



**Third Quarter 2025
Earnings Call Transcript**

November 7, 2025

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

Chris Uchida, *Chief Financial Officer*

Mac Armstrong, *Chairman and Chief Executive Officer*

Jon Christianson, *Chief Underwriting Officer*

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

Paul Newsome, *Piper Sandler*

Andrew Andersen, *Jefferies*

Mark Hughes, *Truist*

Meyer Shields, *Keefe Bruyette & Woods*

Pablo Singzon, *JP Morgan*

PRESENTATION

Operator

Good morning and welcome to the Palomar Holdings, Incorporated Third Quarter 2025 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference line will be opened 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.

Chris Uchida

Thank you, Operator and good morning, everyone. We appreciate your participation in our Earnings Call.

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

As a reminder, a telephonic replay of this call will be available on the Investor Relations section of our website through 11:59 pm Eastern Time on November 14, 2025.

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 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 to 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.

Today I'm pleased to walk through our exceptional third quarter results. It was another outstanding quarter for Palomar, highlighted by record gross written premium, record adjusted net income, the twelfth consecutive earnings beat, and our fourth adjusted net income guidance increase in calendar 2025.

These results underscore the strength of our distinct franchise and the effectiveness of our disciplined underwriting, diversified portfolio, and consistent execution. We've intentionally constructed a portfolio of specialty products designed to perform through all parts of the insurance market cycle. Our portfolio consists of a unique mix of admitted and E&S, residential, and commercial property and casualty risks that provide balance and earnings consistency. Additionally, our newer businesses, like crop and surety, are scaling nicely and enhance the diversification of the book given their lack of correlation to the broader P&C market.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 <https://viaavid.com/>

Even with the increasing ballast of our book, we are not standing still. The Palomar team remains not only entrepreneurial but also steadfastly committed to profitable growth. We continue to strengthen our franchise, entering select specialty markets that offer compelling, risk-adjusted returns.

As part of this effort, last week we announced the acquisition of the Gray Casualty and Surety Company, a leading surety carrier with a strong national presence and an exceptional management team. This transaction meaningfully enhances Palomar's surety platform, bolstering our market position and complementing our existing operations. The acquisition immediately adds scale, and provides access to attractive markets such as Texas, Florida, and California. Gray only enhances the sustained execution of our Palomar 2X initiative of doubling adjusted net income over a three-to-five-year timeframe. We are thrilled to welcome the Gray team to Palomar.

Returning to the third quarter, we delivered another quarter of strong financial results, highlighted by 44% gross written premium growth and 70% adjusted net income growth. Our operating metrics were equally as strong, with an adjusted combined ratio of 75% and an adjusted return on equity of 26%, demonstrating the strength of our underwriting discipline and the earnings power of our model.

Our strong top line growth was not driven by a single line of business as all our product groups, save for fronting, experienced double-digits growth in the third quarter. The balance in our mix of business, commercial and personal lines products written on an admitted and excess and surplus basis allows us to navigate property and casualty market cyclicity deftly. The balanced book combined with the numerous growth vectors across all our lines of business allowed us to outperform industry growth and profitability benchmarks in the third quarter and embolden us to do so for the indefinite future.

Turning to our business segments, our Earthquake franchise is a great example of the balanced approach we take to constructing our portfolio. Our book of admitted and E&S residential and commercial earthquake products grew 11% year-over-year in the third quarter, a sequential improvement from the second quarter. Growth was driven by sound performance in the residential earthquake market as we continue to see healthy new business production and strong policy retention, a robust 88% for our residential earthquake business.

We continue to benefit from our 10% inflation guard which affords our residential earthquake book meaningful operating leverage in a softening property catastrophe reinsurance market. Additionally, we have a robust pipeline of high-quality residential earthquake partnerships that we believe will provide incremental growth as we move into 2026.

In our commercial earthquake business, the rate pressure experienced in the first half of the year persisted into the third quarter. During the quarter, the average commercial risk price decreased approximately 18% on a risk adjusted basis, with large commercial accounts seeing more pressure than small commercial risks.

