



**First Quarter 2026
Earnings Call Transcript**

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

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Mac Armstrong, *Chairman and Chief Executive Officer*

Jon Christianson, *President*

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Andrew Andersen, *Jefferies*

Peter Phipson, *Evercore ISI*

Mark Hughes, *Truist*

Meyer Shields, *Keefe Bruyette & Woods*

Pablo Singzon, *J.P. Morgan*

PRESENTATION

Operator

Good morning and welcome to Palomar Holdings, Inc. First Quarter 2026 Earnings Conference Call.

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

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 May 14, 2026.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about Management's future expectations, beliefs, estimates, plans, and prospects. Such statements are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from those indicated or implied by such statements. Such risks and other factors are set forth in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission. We do not undertake any duty to update such forward-looking statements. Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to their most comparable GAAP measure can be found in our earnings release.

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

Mac Armstrong

Thank you, Chris, and good morning, everyone.

I'm very pleased with our first quarter results as they reflect a strong start to the year and are another example of our team's ability to deliver consistent, profitable growth. Our results reinforce the durability of our model and the uniqueness of our one-of-one specialty product portfolio and its ability to generate compelling risk-adjusted returns.

Our book consists of a broad array of specialty products and is truly diverse. The following breakdown of Q1 in-force premium illustrates this diversity: A 57%-43% split between admitted and E&S premium; a 60%-40% split between Property, including Earthquake and Casualty premium; a 45%-55% split between residential and commercial property; and 19% of the Q1 premium are from lines not impacted by the traditional P&C market cycle.

Our differentiated portfolio is intentionally built to perform through any market cycle. We are well positioned to deploy capital toward more desirable opportunities while reducing exposure in areas where market conditions or loss trends are less favorable. Our strong first quarter results reflect this capability.

Looking closely at the quarter, gross written premium increased 42% year-over-year. Importantly, growth was broad-based across all five product categories, including Earthquake. Profitability and capital efficiency also remained strong, highlighted by adjusted net income growth of 23%, an adjusted combined ratio of 76%, and an adjusted return on equity of 27%. These results mark our 14th consecutive quarterly earnings beat, extending the track record of consistent performance in our business.

In recognition of our belief in the long-term opportunities we possess, our ability to execute the Palomar 2X strategic imperative, and what we feel is the depressed value of our shares, we repurchased 190,255 shares in the quarter. Furthermore, our Board authorized a new two-year \$200 million share repurchase program on May 6.

I'd like to briefly talk about the current market conditions in our business. The marketplace is constantly changing, and pricing varies significantly between different segments. In the property sector, competition remains strong, especially for larger commercial accounts where prices are still declining by double-digits. Our residential business lines continue to offer rate stability, balance, and diversification; notably, (audio interference) double-digit rate increases.

Casualty pricing varies, with some lines like health care liability, which has rates of 35%, experiencing strong increases, while other casualty lines, like cyber, face intense competition from new entrants or standard carriers returning to the market. We maintain disciplined underwriting practices and are prepared to non-renew accounts if pricing fails to align with our return requirements. Uncorrelated growth vectors in the Surety, Credit, and Crop space fortify this conviction. Overall, we believe our portfolio of specialty products (audio interference).

Turning to our Earthquake franchise, which is 58% residential and 63% admitted, we delivered 3% year over year gross written premium growth despite continued pressure in Commercial Earthquake. Pricing in Commercial Earthquake remains competitive, with rate decreasing approximately 18% on renewals and new business coming in at a higher average annual loss than the existing portfolio. We are pursuing opportunities outside peak zones and are willing to increase line sizes on high quality existing large accounts at renewal when returns are compelling. Importantly, we remain committed to underwriting discipline and are not willing to pursue premium at the expense of profitability, especially on new business.

Our Residential Earthquake business is performing well. As with our other admitted property products, market conditions remain favorable with steady new business production, stable rates, constructive engagement with the California Earthquake Authority and its participating insurers, and a healthy partnership pipeline. The ballast of this line of business is clearly seen in our stellar premium retention, which was approximately 97% on our flagship admitted product in the first quarter. Looking ahead, we remain confident in our Earthquake outlook and our ability to deliver growth as well as strong profitability for full year 2026.

