

BEST'S RATING REPORT



Palomar Holdings, Inc.

Administrative Office: 7979 Ivanhoe Avenue, Suite 500, La Jolla, California 92037 United States

Domiciliary Address: 1209 Orange Street, Wilmington, Delaware 19801 United States

AMB #: 033566

NAIC #: N/A

FEIN#: 83-3972551

Phone:

Fax:

Website: N/A

Palomar Specialty Insurance Company

A-

Administrative Office: 7979 Ivanhoe Avenue, Suite 500, La Jolla, California 92037 United States

Domiciliary Address: 1050 S.W. 6th Avenue, Suite 1100, Oregon, 97204 United States

AMB #: 022031

NAIC #: 20338

FEIN#: 95-2379438

Phone: 619-567-5290

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Website: www.palomarspecialty.com



Best's Credit Rating Effective Date

April 30, 2020

Analytical Contacts

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Information

[Best's Credit Rating Methodology](#)
[Understanding Best's Credit Ratings](#)
[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Palomar Holdings, Inc.

AMB #: 033566 | **FEIN#:** 83-3972551

Ultimate Parent: AMB # 033566 - Palomar Holdings, Inc.

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)

A-
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a-
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Adequate
Business Profile	Limited
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: Palomar Holdings, Inc. | **AMB #:** 033566

AMB # **Rating Unit Members**
020907 Palomar Excess and Surplus Ins *
094465 Palomar Spec Reins Co BM Ltd

AMB # **Rating Unit Members**
022031 Palomar Specialty Insurance Co

Best's Credit Rating - for the Holding Company

Issuer Credit Rating (ICR)

bbb-	Outlook: Stable
Good	Action: Affirmed

* AMB# 020907 was added as a member of the Rating Unit on July 28, 2020

Rating Rationale – for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: **Very Strong**

- Palomar Holdings, Inc., maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR level.
- The group maintains sound balance sheet liquidity as current and overall liquidity ratios exceed its industry composite average.
- Loss reserve development has been favorable in all calendar and accident years, and reserve leverage is nominal and significantly lower than the industry composite average.
- Significantly dependent on catastrophe reinsurance coverage for surplus protection.

Operating Performance: **Adequate**

- Palomar Holdings, Inc., has produced solid operating earnings in recent years as the group ramped up new business writings.
- Operating earnings were tempered in 2016 and 2017 due to Hurricane Harvey and Texas wind/hail losses.
- The group transitioned its Texas homeowners book to a fronted program on June 1, 2018, in which no net risk was retained. The quota share was reduced to 80% of the group's retention effective June 1, 2019, with coverage for all homeowners business.
- Palomar produced net income of \$18.2 million in 2018, even with a full retention loss from Hurricane Florence. The group reported net income of \$10.6 million in 2019, despite significant one-time expenses related to its initial public offering. Excluding these one-time expenses, adjusted net income was \$37.9 million in 2019.

Business Profile: **Limited**

- Palomar Holdings, Inc., writes primarily California earthquake and Texas windstorm coverages.
- The group entered into a fronting agreement effective June 1, 2018, with all Texas windstorm business ceded to third-party reinsurers. As mentioned previously, the quota share was reduced to 80% of the group's retention effective June 1, 2019, with coverage expanded to include all homeowners business.
- Management has local market expertise in the California earthquake segment.
- The group has business concentration as primarily a California earthquake writer.
- Business partners include program administrators, wholesalers, retail agents and other insurance companies.

Enterprise Risk Management: **Appropriate**

- Palomar Holdings, Inc., employs a conservative risk management philosophy.
- The group has a formalized ERM framework that includes risk identification and reporting, risk appetite and tolerances, risk management and controls, stress testing and corporate governance.
- Palomar Holdings, Inc.'s risk profile is appropriately matched against its risk management capabilities.
- The group utilizes probabilistic modeling and deterministic modeling of historical events to determine the adequacy of its reinsurance coverage.
- Catastrophe and quota share reinsurance contracts help to mitigate Palomar Holdings, Inc.'s risk; however, there is significant tail risk as reflected in the BCAR at the 99.8% VaR level.

Outlook

- The stable outlooks reflect the group's balance sheet assessment of Very Strong, improved earnings in recent years and management's experience in the residential and commercial earthquake markets.

Rating Drivers

- The ratings and/or outlooks could be negatively impacted by unexpectedly large losses that would materially impact risk-adjusted capitalization.
- Deterioration in operating performance could result in negative rating pressure.

