Third Quarter 2026

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*

Paul Newsome, *Piper Sandler & Co.*

Andrew Andersen, *Jefferies*

Mark Hughes, *Truist Securities, Inc.*

Meyer Shields, *KBW*

Pablo Singzon, *JPMorgan Chase & Co.*

PRESENTATION

Operator

Good morning and welcome to Palomar Holdings Incorporated Third 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 with instructions to follow. As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, 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 p.m. Eastern Time on November 19, 2026.

Before we begin, let me remind everyone 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 the 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.

Palomar delivered an excellent third quarter, highlighted by record gross written premium and record adjusted net income of $81.3 million. We also posted our 16th consecutive earnings beat and our fourth increase to full-year adjusted net income guidance.

Gross written premium increased 28% year-over-year, adjusted net income grew 47%, and adjusted earnings per share increased 50%. Our adjusted combined ratio was 76% and the annualized adjusted return on equity reached 33%, comfortably exceeding our Palomar 2X target of 20%.

Our profitable growth and the associated strong earnings and capital position provide Palomar the flexibility to sustain Palomar 2X and return capital to shareholders. During the quarter, we repurchased approximately $8.9 million of common stock and paid the inaugural dividend of $0.45 per share in September. These

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results underscore the strong execution of our team and our ability to generate attractive returns across market cycles.

During the quarter, all five product categories grew year-over-year, even in the teeth of broad market headwinds and the deliberate portfolio optimization efforts that selectively reduced exposure.

Earthquake premium increased 3%, reflecting the strength of our diverse franchise and the stability of our admitted residential earthquake business.

Inland Marine and Property grew 13%, an acceleration from 10% growth last quarter, as new lines and residential products showed strong performance.

The Casualty book grew 3%, a deceleration from prior quarters but in line with expectations as previously exited lines and completed program rollovers influenced the results.

Crop growth of 89% exceeded the lofty target set at the beginning of the year and reset after the second quarter.

Surety and Credit growth of 228% reflects the acquisition and successful integration of the Gray Surety team into Palomar.

Our diversified and balanced one-of-one portfolio remains the key driver of our strong performance. No single product group represented more than one-third of gross written premium in the quarter.

Property business, which consists of Earthquake and Inland Marine and Property, accounted for approximately 41% of our portfolio, with a split of 48% residential business and 52% commercial business. Approximately 64% of our total portfolio is written on an admitted basis, providing greater pricing stability and insulation from the competitive pressures currently impacting the E&S market.

Crop and Surety, which are less correlated with traditional P&C market cycles, collectively totaled over 36% of the third quarter's gross written premium.

We have deliberately built a diversified portfolio spanning admitted and E&S risks, residential and commercial exposures, and lines unaffected by traditional P&C market cycles. This mix gives Palomar a unique ability to deploy capacity where risk-adjusted returns remain attractive across market conditions, including today's softening P&C market. Ultimately, it enables Palomar to create long-term value for shareholders in a consistent and differentiated fashion.

Moving on to results by product category, I'll begin with Earthquake, our bellwether franchise. Earthquake gross written premium returned to growth in the quarter, increasing 3% year-over-year. Growth was driven by our residential earthquake business, which now represents approximately 66% of total earthquake premium, up from 64% last quarter. Our residential earthquake franchise benefited from two compelling market dynamics this quarter: one, heightened consumer awareness and demand for our products following recent global earthquake activity; and two, capacity constraints at a competitor, which resulted in limited availability of their products.

Our well-established distribution network and market leadership enabled us to capitalize on these two factors, meet increased demand and generate strong new business production. Third quarter new policy sales were at the highest level since 2022 and total new business sales exceeded $4 million every month in the quarter, at the highest level since 2021. Additionally, policy retention remains exceptionally strong at 88%.

Looking ahead, we believe the momentum in new business, combined with our strong retention and distribution, positions our residential earthquake franchise for continued growth in 2027 and the foreseeable future.

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Commercial earthquake, which now represents approximately one-third of our earthquake premium, continues to experience competitive market conditions, particularly in the large account segment. Commercial earthquake rates on renewals in the quarter were down approximately 20%.

Our small commercial portfolio, while facing rate pressure felt in large commercial business, is not under quite the same pressure from a policy retention standpoint. Because the small commercial business is predominantly admitted and written on a ground-up basis, we have greater control over renewals compared to the more competitive layered and shared market. In the quarter, policy retention for our small commercial business was above 80%.

Importantly, the balance of our Earthquake franchise allows us to perform well in the challenging commercial market as the residential earthquake book's growth and margin expansion continue to more than offset the pricing pressure in commercial earthquake. We continue to forecast growth for the Earthquake book in 2026.

Inland Marine and Property business grew 13% during the quarter, driven primarily by the residential Builders Risk, construction engineering, Hawaiian Hurricane and Flood products.

The strength of our diversified property product suite, particularly within admitted and residential property segments, allowed us to offset the persisting competitive pressure in commercial lines like All Risk property and large account Builders Risk.