Despite the rate pressure in the market, our commercial earthquake book grew during the third quarter which reflects the strength and breadth of our franchise. We do not believe the rate pressure in commercial earthquake will ease over the near term, but we still expect to see growth the remainder of the year in 2026. We expect that the earthquake book will experience single digit growth in the fourth quarter, although that is somewhat exacerbated by a one-time unearned premium transfer received in the fourth quarter of 2024.

Overall, we remain convicted in our long-term ability to profitably grow our earthquake business. The underlying profitability remains at a very healthy level with our earthquake average annual loss at a level considerably below that of 2023 and 2022. The stature of our residential earthquake book, which was 61% of the total earthquake book in the third quarter, combined with the expected further softening of the property cat reinsurance market will enable us to grow the net earned premium even if primary commercial rates decline in 2026. As we have said time and time again, we have purposefully built the Earthquake book of business to navigate any market cycle.

Our Inland Marine and Other Property category grew 50% year-over-year, which was a strong acceleration from the 28% growth in the second quarter. The quarter's performance was driven primarily by our admitted and residential property products, including but not limited to Hawaii Hurricane, E&S Flood and Admitted Builders Risk.

The Hawaii book grew close to 20% and Laulima has emerged as the second largest writer of standalone hurricane coverage in Hawaii. Our residential flood product, while still a modest contributor to premium today, has experienced strong, steady growth. We also believe our partnership with Neptune Flood will serve as a key catalyst, accelerating the product's growth over the next three years. The Neptune partnership commenced writing new business on October 1 and we are encouraged with the initial production which has been amplified by the temporary closure of the National Flood Insurance Program.

Our Builders Risk franchise continues to stand out, growing 53% in the quarter. Like our earthquake business, our suite of Builders Risk products includes commercial and residential products written on both admitted and E&S basis. Builders Risk is a national product with no geographical boundaries, and we are investing in talent where building activity remains robust. During the quarter, we added experienced underwriters in the high-growth markets of Boston and Dallas to sustain our growth and extend our reach.

Importantly, we are achieving this growth in our Inland Marine and Other Property group despite the challenging commercial property market that has impacted our Excess National Property and Commercial All Risk lines, again underscoring the value of our differentiated and balanced mix across residential and commercial, admitted and E&S products.

Our Casualty business delivered 170% year-over-year gross written premium growth, representing a nice sequential improvement from the 119% growth in the second quarter. We remain focused on segments of the casualty market where there is sustained rate adequacy. We are maintaining a disciplined approach to attachment points and net limits, leveraging quota share reinsurance to manage volatility and allow the portfolio to season appropriately. Through the third quarter, our average net line across Casualty remained below \$1 million, with our largest line of business, E&S Casualty, averaging roughly \$750,000.

In the quarter we saw strong performance from Excess and Primary General Casualty, which grew more than 110% year-over-year and our Environmental liability business that was up 119%. Real Estate E&O, which is our longest tenured casualty line, grew 65%. This quarter we also wrote our first Healthcare liability premiums providing capacity to a segment amid a hard market, with technical rate increases exceeding 20%.

Our casualty reserving philosophy also remains conservative and consistent. It is informed by ongoing analysis of loss emergence trends, attachment points, and portfolio composition. As we've discussed in prior quarters, we continue to carry more than 80% of our casualty reserves as IBNR, well above industry standards. Maintaining this conservative position reinforces the strength of our balance sheet and provides confidence in the durability and predictability of our future results.

Fronting premium declined 32% year-over-year, a function of the last quarter impact of the termination of the Omaha National partnership. Fourth quarter results will better reflect the underlying performance in the fronting business. We remain selective in choosing our counterparties and while we expect to add new partners in the coming quarters, fronting is not our highest strategic priority.

