



AM Best Affirms Credit Ratings of Palomar Holdings, Inc. and Its Member Companies

May 20, 2021

OLDWICK, N.J., May 20, 2021 - AM Best has affirmed the Long-Term Issuer Credit Rating (Long-Term ICR) of "bbb-" (Good) of Palomar Holdings, Inc. (Palomar) [NASDAQ: PLMR] (Delaware), the ultimate parent and insurance holding company of Palomar Specialty Insurance Company (PSIC) (headquartered in La Jolla, CA), Palomar Excess and Surplus Insurance Company (PESIC) (Phoenix, Arizona) and Palomar Specialty Reinsurance Company Bermuda Ltd. (Palomar Re) (Bermuda). Concurrently, AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term ICRs of "a-" (Excellent) of PSIC, PESIC and Palomar Re. The outlook of these Credit Ratings (ratings) is stable. PSIC, PESIC and Palomar Re are members of Palomar.

The ratings reflect Palomar's balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management.

Palomar completed an initial public offering (IPO) on April 17, 2019, and raised \$87.4 million of incremental capital. Concurrently, Palomar contributed \$40 million to PSIC to support future growth and paid off \$20 million in senior notes at the holding company. Palomar raised additional incremental capital in follow-on offerings in January 2020 of \$35.5 million and June 2020 of \$90.1 million, bringing total capital to \$376.4 million at March 31, 2021. During 2020, Palomar received regulatory approval for and capitalized PESIC with approximately \$100 million in initial surplus. PESIC is domiciled in Arizona and licensed in Arizona to write surplus lines business on a nationwide basis.

PSIC, PESIC and Palomar Re have an intercompany pooling agreement, whereby all premiums, losses and expenses are ceded to the lead member of the pool, PSIC, and redistributed to PSIC, PESIC and Palomar Re.

Palomar's capital assessment reflects moderate underwriting leverage, a sound liquidity position and favorable loss reserve development that is offset partially by significant reinsurance dependence.

Palomar's adequate operating performance reflects the geographic concentration in catastrophe-prone areas, which results in potential for volatility. This was evident in 2020, when Palomar's underwriting results were impacted adversely by full retention losses from four named hurricanes with \$51.0 million in total net catastrophe losses. However, despite these significant losses, Palomar managed to generate moderate operating earnings for the year. Palomar has generated solid operating results over the past five years, although 2019 earnings were tempered somewhat by one-time expenses related to its IPO. Palomar reported solid net earnings in first-quarter 2021 of \$16.6 million, which were well in advance of net earnings for first-quarter 2020 of \$11.8 million.

Palomar's limited business profile reflects a concentration of business, given its exposure to catastrophes, primarily to a severe earthquake event. Gross catastrophe leverage for a 1-in-250-year earthquake is elevated, as depicted in a probable maximum loss analysis. Palomar also maintains significant dependence on reinsurance to reduce this gross earthquake exposure. However, given management's extensive experience in the residential and commercial earthquake markets and Palomar's comprehensive reinsurance program, Palomar has reduced its net catastrophe leverage to a manageable level with risk management capabilities in line with its profile.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Guide to Best's Credit Ratings](#). For information on the proper media use of Best's Credit Ratings and AM Best press releases, please view [Guide for Media - Proper Use of Best's Credit Ratings and AM Best Rating Action Press Releases](#).

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