an adjusted expense ratio to continue as we grow the business, resulting in ongoing attractive adjusted combined ratios.

For the second quarter, our annualized adjusted return on equity was 26.3%, compared to 23.7% in the prior-year period. While continuing to invest in personnel, technology, and recently launched businesses, we generated returns well above our Palomar 2X threshold of 20%, demonstrating the earnings power and capital efficiency of our platform.

Gross written premiums for the second quarter increased 27% to $630.5 million, as compared to the prior second quarter, continuing to demonstrate the strong momentum that we have across our unique diversified specialty portfolio.

Looking at our key specialty insurance products, it is important to remember the seasonality of our crop business, given that the majority of the premium is written and earned in the third quarter of each year, with only modest premium in the second and fourth quarters. We will update our expectations for the seasonality of our specialty portfolio in our investor presentation, which is a useful guide as you model our business.

Net earned premium for the second quarter increased 59.5% year-over-year to $287 million. As expected, our net earned premium ratio, the ratio of net earned premiums as a percentage of gross earned premiums, increased to 51.9% compared to 44% in the second quarter of 2025 and was in line sequentially with the first quarter of 2026. The year-over-year increase in this ratio is reflective of our improved excessive loss reinsurance at the last two renewals, growth over lines of business that use quota share reinsurance, such as our crop business, where we retain more premium than previously as we continue to leverage our growing balance sheet and the acquisition of Gray Surety.

With the timing of our core excessive loss reinsurance program renewal and the majority of our crop premiums written and earned during the third quarter, we continue to expect the third quarter to be the low point of our net earned premium ratio, increasing throughout the remainder of the reinsurance treaty year in a similar pattern to last year.

Losses and loss adjustment expenses for the second quarter were $99 million compared to $46.2 million in the second quarter of 2025. Attritional losses for the quarter were $99.4 million, partially offset by $0.4 million of favorable catastrophe development. The total loss ratio for the quarter was 34.5% compared to 25.7% in the second quarter of 2025 and compared sequentially to 33.3% in the first quarter of 2026. In line with our expectations and guidance, the increase in our losses and loss ratio was driven primarily by higher attritional losses associated with growth in lines of business, such as Crop and Casualty. It's important to remember that Crop losses show up earlier than the premiums. Thus, for the current year, it has higher losses and loss ratio in the first half of the year, which was amplified by our higher premium expectations for the year.

Our second quarter loss results include $14.3 million of favorable prior-year development, the majority from our Inland Marine and Property and Crop business, with additional favorability from Casualty. Favorability from Casualty is from some of our historic programs and fronting business. Importantly, the favorable development provides additional evidence supporting the conservatism embedded within our reserving philosophy and the quality of the business we wrote and are writing today. Currently, 79% of our total reserves and 84% of our casualty reserves are in IB&R.

As we have discussed previously, we establish conservative reserves and regularly evaluate emerging loss trends across the portfolio. The favorable development recognized this quarter, as well as the favorable development reported throughout 2025 and the first half of 2026, continues to reflect disciplined strength of our underwriting and our fundamental conservative approach to reserving.

Our acquisition expense as a percentage of gross earned premiums was 12.9% for the second quarter, compared to 12.6% in the prior-year period and compared sequentially to 14% in the first quarter of 2026. The year-over-year increase was primarily driven by business mix, including the growth of our surety and credit franchise, which carries a higher acquisition expense ratio, as well as increased premium retentions across the portfolio, resulting in lower ceding commissions. These dynamics are consistent with our expectations and reflect the continued evolution of our business mix.

The ratio of other underwriting expenses, including adjustments, to gross earned premiums for the second quarter was 9.1%, compared to 8.7% in the prior-year quarter and compared sequentially to 8.5% in the first quarter of 2026. These results now include a full quarter of Gray's underwriting expenses.