Our Hawaii Hurricane business delivers strong growth of 23% year-over-year. El Niño conditions of the '26 hurricane season resulted in three different loss-generating storms in Hawaii. Despite the active hurricane season, losses across three storms were $3 million on a net basis, and only one of them will generate losses to reinsurers.

Hawaii hurricane activity has reinforced the need for hurricane coverage in the marketplace while providing opportunities to implement targeted underwriting and rate adjustments to further strengthen the portfolio.

Flood written premium grew 25% in the quarter. The Flood program was the other source of catastrophe losses during the quarter, as there was heightened activity from the Hawaii events and a severe flood event in Indiana. The spread of risk in the Flood book continues to improve as we pass the one-year anniversary of our Neptune partnership.

Our commercial property products, consistent with prior quarters and our experience in the earthquake market, see persistent competitive pressure, particularly in large layered and shared commercial accounts. But the expertise resident in our commercial property team allows us to identify and focus on segments with more attractive underwriting economics, such as high value residential Builders Risk, admitted single-shot commercial accounts or our fast-growing engineered Builders Risk practice.

New property products in the pipeline, including a Homebuilders product launching in the next quarter, will expand our reach across the property market and offer additional opportunities for profitable growth.

Turning to Casualty, gross written premium growth slowed to 3% during the quarter. This growth rate reflects the previously discussed exit from primary transactional liability business, the targeted rate increases and selected class eligibility elimination in our fronted cyber program, and the completion of certain program administrator book rolls that amplified growth recognized in prior quarters.

The casualty market is in transition, and our portfolio of seven niche products has unique pricing and competitive dynamics, impacting both positively and negatively. We are seeing rate increases, but they are moderating.

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For instance, our E&S casualty business is currently seeing approximately 6% increases, down from levels in the low teens a year earlier. Additionally, we see larger accounts come under more rate pressure and, as such, are selectively walking away from renewals where pricing no longer adequately reflects the underlying risk.

For our admitted contractors liability, our rate increases in the quarter were 4% versus 7% for the same period in 2025.

Our real estate E&O business saw rate increases of approximately 10% in California and 3% nationwide.

Healthcare liability rate increases were the most pronounced, with ranges of 10% to 35% depending on the attachment and coverage provided.

We are still able to maintain terms and conditions in the Casualty business. This is best exemplified by our continued avoidance of auto liability. For both the contractors and environmental general liability programs, we are typically excluding auto coverage, and when it was provided, we increased expiring rates approximately 20% during the quarter.

Our underwriting appetite remains intact and our philosophy is unchanged: disciplined underwriting, fulsome reinsurance support, modest gross and net lines with conservative reserving. Our commitment to conservative reserves is reflected in the fact that 82% of Casualty reserves are IBNR, and during the quarter, we did not use any IBNR releases to offset an immaterial level of unfavorable development.

Additionally, we are investing in specialized underwriting talent across the Casualty franchise. This quarter, we added experienced professionals in the miscellaneous E&O and Architects and Engineers professional liability lines. The breadth of our portfolio and the talent leading the practice position us well in this evolving casualty market.

With respect to Crop, gross written premium increased 89% year-over-year, reflecting continued strong momentum across the franchise.

PLMR.Farm, our innovative policy administration system, went live this quarter, supporting our 2027 reinsurance year products, including livestock and winter wheat. Initial feedback from all constituents is encouraging. The platform simplifies placing business with Palomar, improves operational efficiency, and provides agents real-time visibility across the full policy life cycle, from quotes to claims. It has also streamlined our reporting process with the RMA.

Beyond the technology investments made to support our Crop franchise, we continue to add talent in key geographies like Indiana, North Dakota, and Minnesota.

While claims continue to develop and settle throughout the fourth quarter and into early 2027, overall crop year performance is tracking in line with expectations, and we anticipate underwriting gains across our MPCI and private product offerings.

Given our strong year-to-date performance, we now expect approximately $425 million in Crop premium for calendar year 2026, a meaningful increase from our initial outlook of $320 million. We remain highly confident in our ability to build a market-leading Crop franchise.

Surety and Credit gross written premiums grew approximately 228% year-over-year, reflecting continued momentum across the franchise. The integration efforts completed over the first half of 2026 bore fruit in the third quarter, as submissions were up 5% on a same-store basis and final bonds were up 15%. Additionally, our July 1 reinsurance placement further enhanced our competitive position, providing additional capacity via increased treaty limits that enable us to write larger bonds and utilize the combined T-listing authority of our group of companies.

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We see encouraging early contributions from new hires in the Northeast, Northern California and on the commercial surety team. We remain focused on strengthening our geographic presence, expanding our distribution reach and enhancing our commercial surety practice. We are confident these investments support our ambition to become a top 20 surety franchise.