In Inland Marine and Property, gross written premiums grew 47%, up from 30% in Q4. Like Earthquake, the balance of our specialty portfolio across residential and commercial lines, a 34-66% split, respectively, as well as admitted and E&S products, a 70%-30% split, respectively, is fueling the success of this line.

As it pertains to our commercial product suite, Builders Risk remains a key contributor with standout performance this quarter from our admitted portfolio. We are expanding our underwriting footprint, including the recent opening of an underwriting office in the Northeast. As well we are pleased with the progress of our newly launched Construction Engineering line. With strong reinsurance backing, new team members, and enhanced infrastructure, our first quarter results are performing well above our initial plan. As a reminder, this business also provides an entry point into the data center market, which we view as an exciting long-term growth opportunity.

The Excess National Property and large account E&S property lines face the most intense competitive pressure, with rate decreases remaining in a range of 12% to 15%.

Overall, our commercial property book is generating attractive risk-adjusted returns. Our seasoned underwriters are focused on retaining renewals and selectively writing new business.

Our residential property practice was led by the Hawaii Hurricane business. Laulima continues to perform well, benefitting from limited competition, strong rate adequacy, and embedded growth, which will be maintained by a recently approved 12.5% rate increase. We are encouraged by the progress of our Flood partnership with Neptune. The growth and improved spread of risk from Neptune allowed us to endure elevated flood activity in Hawaii. Fortunately, prior period catastrophe gains offset Flood losses, so our \$8 million to \$12 million annual catastrophe load was not subsumed by the catastrophe activity in the first quarter.

Turning to Casualty business, gross written premium increased approximately 55% year over year, reflecting slower sequential growth from the fourth quarter of 2025. Strong performing lines included Environmental Liability, primary General Liability and Contractors General Liability. Overall Casualty growth in the quarter was driven by geographic and distribution expansion, recently added underwriting talent getting to scale, rate increases, as well as the launch of a sports and entertainment General Liability program with a longstanding MGA partner.

Our MGA strategy is founded on forming partnerships with a carefully selected group of established market leaders in business lines where we possess internal expertise. This approach allows our programs to be effectively managed by and seamlessly integrated with our in-house underwriting teams.

As I mentioned earlier, conditions remain dynamic and increasingly nuanced in the Casualty space. We continue to see rate increases in Healthcare Liability, Primary Contractors General Liability, E&S Casualty, and Environmental Liability. That said, the rate increases are moderating in several lines due to increased competition from admitted carriers and new market entrants.

Since our entry into the market, we have actively managed limits, attachment points, and exposures, with a focus on lower net line sizes and avoiding more volatile classes with elevated severity risk. We are comfortable pulling back where underwriting conditions deteriorate. In addition, we maintain a conservative reserving philosophy, with more than 85% of Casualty reserves held as IBNR. The increased ceding commissions earned on our Casualty reinsurance renewals this year reinforce our confidence and validate the quality of underwriting and the portfolio. In an evolving market, we take confidence in the expertise of our Casualty underwriting team, who diligently manage our portfolio, maintain disciplined approaches to pricing and limit management, and rigorously apply clear walkaway criteria for each individual account.

Turning to Crop, we are off to a strong start for the year. Gross written premiums rose 82% year over year. Over the course of last year we added marketing, underwriting and claims professionals who focused on crop products and territories that are written in the first and fourth quarters of the year. The first quarter of 2026 benefited from this experienced talent who drove strong production in winter wheat and other off-cycle crop insurance products. Lastly, we are benefitting from strong sales of our enhanced coverage option products driven by higher demand resulting from increased subsidies under the One Big Beautiful Bill.

Commodity prices established in February remain generally in line with last year. We do not expect any meaningful impact from higher energy prices or tariffs. Current drought conditions put pressure on results in winter wheat in states such as Oklahoma and Kansas and PRF products in Mountain West and Plains states. That said, these results should be partially mitigated by our risk-sharing structure. Importantly, most of our retained exposure is tied to Midwest corn and soybeans, where planting is just beginning. Looking ahead, we now expect to deliver 35% growth versus the previously expressed level of 30%, a nice profitability in 2026.

