



**First Quarter 2025
Earnings Call Transcript**

May 6, 2025

CORPORATE PARTICIPANTS

Christopher Uchida, *Chief Financial Officer*

Mac Armstrong, *Chairman and Chief Executive Officer*

Jon Christianson, *President*

CONFERENCE CALL PARTICIPANTS

David Motemaden, *Evercore ISI*

Mark Hughes, *Truist Securities*

Meyer Shields, *KBW*

Pablo Singzon, *JP Morgan*

Andrew Andersen, *Jefferies*

PRESENTATION

Operator

Good morning, and welcome to the Palomar Holdings, Inc. First Quarter 2025 Earnings Conference Call. During today's presentation, all parties will be in a listen only mode. Following the presentation the conference lines 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.

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 Web site through 11:59 p.m. Eastern Time on May 30, 2025.

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

Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with US 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.

I'm very pleased with our strong start to 2025 as our first quarter saw sustained gross written premium growth and record adjusted net income. The quarter featured 85% adjusted net income growth, a 69% adjusted combined ratio and a 27% adjusted ROE.

Our results demonstrate the continued execution of the Palomar 2X strategic imperative as well as concerted efforts to build a leading specialty insurance franchise with a resilient and diversified portfolio. Our 20% gross written premium growth was driven by both new products like Crop and Casualty as well as our balanced mix of residential and commercial property products. Importantly, our same store premium growth rate was 37%, demonstrating the strong underlying momentum that exists across our portfolio of specialty products.

Beyond our financial performance, we remain focused on executing 2025 strategic imperatives.

The first is "Integrate and Operate". During the quarter, we further monetized the investments made in 2024 and prior. These efforts were highlighted by the successful onboarding of our new teammates at First Indemnity of America. A key component to the long term surety strategy is the receipt of a T-listing and I'm pleased to report that FIA achieved this in the quarter. We also closed the previously announced acquisition of Advanced AgProtection on April 1 and began integrating their operations and talent into our Crop business.

The second imperative is "Build New Market Leaders Deliberately". The strong growth of the Casualty franchise in the quarter demonstrated traction on this initiative as we continue to deliver very strong growth while maintaining modest net line sizes. Our Crop franchise also showed solid growth in what is typically a lighter production quarter, supported by expanded geographic reach and new distribution channels.

The third imperative is "Remembering What We Like" and more importantly "What We Don't Like". Our commitment to a conservative and well defined risk appetite in the property market not only illustrates our focus on this initiative but also is delivering profitable growth. We are not chasing premium in volatile property segments like wildfire exposed homeowners or Commercial All Risk where our risk adjusted return targets are not achievable. Instead, we are increasing resource allocation to residential earthquake, Hawaii hurricane and residential builders risk products as market conditions shift.

The fourth imperative is “Continue to Generate Consistent Earnings” and the cornerstone of Palomar 2X. Beyond the record adjusted net income of \$51.3 million in the quarter, we beat earnings for the tenth straight time, a testament to the strength and increasing predictability of our earnings model. As market dynamics continue to shift, our diverse portfolio of residential and commercial products and disciplined capital allocation strategy enable us to maximize risk adjusted returns.

Before I offer commentary on our five product categories, I'd like to address global economic uncertainty and specifically our view of the impact of tariffs on our business. The insurance business is a defensive sector that is less impacted by tariffs than most other industries and Palomar is no different than its peers in that regard. However, we are vigilantly monitoring the prospective impact of tariffs across our portfolio and our exposure base. We recognize that elevated tariffs and the associated cost of materials will potentially increase severity across certain short tail property products in our book of business, both residential and commercial.

As it pertains to Crop, we continue to closely monitor prices of soybeans and corn relative to the 2025 Crop year prices set by the federal government in February. At current levels, there should be minimal disruption cost by the tariffs. Yield will and always will have a greater impact on the performance of the Crop book and as such, we continue to focus on yield and employing the risk transfer tools we have to color the risk associated with swings in yield and price. As it pertains to the Casualty book, our limited auto exposure, physical damage and liability alike, limits the exposure to tariffs. We believe our Casualty book is insulated.

A recession and an economic slowdown would have a greater impact on our product portfolio, property Casualty and Crop alike in the near term than that of tariffs. Slowdown will reduce exposures in multiple facets, such as project delays for homebuilders, reduced labor on construction projects and lower revenue at real estate brokerages, and thereby have a derivative effect on premium, premium retention and loss severity.

Consistent with our history, we will assess our book performance and incorporate the rev growth as it changes to loss cost and pricing for each line of business we write. But we take considerable solace in the diversity of our portfolio and the numerous vectors that will help sustain our profitable growth trajectory. This quarter, more than perhaps any other, demonstrated the value of the diversity of our portfolio. Beyond the five product categories and the numerous products embedded in them, our portfolio consists of a broad mix of admitted and E&S risks as well as residential, small commercial and large commercial accounts. As discussed in the past, this diversification affords us a unique ability to navigate the P&C market cycle.

