



**Fourth Quarter 2025
Earnings Call Transcript**

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C O R P O R A T E P A R T I C I P A N T S

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Jon Christianson, *President*

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Pablo Singzon, *J.P. Morgan*

David Motemaden, *Evercore ISI*

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P R E S E N T A T I O N

Operator

Good morning and welcome to Palomar Holdings, Inc., Fourth Quarter and Full Year 2025 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 with instructions to follow.

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.

Christopher 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 P.M. Eastern Time on February 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 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. I'm excited to review our strong fourth quarter and full-year results.

In 2025, we delivered record levels of gross written premium and adjusted net income as well as strong, broad-based, profitable growth. For the full year, Palomar grew gross written premium 32%, increased adjusted net income by 62%, and achieved an adjusted return on equity of 26%. We also meaningfully exceeded our initial full year adjusted net income guidance of \$180 million to \$192 million, finishing the year at \$216 million. We beat earnings every quarter of the year, resulting in four upward revisions to our outlook as performance continued to strengthen and exceed expectations.

At the start of 2025, we outlined four strategic imperatives, integrate and operate, build new market leaders deliberately, remember what we like and don't like, and generate consistent earnings. I'm proud to report

that we executed across all four efforts in all four quarters. We scaled our newer verticals in casualty and crop while maintaining underwriting discipline. We purposefully built a balanced book of both admitted and E&S in residential and commercial property and casualty products to ensure consistent results in any market cycle. We added outstanding talent across all our departments, including underwriting, investment, claims, data, and actuarial, growing our team to over 500 exceptional professionals. Finally, we successfully integrated two specialty franchises, First Indemnity of America and Advanced Ag Protection, and at the end of January, announced the closing of our third acquisition, Gray Casualty and Surety, now Palomar Casualty and Surety.

The myriad achievements of 2025 enabled us to reach our Palomar 2X target of doubling the adjusted net income for both the 2022 and 2023 cohorts, a significant and impressive milestone that underscores the strength of our execution. We exit 2025 with a national footprint with offices and team members located across the country. We are attracting the best talent in the industry. Our people in 2025's accomplishments give us strong confidence in our ability to sustain Palomar 2X.

Turning to fourth quarter specifically, our strong performance marked a fitting close to an exceptional 2025. The quarter was highlighted by record adjusted net income and a robust top and bottom line growth, with gross written premium increasing 32% and adjusted net income growing 48% across our differentiated and diversified portfolio. As I said, our specialty product suite is designed to perform consistently through market cycles and generate attractive returns, a strength demonstrated by an adjusted combined ratio of 73% and a 27% adjusted return on equity. Collectively, these results highlight the growth, durability, balance, and quality of our franchise.

Turning to our business segments, our Earthquake franchise declined 2% year over year, a level slightly lower than our previously stated expectation for low single-digit growth in the fourth quarter. Our year-over-year results were muted by a one-time headwind from a large under-premium transfer in the fourth quarter of 2024. Adjusting for this one-time benefit in '24, we would have delivered growth in the quarter.

As we've discussed, our Earthquake book consists of residential commercial policies written on an admitted and E&S basis. This balance allows us to successfully optimize our Earthquake risk-adjusted returns and navigate any market condition. In the fourth quarter, the Commercial Earthquake book continued to face pressure with rates off 15%. Competition remained elevated, and we believe this environment could persist through much of 2026. We remain disciplined in our underwriting but also note that the commercial book is still generating attractive returns.

Conversely, our Residential Earthquake book, which ended the year at 58% of the total Earthquake premium, continued to perform in line with expectations. During the quarter, we saw year-over-year growth in new business written and a premium retention rate of a healthy 97% for our admitted flagship product. As we have said before, the 10% inflation guard under Residential Earthquake policies affords our book compelling operating leverage in a softening property catastrophe reinsurance market. In addition, we are encouraged by our pipeline of high-quality Residential Earthquake partnerships which could bolster growth in 2026 and in 2027.

The softening reinsurance market combined with the growth of the Residential Earthquake book should allow us to absorb the primary rate pressure in the commercial market. Overall, we expect our Earthquake book to deliver modest premium growth and margin expansion in 2026, even with commercial pressure persisting.

Our Inland Marine and other property groups grew 30% year-over-year in the fourth quarter. Driven by strong performance from our Admitted and E&S Builders Risk book and Hawaiian Hurricane products, as well as record production in our Flood book stemming from the early success of our Neptune Flood partnership. Like our Earthquake business, the mix of Residential and Admitted offerings provided balance to the group, allowing us to offset pressure in certain E&S commercial lines. For instance, we have pending rate increases of more than 10% for our Hawaii Hurricane and Motor Truck Cargo book in California, whereas our large E&S Builders Risk accounts are seeing rate decreases in the low single digits. Like

Commercial Earthquake, the underwriting performance and profitability in commercial property was very strong in the quarter. All risk, Excess National Property, and E&S Builders Risk each had a loss ratio below 25%.