Surety and Credit, our new product category, increased by 131% year over year. The segment includes our FIA and Gray Surety acquisitions, along with other Surety and Credit insurance we write on an assumed reinsurance basis. The integration of Gray, which is now rebranded as Palomar Casualty and Surety, is going well, providing a strong foundation to build a leading franchise. The Palomar Surety leadership team has acclimated well to our organization, and they continue to bolster their already strong team of underwriters with key hires in targeted expansion markets.

A key milestone Palomar Surety achieved this quarter was the receipt of a T-Listing authority for the group of more than \$72 million. This will create an exciting long-term opportunity to write more bonds on federal projects in the years to come. That level of authority will increase our relevance to a larger distribution channel and attract new talent. We now have a Surety platform with meaningful scale and geographic reach and a clear path to becoming a top 20 surety market in time. As previously mentioned, Surety and Credit alongside Crop further diversifies our earnings base and reduces volatility caused by the traditional P&C cycle.

In Reinsurance, we completed six placements—three Casualty and three Property treaties—all with better economics and successfully issued our latest Torrey Pines Re catastrophe bond. On the Property side we were able to secure incremental capacity for the Builders Risk, including Construction Engineering and Excess National Property lines of business. Besides the strong economics earned through the treaty, this added capacity further expands our ability to offer larger limits and opens new admitted market retail distribution channels in the case of Builders Risk. The Casualty quota shares renewed at higher ceding commissions while maintaining their expiring cession percentages. Again, a testament to the performance of these Casualty lines.

Last week we completed our seventh Torrey Pines Re catastrophe bond issuance, securing \$410 million of fully collateralized multi-year reinsurance protection for California Earthquake and for the first time a standalone Hawaii Hurricane. On a risk-adjusted basis, pricing was down approximately 15%, which is in line with the assumption at the higher end of our adjusted net income guidance range.

Before concluding, I want to touch on our organizational effort to leverage AI across Palomar. As a highly regulated and asset intensive business, we view AI not as a source of obsolescence but rather, and to the contrary, as an important tool to enhance efficiency, strengthen decision-making, and support our people. AI-enabled processes and tools are in use across departments such as underwriting, actuary and analytics, reinsurance, customer service and operations, technology, and claims. They are enhancing operational workflows, improving risk selection, accelerating system development times, and automating more clerical and perfunctory tasks. Our approach combines the use of innovative third-party tools with internally developed solutions, and these initiatives are already generating measurable gains. Advancing AI capabilities will remain a key strategic priority as we continue to scale the business.

In summary, we are confident in our strong start to 2026 and our ability to sustain profitable growth and attractive returns in this market or any for that matter. As a result, we are increasing our adjusted net income guidance from \$260 million to \$275 million to \$262 million to \$278 million. As an aside, this marks our eighth adjusted net income guidance increase since 2024.

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

Chris Uchida

Thank you, Mac.

Before I begin, please note that during my portion of the call, when referring to any per share figure, I 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 first quarter of 2026, our adjusted net income was \$63.1 million, or \$2.31 per share, compared to adjusted net income of \$51.3 million, or \$1.87 per share, in the first quarter of 2025. Representing adjusted net income and EPS growth of 23%.

Adjusted underwriting income for the first quarter was \$62.8 million, an increase of 22% compared to \$51.6 million in the prior quarter.

Our adjusted combined ratio was 76%, compared to 68.5% in the first quarter of 2025 and compared sequentially to 73.4% in the fourth quarter of 2025. The increase in the adjusted combined ratio was primarily driven by a higher loss ratio, offset by a slight lower adjusted expense ratio associated with growth and mix.

For the first quarter, our annualized adjusted return on equity was 26.6%, in line with our ROE reported last year. Our first quarter results continue to validate our ability to sustain profitable growth while maintaining returns well above our Palomar 2X threshold of 20%.

Gross written premiums for the first quarter increased 42% to \$629.8 million, as compared to the prior year's first quarter, further demonstrating the strong momentum that we have across our unique diversified specialty portfolio.

Looking at our key specialty insurance products, it is important to remember the seasonality of our Crop segment given the majority of the premium is written and earned in the third quarter of each year, with only modest premium in the second and fourth quarters. We will provide more information during the quarter on the expected impact of seasonality throughout our specialty portfolio.