Turning to the first quarter performance of our core earthquake franchise, we delivered strong results with gross written premium of 23% year-over-year. This growth underscores the strength of our well diversified earthquake portfolio across residential, small commercial and large commercial product offerings. In the first quarter, we wrote record new business in our residential segment, which comprises 57% of our in force earthquake premium. We continue to see stable policy retention and benefit from a 10% inflation guard that has not come under pressure despite the rising cost of homeowners insurance in California. Additionally, new carrier partnerships remain a nice source of new business.

The Palisades and Eaton wildfires along with smaller events like the recent earthquake in a remote part of San Diego, heightened awareness of natural disasters and the need for insurance, driving sustained demand for earthquake coverage. While we are seeing pressure in rate on commercial accounts, it is worth noting that our small commercial book, which constitutes approximately 14% of the earthquake book, remains more insulated from competition than large layered and shared accounts. Small commercial accounts saw rate decreases of approximately 5% in the quarter.

The large commercial market has experienced more pronounced softening and increased competition with rate decreases of 7.5% as new capacity enters a segment that has fewer barriers to entry than our

residential and small commercial earthquake businesses. We remain confident in achieving mid to high teens earthquake premium growth for the full year of 2025.

Our Inland Marine and Other Property category grew 29% year-over-year. Like the earthquake portfolio, we benefited from a well-diversified mix of residential and commercial lines, which enables us to adapt quickly to shifting market dynamics, particularly as large commercial property lines face increased competition. Also like our earthquake book, we saw strong contributions from our residential lines of business. Notably, Hawaiian hurricane grew 82% as Lailima was able to write new business and renew policies at rates 26% higher than last year.

Additionally, our high value builders risk book saw very strong growth as we expanded our geographic reach and leverage an attractive reinsurance structure that increased our capacity. Our small commercial focused builders risk products that ensure middle market regional homebuilders saw the technical rates stay flat year-over-year. The Excess National Property and E&S builders risk product teams are facing pricing pressure from increased competition and a softening market as those two products tend to participate in large layered and shared policies where there are new entrants or existing players looking to take more risk. Commercial All Risk is where the rate pressure is the greatest with most renewals down mid-teens. As such, we have all but exited that line and in turn meaningfully reduced our Continental hurricane PML.

Casualty gross written premium grew 113% year-over-year, driven by strong performance across general liability, E&S Casualty, real estate E&O and environmental liability. Recent investments in talent and systems have accelerated premium growth while enabling us to effectively scale and service the business. Under David Sapia's leadership, the E&S Casualty team is capitalizing on market dislocation and rising rates on average 11% while maintaining disciplined underwriting and low net limits.

In the quarter, the average net limit was \$913,000 after the utilization of quota share and factored data reinsurance. The environmental liability team continues to benefit from a consistent healthy rate dynamic with increases of approximately 5% as we add talent and expand the distribution network of the product. Our professional lines product saw rates plateau this quarter, but the growth opportunities are several, whether it is our successful expansion of real estate E&O beyond California or hiring seasoned underwriters to enhance our miscellaneous E&O practice. We are hiring exceptional professionals across the Casualty portfolio and are confident they will sustain our profitable growth.

We remain disciplined on attachment points, net lines and keep technical rate increases above loss costs. Surety, the newest addition to our Casualty portfolio is off to a promising start as we integrate FIA and establish our presence in the market. As I mentioned, on April 1, FIA secured a T-listing from the US Treasury. This will catalyze geographic expansion, the attraction of top talent and the use of our balance sheet to offer larger limits and retain more risk. We're off to a nice start in constructing the Surety franchise that will generate \$100 million of written premium over time. While contributions in 2025 will be modest, we see Surety as a meaningful long term growth opportunity.

Turning to our fronting business, premiums declined 43% year-over-year due to the ongoing headwind from Omaha National. This quarter represents the peak impact of the runoff of that partnership. This premium growth headwind will run its course by the end of the third quarter. Looking ahead, we will continue to add partners selectively, but fronting is not our highest strategic priority currently. On the other hand, our Crop franchise generated \$48 million of written premium during the first quarter, an increase of 25% year-over-year.

Given the seasonal nature of our products, the first quarter premium opportunities are limited and even more so in the second quarter when we expect to book less than 10% of our annual production. We are pleased to generate strong production while maintaining a balanced mix of business in the states we find

attractive. Additionally, we made considerable investments in talent during the quarter that will lead to strong production in the third and fourth quarters of 2025. We continue to expand the franchise, having added experienced teams in Illinois, Kansas and the Dakotas to further extend our geographic reach. Importantly, with the spring sales season behind us, we remain on track to meet or exceed our \$200 million full year target. Separately, the previously announced acquisition of Advanced AgProtection closed in April.