As we have communicated, we remain committed to investing in talent, technology, and systems to support the scalable platform we are building. While these investments can create some near-term pressure, we continue to expect operating leverage over time as the organization grows within the Palomar 2X framework.

Our net investment income for the second quarter was $20 million, an increase of 49.2%, compared to $13.4 million in the prior-year quarter. The increase was primarily due to higher yields on invested assets and a higher average balance of investments held due to cash generated from our operations, including a full quarter of our acquisition of Gray.

Our yield in the second quarter was 4.9%, compared to 4.6% in the second quarter last year. The average yield on investments made in the second quarter remains over 5%. At quarter end, cash invested assets totaled approximately $1.7 million and the weighted average duration of the fixed maturity portfolio was 4.3 years.

Stockholders' equity increased to $980.9 million during the quarter, including the repurchase of approximately 369,000 shares of our common stock for $41 million. An average price of $111 per share. These repurchases reflect our continued belief that share repurchases represent an attractive use of capital given the strength of our operating performance, earnings outlook, and long-term growth opportunities.

Our growing balance sheet remains well capitalized with ample flexibility to support organic growth opportunities, execute our capital management strategy, and maintain a prudent risk profile. After careful consideration, we are excited to announce that we are initiating a quarterly dividend. The first dividend of $0.45 per share will be paid on September 2 to Shareholders of record as of August 19.

We continue to invest in our business within the framework of our Palomar 2X philosophy. Our consistent and growing earnings result in a healthy and growing capital position, allowing us to continue investing in Palomar 2X in conjunction with regular and opportunistic capital return strategies. We are committed to maintaining a disciplined and flexible capital allocation strategy.

Our diversified specialty portfolio is a key driver of our consistent earnings growth. The steadiness of our business is evident in our model. From a modeling perspective, we expect the same trends shared previously. Our 2025 full year net earned premium ratio is 44.9%. We continue to expect this ratio to increase into the upper 40s for 2026 with a low point of this ratio in the third quarter. On a gross earned premium basis, our full year 2025 acquisition expense ratio was 12.1%, and our adjusted other underwriting expense ratio was 8%. We expect slight improvements in both ratios for 2026.

Similar to last year, the acquisition expense ratio and other underwriting expense ratio should be higher in the first half of the year and lower in the second half of the year with the Crop-earned premium influence. We expect our loss ratio, including catastrophes in prior-year development, to be in the mid to upper 30s for 2026. We expect our adjusted combined ratio for 2026 to increase to the mid-70s. We expect the high point of our loss ratio and combined ratio in the third quarter. These expectations reflect our expected growth, business mix, and use of capital as we build our specialty insurance platform.

Lastly, with our strong performance and consistent earnings, we are increasing our full-year adjusted net income guidance to $270 million to $280 million. The increased guidance fully contemplates the previously mentioned capital return strategy. The updated range includes our expectations for $8 million to $12 million of catastrophe losses in addition to the many catastrophe losses historically contemplated in our guidance. At the midpoint of our guidance implies approximately 27% year-over-year adjusted net income growth and even stronger EPS growth, more than doubling 2024 adjusted net income in just two years while continuing to generate an adjusted return on equity above 20%.

With that, I'd like to ask the operator to open the line for any questions. Operator?

Operator

Thank you. We will now conduct a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star one at this time. One moment while we poll for the first question.

The first question comes from David Motermaden with Evercore. Please proceed.

David Motemaden

Hey, thanks. Good afternoon. Good morning to you guys out on the West Coast. Just a question on the casualty reserve development, the favorable development there. Obviously, a good sign to see, Mac. I was wondering if you could just unpack that a little bit more, discuss what specific lines in casualty that was on, what accident years that impacted. Yes, just wondering if you could unpack what you saw there that gave you some comfort to release reserves.