Net earned premiums for the first quarter grew 59% year over year to \$261.4 million. As expected, our ratio of net earned premiums as a percentage of gross earned premiums increased to 51.9% in the first quarter, compared to 43.7% in the first quarter of 2025 and compared sequentially to 48.2% in the fourth quarter of 2025. The year-over-year increase in this ratio is reflective of our improved excess of loss reinsurance at the last renewal, growth of our lines of business that use quota share reinsurance, such as our Crop business where we retained more premium than previously as we continue to leverage our growing balance sheet, and the acquisition of Gray Surety.

With the timing of our core 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.

Losses and loss adjustment expenses for the first quarter increased to \$87.1 million, compared to \$38.7 million in the first quarter of 2025. Losses for the quarter were comprised of \$86.8 million of attritional losses and \$0.3 million of catastrophe losses. The total loss ratio for the quarter was 33.3%, compared to 23.6% in the first quarter of 2025 and compared sequentially to 30.4% in fourth quarter of 2025. In line with our expectations and guidance, the increase in the loss ratio was driven primarily by higher attritional losses associated with the growth in Casualty and Crop. Our losses for the quarter include \$3 million in catastrophe losses from the flooding event in Hawaii at the end of March.

Additionally, our first quarter results include \$10.3 million of favorable prior year development, \$7.6 million of attritional, and \$2.7 million of catastrophes. Favorable prior year development was primarily from our short tail Inland Marine and Other Property lines of business. As we have discussed previously, favorable development reflects our long-standing conservative approach to reserving. We continue to establish reserves with appropriate margin, which allows for modest releases over time as claims mature, particularly in our short tail lines. Similar to the favorable development we saw during 2025, this quarter is another good example of the conservative approach to reserving and where we are seeing continued reserve releases.

Our acquisition expense as a percentage of gross earned premiums for the first quarter was 14%, compared to 12.3% in the prior year quarter and compared sequentially to 13% in the fourth quarter of 2025. The increase was driven primarily by business mix, notably Surety, which has a higher acquisition expense and lower loss ratio, and increasing our retained business resulting in lower ceding commissions.

The ratio of other underwriting expenses including adjustments to gross earned premiums for the first quarter was 8.5%, compared to 7.5% in the first quarter of 2025 and compared sequentially to 8.1% in the fourth quarter of 2025. These results include two months of Gray's underwriting expenses.

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

Our net investment income for the first quarter was \$18 million, an increase of 49% compared to \$12.1 million in the prior year 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 our operations including the Gray acquisition.

Our yield in the first quarter was 4.9% compared to 4.6% in the first quarter last year. The average yield on investments made in the first quarter was over 5%.

At quarter end, cash and invested assets totaled approximately \$1.6 billion, and the weighted average duration of the fixed maturity portfolio was just over four years. At the end of the quarter, our net written premiums to equity ratio was approximately 1.1 to 1.

At March 31, 2026, stockholders' equity was \$959 million, reflecting continued earnings generation offset by shares repurchased and transaction fees incurred during the quarter. Our balance sheet remains strong and well positioned to support continued growth across the portfolio.

From a modeling perspective, we do not expect to see anything different from what we shared with you on the last call. Our 2025 full year net earned premium ratio was 44.9%, we expect that ratio to increase into the upper forties for 2026. On a gross-earned premium basis our full year 2025 acquisition expense ratio was 12.1% and our adjusted Other underwriting expense ratio was 8%, we expect slight improvements in both ratios for 2026.

Similar to last year, the acquisition expense ratio and the Other underwriting expense ratio will be higher in the first half of the year and lower in the second half of the year with the Crop earned premium influence. We expect our loss ratio, including catastrophes, to be in the mid to upper thirties for 2026. Our full year 2025 adjusted combined ratio was 72.7%, we expect our adjusted combined ratio for 2026 to be in the mid-seventies, as demonstrated in the first quarter. These expectations reflect our expected growth, business mix, integration of Gray Surety, and use of capital as we build our specialty insurance platform.

