UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

Commission File Number: 001-38873

Palomar Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**83-3972551**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7979 Ivanhoe Avenue, Suite 500 La Jolla, California	**92037**
(Address of principal executive offices)	(Zip Code)

(619) 567-5290

Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	PLMR	Nasdaq Global Select Market

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Aggregate market value of shares of the registrant's common stock held by non-affiliates as of June 30, 2021 was approximately $1,823,374,767

Number of shares of the registrant's common shares outstanding at February 22, 2022: 25,438,118

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement relating to its 2022 annual meeting of stockholders (the "2022 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K. The 2022 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Item 1. Business

Who We Are

We are a rapidly growing and innovative insurer focused on providing specialty insurance to residential and commercial customers. Our underwriting and analytical expertise allow us to concentrate on certain markets that we believe are underserved by other insurance companies, such as the markets for earthquake, hurricane, inland marine, and flood insurance. We use proprietary data analytics and a modern technology platform to offer our customers flexible products with customized and granular pricing for both the admitted and excess and surplus lines (“E&S”) markets.

We provide admitted insurance products through our Oregon domiciled insurance company, Palomar Specialty Insurance Company (“PSIC”), and non-admitted insurance products through our Arizona domiciled surplus lines insurance company, Palomar Excess and Surplus Insurance Company (“PESIC”). We distribute our products through multiple channels, including retail agents, program administrators, wholesale brokers, and partnerships with other insurance companies. Our business strategy is supported by a comprehensive risk transfer program with reinsurance coverage that we believe reduces earnings volatility and provides appropriate levels of protection from catastrophic events. Our management team combines decades of insurance industry experience across specialty underwriting, reinsurance, program administration, distribution, and analytics.

Founded in 2014, we have significantly grown our business and have generated attractive returns. We have organically increased gross written premiums from $16.6 million in our first year of operations to $535.2 million for the year ended December 31, 2021, which reflects a compound annual growth rate of approximately 64%. For the year ended December 31, 2021, 55% of our gross written premiums were generated by our Residential Earthquake, Commercial Earthquake and Hawaii Hurricane lines of business, all of which are not subject to attritional losses. We experienced average monthly premium retention rates above 89% overall for these lines of business, providing strong visibility into future revenue.

In February 2014, PSIC was awarded an “A−” rating from A.M. Best Company (“A.M. Best”), a leading rating agency for the insurance industry. An “A−” rating is categorized by A.M. Best as an excellent rating and indicates a stable outlook. In July 2020, PESIC was also awarded an “A−” rating by A.M. Best. In May 2021, A.M. Best affirmed the “A−”rating of PSIC and PESIC. These ratings reflect A.M. Best’s opinion of our subsidiaries’ financial strength, operating performance, and ability to meet obligations to policyholders and are not an evaluation directed towards the protection of investors.

We received regulatory approval for PESIC during the second quarter of 2020 and capitalized PESIC with approximately $100 million in initial surplus. PESIC is domiciled in the State of Arizona and licensed in Arizona to transact across all our existing lines of business. We believe that the underwriting acumen and market expertise we have established in the admitted insurance market is also applicable to the non-admitted market (also known as the “surplus lines” or “E&S” market), and that PESIC enables us to serve certain risks that our admitted products cannot currently satisfy. We began writing E&S business on a national basis during the third quarter of 2020.

We believe that our market opportunity, distinctive products, and differentiated business model position us to grow our business profitably.

Our Business

Our management team founded our company to address unmet needs that we perceived to exist in certain specialty insurance markets. These markets have primarily been served by either large generalist insurance companies and state-managed entities applying “one-size-fits-all” pricing and policy forms across broad geographies, or by surplus lines companies. We sell both admitted and surplus lines products. For our admitted products, the rates and policy forms have been approved by the insurance department of each state in which we sell our policies thus providing a further level of security to policyholders through our backing from state guaranty funds. As a result, our admitted products typically charge lower taxes and fees than alternatives sold by surplus lines carriers. We believe that for our personal lines products, both our customers and distribution partners prefer the ease of use and security of admitted products with flexible coverages. We primarily write surplus lines policies for our commercial business. As the E&S market does not involve the same level of regulation and required approvals as the admitted market, our surplus lines products enable us to react quickly to changing market conditions.

We believe that we can generate superior risk-adjusted returns through underwriting which better reflects our customers' underlying risk by applying a more granular approach to pricing than what is typically offered by standard carriers. We believe this market acceptance and return potential is evidenced by the fact that we have quickly and profitably grown to be the 4th largest earthquake insurer in the state of California and the 6th largest earthquake insurer in the United States. We continue to experience growth and profitability across our other lines of business.