The strong underwriting results in commercial property are driving further investment in talent and geographic expansion. During the quarter, we added professionals in Texas and the Northeast to support profitable growth of the commercial side of the group. Additionally, we recruited Matt Thinner to launch and lead our new construction engineering practice. Matt is a long-tenured expert in this dynamic space, which we believe represents a significant market opportunity.

With our strong track record in Builders Risk, the growth in our balance sheet, our A rating from AM Best, and expanded reinsurance capacity, we believe now is the right time to enter this market and supplement our property franchise with a book of large complex infrastructure projects such as bridges, roads, and data centers. Consistent with our disciplined approach to new lines, we will begin with modest net line sizes supported by robust reinsurance.

Our casualty business delivered 120% year-over-year gross written premium growth in the fourth quarter. The casualty book ended 2025 at 20% of the total gross written premium for the Company. Fourth quarter results were driven by strong momentum in E&S casualty, primary and excess contractors' general liability, and environmental liability.

The E&S general liability segment of the casualty book, both excess and primary, continue to see a healthy rate environment. In Q4, rates on excess policies increased on average in the low teens, while primary rates were up mid to high single digits.

Our professional lines remained in a stable pricing environment, with certain areas showing selected improvement, such as miscellaneous professional liability, private company D&O, and real estate agents E&O. We are also encouraged by the early traction in healthcare liability, which is probably the most dislocated market we currently underwrite, with technical rates increasing approaching 35%.

In the fourth quarter, we added to our already strong team of casualty underwriters, which should open new geographies and distribution sources, and ultimately drive growth. We remain conservative in managing our casualty exposure and reserves. Our disciplined focus on low and short attachment points, combined with the use of both facultative and quarter share reinsurance, should limit volatility in the casualty book and allow the portfolio to season in a controlled manner.

Through the fourth quarter, the average net line size across casualty remained below 1 million, with E&S casualty, our largest line of casualty business, averaging approximately \$700,000. Our reserving approach in casualty remains conservative and unchanged. It is grounded in continuous evaluation of loss development, attachment structures, and portfolio mix. As previously discussed, approximately 80% of our casualty reserves are held as IBNR, well above industry norms. This conservatism underpins balance sheet strength and reinforces confidence in the stability and predictability of future results.

Our crop franchise generated \$248 million of gross rate and premium in 2025, exceeding our original \$200 million expectation in our most recent revised guidance of \$230 million. Our performance was driven by strong execution and successful recruitment of top-tier talent as we expanded into attractive states and products. The broader footprint also drove higher than expected fourth quarter production with \$40 million of premium written. Importantly, this incremental business is diversifying from spring season MPCl, providing a nice complement to the portfolio. From an underwriting standpoint, 2025 was a good year for our crop book as we generated a loss ratio under 80% and still hold a conservative reserve base as we sit here today.

Given the experience of our team, the short-tailed nature of the risk, and the growth of our balance sheet, effective 01/01/2026, we increased our retention to 50% net of the SRA. We will support and protect our retention with stop-loss reinsurance consistent with last year. On a prospective basis, we expect crop

premium to grow more than 30% in 2026 and remain on track to achieve our intermediate term target of \$500 million in premium and our long-term target of \$1 billion in premium.

As previously discussed, fronting is no longer a strategic focus of the business. While we still continue to support our existing relationships, we are not devoting resources and capital towards an earnest pursuit of new fronting partnerships. We simply believe we can achieve better risk-adjusted returns in all other product groups. As a result, we are reconstituting our product groups and fronting will no longer be a standalone category. Our existing and any future fronting partnerships will be categorized in alignment with the underlying class of business starting the first quarter of 2026. For instance, our cyber-fronted program will be in the casualty product group, and our Texas homeowners fronted program will be in the inland marina of the property product group.

Following the closing of the Gray Surety acquisition, Surety and Credit will become the fifth product category we report on going forward. As a frame of reference pro forma for the acquisition of Gray Surety and Credit would have constituted six and a half percent of Palomar's total premium base in 2025. Gray Surety significantly strengthens our Surety franchise, adding management expertise, system scale and geographic reach, complementing our existing operations and accelerating our path toward building a market leader in an attractive sector. We believe Surety and Credit will serve as a stable long-term growth driver for Palomar while providing meaningful diversification to our book and earning space.