Turning to our 2026 adjusted net income guidance, we are increasing our full year guidance up to \$262 million to \$278 million. This range still includes \$8 million to \$12 million of catastrophe losses, in addition to mini catastrophes that we have historically included in our guidance. The midpoint of the range represents 25% year-over-year earnings growth, more than doubling 2024 adjusted net income in two years, and an ROE north of 20%.

Lastly, during the quarter, we repurchased 190,255 shares at a cost of \$23.1 million as our shares have continued to trade well below what we believe to be fair value. Through May 5, 2026, we have repurchased an additional 38,875 shares at a cost of \$4.2 million. Additionally, our Board of Directors authorized a new two-year \$200 million share repurchase program, replacing the previous plan, effective May 6, 2026. At recent valuations, we are buyers of our stock, especially for a company with an earnings CAGR of over

30% since 2023 through the midpoint of our 2026 guidance and who consistently beats the Street and raises guidance.

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

Operator

Thank you. With that, we are now entering 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'd like to remove yourself from the queue. For any participants using any speaker equipment, it may be necessary to pick up the handset before pressing star keys. One moment while we poll for questions.

Our first question comes from the line of Andrew Andersen with Jefferies LLC. Please proceed with your question.

Andrew Andersen

Hey, good morning. As Casualty pricing maybe moderates a bit here, how are you thinking about the interplay with retention decisions? And does a moderating price environment on long tail kind of slow the pace at which you're thinking about increasing the net retentions?

Mac Armstrong

Hey, Andrew, it's Mac. Yeah, it's a good question. And what I would say is, across the portfolio, the term we've used is it's nuanced. We are seeing rate increases hold, if not actually intensify in healthcare liability. And then in certain lines, E&S Casualty kind of in the low excess layers, it's moderating some.

As I mentioned in the call, we have had in the quarter a few Casualty quota shares renew, and they renewed at favorable economics. And we held the cessions flat. So, I think right now, especially as the books in many instances are still somewhat immature—one, two, three years of development experience—we are more inclined to kind of hold the retentions flat, so I think you should expect to see that.

The other thing I'd add is there are certain lines of business where rates aren't moderating but rather might be soft. And I think that's where we are actually taking a more proactive stance towards triaging. And an example of that would be a participatory front we have in cyber where we take a modest retention, call it less than 10%. That market—we have gone through and tried to push rate. We have changed liability requirements as well as increase sublimit utilization. But if that market's not going to take those, the market doesn't bear that, we are more than happy walking away from business.

So, long-winded answer, but I'd say, simply put, expect cessions to remain consistent where they are right now, but also expect to see us, in many instances, walk away from business and, in fact, prune books, too.

Andrew Andersen

Thank you. And then on Commercial Earthquake, I think I heard minus 18% price. That's a bit worse than where the fourth quarter was. How are you thinking about kind of the pricing pressure on the commercial quake line throughout the rest of the year and maybe kind of going all the way up to just total earthquake premium volume trends?

Mac Armstrong

Yeah, Andrew. Yeah, I would say it was maybe a bit worse. But if you really went into it, it's kind of account-specific, and we have, in the first quarter, probably a little bit more large commercial business renewing than we do small commercial, percentage-wise. Also, we did not see rate pressure in the first quarter of

2025, so this was really kind of the last quarter where you were renewing accounts for the first time in the soft commercial property market.

So, on the whole, we expect rate decreases to persist for the commercial quake market through '26, and we think that's going to be offset by the strong performance on the residential side that will allow us to grow Earthquake for the year.

I think the other thing that I would add is on the residential quake, we are seeing strong new business production. Just even in the start of this quarter, we had a record day that over the record in terms of the last 365 days. So, it's providing a nice anchor. We will benefit from reinsurance savings across the Earthquake portfolio, but because of the stability of the residential quake book, we expect to see margin expansion, and you'll see it increase as an overall percentage of the quake mix. Residential will be a growing percentage.

Andrew Andersen

Thank you.

Operator

Thank you. And our next question comes from the line of Peter Phipson with Evercore ISI. Please proceed with your question.

Peter Phipson

Hey. Good morning. Thanks for taking my question. My first one, on the Casualty book, you guys noted having 85% of the Casualty reserves in IBNR. I'm just wondering if you could talk about how this has changed over the accident years. I know you guys obviously noted expanding into geographies and a new product line, so it may not be a clean compare, but I'm just wondering if this has shifted around at all. Thanks.