Our primary lines of business include: Residential Earthquake, Commercial Earthquake, Specialty Homeowners, Inland Marine, Commercial All Risk, Hawaii Hurricane, and Residential Flood. We seek to write a diverse mix of business by loss exposure, customer type and geography in order to mitigate the potential impact of any single catastrophe event, reduce our cost of reinsurance, and position us to capitalize on emerging market opportunities. The following table outlines our primary lines of business and the market opportunities that they address:

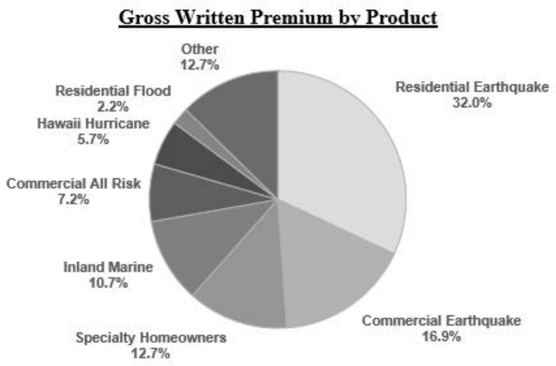
Line of Business	Opportunity	Palomar Offering
Earthquake	● Competitors' products have limited options and are priced in broad territorial zones. ● Earthquake is an optional coverage that many property owners choose not to purchase due to the high price and limited coverage options.	● Our **Residential** and **Commercial Earthquake** products are priced at a granular level and offer flexible product features. ● Our Earthquake products seek to expand the earthquake insurance market by attracting buyers who may not otherwise acquire protection. ● Our Residential products are primarily admitted and backed by state guaranty funds, which we believe makes them easier to sell.
Wind	● We identified specific hurricane-exposed geographic markets in the Southeastern United States with limited homeowners product offerings due to the perceived risk of windstorms. We also compete in the layered and shared commercial property market, an area where we believe there is currently a high-level of market dislocation.	● Our **Specialty Homeowners** products are offered in markets that we identified through detailed analysis of pricing dynamics and historical loss ratios. ● Our **Commercial All Risk** products are offered on a national E&S basis to insure certain risks which our admitted products previously could not satisfy. The national scope allows us to diversify our geographic mix and participate in primary and excess policies.
Inland Marine	● Many admitted inland marine carriers avoid markets with perceived exposure to windstorms and earthquakes.	● Our **Inland Marine** products utilize a technical risk pricing methodology that we believe enables us to select and price risk appropriately.

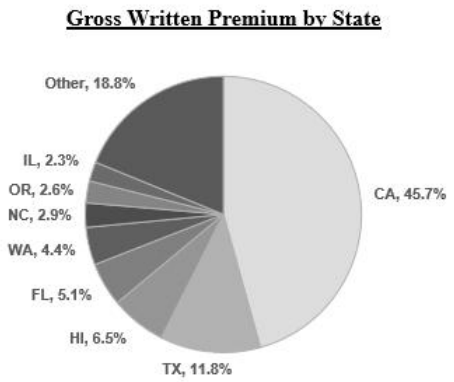
Line of Business	Opportunity	Palomar Offering
Hawaii Hurricane	● There are a limited number of highly rated insurers writing standalone residential hurricane business in Hawaii.	● Our **Hawaii Hurricane** products are preferred by local retail agents due to our “A−” rating and our easy to use technology platform.
	● Coverage is required for homeowners that carry a mortgage for their homes in the state of Hawaii.	● Coverage is only provided for named hurricanes, which eliminates our exposure to attritional losses.
Residential Flood	● We believe the current private market flood product offerings are scarce and outdated.	● Our **Residential Flood** products offer property coverage up to $5 million and price risk at the specific geocode level.
	● Our primary flood competitor is the National Flood Insurance Program (“NFIP”), which caps dwelling coverage at $250,000 and prices risks using broad territorial zones.	● Our **Residential Flood** products also provide broader coverage than the NFIP and have a more streamlined approval process with no required elevation certificate or waiting period.

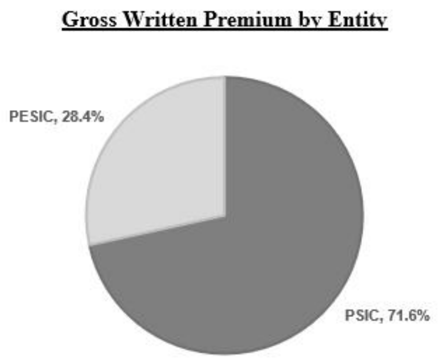
We continue to develop product offerings for lines of business that harness our core competencies and where we believe we can generate attractive risk adjusted returns. Notable recent examples of our commitment to developing new products include the launch of our casualty and fronting operations during 2021. We believe these markets compliment our existing product offerings and offer significant growth opportunity across both the admitted and E&S markets.

Since our founding, we have made substantial progress diversifying our business by product, market, and geography. In 2014, our first year of operations, all of our premiums were related to earthquake insurance. For the year ended December 31, 2021, 49% of our gross written premiums were related to earthquake insurance. For the year ended December 31, 2021, 54% of our gross written premiums were attributable to personal lines and 46% of gross written premiums were attributable to commercial lines business. For the year ended December 31, 2021, non-earthquake related premiums grew 77% while earthquake related premiums grew 31% versus the prior year.