Our Crop franchise delivered \$120 million of gross written premium in the third quarter, doubling the \$60 million produced in the same period last year. This strong year-over-year growth puts us well ahead of pace to exceed our full-year guidance of \$200 million. Beyond the production during the quarter, we added talent focusing on the Kansas and Oklahoma markets that will help drive seasonal production in the first and fourth quarters of each year. These additions inform our revised premium expectation of \$230 million for 2025. We remain confident in building the business to \$500 million over the intermediate term.

Additionally, the crop market conditions have been favorable so far this season, with strong planting activity and growing conditions that appear to be better than historical averages. Based on what we are seeing today, we expect results to outperform the 15-year average industry loss ratio. These dynamics are an encouraging indicator for the remainder of the year.

The third quarter is generally not considered a major reinsurance renewal period; however, it was active for Palomar as we placed seven treaties. Importantly, all treaties renewed on terms equal to or better than expiring. We also had successful first-time placements for our new Flood and Healthcare liability programs. Market conditions remain conducive to reinsurance buyers and at this point we are confident that we will see further decreases in property cat treaty pricing.

Before I hand it over to Chris I wanted to provide a little more color on Gray Surety.

The \$300 million acquisition is expected to close in the first quarter of 2026, and it should be accretive to earnings in its first year incorporation into our organization. We intend to finance the transaction with a new term loan and excess cash on hand. Gray's terrific leadership team of Cullen Piske and Michael Pitre will continue to lead Gray Surety which we will rebrand as Palomar Surety. They will join forces with our team in New Jersey to build a top 30 national surety carrier. Adding Gray to our portfolio further diversifies our book and when combined with Crop results in approximately 15% of our premium base being not subject to property and casualty market cyclicity.

To conclude, I am very proud of our third quarter results and moreover the team that delivered them. We generated strong top and bottom-line results, a top-tier return on equity, and our twelfth consecutive earnings beat. We are raising our 2025 adjusted net income guidance to \$210 million to \$215 million from \$198 million to \$208 million, the midpoint implying an adjusted ROE of 24%. The revised guidance implies the achievement of the Palomar 2X tenant of doubling adjusted net income in an intermediate timeframe. In the case of our 2022 cohort, a three-year timeframe, and our 2023 cohort, two years. We continue to believe this is an attainable target for the foreseeable future.

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

Chris Uchida

Thank you, Mac.

Please note that during my portion, referring to any per share figure, I am 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 2025, our adjusted net income grew 70% to \$55.2 million, or \$2.01 per share, compared to adjusted net income of \$32.4 million, or \$1.23 per share for the same quarter of 2024.

Our third quarter adjusted underwriting income was \$56.7 million compared to \$31 million for the same quarter last year.

Our adjusted combined ratio was 74.8% for the third quarter of 2025 as compared to 77.1% for the year ago third quarter.

For the third quarter of 2025, our annualized adjusted return on equity was 25.6% compared to 21% for the same period last year.

As Mac discussed, our third quarter results continue to demonstrate our ability to achieve our Palomar 2X objectives 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 third quarter were \$597.2 million, an increase of 44% compared to the prior year's third quarter, or 56% growth when excluding runoff business. Looking at the fourth quarter, this headwind is now fully behind us.

Gross earned premiums for the third quarter were \$518.8 million, compared to \$395.9 million in last year's third quarter and sequentially to \$408.8 million in the second quarter of 2025. Year-over-year growth is driven by the overall performance of all lines of business while sequential growth is significantly influenced by the crop earning pattern.

Net earned premiums for the third quarter were \$225.1 million, an increase of 66% compared to the prior year's third quarter. Our ratio of net earned premiums as a percentage of gross earned premiums was 43.4% as compared to 34.3% in the third quarter of 2024 and compared sequentially to 44% in the second quarter of 2025.

With the timing of our core 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 expect net earned premium growth over a 12-month period of time. Our net earned premium ratio was 43.7% for the first three quarters of the year. Based on our performance through the first nine months of the year, we expect our net earned premium ratio to be in the low to mid 40s for the full year, a slight improvement from our view after the second quarter.