Mac Armstrong

Well, I would say the IBNR, it's been north of 80% for basically since we've started our Casualty practice, and I think it probably ticked up slightly this quarter. So, as newer lines come on, and you used that example, like we have the new sports and entertainment general liability. That's going to be more than 87% IBNR in its first quarter. It's going to be about 100% IBNR. So, that might push it up some. But on the whole, IBNR is the—if not the totality, it's the strong lion's share of the reserve base. But Chris, I don't know if you want to offer anything there.

Chris Uchida

Yeah, no, I think obviously we've talked about this a lot, that we take a very conservative approach to reserving up front. That is shown in that metric where, as Mac mentioned, it has been improving. I think last quarter we were just above 80%, now we're above 85%. As Mac said, the majority of these losses or the reserve base is sitting in IBNR where we don't have claims in yet. We are taking a conservative approach where we are not reducing that reserve base, right? If anything, we are adding to it.

We've talked about this too, that we are going to react quickly to bad news where we take reserves up, but we are not going to release any of that reserves to offset that. You can see some of that where there was some slight unfavorable on the Casualty side, but overall, nothing that is causing any major concerns or large changes in the accident year expectations.

So, the book is performing well. We are seeing strong growth and it's still very profitable. As you can see through the overall combined ratio and the additional underwriting income that we are adding to the bottom line.

Mac Armstrong

And I think the only thing that I would add is just a reminder, the net reserves on the Casualty book are less than 19% of surplus.

Peter Phipson

Great, thanks so much for the detail. And then just as a follow-up to the earlier question on the quake growth. In your comments, you guys said you are expecting the commercial quake decreases to persist. I'm just wondering, in your outlook for quake, is that expecting them to maintain where they are or continue decelerating, declining like they were in the first quarter relative to last quarter? And sorry if I missed it, but could you potentially call out the growth in the Resi book and how that looked?

Mac Armstrong

The assumption that we are using is that the rate decreases will maintain at a similar level. So, think about it in the mid-high teens. We have not broken out the residential quake versus commercial quake, but you can kind of back into it when you know that rates are down, 15% on commercial, the Earthquake book grew 3% and residential quake is just under 60%. You are better at math than I am, Peter, but I think it speaks to it being close to double digits.

Peter Phipson

Great. Thank you so much.

Operator

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

Mark Hughes

Yeah, thank you. Chris, the amortization of the intangibles was about \$6.1 million this quarter. Is that going to be an ongoing line item? And where does it show up? Yeah, I will leave it at that. Is it ongoing? Where does it show up in the P&L?

Chris Uchida

Yeah, so the amortization of the intangibles will be ongoing based on the acquisitions that we have done over the last two years. There have been three acquisitions. Obviously, the largest of those acquisitions happened in the first quarter with the Gray Surety acquisition. So, there are intangibles with that book that we are amortizing.

I think as you guys probably follow insurance companies, you've heard of this thing called VOBA. I've heard about other companies calling that out. We do have some of that that we're amortizing. We are including, let's call it, the profit component of that in our add backs. So, you can see that going through. That is a large component of the differential between, let's call it, the straight gap combined ratio and what we're calling our adjusted combined ratio to kind of get you level set with a normalized year over year calculation of what that would be.

But yes, that amortization will be ongoing. The amortization portion is sitting in other adjusted underwriting expenses, and that's kind of where we would expect it to sit. Assuming no other acquisitions over the next couple of years, the dollar amount should decrease as some of the pieces of that are quicker to amortize. But overall, yes, we expect that to remain in there for, call it, the next 5 to 10 years as you look at those books of business that we were able to acquire.

Mark Hughes

Yeah. Appreciate that. And then, Mac, the Inland Marine, it sounds like you've got some good growth initiatives there. Generally speaking, how's the pricing, kind of the competitive dynamic more broadly with Inland Marine? And it's been a great contributor. What should we think about that going forward?