Our principal insurance subsidiary, PSIC, is licensed in 34 states and we have the flexibility to write nationally through our surplus lines subsidiary, PESIC. Currently, California and Texas represent our largest exposures with 46% and 12% of our gross written premiums for the year ended December 31, 2021, respectively. Our business strategy is to continue diversifying our book of business by extending our geographic reach and expanding our product portfolio. The following charts illustrate our business mix by product, residential versus commercial markets, state, and entity for the year ended December 31, 2021:







We employ a highly granular and analytical underwriting process to assess each insurance policy that we write, and we ensure that the risk characteristics of business assumed through our channel partnerships or written by program administrator partners are consistent with our underwriting of direct business. Our systems enable us to underwrite all of our personal lines business automatically within minutes by leveraging our proprietary modeling techniques to analyze data at the geocode or ZIP code level. For example, our 2016 Residential Earthquake rate and policy form filing with the Washington State Office of the Insurance Commissioner has over 20,000 distinct pricing zones that consider nuanced regional differences in soil types, liquefaction potential and distance from known faults. In contrast, we believe most competing earthquake insurance rate filings in Washington are based on broad territorial pricing zones across the entire state. With our commercial products, we balance automation with human expertise and controls to underwrite more complex risks. Because the data we collect through our underwriting process is highly granular, we can utilize detailed portfolio analytics to actively manage aggregation of policies and to ensure an appropriate dispersion of risks across our full portfolio.

Our Competitive Strengths

We believe that our competitive strengths include:

Focus on capturing market share and expanding underserved markets. We focus on specialty insurance markets that we believe are underserved, and where we believe we can capture market share and expand the market to new customers. In our target markets, there are few direct competitors who focus exclusively on specialty risks. With our specialized knowledge of these risks and our customized products, pricing and risk management, we believe we can better serve these markets than our competitors. Furthermore, we can expand our markets by creating products that attract insureds who previously had not obtained coverage. Our focus and expertise have enabled us to rapidly increase our market share; for example, we have grown to become the 4^{th} largest earthquake insurer in California and the 6^{th} largest earthquake insurer in the United States. In markets with similar characteristics, we are experiencing growth and profitability across our other lines of business. We believe that our focus on addressing the needs of underserved specialty markets provides us with a competitive advantage.

Differentiated products built with the customer in mind. We have invested significant time and resources into developing what we believe are innovative and unique product offerings to address customer needs within our target markets. Our products generally offer our customers flexible features that are not typical of standard products in our markets. By offering our customers the ability to choose deductibles and other a la carte coverage options, we believe we have created products that are attractive both to those who have existing coverages with our competitors, and to those who have not historically bought insurance in our target markets. Furthermore, since our admitted products have been approved by individual state regulators and have been supported by proprietary pricing models since inception, we believe that these products are not easily replaceable, particularly by existing carriers who would face the burden of gathering data, building new models, and revising existing rates and policy forms with regulators. Finally, our policy forms and ratings methodology provide us with significant flexibility to manage coverage options and pricing.

Product offerings in both the admitted and surplus lines markets. We believe that our core capabilities can be applied to both the admitted as well as the E&S insurance markets. Admitted products are backed by state guarantee funds and, as a result, are subject to more regulation, as admitted insurance companies must receive approval for rates and policy forms from individual state regulators. Our admitted insurance company subsidiary, PSIC, is licensed to write business in 34 states. We primarily serve the personal lines insurance market through the sale of admitted insurance products as those risks tend to be more homogenous in nature and retail agents prefer the sale of admitted products. We offer E&S insurance products through our surplus lines insurance company subsidiary, PESIC, which is licensed to do business on a national basis. We primarily serve the commercial lines insurance market through the sale of E&S insurance products as those markets are better suited to the flexibility of rate and form available to E&S carriers. Having surplus lines offerings allows us to react quickly to changing market conditions and to accelerate the expansion of our business nationally as we do not have to go through the process of receiving required approvals from individual state regulators.

Analytically driven, disciplined and scalable underwriting. Our underwriting approach combines decades of specialized underwriting experience of our management team with sophisticated, customized modeling tools we have developed that utilize extensive geospatial and actuarial data across all our lines of business. Our proprietary models enable automated pricing of risks at the geocode or ZIP code level, in contrast to our competitors who we believe use less granular analytics and more manual underwriting processes. For example, our Residential Flood products underwrite risks at the distinct address level compared to the broader pricing zones of the National Flood Insurance Program (“NFIP”) product offerings. Our analytical pricing framework is embedded in all facets of our business and is incorporated into our filings, pricing, underwriting and risk management. We believe that our analytically-driven underwriting approach has been the foundation of our ability to generate attractive risk-adjusted underwriting margins.