Our reinsurance team was active during the third quarter, renewing five treaties and completing one new placement. All renewals achieved improved economics from the expiring treaty, except for cyber, where we reduced our risk participation amidst the re-underwriting of the book. These results reflect the strong underwriting performance, continued reinsurance support and demand for our programs, as well as a more favorable reinsurance market. Our new Surety treaty also received strong market support, allowing us to meaningfully increase the size of bonds we can issue without incrementally stressing our balance sheet.

In this soft reinsurance market, we assess our risk participation and cession percentages on a line-by-line basis to measure risk-adjusted returns and the associated volatility in our earnings base. For instance, on July 1, we held our cession percentages flat for casualty quota share business, whereas for Surety, we increased our per risk retention but reduced it as a percentage of the total that we procured.

We do not expect recent Hawaii hurricane losses to negatively impact the pricing of our Laulima XOL facility, as only one storm triggered treaty coverage, with limited losses going into the tower. As we sit here today, we expect favorable property catastrophe reinsurance market conditions to persist through the January 1 renewal and into 2027.

Our reinsurance strategy remains a key source of earnings stability and a competitive advantage, and we will evaluate both our quota share participation and catastrophe event retention levels as our earnings and capital base grow.

At each renewal, we will weigh the earnings benefit of higher retention levels against technical pricing, earnings volatility and the value of our current structure.

During the quarter, we invested in talent across the organization. As previously mentioned, we brought on several new professionals to our Crop team and made key underwriting hires in Casualty, Surety and Property. As investment income becomes a meaningful contributor to earnings, we built out the asset side of our business with hires on the investment team in the quarter.

Technology and AI are heightened areas of investment for Palomar. With the successful launch of PLMR.Farm, we are exporting the AI-enabled software development life cycle used in Crop to other lines of business, such as Surety. AI agents now handle some of our most routine policyholder requests, providing service instantly, with no wait. When a hurricane hit Hawaii on a weekend, an agentic solution allowed us to handle a customer service surge without staffing up a call center.

Additionally, we are implementing a new AI underwriting workbench for our property team in hopes of driving greater efficiency, expanded distribution and ultimately premium growth in 2027. We hope that it drives a similar return to PLMR.Farm and an already implemented AI-driven data enrichment solution that has cut hundreds of hours a month of manual data entry associated with building detail verification for earthquake underwriters.

Across these initiatives, we remain focused on measurable returns on investment and ensuring our technology investments deliver tangible operational and financial benefits.

Finally, reflecting our strong third quarter performance and outlook for the remainder of the year, we are raising our full-year adjusted net income guidance to $280 million to $285 million, which includes $8 million to $12 million in catastrophe losses for the full year. At the midpoint of the range, this represents adjusted net income growth of approximately 31% from 2025.

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The increased guidance factors in not only our strong execution but also the evolution of our business, namely the increasing loss ratio but a stable and best-in-class adjusted combined ratio. The book is performing in line with our expectations, as are the loss ratio and combined ratio. Our focus remains on profitable growth, disciplined capital allocation and maximizing risk-adjusted returns: basically, keep doing what we did this quarter.

With that, I'll turn the call over to Chris to review our financial results, the complexion of our losses, the stability of the portfolio and the overall consistency in our returns in greater detail.

Chris Uchida

Thank you, Mac.

Before I begin, please note that during my portion of the call, when referring to a 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 third quarter of 2026, our adjusted net income grew 47% to $81.3 million, reflecting the continued strength of our diversified specialty portfolio, higher net earned premiums coupled with disciplined underwriting and strong investment income. Our adjusted earnings per share grew at a greater rate of 50% to $3.01 per share, reflecting the positive impact of opportunistic share repurchases over the last 12 months.

Adjusted underwriting income for the third quarter was $86.5 million, an increase of 53% compared to the prior-year quarter. Our adjusted combined ratio was 76.3% compared to 74.8% in the third quarter of 2025 and 76.7% in the second quarter of 2026.

As expected, our growth and diversification resulted in a higher underlying loss ratio, offset by a lower adjusted expense ratio. We expect this dynamic of loss ratio and adjusted expense ratio to continue as we grow the business, resulting in ongoing attractive adjusted combined ratios.

For the third quarter, our annualized adjusted return on equity was 33.1% compared to 25.6% in the prior-year period. While continuing to invest in personnel, technology and recently launched businesses, we generated returns well above our 2X threshold of 20%, demonstrating the earnings power and capital efficiency of our one-of-one platform.

Gross written premiums for the third quarter increased 28.4% to $767 million as compared to the prior year's third quarter, reflecting the consistent momentum across our unique diversified specialty portfolio.

Looking at our key specialty insurance products, it's important to remember the seasonality of our Crop business. The third quarter is our largest quarter for Crop, with a majority of the annual premium written and earned during the period. As we move into the fourth quarter, Crop premium will decrease sequentially, though we still expect year-over-year growth. We have outlined the seasonality of our specialty portfolio in our investor presentation, which remains a useful guide as you model our business.