Mac Armstrong

Hey, Mark. Yeah, good question. I think, first and foremost, it has been a great contributor and you should expect it to be so on a go forward basis. When you break down what's in that book, around a third of that is residential business, so that would include Flood where we are getting rate on renewals. It would include Hawaii where we're getting rate on renewals. And then also even our Texas homeowners book where you've seen rate increases and stable performance. So, that's a nice anchor to offset what is really a fraction of the book that is seeing the rate pressure. And that is going to be layered and shared kind of large excess national property accounts, as well as E&S layered and shared builder's risk accounts.

The balance of the book, including—and I think it's worth highlighting the admitted builder's risk has very stable rates. It's also reaping the benefit of geographic expansion, new capacity from third party reinsurers, and then our growing balance sheet, which means we can take more net. So, that's going to really drive performance in addition to what you're seeing on the residential side. I would say it's the breadth of the portfolio, the mix of admitted and residential business, in addition to the growth that were made, from an infrastructural standpoint, is going to more than offset pressure we're seeing in a small segment of that book.

Mark Hughes

You had alluded to the potential to get involved in the data center line. Is that something you're not doing now but have visibility for that? And what's the timing there?

Mac Armstrong

Yeah, so thanks for asking that, Mark. We have alluded to it. I mentioned it in my prior remarks. We have hired Matt Tennyson (phon) and a team of underwriters in the construction engineering practice. And our approach right now with data centers is to write it more from a builder's risk standpoint than as a stabilized asset standpoint. We have put reinsurance in place, both the existing builder's risk plus FAC relationships or auto FAC relationships that allow us to write large limits on a gross basis. It obviously nets down pretty modestly with what we retain. I would say our data center focus right now is more builder's risk than it is on the stabilized asset side.

Jon Christianson

Yeah, and I'd add, Mark, to that. As we've talked in the past about how we have such a strong experience team of underwriters in that builder's risk segment that are geographically spread where the markets are opportune. In a similar fashion, Matt and the team that we have on the engineering construction side are also long-tenured underwriters that have great experience in larger types of projects.

Mark Hughes

Very good. Thank you.

Mac Armstrong

Thanks, Mark.

Operator

Thank you. And as a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. That is star, one.

And our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields

Great. Thanks so much. Mac, just one really basic question to start with. You mentioned drought as an issue for Crop. Is that something that impacted first quarter results? Or is that something that we should see based on what we know so far in the third quarter or the rest of the year?

Mac Armstrong

Yeah, Meyer. The drought would impact our winter wheat products, but it would ultimately manifest itself over the course of the year. But as I mentioned, those winter wheat products are heavily reinsured. And so, what's really going to drive the underwriting year results will be the Midwestern soybean and corn and wheat. On the whole, we're watching really Oklahoma and Kansas and its impact on the winter wheat. But the rest of the year, the rainfall seems to be kind of in line.

Meyer Shields

Okay, that's helpful. And you sort of alluded to, I guess, inflationary pressures, maybe something from the Middle East. And I'm hearing some concern specifically about fertilizer. And I was wondering how, I guess, the farmers that you're insuring are thinking about that and how we should think about any exposure there.

Jon Christianson

Yeah, hey Meyer, this is Jon Christianson. I can take that one. At this point, as we think about how the insurance product for crop responds, we do not see at this time for the growing season any kind of impact as may be a consequence of any kind of fertilizer disruption coming out of the Middle East. So, while it may impact the farmers across the globe, and on more of a long-term basis, as we think about the growing season in 2026, it has not emerged as an issue for us.

Mac Armstrong

Yeah, Meyer, I think the simplest way is like it may impact the cost to run the farm, but not necessarily the yields, which is what we're protecting against, or insuring against.

Meyer Shields

Yeah, I didn't know whether there was enough concern for yields to ultimately be impacted, but I think that's out there.

Mac Armstrong

No, not at this point.

Meyer Shields

Okay. And for the time being—well, at least the time being, I assume that the guidance update does not contemplate any change to reinsurance attachment points to June 1?

Mac Armstrong

Yes, Meyer, that's correct. Our guidance range is assumed 10% to 15% down. So, you could say the midpoint of the guidance range is—yeah, the high end of the guidance range, excuse me, rather would assume a 15% rate decrease. So, we have not made any changes to retentions in those assumptions.

Meyer Shields

Okay, perfect. Thanks so much.