Rating Rationale - for the Holding Company

The rating of the holding company is determined by reference to the Issuer Credit Rating (ICR) of the operating insurance company members. It reflects consideration of holding company sources and uses of cash, the competing demands placed upon holding company resources and normal subordination of holding company creditors to claims of the policyholders of the operating insurance companies. In general, therefore, the holding company's Issuer Credit Rating is notched from those assigned to the operating companies of the rating unit.

Credit Analysis

Balance Sheet Strength

Palomar Holdings, Inc. has a balance sheet assessment categorized as very strong, as indicated by its Best's Capital Adequacy Ratio (BCAR), which is driven by moderate underwriting leverage, consistently favorable loss reserve development and a moderate investment risk profile. The primary offsetting factor is significant dependence on reinsurance and model risk, as a writer of catastrophe-exposed business.

Capitalization

Palomar Holdings, Inc. maintains favorable risk-adjusted capitalization as measured by its Best Capital Adequacy Ratio (BCAR), which comfortably supports its ratings. The company's capital position reflects its moderate net underwriting leverage and conservative investment risk profile, partially offset by significant reinsurance dependence and off balance sheet catastrophe exposure. The group's main driver of surplus appreciation was an initial public offering (IPO) in April 2019 and a subsequent \$40 million capital contribution to Palomar Specialty Insurance Company, retained earnings in recent years and a \$17.5 million surplus note net of a \$6.5 million return of capital and transaction costs. The surplus note at Palomar Specialty Insurance Company was paid off in 2018 from the proceeds of the issuance of \$20 million of senior debt at Palomar Insurance Holdings, Inc. The senior debt was paid off in 2019, following the completion of the IPO. Based on the company's business concentration in catastrophe-exposed lines of business and geographic locations, overall capitalization is susceptible to aggregate losses, primarily resulting from earthquake occurrences. The group effectively manages this exposure through its sophisticated catastrophe modeling techniques and a comprehensive catastrophe reinsurance program. Adjusted for earthquake exposure as depicted in a probable maximum loss (PML) analysis, overall capitalization remains supportive of its ratings.

Palomar Holdings, Inc.'s stockholders' equity increased to \$218.6 million at year-end 2019 from \$96.3 million at year-end 2018, a 127% increase. This was driven by \$87.4 million from the IPO, \$24.1 million in stock-based compensation, \$10.6 million in net income and a \$5.2 million change in net unrealized gains on investments, modestly offset by a \$5.1 million distribution to stockholders. Stockholders' equity increased to \$96.3 million at year-end 2018 from \$78.4 million at year-end 2017, a 23% increase, driven by \$18.2 million of net income.

Asset Liability Management - Investments

The group maintains a conservative loss reserve posture as demonstrated by consistent favorable loss reserve development since its inception. Loss and LAE reserves are allocated to the property, property reinsurance and homeowners lines of business. As nearly all writings are property business, the loss reserve tail is short as claims are closed quickly. As the group's primary line of business is residential and commercial earthquake coverage, which is a low frequency and high severity line of business, loss reserve leverage is nominal and significantly lower than the industry composite average.

Reserve Adequacy

The group maintains a conservative loss reserve posture as demonstrated by consistent favorable loss reserve development since its inception. Loss and LAE reserves are allocated to the property, property reinsurance and homeowners lines of business. As nearly all writings are property business, the loss reserve tail is short as claims are closed quickly. As the group's primary line of business is residential and commercial earthquake coverage, which is a low frequency and high severity line of business, loss reserve leverage is nominal and significantly lower than the industry composite average.

Holding Company Assessment

Palomar Holdings, Inc. (Delaware) is the ultimate parent and holding company of Palomar Specialty Insurance Company and Palomar Specialty Reinsurance Company Bermuda Ltd.

Balance Sheet Strength (Continued...)

In April 2019, Palomar Holdings, Inc. successfully completed its initial public offering listing the Company on the NASDAQ (ticker symbol: PLMR).

- 1) GC Palomar Investor LP (Cayman Islands) (AMB# 33565), the ultimate parent, was eliminated from the group's corporate structure.
- 2) GC Palomar Holdings (Cayman Islands) (AMB# 33566) became the ultimate parent, was redomesticated to Delaware and the company name was changed to Palomar Holdings, Inc.
- 3) Palomar Holdings, Inc. raised \$87.4 million of incremental capital.
- 4) Contributed \$40 million of capital to Palomar Specialty Insurance Company for future growth plans.
- 5) Repaid all outstanding debt. This included \$20 million of 10-Year Senior Notes that were issued in September 2018 by Palomar Insurance Holdings, Inc.
- 6) Palomar raised an additional \$35.4 million of incremental capital in the second follow-on in January 2020.