Net earned premiums for the third quarter increased 62.3% year-over-year to $365.4 million. Our net earned premium ratio, the ratio of our net earned premiums as a percentage of gross earned premiums, was 49.6% compared to 43.4% in the third quarter of 2025 and 51.9% in the second quarter of 2026.

The year-over-year increase in this ratio reflects our improved excess of loss reinsurance at the last two renewals and growth in lines of business that use quota share reinsurance, including our Crop business, where we are retaining more premium as we continue to leverage our growing balance sheet. The third quarter represents the seasonal low point of our net earned premium ratio, and we expect the ratio to increase through the remainder of the reinsurance treaty year in a similar pattern to last year.

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Losses and loss adjustment expenses for the third quarter were $151.6 million compared to $72.8 million in the third quarter of 2025. Attritional losses for the quarter were $147.2 million and catastrophe losses were $4.5 million.

The total loss ratio for the quarter was 41.5%, made up of an attritional loss ratio of 40.3%, including 1.1% of unfavorable development, and a 1.2% catastrophe loss ratio. Unfavorable development was primarily related to a reallocation of short tail livestock losses between 2026 and 2025. While there was no material change in the underlying ultimate, the move between years does show up as unfavorable prior year development and is favorable in the current year results.

Catastrophe losses for the quarter are related to hurricane and flooding in Hawaii and flooding in the Midwest. It is important to remember the nuance of our Hawaii Hurricane product, where coverage is only available when a hurricane watch or warning is issued for a particular county. Coverage was available for three events impacting Hawaii, while the overall net catastrophe losses for the quarter are well within the catastrophe loss guide for the year of $8 million to $12 million.

Our specialty products are performing in line with expectations and target return levels. Strong growth and diversification of our specialty portfolio of insurance products has naturally resulted in an increase in our loss ratio and added stability and consistency to our earnings base. Crop's strong top line growth has been a great contributor to our consistent earnings base while also contributing to the expected natural increase in our loss ratio.

For the third quarter of 2026, Crop represented 38% of our overall losses and loss ratio compared to 24% last year, a 58% increased contribution to our losses and loss ratio.

Said differently, our total loss ratio for the third quarter of 2026 was 41.5%, 15.9 points of Crop and 25.6 points of non-Crop. Crop's share of losses is 58% higher than Q3 2025, when our total loss ratio was 32.3%, 7.8 points of Crop and 24.5 points of non-Crop.

Year-to-date through the third quarter of 2026, Crop represented 33% of our overall losses and loss ratio compared to 16% last year, more than doubling its contribution to losses and loss ratio. While Crop is not the only contributor to our increasing loss ratio, it is important to see its relative contribution to our overall losses and loss ratio as the book has continued to grow and our specialty portfolio evolves. To reiterate, the combined ratio has remained very stable through this time.

Our acquisition expense as a percentage of gross earned premiums was 9.8% for the third quarter compared to 10.8% in the prior-year period and 12.9% in the second quarter of 2026. The year-over-year decrease primarily reflected changes in the composition of our business. As previously discussed, our acquisition expense ratio also experiences seasonality associated with our Crop business, including a decline during the third quarter.

The ratio of other underwriting expenses, including adjustments to gross earned premiums for the third quarter was 7.7% compared to 7.9% in the prior-year quarter and 9.1% in the second quarter of 2026.

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 increased 54% for the third quarter, growing to $22.4 million from $14.6 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 and assets from the Gray acquisition.

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Our yield in the third quarter was 5.1% compared to 4.7% in the third quarter last year. The average yield on investments made in the third quarter remains over 5%.

At quarter end, cash and invested assets totaled approximately $1.8 billion, and the weighted average duration of our fixed maturity portfolio was 4.6 years.

Stockholders' equity was $985 million at quarter end. We repurchased $8.9 million of common stock during the third quarter at an average price of approximately $127 per share, bringing total repurchases through the first nine months of the year to $73 million at an average price of approximately $116 per share.

Additionally, during the quarter, we paid our first dividend of $12.2 million. Repurchases and dividends 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. Our Board has approved a second quarterly cash dividend of $0.45 per share, which will be paid on December 2.

We continue investing in our business within the framework of our Palomar 2X philosophy, while our consistent and growing earnings support a healthy capital position and provide flexibility for both regular and opportunistic capital returns. We remain committed to maintaining a disciplined and flexible capital allocation strategy. Year-to-date, we have returned $85 million to our shareholders and, with the declared dividend, nearly $100 million for 2026.

Our diversified specialty portfolio remains a key driver of our consistent earnings growth, and our third quarter results reflect the seasonality we have discussed throughout the year, primarily related to our Crop business. Seasonality of our Crop business results in the third quarter representing our highest gross earned premium for the year. With the higher gross earned premium, we expect the lowest net earned premium ratio, acquisition expense ratio, and adjusted other underwriting expense ratio in the third quarter.

For the full year, we expect our net earned premium ratio to be around 50%, our acquisition expense ratio to be around 12.1%, and our adjusted other underwriting expense ratio to be around 8%, both in line with our 2025 results.