Mac Armstrong

Thank you.

Operator

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

Mark Hughes

Yeah, this is just more for my own curiosity. If you're insuring yields and the farmers don't use as much fertilizer, does that have an impact? Or is it based on kind of broader industry aggregates when you're looking at yield performance?

Jon Christianson

Yeah, Mark, a lot of the fertilizer that goes into the '26 growing season had been secured by many of these farmers prior to a lot of the pressure that we've seen come on in the last month or two.

Mark Hughes

Is that a thing, though? I mean, is that something to consider as you're looking at underwriting? Is the potential for different usage of fertilizer?

Jon Christianson

On a long-term basis, that could be considered. As we look kind of on a year-to-year basis as we underwrite crop insurance, we don't see that emerging as an issue this year. You could have made a similar argument last year coming out of some of the tariff discussions on April 1. And ultimately, it was near record yields for the '25 growing season.

Mac Armstrong

But Mark, it also would be reflective in the commodity prices that would be reset next year. So, the commodity prices are set for this year based on the cost of fertilizer that John was referring to. The market is efficient, right? And if there is pressure on the cost of fertilizer and that's, in fact, on the cost to produce, that will be reflective in the commodity prices that will be reset in February, March of '27.

Mark Hughes

Very good. Thank you.

Operator

Thank you. And our next question comes from Pablo Singzon with J.P. Morgan. Please proceed with your question.

Pablo Singzon

Hi. Thank you. Did you change any of your initial loss picks in Casualty or Crop relative to last year or is it a year-on-year change in attritional purely mix?

Chris Uchida

Sorry, Pablo. Could you repeat that question? You kind of broke up there for us.

Pablo Singzon

Yep. Sorry. I was asking if you changed any of your initial loss picks in Casualty or Crop relative to the last year or is it a year-on-year change in attritional purely mix?

Chris Uchida

Yeah, no, that's a good question. No, at this stage, we have not changed any of our initial loss picks for our business. As we said earlier, we still remain very conservative on these lines of business, so we want to make sure that we kind of maintain those loss picks. As we look at our book, we obviously do evaluate how everything is performing and look at that. But at this stage, there's been no reason for us to change any of our overall loss picks on our attritional lines of business.

Pablo Singzon

Okay. And then the second question I had, it's about Resi Earthquake. Can you talk about the broad competitive environment there? Are you seeing or hearing about new competitors?

Mac Armstrong

Pablo, sorry, we lost you again. Apologies.

Pablo Singzon

Yep. Sorry about that. I was asking about the competitive environment for Residential Earthquake. Are you seeing or hearing about new competitors, and how do you think your offering is differentiated? Thanks.

Mac Armstrong

Yeah. Pablo, sorry, we've lost you, but I think we caught the gist of the question. We remain the market leader in Residential Earthquake outside of the California Earthquake Authority, and we remain a very collegial competitor with the California Earthquake Authority in bringing solutions to their participating insurers that need a more robust and comprehensive product offering.

So, a traditional competitor in the market is GeoVera. They remain a good competitor, but there has been plenty of opportunity for us to continue to drive growth, and the uniqueness of our product in terms of the flexibility in the coverages, the flexibility in deductible options, as well as your ability to bespoke your coverage and pay a price that you want to remains something that is distinct. And as I said, in the second

quarter, we had a record new business day, and our premium retention was 97%, so we think that we are in a good spot there.

Pablo Singzon

Thank you.

Operator

Thank you. With that, there are no further questions at this time. I'd like to turn the floor back to Mac Armstrong for any closing comments.

Mac Armstrong

All right. Thank you, Operator, and thank you to all the participants on the call this morning for their time. We greatly appreciate your support and interest.

Thank you to the Palomar team for your continued hard work and excellent execution. Our sustained strong results are a reflection of all you do to make us a market leader in the specialty insurance space.

Lastly, I do just want to reiterate the conviction we have in our plan and the results we will achieve, and as such, we will use the tools that we have to enhance our returns and take advantage of what we feel is an undervalued and underappreciated stock and story right now.

We look forward to sharing our success with you next quarter and those to come. Have a great day.

Operator

Thank you. With that, ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time and have a wonderful rest of your day.