Multi-channel distribution model. Our open architecture distribution framework allows us to attract and underwrite business from multiple channels. We work with a wide variety of retail agents, program administrators, and wholesale brokers. We serve over twenty insurance companies as a specialty partner either by issuing companion policies or providing reinsurance for their in-force risks that fit our strict underwriting parameters. The breadth and flexibility of our distribution model allows us to generate premium from many different parts of the insurance ecosystem and to rapidly take advantage of changing market conditions.

Sophisticated and conservative risk transfer program. We manage our exposure to catastrophe events through several risk mitigation strategies, including the purchase of reinsurance. We believe that our reinsurance program provides appropriate levels of protection and improves visibility into our earnings. We believe our current reinsurance program provides coverage well in excess of our theoretical losses from any recorded historical event. We regularly model our hypothetical losses from historically significant catastrophes, including the 1906 San Francisco and 1994 Northridge earthquakes. Under our current reinsurance program, should an event equivalent to either of these two events recur, our hypothetical net loss before any tax effect would be capped at $12.5 million, equivalent to approximately 3.1% of our total stockholders' equity as of December 31, 2021, inclusive of any amounts retained through our Bermuda reinsurance subsidiary. While we select reinsurers whom we believe to have acceptable credit and a minimum A.M. Best rating of "A−", if our reinsurers are unable to pay the claims for which they are responsible, we ultimately retain primary liability to our policyholders. In addition, at each reinsurance treaty renewal, we consider any plans to change the underlying insurance coverage we offer, our current capital, our risk appetite, and the cost and availability of reinsurance coverage, which may vary from time to time. In addition to the magnitude of coverage, we believe our reinsurance program provides us with significant protection and stability during potential periods of multiple severe catastrophes or market volatility due to our use of aggregate reinsurance protection as well as features such as prepaid reinstatements and expanded coverage windows for catastrophe events and our diverse panel of more than 80 highly rated reinsurers and capital markets investors. Given that our reinsurance purchases are driven primarily by our peak zone earthquake exposure, as we scale and diversify our book of business into uncorrelated geographies and perils, we have been able to secure multi-peril coverage that reduces the cost of reinsurance per dollar of risk. Additionally, we buy program specific quota share reinsurance coverage for specific lines of business to further mitigate the impact of attritional losses on underwriting results.

Emphasis on the use of technology and analytics across our business. As a recently formed insurance company, we have built a proprietary operating platform that employs best practices derived from our management team's extensive prior experience. Our technology platform is not burdened by outdated legacy technology and process which may be utilized by older insurance companies. In building our platform, we have emphasized automated processes that use granular data and analytics consistently across all aspects of our business. Our internally developed Palomar Automated Submission System ("PASS") acts as our interface with retail agents and wholesale brokers. PASS serves as the conduit to our policy administration system that integrates policy issuance, underwriting, billing and portfolio analytics. Our platform enables us to rapidly quote and bind policies via automated processing, and also to run detailed risk-management analytics for internal and external constituents including distribution partners, carrier partners and reinsurers. We believe that this real-time access to data and analytics provides us with an advantage in distributing our products, managing our risk, and purchasing reinsurance.

Entrepreneurial and highly experienced management team and board. Our management team is highly qualified, with an average of more than twenty years of relevant experience in insurance, reinsurance and capital markets. We are led by our Chairman and Chief Executive Officer, Mac Armstrong, who prior to founding Palomar was President of Arrowhead General Insurance Agency ("Arrowhead"). Many of our management team members such as Mr. Armstrong, Jon Christianson, our Chief Underwriting Officer, Jon Knutzen, our Chief Risk Officer, and Chris Uchida, our Chief Financial Officer, have a long history of working together. For example, while at Arrowhead, Mac Armstrong worked closely with Chris Uchida, who served as Executive Vice President and Chief Accounting Officer of Arrowhead. As owners of approximately 3.9% of our outstanding common stock as of December 31, 2021, we believe our management team has closely aligned interests with our stockholders. Additionally, our Board of Directors is comprised of accomplished industry veterans who bring decades of experience from their prior roles working in insurance and financial services companies.

Our Strategy

We believe that our approach to our business will allow us to achieve our goals of both growing our business and generating attractive returns. Our strategy involves:

Expand our presence in existing markets. We primarily compete in lines of business and states that represented over $100 billion in total written premiums during 2020. By comparison, we generated $535.2 million of gross written premiums for the year ended December 31, 2021. We believe that our differentiated product offerings will enable us to continue growing in our existing markets by (i) gaining market share from competitors who have less flexible product offerings; (ii) continuing to expand our strong distribution network; and (iii) increasing the total addressable market by providing attractive products to customers who previously elected not to purchase coverage.

Extend our geographic reach and product portfolio. Our admitted insurance company, PSIC, is licensed in 34 states, while our E&S company operates on a nationwide basis. We continue to evaluate additional geographic markets and lines of business where we believe we can generate attractive risk-adjusted returns by harnessing our core competencies.