Bringing the Advanced Ag team in house allows us to accelerate and increase the Crop market opportunity as it provides scale to our business from a claims handling, servicing and sales and technology standpoint. This increased scale will also enable Palomar to recruit more top tier talent. Importantly, we now have the larger foundation to execute our plan of building an industry leading Crop business, which I believe will surpass \$500 million of premium in the intermediate future and \$1 billion of premium over the long term.

Turning to reinsurance. The first quarter was active across the organization with a particular focus on the core excess of loss program that incepts on June 1, 2025. ILS securities and cat bonds specifically are a key component of the core excess of loss program. We are pleased to secure \$525 million of earthquake limit through our sixth and largest Torrey Pines Re catastrophe bond issuance, seeding our \$425 million target and pricing at the lower end of the indicated range.

The cat bond pricing was approximately 15% down on a risk adjusted basis. Additionally, we placed a new Laulima excessive loss treaty effective June 1 for our Hawaii Hurricane business. This coverage was previously part of our core June 1 program, which now has over 95% earthquake only, creating a more attractive structure for reinsurers. The Hawaii treaty also priced at a level favorable to our projections. The successful placements of the cat bond and the Laulima treaty will position us to achieve, if not exceed, our original guidance level of flat to net 5%.

Beyond the core excess of loss program, we renewed our May 1 builders risk quota share treaty with increased capacity and improved economics, reflecting strong reinsurance support and confidence in our underwriting strategy. The added capacity enhances our ability to expand the builder's risk portfolio, pursue larger opportunities and strengthen broker relationships in a profitable segment. We also extended our April 1 Casualty quota share to October 1 to better align and increase optionality with our broader Casualty reinsurance program.

As we rapidly grow Palomar, we've continued investing in top talent across the organization. During the quarter, we made key hires in our underwriting claims, data and technology and actuarial departments. I'm pleased to highlight Tim O'Donovan, who joins us after over 20 years at Goldman Sachs as EVP of Investments. He will lead the management of our growing and maturing investment portfolio, elevating our strategy, sophistication and ultimately our investment income.

Highlighted at our March Investor Day, I remain humbled by the exceptional talent we have and are attracting. They amplify my confidence that Palomar is becoming an industry leading specialty insurer. On the heels of the strong start to the year, we are raising our full year 2025 adjusted net income guidance to a range of \$186 million to \$200 million from our previous range of \$180 million to \$192 million. The midpoint of our guidance implies an adjusted ROE of 23% and puts us in a position to double the adjusted net income of the 2022 Palomar 2X cohort in three years and moreover our 2023 2X cohort in an impressive two year timeframe.

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 referring to any per share figure, I'm referring to per diluted common shares calculated using the treasury stock methods. This methodology requires us to include common share equivalents, such as outstanding stock options during profitable periods and exclude them in periods where we incur a net loss.

For the first quarter 2025, our adjusted net income grew 85% to \$51.3 million or \$1.87 per share compared to adjusted net income of \$27.8 million or \$1.09 per share for the same quarter of 2024. Our first quarter adjusted underwriting income was \$51.6 million compared to \$29.2 million for the same quarter last year.

Our adjusted combined ratio was 68.5% for the first quarter compared to 73% in the first quarter of 2024. Excluding catastrophes, our adjusted combined ratio was 68.9% for the quarter compared to 69.8% last year. For the first quarter of 2025, our annualized adjusted return on equity was 27% compared to 22.9% for the same period last year.

As a reminder, we do not expect the capital raise in third quarter of 2024 to be fully deployed until the end of 2025. Our first quarter results continue to demonstrate our ability to achieve our Palomar 2X objective of doubling adjusted net income within an intermediate timeframe of three to five years while maintaining an ROE above 20%.

Gross written premiums for the first quarter were \$442.2 million, an increase of 20% compared to the prior year's first quarter, 37% growth when excluding run-off business. As previously mentioned, this run-off business will add a \$44 million headwind in the second quarter.

Additionally, the second quarter is only expected to have modest Crop written premium. Net earned premiums for the first quarter were \$164.1 million, an increase of 52% compared to the prior year's first quarter. Our ratio of net earned premiums as a percentage of gross earned premiums was 43.7% as compared to 35.6% in the first quarter of 2024 and compared sequentially to 39% in the fourth quarter of 2024.