Losses and loss adjustment expenses for the third quarter were \$72.8 million, which were predominately attritional losses. The loss ratio for the quarter was 32.3%, comprised of an attritional loss ratio of 31.5% and a catastrophe loss ratio of 0.8%. Additionally, our third quarter results include \$6.1 million of favorable prior year development primarily from our short tail Inland Marine and Other Property business. We continue to hold conservative positions on our reserves. Favorable development is the result of our conservative approach to reserving up front, allowing us to release reserves later. Our year-to-date loss ratio was 27.7%. With the strong results so far, we expect our loss ratio to be around 30% for the year, slightly more favorable than after the second quarter.

Our acquisition expense as a percentage of gross earned premium for the third quarter was 10.8% compared to 10.5% in last year's third quarter and 12.6% in the second quarter of 2025. This percentage decreased sequentially from the higher gross earned premium for the quarter. Year-to-date acquisition expense ratio was 11.8%. For the year, we expect this ratio to be around 11% to 12%, in line with previous expectations.

The ratio of other underwriting expenses, including adjustments, to gross earned premiums for the third quarter was 7.9% compared to 5.9% in the third quarter last year and compared to 8.7% in the second quarter of 2025. As demonstrated by our hires over the last year and in the third quarter, we remain committed to investing across our organization as we continue to grow profitably.

As we have discussed on prior calls and today, we have continued to invest across our Company as we work to further expand our reach and drive profitable growth given the attractive risk adjusted returns that we continue to generate. We expect long-term scale in this ratio although we may see periods of sequential flatness or increases due to investments in scaling the organization within our Palomar 2X framework. Year-to-date this ratio was 8%, we continue to expect this ratio to be around 8% for the full year.

Our investment income for the third quarter was \$14.6 million, an increase of 55% compared to the prior year's third 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 third quarter was 4.7% compared to 4.6% in the third quarter last year. The average yield on investments made in the third quarter continues to be above 5%, accretive levels compared to the most maturing securities. We continue to conservatively allocate our positions to asset classes that generate attractive risk-adjusted returns.

During the quarter we repurchased approximately 308,000 shares for \$37.3 million under the \$150 million share repurchase authorization. At the end of the quarter, our net written premium to equity ratio was 1 to 1. Stockholders' equity has reached \$878 million, a testament to consistent profitable growth. Our strong capital position allows us to continue to profitably invest in and grow our lines of business and to acquire Gray Surety with a combination of debt and cash.

I would like to make some brief comments on our business from a modelling perspective in addition to the expectations mentioned earlier in my remarks.

As we previously indicated, the third quarter will continue to stand out from other quarters because of the crop book and its seasonal written and earning patterns in addition to the first full quarter of our excess of loss reinsurance placed June 1. Taking all of this into consideration and focusing on the dollars as we spoke about ratios earlier, we expect the third quarter of each year will have the highest gross written premium, gross earned premium, net earned premium, losses and acquisition expense.

Looking to 2026, our third quarter and full year 2025 results should provide a good framework to model our business.

Reflecting our strong operating results for the first nine months of the year, we are raising our full year 2025 adjusted net income guidance range to \$210 million to \$215 million. Importantly, the midpoint of our full year guidance range implies adjusted net income growth of greater than 59%, a full year adjusted ROE above 20%, and doubling our 2022 adjusted net income in three years and doubling our 2023 adjusted net income in just two years. Our Palomar 2X objective remain in focus and we plan on doubling adjusted net income every three to five years.

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

Operator

Thank you, and at this time we'll conduct our 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 that your line is in the question queue. You may press star, two if you would 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.

Your first question comes from Paul Newsome with Piper Sandler. Please state your question.

Paul Newsome

Good morning. Thanks for the call. Or afternoon, wherever you are. Was hoping you could talk a little bit more about the market opportunity in surety and maybe a little bit more specificity about (inaudible) may or may not be competing with in what is a really pretty broad class of business.