Turning to reinsurance, the fourth quarter was both eventful and productive. We renewed four quota share treaties on 01/01, all at approved economics and completed two new placements. Key highlights of the quota share activity included a commercial earthquake quota share that renewed approximately 15% down on a risk-adjusted basis and our primary and excess casualty quota share that saw a nice improvement in the expiring ceding commission. As it pertains to excess of loss reinsurance, we placed a surety XOL and renewed two earthquake excess of loss treaties. The earthquake placements renewed more than 15% lower on a risk-adjusted basis. Looking ahead to the 06/01 renewal, market conditions remain favorable for reinsurance buyers, and we are confident in further pricing improvement across our property cap program.

Our diversified portfolio delivered strong top and bottom line results in the quarter and the full year. While I'm very proud of our results in the execution over the past year, I'm even more excited with the many opportunities that lie ahead. The success of 2025, the momentum in the business, and our team's collective enthusiasm for the year ahead are reflected in our 2026 earnings guidance. Adjusted net income of \$260 million to \$275 million. The guidance midpoint implies approximately 24% adjusted net income growth and an adjusted return on equity greater than 20%. The midpoint of our guidance assumes a \$10 million dollar catastrophe load and a decrease of 10% on our excess of lost property catastrophe reinsurance renewal on June 1.

To help us deliver on these opportunities, we are implementing four strategic imperatives for 2026. One, leverage our scale to enhance profitable growth. Two, curate a one-of-one distinct portfolio. Three, deepen our position in existing markets and unlock new opportunities. Four, integrate, optimize, and execute. To support these imperatives, we are strategically deploying AI across our organization. Current initiatives underway are focused on enhancing our underwriting workflow, portfolio optimization, process automation, and operational efficiency. These efforts involve the use of both third-party tools and internally developed agentic solutions that should allow us to increase productivity and scale our organization. If we execute our plan and these imperatives, we will achieve our Palomar 2X objectives in 2026 and beyond.

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

Christopher Uchida

Thank you, Mac.

Please note that during my portion, 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 fourth quarter of 2025, our adjusted net income was \$61.1 million, or \$2.24 per share, compared to adjusted net income of \$41.3 million, or \$1.52 per share for the same quarter of 2024, representing adjusted net income growth of 48%. Our fourth quarter adjusted underwriting income was \$62.3 million, an increase of 52% as compared to \$41 million for the same quarter last year. Our adjusted combined ratio was 73.4% for the fourth quarter, compared to 71.7% last year. For the fourth quarter of 2025, our annualized adjusted return on equity was approximately 26.9%, compared to 23.1% for the same period last year. Our fourth quarter results continue to validate our ability to sustain profitable growth while maintaining returns well above our Palomar 2X target of 20%.

Gross written premiums for the fourth quarter were \$492.6 million, an increase of 32% compared to the prior year's fourth quarter. Net earned premiums for the fourth quarter were \$233.5 million, an increase of 61% compared to the prior year's fourth quarter. For the fourth quarter of 2025, as expected, our ratio of net earned premiums as a percentage of gross earned premiums increased to 48.2%, compared to 39% in the fourth quarter of 2024, and compared sequentially to 43.4% in the third quarter of 2025.

Losses and loss adjustment expenses for the fourth quarter were \$70.9 million, comprised of \$72.9 million of attritional losses, including \$0.7 million of favorable development, and \$2.1 million of favorable catastrophe loss development, largely from Hurricane Milton. Favorable development was primarily from our short tail property lines of business. The loss ratio for the quarter was 30.4%, compared to 25.7% in the prior year quarter. Losses for the quarter were driven primarily by higher attritional losses associated with growth in our casualty and crop business, partially offset by favorable development.

We continue to hold conservative positions on our reserves. Favorable development is a result of our conservative approach to reserving up front, allowing us to release reserves later. This quarter is a good example of this, as we had conservatively reserved for Hurricane Milton, as well as a few other smaller events where we are seeing modest reserve releases.

Our acquisition expense as a percentage of gross earned premiums for the fourth quarter was 13%, compared to 10.9% last year's fourth quarter, and compared sequentially to 10.8% in the third quarter of 2025. A little higher than expected, driven by mix of business for the quarter, resulting in higher commission and lower ceding commission.

The ratio of other underwriting expenses, including adjustments to gross earned premiums for the fourth quarter was 8.1%, compared to 7.2% in the fourth quarter last year, and compared sequentially to 7.9% in the third quarter of 2025. As demonstrated by our continued investment in talent, technology, and systems, we remain committed to scaling the organization profitably. We continue to expect long-term scale in this ratio, although we may see periods of sequential flatness or increases due to investments in scaling the organization within our Palomar 2X framework.

Our net investment income for the fourth quarter was \$16 million, an increase of 41.3% compared to the prior year's fourth quarter. The year-over-year increase was primarily due to higher yields on invested assets and a higher average balance of investments held during the quarter due to cash generated from operations. Our yield in the fourth quarter was 4.8%, compared to 4.5% in the fourth quarter last year. The average yield on investments made in the fourth quarter was above 5%. At the end of the quarter, our net earned premium-to-equity ratio was slightly above 1-to-1. Our stockholders' equity has reached \$942.7 million, a testament to our consistent, profitable growth.