The year-over-year increase in this ratio is reflective of improved excess of loss reinsurance and of higher growth rates of our non-fronting lines of business, including Earthquake, that cede less premium. With the timing of our core and excess of loss reinsurance program renewal and the majority of our Crop premiums written and earned during the third quarter, we continue to expect the third quarter to be the low point of our net earned premium ratio, increasing throughout the remainder of the reinsurance treaty year in a similar pattern to last year.

While we expect quarterly seasonality in our net earned premium ratio, we continue to expect net earned premium growth over a 12 month period of time. We expect our net earned premium ratio to be around 40% for the year. Losses and loss adjusted expenses for the first quarter were \$38.7 million comprised of \$39.2 million of non-catastrophe attritional losses offset by \$0.5 million of favorable development on prior year catastrophe events. The loss ratio for the quarter was 23.6% made up of an attritional loss ratio of 23.9% and a catastrophe loss ratio of negative 0.3%.

Additionally, the attritional results include \$3.9 million of favorable development primarily from our and Other Property business as we continue to hold conservative positions on our Casualty reserves. Our results reinforce our approach to the use of reinsurance and our conservative approach to reserving. For the year, we expect our loss ratio to be in the low 30s. Our acquisition expense as a percentage of gross earned premium for the first quarter was 12.3% compared to 10.5% in last year's first quarter and 10.9% in the fourth quarter of 2024.

This percentage increased as our book of business continues to diversify and aligns with higher net acquisition expense. For the year, we expect this ratio to be similar to last year around 11%. The ratio of other underwriting expenses including adjustment to gross earned premiums for the first quarter was 7.5% compared to 6.8% in the first quarter last year and compared to 7.2% in the fourth quarter of 2024.

As demonstrated by our hires over the last year and in the first quarter, we are committed to investing across our organization as we continue to grow profitably. As announced, we continue to invest in our Crop organization with the acquisition of Advanced AgProtection to begin in the second quarter. We expect long term scale on this ratio, although we may see periods of sequential flatness or increases due to investments in scaling the organization within our Palomar 2X framework. Based on the organizational investments made, I expect this ratio to increase in the second quarter and be higher for the year overall compared to last year.

We expect this ratio to be around 8% for the year. Our net investment income for the first quarter was \$12.1 million, an increase of 69.1% compared to the prior year's first quarter. The year-over-year increase was primarily due to higher yields on invested assets and a higher average balance of investments held due to cash generated from operations and the August 2024 capital raise.

Our yield in the first quarter was 4.6% compared to 4.2% in the first quarter last year. The average yield investments made in the first quarter continues to be above 5%. We continue to conservatively allocate our position to asset classes that generate attractive risk adjusted returns. At the end of the quarter, our net written premium to equity ratio was 0.91 to 1. Our stockholders' equity has reached \$790 million, a testament to consistent profitable growth and the capital rates.

I would like to make a brief comment on our business from a modeling perspective for the third quarter in addition to our expectations mentioned earlier in my remarks. The third quarter will continue to stand out based on our Crop participation increasing to 30%, Crops growth and seasonal earning pattern and the first full quarter of our excess of loss reinsurance placed June 1.

For the third quarter, we expect the following. We expect the highest gross earned and net earned premium dollars with the lowest net earned premium ratio. We expect the highest loss dollars and highest loss ratio. We expect our acquisition expense and adjusted other operating expense dollars to continue to be in line with growth expectations, but with the lowest gross earned premium ratio for the year. Overall, we expect the combined ratio to be in the mid to upper 70s including catastrophe losses, the apex of our combined ratio will be in the third quarter primarily due to Crop.

Turning to guidance. We are raising our full year 2025 adjusted net income guidance to a range of \$186 million to \$200 million from the previous range of \$180 million to \$190 million. Our guidance includes \$8 million to \$12 million of additional catastrophe losses as well as many cat losses that we have historically included in our guidance and reflects reinsurance savings realized to date but continues to assume that a core—excess of loss reinsurance treaty renews at a risk adjusted rate of flat to down 5% from the expiring 2024 treaty.

Lastly, not only does the midpoint of our guidance imply an adjusted ROE above 20% but it also puts us in a position to double our 2022 adjusted net income in three years and double our 2023 adjusted net income in just two years.

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 if you would like to remove your questions from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star key. One moment please, while we poll for questions.

The first question comes from the line of David Motemaden with Evercore ISI. Please go ahead.

David Motemaden

Hey, thanks. I had a question. Mac, I heard you talk about Torrey Pines renewed down 15%. I guess, is there any reason or I guess can you help us think through the flat to down 5% that you're assuming in your outlook? I guess what would push that down 15%? I know that's iOS and different than the 6/1 renewal. But it seems like that's a fairly strong indication that things might come in a little bit better than you guys have expected. Just hoping you could talk a little bit about that.