Mac Armstrong

Sure, Paul. Thanks for the question, and good morning, afternoon to you as well. We are really excited to bring Gray Surety into the organization. They are a very nice complement to what we have in New Jersey, which is Palomar Surety, the company known as First Indemnity of America. It's really writing contract surety, kind of mid-small limit bonds. On average, you're talking about bonds that are less than \$2 million.

The combination of the two affords us greater regional expanse. As I said in my prepared remarks, Gray Surety is very strong in kind of high-growth Sunbelt regions, Texas, Florida, California. FIA is the Northeast. Bringing them together gives us over \$100 million of enforced bonds and premium and writing a nationwide presence but really strong in like 15 markets.

I think the opportunity for us is to take this from approximately a top 30 surety on a combined basis to a top 20 in the not-so-distant future, and that's going to be driven by a few things. One, continuing to extend our reach. The Gray team has a terrific market entry model that's replicable where they understand what it takes from an underwriting investment and a system investment standpoint to enter into a market, the premium that must be generated to cover the cost and generate the requisite margin. So, we will do a lot of that. I think there's an opportunity to cross-sell distribution between the two entities in FIA and Gray Surety. Then, thirdly, our balance sheet will afford us more to do.

Putting us together, I'm going to have an entity that's approaching book value in excess of a billion dollars. And moreover, our intention is to have Palomar Specialty T-listed, which will give them the ability to write larger bonds and participate in larger T-listed bonds. Right now, the combined entity can do around a \$12 million T-list—it has a \$12 million T-listing approximately.

I think the combination of going deeper in existing markets, expanding into new markets, writing some larger limit business and then cross-selling distribution will allow us to get to that top 20 status. But, again, the footprint that we have, just once they come together, gives us a meaningful position in the market and really strong expertise helping us build a franchise that we think can be an even bigger leader.

Paul Newsome

Then for my second question, maybe you could talk as well about the potential future of the crop business. Obviously, this year has the effect of the acquisition. I don't think it's cropped as being a growth business in general, but it's also fairly competitive. I don't know if that's a business that can grow a lot organically, prospectively, and maybe it can. You can just direct us into where that may go as well.

Mac Armstrong

Yeah, so, well, I think, first off, I want to applaud our team, Benson Latham, John Sheets (phon), Jay Rushing and others for what they've done this year. This is our second full year of operation, but the first full year of where we've had that leadership team as well as AAP inside our four walls, so they are executing very well. And I think the strength of their execution has been A, leveraging their historical experience and relationships in the market. I mean, these are professionals that have been in the crop space for decades. And then, secondly, there's been their ability to attract talent.

I highlighted on the call some new additions that we brought in in the Oklahoma and Kansas market that's going to extend not only our geographic reach, but also our product offering, and allowing us to write more kind of off-season winter wheat-type business. Stuff that's written more in the fourth and first quarters of the year.

But, overarchingly, Paul, we do think we're going to continue to grow in crop. We've said that we plan on getting this to half a billion dollars in premium in the next several years, or the next couple of years. And then the ultimate goal is to get this to a billion dollars in premium. The way we're going to do it is really on service and technology. So, we're making the investments right now to get to half a billion dollars and to get to a billion dollars, and particularly on the technology side, while attracting best-in-class talent. So, this

is going to be a growth driver for us for the next few years, and we are very confident in our ability to execute.

Paul Newsome

Thank you. Appreciate the help. And let some other folks ask questions.

Mac Armstrong

Thanks, Paul.

Operator

Your next question comes from Andrew Andersen with Jefferies. Please state your question.

Andrew Andersen

Hey, good afternoon. Just on the net income guidance, I didn't hear anything about CAT. Is there anything embedded within that?