Mac Armstrong

Yes, Dave. Thanks for the question. Chris should chime in as well. But what I would say is we were pleased with the strength of the reserve base across the board, property and casualty alike. The conservatism in our reserving approach is really informing our casualty reserves across the board. But we did release some reserves from really an older fronted program where we had a risk participation in the workers' comp space. As you may recall, a few years back, we were fronting for a company, Omaha National, and we took a risk participation there to the tune of 7% to 10%, depending on the years, '21, '22. That was the predominance of the casualty releases that we had.

Overarchingly, the Casualty book, and for lack of a better term, the youth in it means that we are putting the large predominance of the reserves in the form of IBNR. Much like last quarter, IBNR stands at 84% of the casualty book. But as Chris says, our view is we take the bad news up front and hopefully let the good news come to fruition over time, and that was the case with the casualty book and really being from a participatory front in the workers' comp space.

But Chris, anything to add?

Chris Uchida

Yes. No, Mac, you outlined that well. I think the only thing I would add in some of your comments on conservatism is you've really seen this play out over the last six quarters. We've had it play out on our property book of business where we talk about that approach where we are very conservative up front, we react to bad news quickly, and then we react to good news deliberately. That has played out where you see favorable development on our property lines, and you're seeing that now a little bit on some of our more historic casualty lines.

This is something that we've kind of built into our results and expectations and aligns with what we've seen really over the last six quarters. We're pleased with the results. It's not going to change our philosophy. We are still reserving conservatively up front. We're doing that for Crop, we're doing that for Property, and we're doing that for Casualty. We're happy with the result. We expect that to continue to play out that way, and that's why we approach our reserves conservatively up front to hopefully get that result in the future.

David Motemaden

Got it. Thanks. I appreciate that detail. My follow-up is just on the accident-year loss ratio excluding catastrophes. That increased to 39.6% this quarter. Obviously, the favorable PYD has been solid this quarter as well as last quarter, and that's helped bring in the attritional loss ratio as you guys define it. But I'm just wondering on that accident-year loss ratio ex cat, it sounds like that is just as you would expect it, just given the mixed shifts to crop. I'm wondering what your outlook is on that and how we should think about just loss ratios in general as we head into next year and the mixed shift continues.

Chris Uchida

Yes. That's a great question. We've talked about our loss ratio a lot, and we mentioned it in the prepared remarks about that. From an overall basis, we still expect the loss ratio to be in the mid-to-high 30s. You see that in the current accident year with those results. But overall, when you look at the modeling and the comments really over the last couple quarters, we have stuck to that loss ratio target or expectation, so there's really been no change in our view, meaning the underlying accident-year loss ratios are very well in line with our expectations.

Crop is growing at a faster rate than we had talked about. Now seeing over $400 million of Crop premium for the year, we know that crop is a heavier loss ratio product by nature. We also know that crop losses come in earlier, so Q2 was a little bit higher than that from—our crop losses were a little higher in the quarter than we would have expected, really driven by some of that growth. But overall, nothing is changing our overall expectation for the year. Going out a little bit when you think about that, we do expect the loss ratio to continue to increase. That is not a surprise. We wouldn't be surprised if it still goes up next year or the year after, really from the mix of business.

Our binary lines, really, Earthquake in Hawaii. Our Earthquake has been flatter. Hawaii has been growing well, but obviously have a much smaller base. We're happy with that, but our other products with additional losses are growing at a faster rate. They are performing well in line with our expectations, but their loss ratios are higher than zero. We do expect—as the mix in the specialty portfolio that we build continues to diversify, we do expect the loss ratio to go up.

As I also mentioned in the prepared remarks, we do expect to see some savings on the expense side. It's not going to be dollar for dollar, but I don't expect the same, call it, increase in our loss ratio to go straight to the adjusted combined ratio. I do expect some favorability there. We will also see some favorability expected in our net earned premium ratio. That has been going up. I expect that to continue to go up as our participation on these lines, around these lines, continues to grow. That's a lot of points there, but the loss ratio should go up. You're going to see favorable net earned premium. You're going to see some favorable acquisition expense ratio, offsetting some of that.