Maintain our distinctive combination of profitability and growth. Our analytically informed risk selection and disciplined underwriting guidelines enable us to identify segments of the market that are both underserved and mispriced. As a result, we are able to generate an attractive underwriting profit through expanding the addressable market and winning market share with our distinctive products. For the years ended December 31, 2021 and 2020, our adjusted return on equity was 14.1% and 3.0%, respectively, with our results for 2020 reflecting profitability in spite of losses sustained by several severe weather events. Additionally, we will look to achieve industry leading combined ratios to ensure we are achieving attractive risk-adjusted returns. As we seek premium growth, we intend to remain disciplined in our pricing, underwriting, and risk management processes, including closely managing our net probable maximum loss (“PML”), average annual loss (“AAL”), and spread of risk. We will remain focused on lines of business with attractive pricing dynamics and a favorable risk / return profile, and we will not participate in markets where we believe our business model cannot add incremental value.

Maintain a diversified book of business. We currently write a book comprised primarily of specialty insurance that is diversified by underlying loss exposure, customer type and geography. Our major product lines and exposures are uncorrelated, such that events contributing to a loss in one line of business are unlikely to generate material losses in our other lines of business. The diversification of our book of business improves our risk-adjusted returns, reduces our reinsurance cost per dollar of premium, insulates us from swings in any single insurance or reinsurance market, and allows us to capitalize on market shifts opportunistically. As we grow, we intend to maintain a diversified book of business to continue to capitalize on these advantages.

Pursue new opportunities via our surplus lines company. Our surplus lines company, PESIC, began writing business in the third quarter of 2020. Our current strategy with our surplus lines company primarily involves addressing segments of the commercial lines insurance market, where the flexibility of premium rates and forms is better suited to the market. Our surplus lines company is licensed to write on a national basis and we intend to use it to grow our national footprint including through partnerships with program administrators that target national account business.

Leverage our underwriting, analytics, and risk transfer acumen to generate fee income. We generate fee income by underwriting on behalf of other insurance companies and through the use of quota share reinsurance treaties whereby third party reinsurers pay us a ceding commission in order to access attractive pools of risk. Our newly launched fronting business offers an additional source of fee income that we earn from program administrators and reinsurers seeking to access our licensed insurance companies. Our multi-channel distribution model produces attractive business that we aim to translate into a balanced mix of underwriting and fee income. As a result, we have an increasing number of partnerships where we write policies on behalf of other insurance and reinsurance companies who pay us a ceding commission to access the business. We believe these partnerships are an important validation of the intellectual property and expertise we have developed, and that this strategy enables us to scale our business more quickly and profitably and provides a growing and valuable fee stream to complement our profitable underwriting operations.

Continue to purchase conservative reinsurance coverage, while optimizing for risk-adjusted returns. We believe that protecting our earnings and balance sheet through the use of reinsurance is critical to our business and supports our ability to meet obligations to our policyholders and other constituents, and generate strong returns for our stockholders. We plan to maintain a conservative, robust reinsurance program to help ensure that we are adequately protected against potential severe or frequent catastrophe losses. Our goal is to protect our earnings by constructing a reinsurance program that mitigates losses and ensures profitability in spite of potential shock losses or catastrophic activity. As we grow, we expect that we will benefit from increased scale and diversification of risk in our business, and we plan to optimize our reinsurance program continuously by adjusting terms, structure, pricing, and participants to maximize our risk-adjusted returns.

Strengthen and harness our strong and growing capital base. We compete with larger, more longstanding insurers in many of the markets that we serve. Nevertheless, we were awarded an "A−" (Excellent) (Outlook Stable) rating from A.M. Best at our formation, which we believe has been a source of competitive differentiation in certain markets where we operate. As we continue to demonstrate profitable operations and generate additional equity, we believe we will have access to more distribution sources, particularly in commercial lines insurance, that may have been reluctant to refer business to us earlier in our operating history.

Continue to invest in proprietary technology assets that deepen our competitive advantage. We believe that the success of our business is centered upon our relentless commitment to apply technology to improve our business. For example, we have dedicated software developers focused on building application programming interfaces ("APIs"), which enable seamless integration into the point of sale systems of our partner carriers and distribution partners. This integration increases the ease of use for our partners, embeds us within their systems, and facilitates real-time sharing of information between our distribution, underwriting, and risk management functions. We will continue to evaluate and invest in proprietary and third-party technology assets, which deepen our competitive advantage, strengthen our operations, and improve our returns.