Chris Uchida

Yeah, no. So, we obviously have about 1.9 million of CATs in the quarter. From our viewpoint, you know, we do include many CATs in our loss-ratio expectations. Now, we've kind of updated to a little more favorable around 30% per year. In our view, that includes everything that we would expect to happen for the year. Knock on wood, there are no major CATs at the end of the year, or at the end of this quarter.

Andrew Andersen

Okay.

Mac Armstrong

Yeah...

Andrew Andersen

And on...

Mac Armstrong

No, go ahead.

Andrew Andersen

Sorry, go ahead. On commercial quake, yeah, I think it was down 20 in 2Q in terms of rate, down 18 this quarter. Do you think we're kind of past the peak deceleration of rate where maybe it will still be soft, minus 10, minus 5, but it's not going to get much worse from here? Or how are you kind of thinking about the next 12 months?

Mac Armstrong

Yeah, Andrew, it's a good question. And I do think we have seen a deceleration, but we are not hanging our hats on a reversal. So, I would say that you're going to continue to see a softening. But what I would like to point out is if you just look at the expanse of our earthquake book, residential quake now is 61% of

the book at the end of the third quarter. The area where we're seeing the most pressure from a rate standpoint is about a quarter of the book, and frankly is around 8% of our book in totality. So, we think we are very well hedged against softening rate on the primary side in commercial quake by the softening property cap reinsurance market, plus the inherent leverage that we have in residential quake.

So, yeah, I think you're going to continue to see large account pressure, probably not the degree that you saw in the second and third quarter, but we're not going to make a call that it's going to recede. But we will make the call that the health of our residential earthquake book and the softening property cap reinsurance market is going to allow us to grow both top gross written premium in '26 as well as have scale from a net earned premium perspective on the earthquake book perspective.

Andrew Andersen

Thank you.

Operator

Your next question comes from Mark Hughes with Truist Securities. Please state your question.

Mark Hughes

Yeah, thank you. Good afternoon. Chris, did I hear you properly? The ratio of net to gross should continue to increase. It should step up in the fourth quarter and then step up further in the first half of next year. Is that correct?

Chris Uchida

Yeah, that's the correct way to think about it. We think of the third quarter as our low point for the net earned premium ratio. A couple factors now, obviously before and currently it still has a lot of impact from the XoL and this being the first full quarter of any new XoL placement. Even though there was rate savings on that, we still buy for growth, so the dollar spend on that does increase to support that growth. And then now this year and a little bit last year, but obviously with the growth and crop this year, and that's still feeding 70% of that. We expect the net earned premium ratio to be at the low point in the third quarter of every year and then going up incrementally from there all the way until, call it, Q3 of next year.

Mark Hughes

Yeah, appreciate that. The impact from the Omaha National in 3Q, did you give that specifically? You mentioned that 4Q should show the underlying trend in fronting, and I'm just sort of curious what that underlying trend looks like at this point.

Chris Uchida

Yeah, no, so the third quarter, I want to say it was about \$30 million last year in our written premium, and so at this stage that, call it, headwind, has been pushed aside or beaten, I guess that's the right phrase for that.

Mac Armstrong

Run its course.

Mark Hughes

Yeah, you pushed the headwind. Mac, you had mentioned a pipeline of quake relationships. Is there some new developments there, or is that just an ongoing course of business?

Mac Armstrong

Yeah, Mark, and I'll let Jon Christianson chime in too. I would say it's an ongoing course of business. We have over 20 carrier partnerships for earthquakes, where we are their dedicated partner to providing earthquake, whether it's to satisfy mandatory obligations or to bundle it with other products. And sometimes they come over lumpy, sometimes they are a bit of a hunting license and they grow, and so we have seen good execution and good conversion from partnerships over the course of '25, but we also do have a pipeline.

But Jon, feel free to chime in.

Jon Christianson

Yeah, no, I agree with all that, and I'd add that we're always searching for new strategic opportunities, and what we're finding now is that because we have been known as a strong strategic partner for earthquake, we're also taking inbound inquiries from others that are looking to better address the earthquake exposure that they may have or add value to their customers by adding earthquake.