Looking at our full-year 2025 results, our strong top-line performance continued to translate to the bottom line. Our gross written premium increased 32% to \$2 billion, while our net earned premiums increased 57% to \$802.6 million. Our adjusted combined ratio for the full year was 72.7%, compared to 73.7% in 2024,

resulting in adjusted underwriting income of \$218.9 million, growth of 63%, reflecting strong underwriting performance and continued operating leverage. Our net investment income for the full year was \$56 million, an increase of 56% compared to 2024.

All this coming together, where our full-year 2025 adjusted net income grew 62% to \$216.1 million, and our adjusted diluted earnings per share grew 54% to \$7.86, resulting in an adjusted return on equity of 25.9%, compared to 22.2% in 2024. It is also worth noting that our final 2025 results are \$30 million, or 16% ahead of the midpoint of our initial guidance provided at this time last year of \$186 million, equivalent to an additional \$1.10 per share for our shareholders.

Our Palomar 2X philosophy continues to show in our results. Our 2025 adjusted net income more than doubled, technically 2.3 times from 2023 in two years off of our goal of three to five years, with an ROE well above our target of 20%. Palomar 2X is a nice segue to our 2026 guidance. We are initiating our 2026 adjusted net income guidance with a range of \$260 million to \$275 million, including \$8 million to \$12 million of catastrophe losses and incorporating the recently closed acquisition of Gray Surety. The midpoint of the range implies 24% adjusted net income growth and doubling our 2024 adjusted net income in just two years.

From a modeling perspective, we expect many of the trends we have been sharing to continue in 2026. Our 2025 full year net earned premium ratio was 44.9%. We expect that ratio to increase into the upper 40s for 2026. 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 improvements in both ratios for 2026.

Our full year 2025 loss ratio was 28.5%, favorable to our original expectations. With that as a reference, we expect our loss ratio, including catastrophes, to be in the mid to upper 30s for 2026. Our full year 2025 adjusted combined ratio was 72.7%. We expect our adjusted combined ratio for 2026 to be in the mid-70s. These expectations reflect our expected growth, business mix, and use of capital as we build our specialty insurance platform. We continue to expect quarterly seasonality in our operating results driven primarily by crop. We believe our 2025 results provide a strong framework to model the business seasonality going forward.

I would like to spend a moment on our Gray Surety acquisition to provide some context on our surety business for 2026. We closed the Gray Surety acquisition on January 31, 2026, with an estimated purchase price of \$311 million, financed with a \$300 million term loan and cash on hand. The current interest rate on the term loan is SOFR plus 1.75%. Given the ability to improve the spread depending on our total debt to capitalization ratio, given the interest expense from the term loan and the timing of the deal, we expect the addition of Gray Surety to be modestly accretive in 2026 before scaling in 2027.

Pro forma for Gray, the unaudited written premium for our surety line would have been approximately \$110 million in 2025. As Mac mentioned, given our investment in the surety space and the reduced emphasis on fronting, we will be changing our written premium categories in 2026. For 2026, our written premium categories are earthquake, inland marine and other property, casualty, crop, and surety and credit. Fronting will be redistributed into these five product categories. We plan on providing a revised breakdown of our 2025 written premium in these categories in our next investor deck.

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

Operator

Thank you. We will now be conducting 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 yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Pablo Singzon with J.P. Morgan. Please proceed with your question.

Pablo Singzon

Hi, good afternoon. First question, just on the higher retention on crop, you will decide how much that will contribute to earnings next year versus what you earned in 2025?

Christopher Uchida

Yeah, no, I think crop is a great example of the diversification of our business and the use of capital as we start retaining more. We've talked about before that crop is a lower margin business than some of our others, but also very stable, so providing a very consistent earnings base. Generally speaking, it's going to have a combined ratio in the low 90s, so say 92%. For every, call it \$100 million in 10 points that we keep, that's adding another \$8 million as a pre-tax income to the bottom line.

Pablo Singzon

Got it. Thanks, Chris. Then my second question, the 10% reduction in re-insurance costs you're assuming, is that in a risk-adjusted basis, or is that the absolute dollars you're talking about?

Mac Armstrong

That's on a risk-adjusted basis, Pablo. Yeah, so that's just assuming that if you have like-for-like exposure, it would be down 10%. When we think about the forecast, we are assuming growth in quake this year. We said there's modest growth for earthquake, and there also would be some exposure expansion, which would lead to us buying more limit.

Pablo Singzon

Got it. Okay, thank you.

Operator

Thank you. Our next question comes from the line of David Motemaden with Evercore ISI. Please proceed with your question.