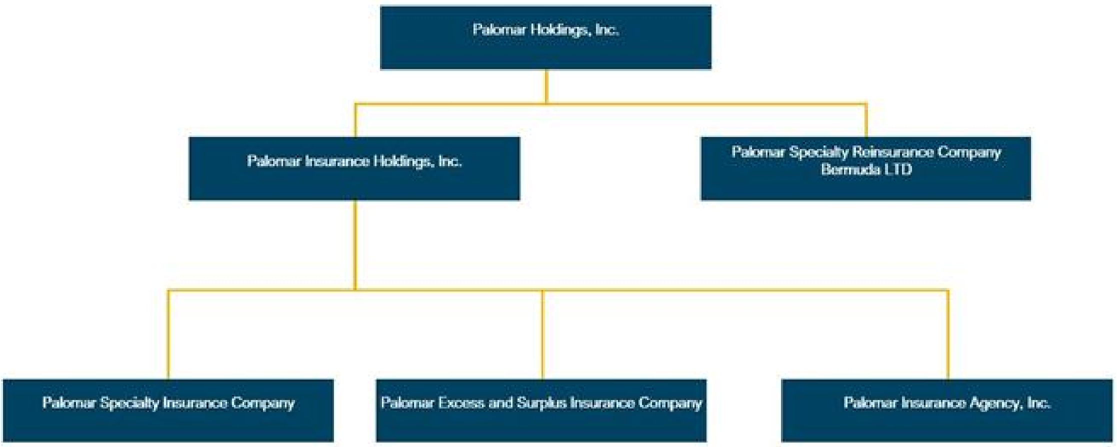
History

We are an insurance holding company that was originally incorporated under the laws of the Cayman Islands in October 2013. In March 2019, we (i) implemented a domestication pursuant to Section 388 of the Delaware General Corporation Law and became a Delaware corporation.

Our primary operating subsidiary, PSIC, is an insurance company domiciled in the state of Oregon and is an admitted insurer licensed to write business in 34 states as of December 31, 2021. PSIC was formed in February 2014. In August 2014, we incorporated Palomar Specialty Reinsurance Company Bermuda Ltd.("PSRE"), a Bermuda-based reinsurance subsidiary that provides reinsurance support exclusively to PSIC and PESIC. In August 2015, we incorporated Prospect General Insurance Agency, Inc., now known as Palomar Insurance Agency, Inc., ("PIA"), to underwrite specialty insurance products on behalf of third-party insurance companies. During 2020, we received regulatory approval for and capitalized PESIC with approximately $100 million in initial surplus. PESIC is domiciled in the State of Arizona and licensed in Arizona to write surplus lines business on a nationwide basis across all our existing lines of business.

Our Structure

Our entities are structured are follows:



Our Products

We provide personal and commercial specialty insurance products in our target markets. With the goal of giving customers better options, we designed an analytical framework to create flexible products with innovative coverages and pricing that we believe better reflects the underlying risk. Using this framework, we initially introduced residential and commercial earthquake products in 2014 and have subsequently expanded our product portfolio to cover multiple specialty risks in several regions of the United States. We have grown our business by entering markets that demonstrated one or more of the following attributes: (i) have loss characteristics, including limited attritional losses, similar to our initial earthquake product, (ii) can benefit from our technology platform, data analytics and customer centric products, and/or (iii) allow us to leverage our existing underwriting talent, reinsurance expertise and/or distribution relationships.

Our primary insurance products include Residential and Commercial Earthquake, Specialty Homeowners, Inland Marine, Commercial All Risk, Hawaii Hurricane, and Residential Flood. We aim to develop a diversified portfolio with exposure spread across geographic regions with limited correlation. Our largest exposure remains in the state of California and we have expanded to address regions including the New Madrid Seismic zone in the Midwestern United States, wind-exposed markets in the southeastern United States and in the state of Hawaii. We tailor our risk participation to optimize our returns depending on the conditions of specific markets. In total, we are licensed as an admitted insurer in 34 total states.

The following table shows our gross written premium by state for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,					
	2021		2020 ($ in thousands)		2019	
	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
State						
California	$ 244,416	45.6 %	$ 172,765	48.8 %	$ 141,743	56.3 %
Texas	62,893	11.8 %	67,974	19.2 %	44,087	17.5 %
Hawaii	34,993	6.5 %	16,398	4.6 %	11,851	4.7 %
Florida	27,386	5.1 %	5,795	1.7 %	—	— %
Washington	23,608	4.4 %	14,328	4.0 %	9,607	3.8 %
North Carolina	15,271	2.9 %	11,143	3.1 %	3,894	1.5 %
Oregon	13,677	2.6 %	10,038	2.8 %	7,396	2.9 %
Illinois	12,133	2.3 %	6,133	1.7 %	6,133	2.4 %
Other	100,798	18.8 %	49,786	14.1 %	27,250	10.9 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 251,961	100.0 %

We believe that maintaining a balanced book of personal and commercial lines business is beneficial. For example, while our Residential Earthquake products experience higher premium retention rates, our Commercial Earthquake products provide more flexibility on pricing, which enables us to increase premium rates more quickly when market conditions accommodate price increases. For the year ended December 31, 2021, 54% of our gross written premium consisted of personal lines business and 46% of gross written premium consisted of commercial lines business, compared to 60% personal lines business and 40% commercial lines business during the year ended December 31, 2020. The following table shows gross written premium ("GWP") by product line for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,					
	2021		2020 ($ in thousands)		2019	
	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
Product						
Residential Earthquake	$ 171,048	32.0 %	$ 140,934	39.8 %	$ 130,473	51.8 %
Commercial Earthquake	90,552	16.9 %	58,890	16.6 %	38,741	15.4 %
Specialty Homeowners	67,894	12.7 %	49,849	14.1 %	32,788	13.0 %
Inland Marine	57,124	10.7 %	15,423	4.3 %	2,465	1.0 %
Commercial All Risk	38,640	7.2 %	53,933	15.2 %	30,358	12.0 %
Hawaii Hurricane	30,298	5.6 %	13,824	3.9 %	10,764	4.3 %
Residential Flood	11,652	2.2 %	8,176	2.3 %	5,216	2.1 %
Other	67,967	12.7 %	13,331	3.8 %	1,156	0.4 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 251,961	100.0 %