Mac Armstrong

Yes, Dave, this is Mac. The only thing that I would add is the loss ratio obviously being driven up by the Crop outperformance. That's a good thing. Crop is going to be adding to the bottom line growth. It's candidly well ahead of plan. We said initially we thought the crop book would grow 30% to 40% up from a $230 million base. Now at the $400 million target we're giving you, it's almost doubling. Excellent execution from our Crop team. It does lead to higher losses, but it does not change the overall direction of the business like Chris described to you. But I think it does enhance the long-term prospects for profitable growth, consistent returns, and a higher ROE because of the uncorrelated nature of the line with the rest of the property book.

David Motemaden

Got it. No, that's helpful. Maybe just following up there on the Crop side, good to see the favorable PYD from Crop this quarter. I'm just wondering where is the '25 year, what combined ratio has that developed to and where are you booking 2026 if we think about the combined ratio?

Chris Uchida

Yes, I'm going to start with the latter part of that question. Right now, it's safe to say that our '26 reinsurance year, our Crop year is being booked closer to 100% on a net basis. It is early. Like I said, Crop losses show up earlier than the premium. That just equates itself to a higher loss ratio at the beginning of the year in the way we recognize premium. That premium, as you are aware, we do not recognize most of it until we get the acreage reports. Those acreage reports usually come in in July. Most of that premium will be written and earned in the third quarter. That kind of cycle or quarterly fluctuation does result in an expected higher loss ratio, especially on a net basis, in the first couple quarters of the year.

We expect that to, I'll call it, slightly true up in the third quarter and the fourth quarter as the results come into where we see the overall losses or the overall performance of those crops for the year. We do expect that to be higher at the beginning and then start truing up in the latter half of the year. Really, even some of that through the beginning of the next year, what you're talking about with our favorable development. Really, that's coming from prior years. Most of that, obviously based on cycle, is going to be related to the '25 crop year. We haven't given out specific numbers, but I think it's performing in line with the industry, which is probably going to be around that 80%.

I think the '25 year was a little more favorable industry-wide. I think we're seeing those same results. Call it a big product, a big universe, and we perform in line with that, but we try and select reinsurance and geographies that perform well.

Mac Armstrong

Dave, just as I said in my remarks, this year looks like it's in line with historical averages. The crop year appears to be maybe not '25, but it's in a good steady state.

David Motemaden

Great. Thank you.

Operator

The next question comes from Mark Hughes with Truist. Please proceed with your question.

Mark Hughes

Yes, thank you. Good day. You talked about the rollover of existing books of business onto Palomar's books. How much more is there? Where are you in that process? How many more quarters with what you have in hand? Is that something you're pursuing? Is there a pipeline of potential new opportunities?

Mac Armstrong

Hey, Mark. This is Mac. Good question. Thanks for asking it. To the first part of it, we have one program which is a decent-sized general liability or vertically focused GL program that is probably midway through its rollover, and then there's another one that the third quarter will be the final rollover. I would say there's still more to come in the third and fourth quarters.

It might not be as pronounced as it was in the first part of 2026, but I think it's worth saying these are longstanding relationships that we at Palomar have had with these program administrators. They are best in class in the lines of business in which they're operating. They have a meaningful risk participation that creates alignment of interest, and we have internal underwriters that oversee those programs alongside our programs team to make sure they are pricing risk and consistent with how we look at it and how we would price it on our own books in the open market.

There is a pipeline. I would say that pipeline has a higher degree of scrutiny maybe than in certain years of past because of where we are in market cycles. I'd say that—but this is going to continue to be a lever of growth for us, probably not as pronounced in Casualty as it may be in Property or in the Marine and other, but it will remain a facet and component of our strategy because it's a nice complement to what we do internally.

Mark Hughes

In the surety business, how would you describe the level of competition and then is there any upward pressure on commission rates?