David Motemaden

Hey, thanks. Mac, in your prepared remarks, you had talked a bit about a few new hires that you've made here in the fourth quarter as well. You guys made a few more even before that. I'm specifically interested on the underwriting side and the underwriting teams that you're adding. Is there any rule of thumb to think about how much growth you guys are expecting those teams to contribute in 2026 and 2027 if we think about just gross premiums written?

Mac Armstrong

Yeah, Dave, thanks for the question. It's a good one. Let me start by saying you're absolutely right. We've added some really strong talent to our organization over the course of 2025, and as we sit here in 2026, we continue to recruit and add really strong underwriters. It's across both the casualty and the property franchise. When we gave our guidance, there's certainly an assumption around production from those various new hires, but it really depends on the market that they're going into. A strong addition to our builder's risk franchise in Boston, that opens up several million dollars or a few more million dollars of potential production there versus someone like Matt Thinner who joins us on the construction engineering side where it's a much larger TAM and much larger exposures.

But I think overarchingly, the most important point to mention is for all of these new hires, we are not expecting them to burn their way into a market or overextend themselves. We want to walk before we run, and that's something that we've done since we started the business. What that means is when they go into a market, whether it's as a property underwriter or a casualty underwriter, they're going to have a comprehensive and robust reinsurance solution supporting them. Then they are also going to have modest, gross, and net line sizes that they're deploying while we build traction. The other thing is there's a lot of infrastructure that needs to be built out, so we don't want to open up the proverbial floodgates and not be able to service and underwrite the business effectively. It's also very moderate in terms of distribution.

I'll just close with as an aside, for instance, we did write an interesting construction engineering risk, one of Matt's first. The gross line was \$76 million. Our net was \$4 million on it, and that's because of the strong reinsurance relationships we have. We were already able to use an existing facility, and then we were also able to buy facultative reinsurance. I think the fact that you have that type of strong reinsurance support, both facultative and a treaty, is a reflection of the quality of the underwriters and their experience.

David Motemaden

Got it. Great. Thanks. That's encouraging. I guess just another one on the earthquake growth. Is there any way you can just help us think through, it sounds like commercial was down just in terms of gross premiums written, residential was growing. Could you just break that out, how much the residential book grew in the fourth quarter and how you're thinking about that within the modest growth that you outlined in 2026?

Mac Armstrong

Yeah, Dave. What I would offer you is, as I mentioned, that the residential quake is approaching about 60% of the book. It's got strong policy retention, and it's writing good new business. I think residential quake is, you're looking at what we hope would be high single digits to double digits growth, and then the commercial is going to be obviously continue to see some pressure, especially in more large commercial business where rates were down 15%. I think I would say from a rate deceleration standpoint, the rate decreases, we expect them to hover at this level for certainly the next several quarters.

I think that's what I would offer you is residential quake is going to grow and should offset the deceleration in the commercial. Then most of all, most importantly, is we should see margin expansion. The fact is that property cat pricing should allow us to really scale the residential quake and then absorb the softening on the primary rates in the commercial sector.

David Motemaden

Got it. Yeah, it sounds like the I guess the XOL pricing at down 10 is actually not as good as you guys were able to get on some of the stuff that you renewed here recently. But maybe just one more, if I could, for Chris. Heard you on the loss ratio being in the mid to upper 30s. I'm sort of looking at that versus the 31% accident year loss ratio excluding cats in 2025. It feels like that's getting a little bit worse than I think the old rule of thumb, which was two to four points deterioration a year. I'm wondering if you could just unpack that a little bit. You know, what is it mix? Is it higher picks? You know, that would be helpful. You could just unpack that a little bit.

Christopher Uchida

Yeah, I think the simplest answer is going to be that it's no change in our picks. I think we've said this a lot of times that we are going to continue to reserve conservatively up front, react to bad news quickly and do good news slowly and deliberately. That has proven true throughout this year where we're able to have some favorable development.

If you go back call it this time last year, we were expecting a low 30s loss ratio for this year. I think this year was probably a little bit better than we expected. Crop contributed to that. Crop was a little bit favorable to where we expected. Maybe our loss ratio was a little bit better. But overall, when I think about that two to four points, I feel like this is right in line with that expectation. Let's say we were called 31, 32 for four points. We're at 36, right?

The other thing you got to think about is that we are expecting some still really strong growth from crop. The other assumption we're changing there is we're going to be taking 50% of that versus 30% this year. That, while adding profit to the bottom line, does move the ratios a little bit. We've talked about it a lot and I just talked about it a little bit. That crop does operate at a higher combined and a higher loss ratio. Mac said it was better than 80%, but even an 80% loss ratio, that is higher than 31 or 32. If you're taking, call it 20 points more of that, if you're at 30 and taking 20% more your about 66% more of the losses plus higher growth, it's going to influence the loss ratio.