As Mac mentioned, some of the more higher profile household name type of partnerships that have come on over the last few years, they don't all come on at once in certain cases, and so as time has gone on and we've been working together for a longer period, we have seen increased traction with a number of large partners, and that's paid off so far this year.

Mac Armstrong

Yeah, so sometimes it can be a relationship where we are working with them in all states but California, and then California has opened up to us, or it's vice versa. We're the California partner, and then all of a sudden they think about us handling Pacific Northwestern, New Madrid. So, Jon and his team do an excellent job of chasing down these partnerships and then executing and implementing them, so we feel that '26 should provide one or two other new deals.

Mark Hughes

Thank you very much.

Mac Armstrong

Thanks, Mark.

Operator

Thank you, and a reminder to the audience, to ask a question at this time, press star, one on your telephone keypad. To remove yourself from the question queue, press star, two. Once again, to ask a question, press star, one.

Your next question comes from Meyer Shields with KBW. Please state your question.

Meyer Shields

Thanks. Chris, I can push a little more on the guidance. I'm trying to get a sense as the expectations for the underlying loss ratio, including reserve development, and excluding the major capacity losses so far this year. Can you help us think about that?

Chris Uchida

Yeah, so I think from our standpoint, when you look at the book of business and the maturity and the lines of business that are growing, whether it be crop, casualty, inland marine or other property, are growing at a very strong rate. Not to say that earthquake growth isn't still very good. But those lines that are growing at a higher rate do have attritional losses with them. So, overall, you know, earthquake still has a nice 0% loss ratio, but these other lines that are growing at a higher rate do have attritional losses with them.

I expect the loss ratio to continue to move up. I think the one thing that we were saying at the end of last quarter is that we expected our loss ratio to be about called low 30s for the year. I think now, based on some of the favorable results that we've seen so far, we expect that to kind of be around 30, so that could be plus or minus one or two points on either side of that. But overall, we feel a little bit more favorable about where we did before, but overall, nothing's really changed. We still expect it to move up. It's still moving up in line with those attritional results, but there's been no underlying unfavorability in any of the results.

It's kind of just a natural change in our book of business and portfolio and diversification that is having that loss ratio move up a little bit. But, again, like I said before, it's not jumping. It didn't jump from ten points like anyone was thinking before. But overall, we felt that it was going to just move up incrementally and kind of doing exactly what we expected.

Meyer Shields

Okay. That is very helpful. Can you talk a little bit more about the healthcare liability, I guess, book that you're writing? The specific question is whether there's like sexual abuse and molestation exclusions, but more broadly what you're looking for.

Mac Armstrong

Yeah, Meyer. So, we launched that 7-1 (phon). We hired a gentleman named Frank Castro, 30-year-plus underwriter, spent time at RLI, Access, and actually had worked as a risk manager for a large hospital system too. So great experience. Launched 7-1 with a nice reinsurance program. It's like we've done with other casualties, it's a walk before we run. Our gross limit's about \$5 million. Net limit's going to be inside of two.

His book, what we're targeting, is about 60% hospital liability, 25% managed care E&O, and then 15% kind of allied health. And his timing is good as it pertains to hospital liability because you are seeing the SME, or sexual molestation liability exclusions more frequently or sublimated. And as I mentioned on the call, again, the timing is good in the sense that there is a meaningful rate to be grabbed here. This is another example of the walk before you run, and it's also another example of a great underwriter overseeing a market that's a bit dislocated.

Meyer Shields

Okay, yeah. The timing certainly makes a lot of sense. And one last question, if I can. How should we think about the stickiness of flood policies that you're writing while the federal program is shut down?

Jon Christianson

Yeah, happy to take that, Meyer. This is Jon Christianson. I think what we found historically, both pre-shutdown and what we're seeing now is strong stickiness of policy renewals. I think more importantly in the last couple months we've seen a greater interest in new business and greater confidence in the private market delivering relative to the uncertainty around the NFIP. So, strong product, a great partner, strong distribution. I think as every day passes, there's greater validation and credibility in how the private market can deliver a better product than what has traditionally been in the market.