Mac Armstrong

Yes, Mark. Good question. I would say surety is—it's competitive right now, and I would say for us that's riding really smaller market bonds, it's been competitive in the sense that you've seen some delay in projects and so existing bond renewals can be fought after some. We're not seeing much pressure on the expense ratio side. It's really more on the service side and more often than not too, in these smaller bonds, projects are being delayed, so it's harder to project the timing.

But on the whole, we feel great about the growth. Obviously 239% is strong. We feel great about the integration of our two surety organizations and the leadership we have there and feel good about the prospects for second half of '26 and '27 because of the larger T listing and what that affords us, the reinsurance that we have that's allowing us to write larger bonds on both the gross and net basis. Then furthermore, some of the enhancements we've made on our servicing platform. I think we can play through a little bit more competition than what we saw last year in surety for all the reasons I just outlined.

Jon Christianson

Yes, Mark, one thing—this is Jon Christianson. One thing I'd add to those comments is as we think about competition in the surety space, certainly there are plenty of options out there for brokers to look at, but we're seeing less pressure on rates or the original price of the business. There's capacity, but we're not seeing rate pressure like you might see in other more standard P&C lines.

Mac Armstrong

Yes, very good point.

Mark Hughes

Thank you very much.

Mac Armstrong

Thanks, Mark.

Operator

The next question comes from Pablo Singdon with JPMorgan. Please proceed with your question.

Pablo Singzon

Hi, good morning. Reserve releases have become a larger component of your earnings over the past one-and-one-half years, as you had said, Chris. The question is, would it be fair to expect reserve releases to grow over time from here in order to support your Palomar 2X growth doubling earnings over some medium-term timeframe?

Chris Uchida

Yes, I think overall, when you look at the overall reserve base, and Mac talked about it, we have over 84% of our cash reserves in IBNR. We have greater than 79% of our total reserves in IBNR. We feel we are reserved conservatively. We hope that portends to growing reserve releases. We're not going to speculate, but I would hope that that continues. That has been a nice trend that we've been able to demonstrate over the last six quarters based on the philosophies that we direct our actuaries to use. We would expect that to continue, but I'm not going to try and predict all of the pluses and minuses as it goes on. There's obviously puts and takes in our loss ratios. We don't bet 1,000%, as Mac likes to indicate. We have had to trim lines historically, and we will continue to manage our book of business that way.

But we are very confident in what we are doing. We have a very good reserve base. We feel great about our underwriting teams and all the books that they're building. I'd hope that that is a nice contributor to Palomar 2X, but the overall book of business that we're building, the growth and underwriting, the teams that we're building, the books of business overall are the real drivers of the Palomar 2X philosophy in growing that earnings base. Overall, it is just one smaller component to a greater big picture that we are building here.

Pablo Singzon

Yes. Thanks, Chris. Then second one, just about your reinsurance strategy, I'm just curious how you're thinking about that given the current environment and the potential for slower growth. I think some companies are designed to retain more to maximize growth and underwriting income dollars, while others are choosing to take advantage of arbitrage and cheaper capacity. Sir, given where the market is and your own plans, how are you thinking about that aspect of your operations? Thank you.

Mac Armstrong

Yes, Pablo, it's a very good question, and I completely agree with what you described. There are ways to play it. Sometimes you want to retain more and keep it on your paper. Sometimes you want to cede potentially more off because you're getting compensated more for the origination of that business. I think our answer to that is we're going to do all of the above, and we really are going to look at it on a line-by-line basis.

As I mentioned, with the casualty treaties that we placed on June 1 and over the course of the second quarter, we elected to keep the session percentages flat, which means we are going to get paid a little bit more for the origination of that business, which I think is a nice testimony to the strength of the underwriting. As those books of business mature, we have that option to take more on or potentially restructure and move away from quota share to something that might be more excessive loss.