But overall, when you think about it, and the reason we're not saying that our combined ratio is going to jump at the same rate, is we do expect to see some scale or leverage in the operating expenses. When we talk about right now our low 70s combined ratio for the year and kind of getting into the mid 70s for 2026, I think that is taking all those factors into account. Yes, the loss ratio is going to go up as expected as we've talked about. You're going to see some savings potentially on the expense side. But overall, we're going to be mid 70s combined ratio with a growing diverse book of business that's delivering consistent profitability to the marketplace. That's something we've talked about for the last two or three years, continuing to do and that's what we plan on doing.

Overall, we feel like we're in a good spot. Loss ratio is doing exactly what we expected. Overall, the book is performing very well.

Mac Armstrong

Dave, if I could just come back to the one point you made on the reinsurance. Yeah, 10 percent is the assumption. It is a little bit less, a lower risk adjusted decrease than what we saw the first quarter. But that's for the midpoint of the guidance. There's certainly an opportunity to outperform that 10 percent down. But I think that's the right level for us to assume at 06/01.

David Motemaden

Thanks, guys.

Christopher Uchida

Thank you.

Operator

Thank you. Our next question comes from the line of Matt Carletti with Citizens. Please proceed with your question.

Matthew Carletti

Thanks. Good morning. Mac, I appreciate your comments on the casualty book. That was really helpful. Can you maybe just kind of zoom out? As we look at the book today, maybe year end '25, broad strokes, like how much of the book is in excess and primary GL? How much is professional live exposures, whatever the big buckets are that you kind of think of? Could you help us with that? Then secondarily, how much of that is directly written by Palomar? Is any of it done through some sort of program or delegate authority arrangement?

Mac Armstrong

Yeah, Matt, thanks for the question. Excited to talk about the casualty franchise because it really is performing well and been a nice success story. Just at the predominance of the book is going to be what we call E&S casualty, which would be GL, kind of niche segment GL. Then there is some professional lines. But again, the majority of it's going to be excess and primary general liability. We are not writing wheels business. For the majority of cases, we do have a small amount of wheels business that's in our contractors, primary contractors, GL. But on the whole, it's going to be niche categories of GL and then professional liability that's going to be more E&O or healthcare liability, which is a new example. That's one that we got into earlier this year.

I think it's important to just talk about overarchingly on the casualty side, we remain very disciplined. Whether that's in our reserving 80%, as I said, of the IBNR, or excuse me, of the total reserve is IBNR. We have several lines of business and excess liability where it's 100% of the reserve is IBNR. Casualty is only 16.4% of, excuse me, our casualty reserve is only 16.4% of our surplus. Our limits are very conservative. Our average net limit is a million. Our largest net line would be \$2.3 million. Our largest line of business, as I pointed out, which is our E&S casualty is \$700,000 on a net basis.

I think the other factor that's worth highlighting here is just the underwriting approach. It's going to be really focusing on writing, if it's excess, it's buffer layers. We're avoiding social inflation. If we get a pop, like it's not a circumstance where it's a surprise, and there's a nuclear verdict, and we were attaching 20 excess of 100, and we get hit, we're going to be attaching excess of one, or we write in the primary one. It confines the volatility in that book. Then I should have started with this, the talent we have is exceptional. These are professionals that have been in this business for decades, in the case of David Sapia, Frank Castro, Jason Porter, and their casualty leaders.

I think it's also important to point out that we do have program business. Right now, although it's around close to a little more than half our programs, those leaders are involved in the underwriting of those programs, setting underwriting rules, helping with the claims administration and adjudication. It's really the philosophy that we had in property where we work with the program administrator in builder's risk or earthquake, and we also write it internally. It just, it affords the sharing of ideas, it affords the ability to access market segments that you couldn't potentially do on a direct basis. We think it's a very good model.

Then I think the last thing I'd say about the casualty business, like if you look at how we use reinsurance, we view that as a terrific validation of the underwriting. We buy both treaty and FAC, and so FAC reinsurance underwriters are looking at an individual risk and pricing them with us. Treaty are looking, treaty underwriters are looking at the portfolio. As I mentioned, you know, we had several quota shares renew at 01/01. Two of them were for programs, two of them were for internal casualty, all of them had improved economics. Again, I think our casualty approach, the execution rather, has been exceptional, and I think our approach is well-established and thoughtful.

Matthew Carletti

Thank you. That's super helpful. I appreciate all the color.

Operator

Thank you. Our next question comes from the line of Andrew Anderson with Jefferies. Please proceed with your question.

Andrew Andersen

Hey, good afternoon. Just on the reinsurance update, the quake that you mentioned that was renewed, was that commercial quake? Did you purchase any incremental limit this year?