Mac Armstrong

It's a good one and obviously, it's something that we are acutely focused on. You're absolutely right. All placements to date have come in better than our forecast of flat to 5%. When we put the flat to 5%, we were still trying to assess the impact of the wildfires in Los Angeles on the global reinsurance market. What we've been able to execute has been superior to that flat to down 5%. As Chris mentioned, the guidance that we offered incorporates Capon being down 15%, Laulima being a little bit better than our projections, but then the rest of the core program being call it maybe 2.5% down at the midpoint or flat to down 5%. There's conservatism there.

I think we do feel very good about our ability to hit the low end of down 5%, but it's still a large quantum that needs to be placed. It's over \$2 billion of earthquake limit and then another call it a couple hundred million dollars of—another \$100 million of all perils limit. Long winded way of saying decent amount of conservatism in there. We do intend to put an update out following the closing of the placement around June 1 and we hope to outperform.

David Motemaden

Then maybe just a quick follow-up on that. Could you talk about the thought process around splitting out Laulima separately and renewing that one separately from the core June 1 program?

Mac Armstrong

I think it stems ultimately from our desire for Laulima to be a true standalone entity that we are the attorney in fact manager for, and where we are a true fee generator. While it's consolidated in the intermediate term, long term it will be an independent entity that again we serve as the attorney in fact manager for where we do orchestrate the reinsurance, and we're paid fees for the placement of the business and the administration of that business. It's just part of a broad long-term strategy to have Laulima be a true independent entity. It also helps that Hawaii is an uncorrelated diversifying apparel for catastrophe reinsurers. This actually gives reinsurers the ability to actually deploy more limit and not feel like they have to pick one versus the other.

David Motemaden

Got it that makes sense. Maybe if I could just sneak one more in just on the 23% earthquake growth. Just between residential sounds like that came in a bit better, which is encouraging. You mentioned the record new business and heightened awareness following the fires. I guess, I'm hoping maybe you could talk more

about both the residential side, what sort of growth you saw there as well as the commercial side, which sounds like that's sort of what's keeping you from expecting 20% premium growth there for the year? It sounds like that could be a drag that gets you to mid to high teens.

Mac Armstrong

Again, I think we feel very good about mid to high teens. The 23%, it actually was pretty close between the two, between our commercial and residential. It's just that in years past commercial was growing 40%, 50%, closer to 40%. What I would say is, we've always felt that having a balanced book of business between residential and commercial, but even if you go a level lower, residential small commercial and large commercial will allow us to navigate market cycles and lean into residential when it's opportune and in commercial when it's opportune.

This year, there is more pressure in kind of larger commercial layered and shared accounts where residential there is continued tailwinds whether it's the awareness, whether it's the CEA continuing to pull back coverage or they're participating in insurers, non-renewing their homeowners books or new partnerships that Jon Christianson and our team have put in place. I don't want to—commercial is a harder market but there's still opportunity for us to grow. The underlying unit level economics remain very compelling. If you compare commercial metrics like PML to premium and AL premium to where they were six years ago when we went public, it's meaningfully superior. It's a balanced book. Market conditions we should be able to play through and that's why we feel good about that kind of 20% growth. But Jon chime in.

Jon Christianson

One thing I'd add is particularly on the residential side, we had strong growth in the first quarter through partnerships, but we also had really strong growth in organic new business. Regular kind of day-to-day production was up meaningfully year-over-year and then both on the admitted and the E&S side of the residential franchise. It wasn't just one pocket of growth it was kind of across the board in all segments.

David Motemaden

Understood. Great, thanks for clarifying that.

Mac Armstrong

Thanks, Dave.

Operator

Thank you. Next question comes from the line of Mark Hughes with Truist Securities. Please go ahead.

Mark Hughes

Yes, thank you. In the past you had nice acceleration. When we think about the Casualty book, I know you're ramping up, you've got some new hires and the new leadership. How much of that acceleration might have been or how would you describe the underlying market growth, was it faster this quarter or was your ramp just more successful?

Mac Armstrong

Mark, I think I would say it was a little bit of both, right? If I deconstruct it, we have new underwriters that have distribution followings that have a held book of business that came on in the fourth quarter and in the first quarter. They were able to catalyze growth across the Casualty book, whether it was in real estate E&O, whether it was in environmental and certainly on the E&S Casualty side where David Sapia's brought on a handful of talent.

Because what that affords us is just breadth and coverage, the ability to service more policies, the ability to touch more distribution points. Then you have the fact that in the case of E&S Casualty, the market is a bit dislocated, right? For us going in and providing a buffer layer, short tight limit that's heavily reinsured, there's market need and appetite for that. If we can bring more underwriters into the—under the tent that can offer that product to a broader distribution footprint, we're going to grow. I think that's really what it was. It was new underwriters, new distribution, broadening our reach and broadening our service capabilities, and that's going to continue this year.