Meyer Shields

Okay, perfect. Thank you.

Mac Armstrong

Thanks, Meyer.

Operator

Your next question comes from Pablo Singzon with J.P. Morgan. Please state your question.

Pablo Singzon

Hi, thank you. The question of loss ratio deterioration versus accelerating premium growth always comes up for you, right? Because it's a changing mix and that's before thinking about things like reinterest pensions and seating commissions and the like, right? But just given your Palomar 2X aspiration of double earnings in three to five years, would it be fair to simplify the discussion here and assume that you're also planning for a similar growth trajectory in your net underwriting income, right? So, I don't know, something like 23% growth a year in the median term. Is that a fair way to think about your portfolio in a very simple way?

Mac Armstrong

It is, Pablo. Yeah, and thanks for bringing that up. I mean, I think we feel that—Chris has talked about it, that we have levers to pull from retentions and that's going to potentially amplify net earned premium growth over net premium growth and similarly on the investment side. But to answer your question simplistically, yes, I think that is an accurate way to categorize it.

Pablo Singzon

Okay, thanks. Then, second question, also, I guess on growth, Mac. So, clearly good growth you're experiencing right now. I'd be curious to hear at what point you think you'll have to reload, whether it's respecting new hires or even M&As you did with Gray, in order to sustain the current pace, as opposed to sort of past hires ramping up and growing in adjacent sides or sort of like low-hanging fruit that what you have now can achieve versus incremental hires or that stretching for M&A.

Mac Armstrong

Yeah, obviously, Gray was unique in that it was an acquisition. We've been really an organic growth story up until the last year or so, but I think Gray afforded us the ability to really kind of supercharge our entry into the surety market and give us the scale that we wanted. We said our goal was to get to \$100 million. Bringing Gray in the fold allows us to do it a lot quicker. But I think having Gray in, that's going to give us another organic growth vector, and that's because they can enter into new markets.

Pablo, I think we're going to continue to grow organically by investing in talent, expanding geographic reach, entering into adjacencies, and then we'll be opportunistic if there is some inorganic growth driver that allows us to bring in an expertise or a competence that we don't think we can build in-house as effectively.

I don't want to say that we're going to—well, definitely I want to say that we're not going to stop hiring talent that complements what we're doing or can help enhance our growth trajectory, because we will continue to do that. But I do want to say that all of our lines of business, earthquake included, have growth vectors. Some lines of business have headwinds in them, commercial property. But if you really peel it back, commercial property is less than 9% of our book. When you look at crop, casualty, now the surety franchise, the builder's risk franchise, residential, quake, there are growth vectors across the board.

So, 44% growth is very strong, and that's not going to be ad infinitum, but we remain very confident in our ability to achieve the Palomar 2X goals, and so that's going to have to come from growth rate and premium to some degree, and then the net earn premium, which you highlighted earlier. We just think that we are well-positioned to attain Palomar 2X and also just to grow organically.

Pablo Singzon

Okay, thank you.

Operator

Thank you. There are no further questions at this time, so I will turn the call over to Mac Armstrong for closing remarks.

Mac Armstrong

Thanks, Operator, and thank you all for joining the call today.

I am very proud of our third quarter results. They demonstrate the strength of our business and the diversity of our unique specialty insurance product portfolio. It's a balanced book of E&S and admitted residential and commercial property and casualty products that is being supplemented by the newer lines of business like crop and surety that are uncorrelated to the P&C cycle. So, we think we are very poised to deliver consistent growth, and we're confident in our plan to do so. The third quarter only gives us more conviction of what we have in front of us.

I'll conclude this with welcoming our new teammates at Gray Surety, and as always, I want to thank our employees for their commitment to Palomar. Thanks again and enjoy the rest of your day.

Operator

Thank you. All parties may now disconnect.