Mac Armstrong

Hey, Andrew, you have good questions. The quota share that renewed was for commercial earthquake. We did have a commercial earthquake quota share renew, and then we bought incremental limit that's for all of the quake book. But it was a very modest amount. Most of the incremental limit will be procured at 06/01. Then we had one existing layer that renewed at 01/01. Again, those were all down in the 15% range.

Andrew Andersen

Gotcha. Maybe bigger picture here as the cycle and some of the lines softens and doesn't seem like there's any constraint on capital here, but how would you kind of rank capital deployment opportunities across organic, increased retention, share repurchases, and opportunistic tuck-in deals, which you have some history of doing?

Mac Armstrong

Yeah, I think overarchingly opportunistic is the right term. Today, share buybacks looks pretty compelling as we scratch our heads inside our conference room. But nonetheless, we still want to grow organically. We think we have multiple growth vectors to grow the book organically. We also think we have the capital base to do so. We certainly as the balance sheet has grown, it does afford us the opportunity to increase our retentions like we're doing in crop. It's certainly something we can look at on cat retentions, probably more specifically for earthquake cat retentions as that approaches at 06/01, and for our property business, our inland marine of the property business has performed really well. I think our desire is to potentially put out larger lines in selected classes like both admitted and E&S builders' risk and excess national property.

I think it's a combination really ultimately, opportunistic M&A. We're proud that we bought three great businesses over the last 15 months. But that's really will be more opportunistic. I think you should be thinking about this organic growth, leveraging the scale of the organization, the balance sheet to potentially take more of our own cooking, and then also think about opportunistic capital management through selected buybacks and repurchases.

Andrew Andersen

Thank you.

Operator

Thank you. Our next question comes from the line of Mark Hughes with Truist. Please proceed with your question.

Mark Hughes

Yeah, thank you. On the commercial quake, you said you expect competitive pressure to continue through 2026. How does it look sequentially, this down 15? Is it continuing to decline sequentially or is it stabilized at a low level and then you just got some tough comps?

Mac Armstrong

Yeah, Mark, this is Mac. That's a good question. I think we're still; we started to see commercial quake pricing really soften in the second quarter of '25. We think we're still a couple quarters to go there and then hopefully the comps lead to a deceleration. I think the other thing too is, one dynamic where you have the all risk players potentially retaining more of the quake. They'll start to, as they get through a 12 to 15 month period of that, they'll start to get to a point where they're managing capacity and overall limits and aggregates. I think that will help stabilize at some, but our view—and when we talk about this year having

modest growth in earthquake is that pressure will persist in '26, and certainly the first half of '26 in a more pronounced fashion on commercial quake.

Mark Hughes

Then on the crop, your retention moving up to 50%, if things go as planned, does that continue to move up or is 50% as it gets?

Mac Armstrong

I think it's a good lever to be able to pull. If you talk to Benson Latham, who's been in the crop business for a very long time, he would tell you the way to make money in crop is to retain more of it and you will make more money over the long term doing that. That's something that we do see as, again, a potential lever. The one thing that we want to be mindful of is just capital allocation. While crop is not a capital, overly capital intensive line, the growth we're having is pretty strong.

As I said, we're targeting over 30% growth. The combination of growth and an increase in retention could start to put a little more pressure on how much capital we have allocated. That's something that we'll watch. But that's really once we get beyond that half billion dollar threshold mark. I think in the interim, we can continue to increase our retention and grow the book and then we'll take stock of what is the right risk transfer structure from there.

Mark Hughes

Thank you.

Operator

Thank you. As a reminder, if anyone has any questions, you may press star one on your telephone keypad to join the queue.

Our next question comes from the line of Paul Newsome with Piper Sandler. Please proceed with your question.

Paul Newsome

Thank you. Thanks for the call. I was hoping you could maybe expand upon a question I'm getting from investors, which is sort of inevitably as the business mix moves away from earthquake, as well as takes increasing tensions, do you inevitably end up with returns on equity that are less given that you essentially have to have less reinsurance leverage? Or is the model so such that you have some more balance in that regard? Just and I'm not even talking about 2026. I mean, just as you think out longer term, is that what we should be thinking about in terms of how the business delivers returns?

Mac Armstrong

Yeah. Hey, Paul, this is Mac. I'll offer my views. We continue—I think I'll start with saying we continue to believe that Palomar 2X is achievable for the intermediate future. We will have, based on the guidance we're giving, we will have doubled our adjusted net income from '24 in two years, while maintaining an ROE that is above 20%. We think that is sustainable, maybe not doubling it every two years, but certainly maintain an ROE that's over 20%. That is with the changing complexion of the book. You have to remember, we still have earthquake is our largest or top two largest line. We're now adding surety, which has very attractive margins as well. That's a sub 80 combined ratio book.