We continue to expect our loss ratio, including catastrophes, to be in the mid to upper 30s for 2026, and our adjusted combined ratio to be in the mid-70s. The expectations reflect our anticipated growth, business mix, and use of capital as we continue to build our specialty insurance platform.

Lastly, given the strong momentum across our portfolio of specialty businesses, we are increasing our full-year adjusted net income guidance to a range of $280 million to $285 million from a prior guidance range of $270 million to $280 million. The guidance continues to contemplate our capital returns strategy and includes our expectation for $8 million to $12 million of catastrophe losses for the full year, including events during the first nine months of the year.

At the midpoint, our guidance implies over 30% year-over-year adjusted net income growth, even stronger EPS growth, and 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. At this time, we'll be conducting a question-and-answer session. If you'd 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 if you'd like 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. One moment, please, while we poll for questions.

Our first question comes from David Motemaden with Evercore. Your line is now live.

David Motemaden

Hey, thanks. Good morning. Mac, it was good to see the earthquake growth back up again this quarter. Could you just describe a little bit some of the moving pieces between the growth in the residential book and what happened in the commercial book? Maybe just—you'd called out a few things on the residential book that helped this quarter. Wondering your view on the durability of those drivers as we think about next quarter, but also next year.

Mac Armstrong

Yes, Dave, great question and appreciate it.

I think, overarchingly, we were very pleased to see the earthquake growth in the quarter. It really is being anchored by the residential side of the franchise, which, as I pointed out, is two-thirds and growing faster than the commercial side. So that's going to present that will continue to tick up, which I think portends well for sustained growth. Growth this quarter was, I'd say, modestly amplified by heightened awareness from events globally, but in particular, South America, Central America. But then, furthermore, there was one competitor that reached some reinsurance limitations and, therefore, was capacity limited. But on the whole, we wrote new business that was at a level similar to what we saw some four years ago. As we sit here today in the fourth quarter, we're still writing at a very strong pace, so it gives us conviction on the ability to maintain good growth in residential earthquake.

I think the thing I just would point out and remind you of, and we've talked about it before, is just there is an automatic inflation guard for all of our admitted policies that's in and around 10%, and there's policy retention that's in the high 80s. So there is a nice, stable base of renewal premium that rolls over every month. If we continue to execute like we are on new business sales, there should be good growth in residential quake, which, again, should offset what we're seeing in commercial.

I think just with commercial, when we talk about growing for 2026, we are not making an assumption on a reversal in the rate environment as of yet. We think it will persist and remain competitive. But I also think it's worth pointing out that of our commercial book, about a third of that—maybe it's closer to a quarter of it, maybe somewhere in between those two—is single-shot admitted, and we're writing it from the ground up. Therefore, we have very strong policy retention if it is still at attractive pricing levels. The last thing I'd add to that point, if you look at our commercial book, the underlying profitability and the underlying metrics, it's basically back to where it was in the third quarter of 2023, so we've been a round trip from the hard market that commenced in that timeframe.

David Motemaden

Got it. Okay, that's helpful.

Was the competitor that pulled back on the resi side—was that, in your sense, the bigger driver that's going to fade? Because I would think that the—or potentially fade, because I would think that the increased awareness, that's kind of a slower bleed as that wears off.

Mac Armstrong

Yes. I think when a competitor is hamstrung, we took advantage of that. The only thing I would say is there is some potential reputational harm that's done there with agents when you're turning off zip codes of

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business and making certain terms and conditions unavailable. So we feel good about our ability, again, to sustain the growth in residential quake.

Jon Christianson

Dave, this is Jon Christianson. One thing I'd add, and just to underscore what Mac mentioned in his prepared comments, and we've talked about this in past quarters, but residential earthquake, particularly on the admitted side, is a very consistent product, so we have that inflation guard, but over the course of the quarter, it was very consistent new business, elevated new business. It wasn't like it all came in one month or the other. So in addition to consistent policy retention levels, we saw consistent levels of elevated new business in the quarter.

David Motemaden

Okay. Great. Then maybe just on the casualty side, if we look at the growth in the quarter and adjust out transactional liability, cyber and the book roll, how is growth excluding those things, if you guys look at it that way? You had mentioned a little bit of unfavorable development there. Maybe just elaborate on that as well?

Mac Armstrong

Yes. On the unfavorable development, I think I referred to it as immaterial. It was less than a couple million dollars. We certainly could have made the justification to release reserves to offset that, but it was a non-factor.

To your question on normalizing the growth rate, the pullback that we've done in transactional liability, the re-underwriting of the cyber-fronted program, and then overall just some re-underwriting of our growth probably in other classes, it probably made the difference between 3% growth and 15% to 18% growth on a—if you want to call it a same-store basis. So going forward, you should think about Casualty kind of indexing the growth rate of the rest of the business ex Crop, right? So take out Crop from the calculus.

David Motemaden

Great. Thank you.

Mac Armstrong

Thank you, Dave.

Operator

Our next question comes from Paul Newsome with Piper Sandler. Your line is now live.