Premium Retention Rates

Our products demonstrate strong renewal rate trends, which we believe are an indication of the distinctive value we provide to insureds and which provide visibility into future earned premium.

The following table shows our premium retention for the years ended December 31, 2021 and 2020 for our Residential Earthquake, Commercial Earthquake and Hawaii Hurricane lines of business, which represented 55% of overall gross written premiums during the year and which are not subject to attritional losses:

	Year Ended December 31,	
	2021	2020
Average monthly premium retention by product:		
Residential Earthquake	91 %	93 %
Commercial Earthquake	85 %	83 %
Hawaii Hurricane	96 %	97 %

Residential Earthquake

We offer Residential Earthquake products in 18 states on an admitted basis and nationwide on an E&S basis. Our products insure against damage to the home, contents and any appurtenant structures, and reimburse for temporary housing costs in the event of an earthquake. We design our products to provide agents and policyholders with coverage flexibility, including a full range of deductible options and the ability to tailor limits to a customer’s individual preferences. We aim to sell our products to buyers who may not have previously purchased earthquake coverage. We believe that our pricing model is a distinctive feature of our product offering. Using data from industry-leading catastrophe models we can evaluate and accurately price exposures at the ZIP code or geocode level based on characteristics particular to the risk. For example, we believe competing earthquake insurance products in California are commonly based on broad territorial pricing zones that do not consider regional differences in soil types, liquefaction potential and include little price differentiation between risks with varying proximity to known faults. Our ability to divide geographies into highly resolute grids, or ZIP codes, and price according to more detailed information relating to the exposure allows us to obtain a more appropriate rate for the risk, and often allows us to offer rate relief, particularly in low risk areas that historically have low earthquake insurance penetration. We write policy limits up to $15 million; all policies involve automated underwriting and lower limit policies are issued via automated processing.

Commercial Earthquake

We offer Commercial Earthquake products, commonly known as “Difference in Conditions” policies, on an admitted basis in 15 states and nationwide on an E&S basis. Our Commercial Earthquake products focus on providing coverage for benign commercial risks where the business interruption exposure is typically less than 15% of the total insured value (“TIV”). We attempt to avoid risks where the contents are hard to value or represent a disproportionate percentage of the value. We write policy limits up to $25 million with the ability to serve larger accounts using facultative reinsurance.

Specialty Homeowners

Our Specialty Homeowners product provides admitted insurance coverage to homeowners in wind-exposed coastal regions. We believe that the homeowners insurance market on a national level is highly competitive but that there are specific geographic markets with attractive return potential that many insurance companies avoid due to windstorm exposure.

Inland Marine

Our Inland Marine division currently offers products that include Builder’s Risk, Contractor’s Equipment, Mobile Equipment, Motor Truck Cargo, Miscellaneous Floaters, Installation Floaters, and Special Property Floaters. We write our Inland Marine products on an admitted and on an E&S basis directly and through program administrators. Policy limits vary by product, however, our E&S offerings are designed to target larger limit business and does not directly compete with our admitted offerings. We believe the flexibility of our Inland Marine product enables us to compete in select market segments and price risk appropriately.

Commercial All Risk

We offer Commercial All Risk insurance on a E&S basis nationwide through the underwriting division of a national wholesaler. Our products currently compete in the national layered and shared commercial property market, an area where we believe there is currently a high-level of market dislocation. The Commercial All Risk policy covers the perils of fire and wind, with wind including hurricane, tornado, and hailstorm. For additional premium, the policy can include the peril of earthquake. We target occupancy types including government entities, homeowner’s associations, retail stores, hotels, motels, and office buildings. Previously, we wrote this business on a direct admitted basis in select states in the Southeastern United States. During 2020, we ceased writing this business on an admitted basis and as of December 31, 2021, all admitted Commercial All Risk business has been run off.

Hawaii Hurricane

We offer admitted residential property coverage for named hurricanes in the state of Hawaii. This is a required coverage for homeowners that carry a mortgage on their properties in the state. Similar to our residential earthquake product, insureds have the ability to tailor limits to their preferences. The policies we write only trigger coverage if wind damage occurs while the insured risk is in a county that is under a hurricane watch or warning as deemed by the Pacific division of the National Weather Service. Coverage only remains in effect for a period of 72 hours after the hurricane watch or warning expires. Therefore, there is no exposure to attritional losses with this product. We believe our products are preferred by local retail agents due to our “A−” (Excellent) (Outlook Stable) rating by A.M. Best. We write policy limits up to $15 million; all policies involve automated underwriting and policies under $5 million in limit are issued via automated processing.