Mark Hughes

Chris, refresh me on the spread of Crop premium from 3Q to 4Q. I think you said 10% in Q2. I think you said \$50 million so far in Q1. Of the remainder, how does that spread between Q3 and Q4?

Christopher Uchida

I am going to talk about it a little bit more on an earned premium basis, and we did have a table in the Investor Day deck that kind of breaks us out. In that deck, we point out that, in the third quarter and fourth quarter, we expect about 65% to 75% of the earned premium in Q3. We expect about 15% to 25% of the earned premium in Q4. That Crop premium let's call it, that \$200 million that Mac talked about, is really weighted in the second half of the year, specifically—more specifically Q3.

That is going to have a very dynamic impact on our overall ratios when you look at them from a gross earned premium standpoint. The net earned premium ratio will probably be at the lowest point in the third quarter from that earned premium coming in. Similarly, our acquisition expense and other underwriting expense ratios will also be at their low point in that quarter. Overall, Crop is changing, call it, the seasonality of our model but it's not doing—or overall, it's helping our business when you look at it in a 12 month period of time. We are very happy with the way things look but it is going to have a decent impact on how those ratios look.

One other thing I would point out about the Crop business is when you look at our expenses, Mac talked about the fact that we did close the acquisition of Advanced Ag on April 1 of this year. That is going to add expenses in the second quarter without all the requisite revenue until the third quarter. The expense ratio will probably be a little bit higher in the second quarter as we talked about, probably averaging out around 8%, a little bit higher than where we finished last year. But some of that's going to come in a little heavier in Q2, really because now we've got all that staff on board and revenue is not really coming in until Q3. It's something I want to point out for people to think about in their models as well, that's a little bit different than it had been in the past as well. But overall, we are very happy with how things look and how things are going to play out throughout the year. But happy to give more color on Q3 and Q4 around Crop. I feel like we put a lot of good information out there, especially in the Investor Day deck. But if you have any other questions, happy to address them.

Mark Hughes

Then one final quick one, if I might, the commercial quake the layered and shared. Are you seeing competitors take bigger layers, just taking down bigger chunks of exposure or same sort of structure but just competition within the layers?

Mac Armstrong

I would say, it's more of that latter, Mark, where you're going to see just more competition, MGAs that have got capacity. That large layered and shared account, it's an easy market to enter if you have excess capital. We've seen that, in particular not to pick on them but from London markets and what they're doing on the traditional reinsurers who we have great relationships entering the DNF market, because it's a way for them to enter in a pretty expedient fashion.

It's increased competition. I think that's again why we like having the balanced book of business even within commercial, the small commercial accounts like we'll write the full limit and it's not going to be bid out. It's a circumstance where you can control the relationship a lot more meaningfully than layered and shared where you might be \$10 million part of \$100 million or \$15 million part of \$200 million.

It just gets back to a theme that we are going to reiterate. We like having multifaceted middle market small commercial business in the property franchise to complement the layered and shared and certainly complement the residential. That's for builders risk and that's for earthquake, yes, it's for property generally.

Mark Hughes

Appreciate it, thank you.

Mac Armstrong

Thank you.

Operator

Thank you. Next question comes from the line of Meyer Shields with KBW. Please go ahead.

Meyer Shields

Great, thanks so much. A couple of really small questions, I think. First, Mac, you talked about the Commercial All Risk program being essentially, I don't remember the exact word, but gone now. Is that a product that you're sort of keeping in the portfolio for if and when market conditions change, or should we assume that this is like other lines of business that you're not interested in?

Mac Armstrong

Yes, Meyer, I would say, it's a little bit of let's keep a toe in the water. We will have a modicum of that. From a premium standpoint, from a PML standpoint, you're less than \$20 million of \$250 million PML. When market conditions—if and when market conditions change, we could indeed go back into that market and take advantage of what will be healthier risk adjusted returns. For now, though, we are better suited focusing our property capital and our cat capital on quake or builders' risk, which I've said time and again has outperformed the all-risk market from a modeled to actual loss standpoint in multiple events or writing excess national property in non-cat exposed regions. We'll keep a toe in the water but it's definitely standing by and assessing.

Meyer Shields

Okay, great, that's helpful. Chris, when you talk about expenses for the Crop business coming in the second quarter, are those operating or acquisition expenses? I don't know how the MDA part fits?

Christopher Uchida

Yes, those are going to be looked more like operating expenses, right? Before when we modeled this, it was an acquisition expense that kind of lined up a little bit better with the revenue. We would have booked the earned premium in the third quarter, and we would have booked the acquisition expense in the third quarter. As we've gone out and bought that business and hired that team and brought them on as of the 4/1, there's a little bit more of, let's call it, an upfront cost associated with that business. As we write that business or most of that business is actually written in March.