This is not a circumstance where we're all of a sudden going to become a 12% ROE business, and a 95% combined. Until we say otherwise, we're going to be generating an ROE that's in excess of 20%. We're

going to be growing our bottom line at a very attractive rate. I think the guidance that we gave this year is illustrative of that. I think the investments that we're making in the business afford us the ability to sustain those parameters.

Christopher Uchida

A couple of things I'd add to that just for clarification, right? Remember, as we diversify and as the portfolio grows, we are able to leverage our capital base a little more efficiently versus earthquake is very capital intensive. As we get to diversify the base and use our capital a little more efficiency, that helps the ROE. The thing we don't talk about a lot, but when you talk about thinking out years, there's also our investment leverage. We have a very low investment leverage. As our retention increases and our portfolio diversifies, investment leverage will also come into play. We'll be able to use that as part of our earnings growth as well.

Mac Armstrong

Yeah. Just to echo what Chris is saying, if you just look at, I mean, I think that's important to point out too, is just to stay on with these margins. Like our net reserves as a percentage of surplus is under 30% and our investment leverage is 1.43%. Compare those to industry averages, you should feel like there's a fair bit of operating leverage in the model.

Paul Newsome

That's great. Second question, just on the fronting business, is it the thought that without additional fronting operations, essentially, we see sort of stability out of that unit, prospectively? Because I think we're at the point, I think, where we've lapped the one fronting arrangement that went away. Is that kind of the baseline thinking there?

Mac Armstrong

Yeah, Paul, I think our thinking is just fronting is not a strategic focus for us. The premium has declined, as you pointed out. As a result, it's really just not a meaningful reflection of the operating results of the business and the organizational focus.

I think the other thing that's just worth pointing out is the fronting market has evolved to where it's really not a risk-free, fee-generative business. Most fronting deals that we see are participatory fronts. If they are going to require us to take 20% of risk, it's not a circumstance where we're comfortable. We'd rather support a handful of fronting relations that we have and focus our capital and resources on programs, but also just, most importantly, internal efforts.

Yeah, I mean, I think it's just the evolution of the fronting market combined with our strategic focus has led us to this decision to just collapse it into the appropriate product categories.

Paul Newsome

It makes sense to me. As you know, I agree with you.

Mac Armstrong

Yeah, yeah. I think you told me once it was picking up nickels in front of a steamroller.

Operator

Thank you. Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields

Great. Thanks so much. Mac, one quick question on the guidance. I apologize if I missed this, but what are the cat excess of loss attachment points that are embedded in the 2026 guide?

Mac Armstrong

Yeah, Meyer, good question. We didn't offer it, but we will. Assume the retentions remain at the same levels as expiring. A wind retention in around \$12 million and you know, earthquake to several million dollars above that.

Meyer Shields

Okay. All right. That's a good place to start from. With regard to the engineering, does that require new distribution relationships, both in general and with regard to data centers?

Mac Armstrong

It does both. It can leverage existing distribution relationships, but also it does bring new ones to bear. That's why we hired Matt. Matt actually was at Willis Towers Watson before he joined us and has a long standing history of writing with kind of the traditional alphabet houses here. But then there will also be a lot of wholesale produced business, which is kind of our bread and butter for commercial property. It's a combination of the two.

Jon Christianson

Meyer, this is Jon. One other thing to think about with regard to distribution with what Matt brings on in the engineered space is, up until he came on board in the fourth quarter, we were kind of in all corners of that builder's risk market, from small single family homes all the way through commercial property, with the exception of engineered risk. Now this, as we think about our—the way that we face our distribution, we really come with a full solution across that inland marine department to be able to service all kind of major components of builder's risk in the U.S. market.

Meyer Shields

Okay, thanks, Jon. That's very helpful. Then one last question. I just wanted to get a sense of current and maybe planned retentions on the casualty quota share.

Mac Armstrong

The casualty quota shares, we renewed that and kept our retentions flat year-over-year. That's a 01/01. That's kind of locked in for the next 12 months. We can write up to a \$10 million limit within that treaty. The average net, though, is going to be typically, our average gross on it is going to be three, and the average net will be less than a million.

Meyer Shields

Okay, understood. Thanks so much.

Mac Armstrong

Thanks, Meyer.

Operator

Thank you. We have reached the end of the question-and-answer session. I'd like to turn the floor back over to Mac Armstrong for closing remarks.

Mac Armstrong

Thank you, Operator, and thank you, everyone. I appreciate your time and support of Palomar.

As I close the earnings call, I want to thank our incredible team here at Palomar. Your execution and work in 2025 was exemplary. As evidenced by the strong guidance for 2026, we feel great about our prospects, and we look forward to sharing our success with our investors in 2026 and beyond.

Have a great day. We'll speak to you soon.

Operator

Thank you, and this concludes today's conference, and you may disconnect your line at this time. Thank you for your participation.