Paul Newsome

Good morning. We want to just think, maybe as we think out maybe in '27 and beyond, maybe you could just review with us where are the pieces that are still—businesses that are still pretty young and may show some more expansion as we look forward? Then, I guess relatedly, any thoughts about, as we look forward, changing some of the quota share retentions as we get into next year as well?

Mac Armstrong

Yes, Paul. Thanks for the question.

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I would say, candidly, we think there are growth vectors across all five of the product categories. Obviously, our commercial property franchise is where growth is the most challenging; it's not growing. But I would certainly highlight Crop as an area of sustained growth. I would highlight our residential property products as areas of sustained growth. And then Casualty, as we just discussed, will still see some growth, but it's not what it was in 2025, in the first half of 2026. So again, across the board, we feel that there is ample opportunity for organic growth within the portfolio.

I should have mentioned Surety as well. We just now have a reinsurance structure in place to write larger T-listed bonds. We'll do that in a deliberate fashion; we're not going to overextend ourselves. But we do think there's ample room for growth, and our ambition is to be a top 20 surety writer and have a book of business that's a couple hundred million dollars, not $100 million, on the surety side.

To your question on reinsurance cessions and participations, as I said in my remarks, we do look at those on an individual basis. I think right now when you are in a soft market, we are of the mind with a lot of our attritional loss businesses to hold our cessions flat and take advantage of potentially improved overrides and ceding commissions that we receive from our strong and diverse panel of reinsurers.

Separately, when you look at the catastrophe retentions and the event retentions on the property side of the book, I think we certainly have the balance sheet to increase those as appropriate, and we will look at that. But I think as I pointed out last quarter, it really does come down to what the technical pricing is. If we are trading dollars at a theoretical loss, and we have seen the lower layers of our program priced pretty close to burn, it made sense to hold them flat at 6-1-26. But that optionality will persist, and clearly, with a $20 million event retention on the quake side, we have the latitude to take on more if it's priced attractively to us—for us.

Paul Newsome

Great. I appreciate the help.

Mac Armstrong

Thanks, Paul.

Actually, you know what, Paul, one other thing that I would say is the other line of business that we will continue to look at our overall reinsurance structure and our risk retention percentage will be Crop. That renews at 1-1—that treaty renews at 1-1-27. We certainly will look at how we continue to use the standard reinsurance agreement and then also our quota share and stop loss structures, and certainly there's an appetite for us to potentially take more there.

Operator

Our next question comes from Andrew Andersen with Jefferies. Your line is now live.

Andrew Andersen

Hey, good afternoon. Just curious, with market conditions and some pricing moderation, are you seeing any business flow between E&S and admitted markets? Just given your presence in both, how effectively can you follow that business if it does go back to admitted while still maintaining pricing and overall discipline?

Mac Armstrong

Hey, Andrew. Yes, it varies line by line.

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I would say on the property side, we can leverage the admitted and the E&S side of our books pretty effectively in an area like residential earthquake and definitely in Builders Risk. That's really how we have—and commercial earthquake as well. That's really how we've architected the business since we launched the company some 12 and a half years ago.

We are seeing the admitted market coming in more frequently on the casualty side, and that's in a circumstance—in those circumstances, rather—that's when we'll walk away, because the rates inevitably will be cheaper than what we have on an expiry. I think we saw that in a higher degree of frequency in our E&S casualty book, both construction liability and contractors liability, and where we write kind of buffer layer, short limits, call it three excess of 1, two excess of 2. So that's where the admitted market was probably most pronounced coming in, and that's where we walked away from a decent amount of business.

Andrew Andersen

Thanks.

You mentioned an ambition to grow surety into, I think, a couple hundred million dollar premium business. With the increased treaty capacity in place, what is kind of the timeline to reach that scale?

Mac Armstrong

Oh, that's a good question. I think that certainly having that treaty support, and most importantly an exceptional leadership team in Cullen and Mike Pitre in Louisiana for us, we think it is attainable in I'd say intermediate timeframe. We don't want to overextend ourselves and start writing $30 million bonds left and right when our average bond has been a few million dollars. But I think the combination of having Palomar's balance sheet, this new reinsurance treaty, as well as our increasing geographic scale that the team is building out will afford us the ability to get to a couple hundred million in a few years.

Andrew Andersen

Thank you.

Operator

As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for questions.

Our next question comes from Mark Hughes with Truist Securities. Your line is now live.

Mark Hughes

Thank you. Good morning. Good afternoon. On Crop, the outlook for $425 million this year, does that imply 4Q is down a little bit?

Chris Uchida

Yes, I think the straight path would probably show it being down a little bit. I think our overall expectation is it's probably going to grow a little bit. I think we feel the 425 is, call it, the benchmark or the starting spot. We should hopefully over-index that a little bit and get to where there's a small or a little bit of growth in the fourth quarter, which I believe was around $40 million to $41 million last year.