The property book, shorter tail, potentially a little bit more seasoned than the casualty book, we've been increasing capacity and increasing our net commensurate with the growth of the balance sheet or where we think we can improve our blended returns and margins. Again, there's two different approaches that we've taken.

Then I think lastly, when you look at—the other thing we have to look at, especially with catastrophe pricing, is just the underlying margin that is being ceded or retained. When we decided this year to keep our cat retentions flat, we looked at the technical pricing of those lowest layers, and they were very thin from a margin over the expected loss. It was sound risk transfer for us to maintain the retentions and not essentially take on more risk than what the models would say should be applied or should be charged for. You have to look at it individually and balance that within the portfolio and have some guideposts for each line of business that you use when you go out into the market for renewal.

Pablo Singzon

Thanks, Mac.

Mac Armstrong

Thank you, Pablo.

Operator

The next question comes from Paul Newsome with Piper Sandler. Please proceed.

Paul Newsome

Hello. Thanks for the call. Maybe a little bit more on the underlying assumptions to the earnings guidance. Should we be reading anything into it that the earnings guidance seems to be a little bit less than the earnings beat? Are we thinking a little bit more conservative of this in the back half of the year?

Chris Uchida

Hey, Paul. Thanks for the question. When you look at our first half of this year, we grew 27%. The guidance points to the fact that we expect to grow for the full year around 27%. We feel very good about that guidance. We have increased it now a couple million dollars at the midpoint. Overall, this is performing well. We are increasing our guidance in a choppier range or insurance market right now. It is very competitive. There are tides going in and out in both directions. We feel that we are very confident in what we're doing. We're investing in the business, and we are able to increase that guidance. That also includes the fact that we are deploying capital to our Shareholders.

During the first half of this year, we spent about $64 million on buybacks. The opportunity cost of that buyback is short-term. We did sacrifice short-term earnings growth to get a higher return to our Shareholders on a long-term basis. We view that as a very good return of capital. It's also the same fact that we looked at when we started the dividend. We have a very high amount of capital that we're able to leverage and grow the business, invest in Palomar 2X, but also return capital to Shareholders. All those factors going into how we're growing the book of business and our overall guidance, we feel very good about the earnings guidance. We feel good about the growth that we're getting. Also delivering call it doubling 2024 in less than two years is still very strong growth.

Overall, we're happy with our reforming. We're happy with the 27% earnings guidance for the growth for the year, and we're happy that we're able to return more capital to our Shareholders as we deliver more capital to the bottom line.

Mac Armstrong

Paul, this is Mac. I would echo everything Chris said. I would just also want to reiterate something I said in the outset of the call. We've beaten guidance 15 straight quarters, and we've raised guidance three times this year. I think we are establishing a track record of execution, and our intention is to continue that track record the second half of 2026 and well beyond.

Paul Newsome

Great. That's all I wanted to ask. Appreciate the help.

Mac Armstrong

Thanks, Paul. Appreciate it.

Operator

Thank you. Once again, ladies and gentlemen, to ask a question at this time, please press star one on your telephone keypad. Once again, that's star one on your telephone keypad.

There are no further questions in queue at this time. At this time, I would like to turn the call back over to Mr. Armstrong for closing comments.

Mac Armstrong

Thank you, Operator, and thanks for all for joining us today.

We are very pleased with our record second quarter results and the execution of the team during the first half of 2026. Our diversified platform is performing well and is well-positioned for the balance of the year. As evidenced by our share repurchase activity during the quarter, as well as the newly announced dividend, we have confidence in the long-term value of the franchise and the strength of the business model and its earning power.

We are focused on executing our long-term strategy, investing in the businesses we see the greatest opportunities, maintaining the underwriting discipline that has defined Palomar since our inception, and creating value for our Shareholders. We look forward to further proving the value of our one-of-one portfolio, business model, and moreover team.

Thank you to our employees, our distribution partners, our reinsurers, and Shareholders for their continued support and commitment to Palomar. We'll speak to you soon.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.