That team is in place, claims adjusters, service personnel, everyone's there. We hired them on 4/1 where we won't really see that revenue until the third quarter. That will look like operating expenses. I expect, call it, the operating expense ratio to probably be the highest in the second quarter with just with that dynamic but really with that premium really being back ended and kind of bringing that ratio back down to, let's call it, 8%-ish, something similar. A little higher probably than last year but kind of 8%-ish for the year.

Meyer Shields

Okay, fantastic. Then finally, the Inland Marine Reserve Releases, for which accident years did that show up?

Christopher Uchida

We haven't specified which accident years but it kind of was spread out through the last few. If we felt like we have been reserving pretty conservatively, our actuaries indicated us such is that they were able to take those down. It was really, call it, E&S driven. It was the Inland Marine Builders Risk and then also that book is a little bit run off that Mac talked about that all risk book, those books from an attritional standpoint have both been performing very well.

Mac Armstrong

I think the other thing that I would add to that, Meyer, is A, they're shorter tail lines, right? Then secondly, we had not touched our mechanical loss pick on those on the—in the teeth of meaningful rate increases. All risk in 2023 and 2024, you were looking at 50% then 20% rate increases, and we haven't touched our loss pick. There should have been redundancies and there still is potentially in that book. Like Chris said, healthy amount of conservatism that was in the reserves that has come to fruition for us.

Operator

Thank you. A reminder to all the participants that you may press star and one to ask a question.

Next question comes from the line of Pablo Singzon with JP Morgan. Please go ahead.

Pablo Singzon

Hi, thank you for taking my question. The first one I have is maybe for Chris. It seems like the higher attritional loss ratio was mostly mix driven given the growth in Casualty. But maybe you could talk about pockets of your book where you did better or worse from an underwriting perspective or any discrete impacts as far as you think about or really just where you see the attritional loss ratio trending from here?

Christopher Uchida

I'm going to start with the latter part of your question. I talked about it a lot. You expect the attritional loss ratio to increase, let's call it, without prior period development right around 26% for the quarter. That feels pretty good for me when I think about Q2. When I think about Q3, I do expect it to be higher. I said something potentially getting close to 40% really from all or a significant portion of that Crop premium coming in. That Crop premium, as you guys know, does have a higher loss ratio than a lot of our business that probably trends closer to 80% than even some of our other attritional lines in the 65% to 60% range. That heavier weighted, let's call it, of earned premium and loss of premium coming in in the third quarter will push that loss ratio up in Q3. I do expect it to trend back down in Q4 from there with less of that Crop premium coming in. But overall for the year really thinking about that coming in right around, call it, the 30% mark, maybe below 30s when everything kind of plays out with—I always hope for some favorability, but we don't really plan for it. You saw a little bit of that this quarter so pushing that loss ratio to 23% from probably 26%.

Overall, when you look at the core pieces of our business, really nothing too exciting on a current year or current accident period standpoint. We're really pretty close to our picks in the Inland Marine Builders Risk, all risk and even on the Casualty lines, we're really looking close to our picks. Overall, we feel very good about our picks. We think they are conservative. We hope that there is room for releases in the future. But right now, nothing to really speak of that's call it distinctive to split our lines up or try and carve anything up, and we feel very good about our position and where we're sitting. One thing I would note, and I mentioned this in my prepared remarks that we really aren't touching our Casualty reserves at this stage. The only favorability that we're seeing in our loss ratio's coming around our property lines that are, as Mac mentioned, shorter tail.

Pablo Singzon

Okay, thanks for that Chris. Then second question maybe for Mac. Mac, you covered the current economic uncertainty in your remarks and yet you actually raised your earnings outlook modestly ex cat at least by our math. Maybe if you could speak about the potential pressure points of that outlook. It seems to me at least that premium growth could be a bigger issue than margins, and I'm not sure if you agree. But if it is growth, how much of the industry level headwinds do you think you can overcome by the fact that you're still in the build out phase for most of your business and whether in terms of new lines, geographies and so on?

Mac Armstrong

Yes, Pablo, thanks for the question. I think I get it and it's a good one in the sense that, yes, we feel very good about margin expansion and the conservatism in our model, whether it'd be the cat load relative to our win PML or some of the reinsurance assumptions on the core treaty versus what's been placed. We do feel comfortable though that we can sustain top line growth because of the numerous growth vectors we have, whether it'd be the Crop business, whether it'd be the Casualty business or even within Casualty, the nascent surety franchise we have.