Consolidated risk-adjusted capitalization includes the results of Palomar Specialty Insurance Company (Statutory Filer) and Palomar Specialty Reinsurance Company (Bermuda GAAP Filer). The holding company's impact on the rating assessment is considered neutral.

Operating Performance

Palomar Holdings Inc.'s operating strategy is premised around limited fixed cost investment through the use of third-party outsourced vendors. Management has developed a business plan that incorporates controlled growth and considerable reinsurance to endure catastrophic events and capitalize on opportunities post-event. Management has considerable experience in the residential and commercial earthquake industry with combined tenure of over 40 years.

In 2019, the group reported net income of \$10.6 million, compared to \$18.2 million in 2018. However, on an adjusted basis, net income was \$37.9 million in 2019 compared to \$19.8 million in 2018. Net adjustments of \$27.2 million in 2019 were as follows: Stock-based compensation of \$24.1 million, IPO/secondary and tax restructure expenses of \$3.0 million, and debt extinguishment charges of \$1.3 million. Palomar's total loss ratio for YE 2019 of 5.6% compared favorably to its total loss ratio of 9.0% for YE 2018. The YE 2019 catastrophe loss ratio was 3.2% with event activity in Q3 and Q4 from the Ridgecrest Earthquake and named storms Barry, Dorian, Faxai, Hagibis and Imelda. The YE 2019 attritional loss ratio of 2.4% was in line with expectations, including favorable prior period development. Common sources of attritional loss activity in 2019 included pipe bursts/water leaks, non-hurricane weather events (straight-line winds, excessive rain, hail, etc.), equipment breakdown and fire. Lines of business that contribute to attritional loss activity include Commercial All Risk, Specialty Homeowners and Inland Marine. Palomar did not experience any catastrophe losses that threatened its \$5.0 million catastrophe excess of loss attachment. Certain catastrophe losses contributed to the loss ratio, but no single event accounted for a gross loss that exceeded \$1.0 million. Palomar experienced overall favorable development from 2018 Hurricanes Harvey and Florence (Overall: \$0.5M favorable; Harvey: \$1.1M adverse; Florence: \$1.6M favorable).

In 2018, the group has produced strong operating performance with net income of \$18.2 million, even with a full retention loss from Hurricane Florence. Effective June 1, 2018, the group transitioned its Texas Homeowners book to a fronted program in which no net risk was retained. All Texas Homeowners exposure was laid off to a third-party reinsurer. The Texas Homeowners book produced strong results for the first five months of 2018, while the group was still on the risk. Hurricane Florence accounted for net incurred losses of \$5.0 million, which added 7.6 points to the group's combined ratio. Homeowners and All Risk programs reported improved loss ratios. The Flood program was the only line of business that had a deterioration in loss ratio, driven by a single shock loss from the Montecito mudslides.

Despite the impact of wind/hail and Hurricane Harvey losses on Texas results, the group produced solid operating earnings in 2017 and 2016. The majority of the group's earnings were driven by Palomar Specialty Reinsurance Company, which did not assume any Texas risk on its quota share contract with Palomar Specialty Insurance Company.

In 2015 and 2014, the group's operating results were impacted by start-up expenses and staffing earlier than budgeted to support the growth in premium writings. In 2016, the group's operating results were adversely impacted by extraordinary Texas wind/hail losses with \$9.0 million of gross incurred losses and \$7.2 million of net incurred losses with a combined ratio impact of 7.8 points. In 2017, the group's operating results were adversely impacted by Hurricane Harvey and Texas wind/hail losses with \$31.3 million of gross incurred losses and \$11.4 million of net incurred losses with a combined ratio impact of 22.2 points. Hurricane Harvey accounted for \$24.1 million of gross incurred losses and \$6.5 million of net incurred losses with a combined ratio impact of 12.6 points.

Operating Performance (Continued...)

Effective 7/1/2019, PSIC received approval from the Oregon Division of Financial Regulation to suspend the quota share and reverse unearned premium transactions. On January 1, 2018, Palomar Specialty Insurance Company increased its earthquake quota share cessions to Palomar Specialty Reinsurance Company to 50.0% from 0% and included residential Hawaii Hurricane in the quota share, pending regulatory approval. On September 1, 2017, Palomar Specialty Insurance Company reduced its earthquake quota share cessions to Palomar Specialty Reinsurance Company to 0% from 26.5%. On January 1, 2017, Palomar Specialty Insurance Company reduced its earthquake quota share cessions to Palomar Specialty Reinsurance Company to 26.5% from 35.0%. On January 1, 2016, Palomar Specialty Insurance Company began its earthquake quota share cessions to Palomar Specialty Reinsurance Company of 35.0%.