Mac Armstrong

I think the only thing that I would add, Mark, is when we've done these forecasts, we've been pretty conservative in our estimation of the underlying commodity price for winter wheat and things of that sort.

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So that could provide a bit of an uplift too. We did not make any assumption on the underlying recovery price.

Mark Hughes

You've talked about a $500 million target for next year in light of this outperformance. Is that something you're looking to update?

Mac Armstrong

With respect to Crop, $500 million had been an intermediate goal, and yes, we feel very good about attaining that. Like we've done in years past, when we provide '27 guidance, we'll give a little more prescriptive detail on Crop premium estimates, so we are reserving our right to share that number at a later date.

Mark Hughes

Very good. How much did weather restrain Crop profitability? Seems like it was pretty warm in Q3. I'm not sure how much that impacted your business, but I'm sort of curious if weather was a good guy or a bad guy.

Jon Christianson

Weather—this is Jon Christianson, Mark. Weather in the corridor really allowed for—it varied by region a bit, as we think about our footprint across, predominantly, the Midwest and the Upper Midwest. But based on that complexion of weather outcomes, really believe it'll be in line relative to historical averages.

I will say, in the last month or so, we've seen a fair amount of moisture come through those states where winter wheat is planted. So some of the comments that Mac was making about the prices being favorable for some of the fall crops, we also expect that planting season's gotten off to a good start.

Mark Hughes

Okay.

Mac Armstrong

Mark, just one thing I would add is we did effectively use the SRA in a few regions that had material weather back in the first part of the year, but not in the third quarter.

Mark Hughes

Okay. Then, Chris, the cat losses—I think you shared some numbers on expected cat losses, but what was that total for the fourth quarter that you have already identified?

Chris Uchida

I don't think we've identified anything necessarily for the fourth quarter. We were impacted by (Inaudible), but it was a—I would call it a nominal event for us. I was just saying that we expect $8 million and $12 million for the full year, reserving the right for more catastrophes. Obviously, it's early November. There's, let's call it, two full months left in the year. We just don't know what's going to impact our book.

Technically, hurricane season isn't over, but knock on wood, it has been light. So we're just making sure when we give guidance to try and make it as steady as possible and not move cat losses around and try

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and, let's call it, move the target. We're trying to hold that as steady as possible for the year to give a very baseline guidance update for, let's call it, the full year as we get into the fourth quarter.

Mark Hughes

Thank you very much.

Chris Uchida

Thank you.

Mac Armstrong

Thanks, Mark.

Operator

Our next question comes from Meyer Shields with KBW. Your line is now live.

Meyer Shields

Great. Thanks so much. I want to start on the reserve side because I think, Mac, you mentioned a couple of million dollars of adverse development, and then there's the $4 million of livestock reallocation, but the press release just says $4 million total reported as adverse. Am I missing a piece?

Chris Uchida

Yes. Overall, let's take Crop out of it, because Crop was really a reallocation of an ultimate without changing the total. So it's really just a move between 2025 and 2026. If that did not happen for the year, we would have probably been favorable around $4 million. That, call it, other favorability—Mac talked about the casualty a little bit being unfavorable. The favorability would have been on the property side, so Inland Marine and Property, and then also the surety side. So that to where we'd be $4 million favorable without Crop, but with the Crop, call it, being around $8 million, we would have been $4 million unfavorable, which is kind of what we showed.

Meyer Shields

Okay, perfect. That helps.

I guess the second—well, maybe this goes to that also. So we have $8 million in Crop, and that takes the attritional. I guess, really, I'm surprised that the attritional loss ratio was as low as it was, just given the vast amount of Crop premiums. Even if we add that back to it, I think we get something like 41% versus 39.6% in the second quarter. It's a good problem to have. I guess I'm just here too—I'm wondering why the sequential jump wasn't as high, given the preponderance of Crop premiums. Does that make sense?

Chris Uchida

Yes, it's a fair question. I think when we went into the quarter, or went into the year, we would expect it to be higher. I think the way I would describe it, especially around Crop, is that the underlying loss ratio is kind of performing—call it the underlying gross loss ratio—is performing in accordance with the rest of the industry. We're not, call it, outdoing or out-underwriting that business.

As you know, we did not underwrite. It's probably the same for everyone. We have to take all comers. But where I would say we are seeing a little bit of outperformance on our side would be on the reinsurance side, where we are able to—or we feel a better job right now of transferring that risk into the reinsurance market.

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So we're performing a little bit better on the net basis, is what you see in that 41%, than what we would expect at the beginning of the year, where we kind of projected out average. Right now, we are seeing a little bit better performance on the reinsurance side, and that obviously goes to the strong team of underwriters and claims representatives and the reinsurance team that is looking at ceding those losses off into the marketplace.

So I'd say that's where we feel that we are right now outperforming versus on the gross side. That's probably why we are seeing a slightly lower loss ratio than we would have expected. I would agree with you. It probably would have been 42%, 43% if it wasn't for that outperformance on the reinsurance side.