The headwind is going to be commercial property. We talked about it, it's a competitive environment, rate pricing is down. But I come back to, and this will be a bit of a dead horse today, we also have a nice book of residential property business that is still growing, and we should expect to see that help balance the headwind on the commercial side. Seasonality aside and the run-off of that fronting deal, we think that there is a tremendous amount of growth that you'll see in 2025 and beyond, because we have so many different vectors. We'll play through the headwinds. From a long term perspective, we think that there's great growth processing still in our future.

Pablo Singzon

Thank you. Maybe I could squeeze in just a little one maybe for Chris. How much of the Inland Marine and property book has excess national areas, maybe the portion of the book where you're seeing the most pricing pressure? I just want to get a sense of your exposure there relative to what you're writing in builders risk and Hawaii hurricane et cetera ?

Christopher Uchida

Yes, I can start and then maybe Jon can add some color on that. But I think from our standpoint, the most pricing pressure in our view has probably come from the large commercial segment. I don't think there's—seeing some of the other commentary in the market, I feel like we're probably seeing the same type of pressure. But Jon, anything you would add to that?

Jon Christianson

I'd say on the topic of Hawaii hurricane, we still have rate flowing through that book in the first quarter and into the second quarter. I'd agree the personalized products that we have that are balancing out some of the pressure that we see on the commercial side are all very strong and don't see any kind of pressure there.

Mac Armstrong

But Pablo what I would offer you is that the excess national property and the large account builders risk they are meaning—they're not—they don't over-index the composition of the Inland Marine and Other Property. It really is balanced when you factor in the small account builders risk, the high value residential builders risk and then you add in flood to a lesser degree and certainly Hawaiian hurricane. It's not over-indexed by the large account sector.

Christopher Uchida

The other thing I'd add just again more so on the personal line side is the valuation increases that we're continuing to push through the book. We've talked in the past about inflation guards and our very conservative stance relative to the industry as to how we push values through. Those increased values translate into higher premiums and so that also helps facilitate growth.

Pablo Singzon

Thank you.

Operator

Thank you. Next question comes from the line of Andrew Andersen with Jefferies. Please go ahead.

Andrew Andersen

Just on fronting, I think you mentioned this quarter was the peak impact. I guess is \$50 million-ish kind of a good way to think about the next few quarters before maybe thinking of any additional activity here?

Christopher Uchida

Yes, I can give you the specifics. The Q1 number was about \$48 million. The Q2 number or headwind is about \$44 million. Then Q3, there is still call it, another \$30 million that was still written last year in Q3. Those are, call it, the fronting headwind vectors from this deal that we have running off, right? Aside from

that headwind, I would say there was still growth in the fronting sector but overall, that still is a decent headwind for the next two quarters.

Andrew Andersen

Okay. Then just on the \$200 million of Crop premium expectation. Is there any headwind or tailwind you're thinking about in terms of commodity pricing embedded within that?

Mac Armstrong

Yes, Andrew. The prices were set in February and commodity prices right now are within a couple percent of that. It's—I would say we're nonplus at these levels by the prices. As I mentioned in my remarks, we're much more focused on yields, and so far, it's encouraging. We are through the sales cycle, the spring sales cycle. Until the acreage reports are in hand, we won't truly know the premium, but as I mentioned, we feel very good about that \$200 million bogey we put out.

Andrew Andersen

Thanks. Just as a refresher, in terms of the loss ratio in 3Q for Crop, I guess, you would be booking at an average expectation with the actual result being embedded in 4Q? Is that a good way to think about the Crop portion?

Christopher Uchida

I think it's going to be a blended of both in the third quarter. There's going to be expectation plus results going through there. We will start seeing that in the third quarter. I think we'll have a lot more clarity in the fourth quarter. But I would not say it's just going to be a pure loss in Q3, actual results will inform how we book the third quarter.

Andrew Andersen

Thank you.

Operator

Thank you. As there are no further questions, ladies and gentlemen, we have reached the end of question-and-answer session.

I would now like to turn the floor over to Mac Armstrong for closing comments.

Mac Armstrong

Great. Thanks, Operator.

Thank you all for joining us today. The year is off to a strong start. Our core earthquake and Inland Marine business segments are performing well and they're successfully navigating the market and delivering solid growth. Our Casualty and Crop lines are poised to become industry leaders. We feel great about the 2025 guidance, and we think that there is a decent level of conservatism in those when you look at the expense flow for cats as well as what we are assuming from a reinsurance standpoint.

Ultimately, we are building a portfolio of industry leading specialty businesses that are going to provide consistent strong performance and resilience through industry cycles. What that will lead to is consistent

earnings and returns over time. We could not be more excited with what the opportunities that we see ahead of us.

I want to thank all of our team for the great efforts this quarter and thank them in advance for what they're going to do for the Company and our shareholders rest of this year. Thank you again and enjoy the rest of your day.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.