Business Profile

Palomar Holdings, Inc. is comprised of Palomar Special Insurance Company (PSIC) and Palomar Specialty Reinsurance Company Bermuda Ltd. (Palomar Re). PSIC, a California based property and casualty insurer, writes all of the group's business and cedes a portion of it to Palomar Re via a quota share reinsurance contract. Palomar Re became registered in Bermuda as a Class 3A Insurer on October 21, 2014. Palomar Re was established to create a captive reinsurer for PSIC to allow for efficient growth of capital. The group's primary lines of business include Residential Earthquake, Commercial Earthquake, Specialty Homeowners, Commercial All Risk, Hawaii Hurricane and Residential Flood.

In early 2014, Palomar Holdings, Inc. began focusing on underwriting residential and commercial earthquake business in California and other earthquake exposed states in the Western United States. The group is now licensed in 27 states. The group has worked with several key partners that allowed it to ramp up its business writings. These partners include program administrators, wholesalers and other insurance companies. In the residential market, the group has developed and aggressively marketed a new product that offers certain enhancements to existing market offerings (sub-limits, deductibles, customizable coverage limits, and a highly granular rating algorithm); provide supplemental market to leading Program Administrators (PA) in certain geographies as well as replacement for certain carriers; develop a high-value home offering; partnership with other residential property writers to offer earthquake companion policy; acquisition of EQ portfolios of residential property insurers; and appointment of selected residential distribution partners where the group's management has relationships.

In the commercial market, the group will participate and take share by implementing a pure-play small commercial program focusing on wholesalers that write business with TIVs less than \$20.0 million; participate in the PA DIC (difference in condition) program for larger limit shared and layered business up to \$20 million per risk; look to acquire books of business from carriers; and appoint select commercial distribution partners that offer the ability to write larger limits and where the group's management has relationships.

Palomar Holdings, Inc. also offers two product categories that offer diversifying complements to earthquake business, Texas hurricane-exposed (wind) multi-peril and Hawaii Hurricane. The Texas Homeowners book was transitioned to a fronted program effective June 1, 2018, with the group not retaining any of the risk. The quota share was reduced to 80% of the group's retention effective June 1, 2019, with coverage expanded to cover all homeowners business. The group also writes Residential Flood business in 11 states. New products introduced in 2019 include inland marine, assumed reinsurance and commercial flood.

Enterprise Risk Management

The group utilizes quota share excess of loss and catastrophe reinsurance to protect against large single and aggregate losses. The bulk of the catastrophe program is placed on a multi-year basis ensuring stability and continuity of coverage. Further differentiators include prepaid reinstatements that limit the company's net loss to its retention, an adjustment collar to provide greater cost certainty, Section B coverage offers per risk protection for isolated events, multiple anniversary dates each calendar year offering greater flexibility, fully integrated ILS coverage through Torrey Pines Re catastrophe bonds, cascading layers above the catastrophe bonds to provide drop-down second event coverage, and single shot earthquake only buy-down layers.

Management is aware of TVAR exposure and monitors tail events and limits exposure accumulations in areas designated as high risk in terms of vulnerability. Conservative reinsurance strategy imposed to preserve capital and buy to the 1/250-year total all perils gross PML. Catastrophe and quota share reinsurance contracts help to mitigate Palomar Holdings, Inc.'s risk; however, there is significant tail risk as reflected in the BCAR at the 99.8% VaR level. The mitigating factors to this tail risk are as follows: both the 1906 San Francisco Earthquake and the 1994 Northridge Earthquake would result in net losses well contained within the reinsurance program.

Additionally, Palomar Holdings, Inc. intends to underwrite and manage its portfolio beyond the results of the model and hedge against "model miss" through the quarterly multi-model portfolio processing and the following manual underwriting tools:

- manual zone risk concentration management and exposure caps
- geographic diversification

Enterprise Risk Management (Continued...)