Mac Armstrong

Meyer, I'd be remiss if I just didn't say, overall, the book ex Crop is performing very well and in line with expectations. We are steadfast in how we manage and transfer the risk for all of our lines of business, and it's resulting in the fact that while the loss ratio year-over-year ticked up 8 points, the combined ratio only moved up 1.5, and it's well in line with what we've said all along. Mid-70s combined is what we're going to get, and it's our ability to manage the portfolio and add accretive lines of business to the mix that are driving these returns.

Meyer Shields

Okay, perfect. Then really quickly, I was hoping to get the new money yield of investments made in the third quarter.

Chris Uchida

Yes, we haven't given the specific, but we've said it's still well above that 5% mark that we've been putting out there, and it's nice to see the overall yield so far for the year being at 5.1%. It's still performing strong, and I don't think that's any different than other people that you're seeing in the marketplace.

Mac Armstrong

Yes.

Meyer Shields

Okay. Fantastic. Thank you.

Mac Armstrong

Thanks, Meyer.

Operator

Our next question comes from Pablo Singzon with JPMorgan. Your line is now live.

Pablo Singzon

Hi, good afternoon and good morning. Just wanted to follow up on that last point on reinsurance helping Crop performance. Recognizing 3Q is the heaviest quarter for Crop, do you think some of that trickles into 4Q?

Then, I'm not sure if it's a specific contract, but the reinsurance benefit that you're getting now, when does that reset, if you think about crop years and when you renew the reinsurance program there?

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Chris Uchida

Yes. The basics of it is that it would renew at January 1, but how we use it will really, call it, reset throughout the year as we look at what we write and then look at what we see. You don't actually have to pick all of that until later on in the year, and so overall, we feel like that is performing well.

Could that trend continue, what we saw in the third quarter, into the fourth quarter? Obviously, if we do our jobs right, I would hope that it would. We're not necessarily booking all that favorability, but we look at the trends and how it's performing and see how it'll go.

I would say that, similar to others, we haven't, let's call it, booked our full expectation for Crop yet. Let's say we're probably running closer to that 100-type combined ratio that other people talk about through the third quarter for the full year. We try and follow a similar playbook, but we do right now see a little bit of favorability coming, but we wouldn't want to book that expectation until we see how all the crops are harvested through October and November.

Mac Armstrong

Pablo, if I may, just to expand upon Chris's point, you have to recall there's two facets to risk transfer in Crop. First off is what we put into the assigned risk pools, and that is where we really think that we are differentiated and have the expertise. This is how we optimize the portfolio and ultimately optimize the returns, and I think, like Jon touched upon and what Chris was alluding to, we've done a very good job of that this year, and we expect to do a very good job of that next year, especially as we can leverage PLMR.Farm and our best-in-class reinsurance team. Then from there, you have the traditional quota share and stop loss that the rest of the market would have.

So I think it's the multifaceted use of reinsurance that's driving these returns and also the inherent expertise that we have in the assigned risk side of the business that's allowing us to excel.

Pablo Singzon

Thanks, both.

Then for my second question, when purchasing your XOL account for earthquake, you've historically bought more limit to match growth in your book, right? So as you think about '27, do you think the incremental limit purchase will be the same as in past years? I suppose the underlying question is, more or less, how do you think about the growth next year versus previous years, right, if you think about exposure and how you have to match it against reinsurance? Also recognize, right, if I'm thinking about earnings leverage, you probably don't get as much leverage at the high end of the tower, right? It's the retention you want to move. But on the margin, how are you thinking about limits, just given what's happening with growth in the primary earthquake market?

Mac Armstrong

Yes, Pablo, that's a good question. I think the operative term was—you used it—it's exposure.

Unfortunately, commercial pricing is down 20%. The exposure is not. As we prognosticate out to June of next year, we'll make assumptions on exposure growth. Obviously, the residential quake side, which is a very steady grower right now, high single digits, that is commensurate with the exposure, so we would be adding limit dollar for dollar, if you would, on the residential side. It's the commercial that's a little more variable, because you do have the pricing pressure, and we still are retaining 80% of those policies, as I gave an example in small commercial. So our exposure is dollar for dollar with those policies, but the rate has come down.

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It's too early to call. I think we'll still be buying more limit because the exposures will be growing.

Pablo Singzon

Makes sense. Thank you.

Mac Armstrong

Thank you, Pablo.

Operator

We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Mac Armstrong for closing comments.

Mac Armstrong

Thanks, Operator, and thanks to all on the call.

Our third quarter results reflect the strength of what really is a one-of-one portfolio and our steadfast commitment to profitable growth. As you can tell, we remain focused on delivering consistent earnings and capitalizing on opportunities across the board, and we think that we can sustain Palomar 2X.

I want to thank the entire Palomar team for their hard work and stellar execution this quarter. We look forward to updating our investors and analysts on our progress during the fourth quarter earnings call in February and also providing a deeper look into our business and long-term strategy at our third Investor Day in March of '27.

Thank you very much.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

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