- spread of risk between commercial and residential risks
- conservative limit management

Reinsurance Summary

The group maintains a fully integrated all peril catastrophe per occurrence excess of loss reinsurance program comprised of three towers: (1) Inuring California Earthquake Layer representing \$70 million excess of \$5 million, single shot coverage. (2) Core Tower representing fourteen layers including three Catastrophe Bond Classes A through C with a retention of \$5 million. (3) Specialty Homeowners Facility Catastrophe Excess of Loss Coverage, which carves out the group's coastal homeowners business and provides \$117 million excess of \$3 million in coverage; the group retains a 20% proportional share of the \$3 million retention. In total, between the inuring California Earthquake layer and the Core Tower, the group maintains coverage up to \$1.125 billion for earthquake events outside California and up to \$1.195 billion for earthquake events in the state of California. The group also utilizes a separate Quota Share for its Residential Flood business with a 30% retention and an Attritional Quota Share and Property Per Risk program for Non-Named Storm claims from its All Risk portfolio. The group's principal reinsurers include Lloyd's of London, Torrey Pines Re, Renaissance Re, Axis Specialty, Lancashire Insurance Company, Fidelis Insurance Holdings, Houston Casualty Company and Swiss Reinsurance Company.

Financial Statements

	12/31/2019		12/31/2018
	USD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	33,349	8.4	9,924
Bonds	217,151	54.9	122,220
Equity Securities	22,328	5.6	25,171
Total Cash and Invested Assets	272,828	69.0	157,315
Reinsurers' Share of Reserves	39,057	9.9	30,180
Debtors / Amounts Receivable	40,540	10.2	21,299
Other Assets	43,037	10.9	22,340
Total Assets	395,462	100.0	231,134
Gross Technical Reserves:			
Unearned Premiums	130,373	33.0	79,130
Non-Life Reserves	16,821	4.2	16,061
Total Gross Technical Reserves	147,194	37.2	95,191
Debt / Borrowings			
Other Liabilities	29,712	7.5	20,572
Total Liabilities	176,906	44.7	134,842
Capital Stock	2	...	2
Paid-in Capital	180,012	45.5	68,498
Retained Earnings	33,856	8.6	28,355
Other Capital and Surplus	4,686	1.2	-563
Total Capital and Surplus	218,556	55.3	96,292
Total Liabilities, Mezzanine Items and Surplus	395,462	100.0	231,134

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1 = 1 US Dollar (USD)

Palomar Holdings, Inc.

Operations

Domiciled: Delaware, United States

Business Type: Property/Casualty

Last Update

April 30, 2020

Identifiers

AMB #: 033566

FEIN #: 83-3972551

Contact Information

Administrative Office:
7979 Ivanhoe Avenue, Suite 500,
La Jolla, California 92037
United States

Domiciliary Address:
1209 Orange Street, Wilmington,
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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: [033566 - Palomar Holdings, Inc.](#)

Refer to the [Best's Credit Report for AMB# 033566 - Palomar Holdings, Inc.](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

AMB#	Rating Unit Members	Best's Credit Ratings	
		Financial Strength Rating	Long-Term Issuer Credit Rating
020907	Palomar Excess and Surplus Ins	A-	a-
094465	Palomar Spec Reins Co BM Ltd	A-	a-
022031	Palomar Specialty Insurance Co	A-	a-

Best's Credit Rating History

AM Best has assigned ratings on this company since 2019. In our opinion, the company has a Good ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Long-Term Issuer Credit Ratings			
Effective Date	Rating	Outlook	Action
Current -			
Apr 30, 2020	bbb-	Stable	Affirmed
Apr 18, 2019	bbb-	Stable	Assigned

Last Update

September 29, 2020

Identifiers**AMB #:** 022031**NAIC #:** 20338**FEIN #:** 95-2379438**Contact Information****Administrative Office:**7979 Ivanhoe Avenue, Suite 500,
La Jolla, California 92037
United States**Domiciliary Address:**1050 S.W. 6th Avenue, Suite 1100,
Portland, Oregon 97204
United States**Web:** www.palomarspecialty.com**Phone:** +1-619-567-5290**Fax:** +1-619-567-6954**Financial Data Presented**

The financial data in this report reflects the most current data available at the time the report was printed.

Palomar Specialty Insurance Company

Operations

Date Incorporated: February 14, 1963 | **Date Commenced:** March 01, 1963**Domiciled:** Oregon, United States**Licensed:** (Current since 11/22/2019). The company is licensed in AL, AK, AZ, AR, CA, CT, GA, HI, IL, IN, KS, KY, LA, MS, MO, NV, NJ, NC, OK, OR, PA, SC, TN, TX, UT and WA.**Business Type:** Property/Casualty**Organization Type:** Stock**Marketing Type:** Broker**Financial Size:** IX (\$250 Million to \$500 Million)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: [033566 - Palomar Holdings, Inc.](#)

Palomar Specialty Insurance Company is a member of Palomar Holdings, Inc. (AMB# 033566). Palomar Specialty Insurance Company is the lead member of Palomar Holdings, Inc.'s rating unit, and it plays a key role in the group's operations. This is further supported by common ownership and common management. Refer to the [Best's Credit Report for AMB# 033566 - Palomar Holdings, Inc.](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 2014. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Financial Strength Ratings					Best's Long-Term Issuer Credit Ratings		
Effective Date	Rating	Affiliation	Outlook	Action	Rating	Outlook	Action
Current -							
Apr 30, 2020	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed
Apr 18, 2019	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed
Feb 26, 2019	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed
Feb 7, 2018	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed
Feb 15, 2017	A-		Stable	Affirmed	a-	Stable	Affirmed

Management

Palomar Insurance Holdings, Inc. (PIH) (formerly known as Cottage Insurance Holdings, Inc.) owns 100% of Palomar Specialty Insurance Company through common stock.

The principals of Palomar Specialty and Genstar Capital Management LLC committed \$75.0M of equity capital to the creation of Palomar Specialty.

Palomar Specialty is led by David "Mac" Armstrong, the former President and COO of Arrowhead General Insurance Agency, one of the largest program administrators in the P&C segment. Management and Genstar have developed a business plan that incorporates moderate growth and considerable reinsurance to endure catastrophic events and capitalize on opportunities post-event.

In early 2014, PIH acquired Northwestern Pacific Indemnity Company, an Oregon shell insurance company with active licenses in 7 states, from The Chubb Corporation.

Officers

President: David M. Armstrong

EVP and Secretary: Heath A. Fisher

SVP and Treasurer: Elizabeth W. Seitz (Finance & Accounting)

Vice President: Jon M. Christianson

Vice President: Andrew T. Robinson

Directors

David M. Armstrong (Chairman)

Heath A. Fisher

Francis K. Lee

Cameron K. Martin

Toshio C. Uchida

History

Northwestern Pacific Indemnity Company is an Oregon corporation formed on February 14, 1963. Following its name change in January, the company commenced operations under its new ownership in February 2014.

Financial Statements

Financial Statements reflected were compiled from the most recent company-filed statement available in BestLink - Best's Statement File - P/C, US. Access Statement Pages in Excel available in the [Comprehensive Financial Overview \(CFO\) Report](#) for additional details.

Currency: USD

Company's local Currency: US Dollar

	6-Months		Year End - December 31			
	2020		2019		2018	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	5,293	1.9	30,111	12.1	6,919	4.5
Bonds	194,711	69.1	148,182	59.6	102,431	67.2
Preferred and Common Stock	19,950	7.1	18,752	7.5	19,434	12.8
Other Invested Assets	...	...	2,748	1.1	...	...
Total Cash and Invested Assets	219,955	78.0	199,793	80.3	128,784	84.5
Premium Balances	43,859	15.6	35,618	14.3	17,929	11.8
Net Deferred Tax Asset	5,819	2.1	5,285	2.1	...	...
Other Assets	12,234	4.3	8,050	3.2	5,698	3.7
Total Assets	281,866	100.0	248,745	100.0	152,411	100.0
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	2,385	0.8	1,186	0.5	3,330	2.2
Net IBNR Loss Reserves*	4,701	1.7	2,359	0.9	466	0.3
Net LAE Reserves	...	...	324	0.1	369	0.2
Total Net Loss and LAE Reserves	7,086	2.5	3,869	1.6	4,165	2.7
Net Unearned Premiums	125,750	44.6	104,268	41.9	45,152	29.6
Other Liabilities	13,770	4.9	24,312	9.8	39,364	25.8
Total Liabilities	146,606	52.0	132,449	53.2	88,681	58.2
Capital Stock	5,000	1.8	5,000	2.0	3,000	2.0
Paid-In and Contributed Surplus	125,319	44.5	124,412	50.0	62,310	40.9
Unassigned Surplus	4,941	1.8	-13,116	-5.3	-1,579	-1.0
Total Policyholders' Surplus	135,260	48.0	116,296	46.8	63,731	41.8
Total Liabilities and Surplus	281,866	100.0	248,745	100.0	152,411	100.0

Source: BestLink® - Best's Financial Suite

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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