Residential Flood

We provide residential flood products on an admitted basis in 14 states and on an E&S basis in 6 states across the United States. Our products primarily compete against those of the NFIP, which caps dwelling coverage at $250,000 and prices risk using broadly defined zones. We offer higher limits than the NFIP and price risk at the specific geocode level having developed detailed granular models of all current markets in partnership with a leading national catastrophe modeling agency. Furthermore, due to our proprietary pricing grid models we eliminate the need for a waiting period or an elevation certificate prior to binding and issuance of policies. We write policy limits up to $5 million, all of which involve automated underwriting and are issued via automated processing.

Other

We continue to develop product offerings for lines of business that harness our core competencies and where we believe we can generate attractive risk adjusted returns. Notable recent examples of our commitment to developing new products include the launch of our casualty and fronting operations during 2021. Our Casualty division provides casualty coverage on an admitted and non-admitted basis in two segments of the casualty sector: General Casualty and Professional Liability. Our Fronting business, known as PLMR-FRONT, provides fronting paper on both an admitted and E&S basis through Palomar Specialty Insurance Company and PESIC, to reinsurers, insurance carriers and managing general agents to enable the design and operation of customized insurance programs. The Fronting team targets opportunities across multiple lines of business where traditional insurance is difficult to source. In addition, we offer commercial flood products in certain markets and generate premiums through assumed reinsurance agreements on selected risks. We believe these markets compliment our existing product offerings and offer significant growth opportunity across both the admitted and E&S markets.

Marketing and Distribution

We market and distribute our products through a multi-channel, open architecture distribution model which includes retail agents, wholesale brokers, program administrators and carrier partnerships. We have well-defined underwriting criteria and have designed our distribution model to access our targeted risks through what we believe to be the most efficient channels.

Retail Agents: We primarily distribute our personal lines products through retail agents. We believe that retail agents are an important pillar of our distribution model due to the high retention rates and rate stability that we are able to achieve with policies sold through this channel. We provide agents with flexible products that are preferred by end consumers and are easier for agents to sell. In many cases, we provide agents with direct access to our policy management system that enables them to quote, bind and issue policies in a matter of minutes. We believe this ease of use and quick speed-to-quote serves as a competitive advantage.

Wholesale Brokers: We distribute our commercial lines products primarily through wholesale brokers. Wholesale brokers are an important channel for commercial property insurance products as they control much of the premium in these segments. We select wholesale brokers based on our management's review of their experience, knowledge, and business plan. We target brokers with the experience to serve our target markets and with business plans consistent with our strategy and underwriting objectives. Brokers must demonstrate an ability to produce both the quality and quantity of business that we seek. To assist with this goal, our underwriters regularly visit with brokers to market and discuss the products we offer. We terminate brokers who are unable to produce consistently profitable business or who produce unacceptably low volumes of business.

Program Administrators: Within select lines of business, we partner with program administrators to harness the efficiency and scale of their existing marketing and distribution infrastructures. Generally, all policies bound by our program administrators are pre-underwritten using our pricing models which have been programmed into the policy administration system of each partner. For business that is not automatically underwritten, we set strict underwriting guidelines to which our partners must adhere. We audit the underwriting, systems, financial strength and reporting capabilities of all of our program administrators on a regular basis. Most notably, for our Value Select Residential Earthquake products, we have a mutually exclusive program administrator agreement with Arrowhead for the states of California, Oregon and Washington. Under this agreement, which accounted for $194.0 million of written premiums for the year ended December 31, 2021, we conduct product development and underwriting while our program administrator manages a base of over 1,000 retail agents who individually bind policies through PASS or an internal system which automatically applies our pricing and underwriting guidelines to new policies, and is subjected to our disciplined risk management. The fees payable by us to Arrowhead under the agreement are based upon our premiums written in each state. The agreement remains in effect until terminated by either party upon 180 days' prior written notice to the other party for cause. In addition, our Specialty Homeowner products are sold through program administrators with local expertise in their respective markets and that participate in the economics of produced business through risk sharing agreements, which we believe strengthens the alignment of interests toward generating underwriting profit. Finally, we have partnered with several program administrators that focus on specific areas of the E&S market as we pursue the growth of PESIC, our surplus lines insurance carrier.

Carrier Partnerships: Given our unique specialty focus and underwriting expertise, we are a carrier of choice for other insurance companies seeking a specialty insurance partner to transfer certain classes of risk, satisfy insurance department mandatory offer requirements or provide a more comprehensive risk solution to their customers. As of December 31, 2021, we had partnerships with over twenty insurance companies. Several carriers invite us to provide a companion offer for residential earthquake insurance alongside their homeowners' insurance policy offerings. Other carriers will direct their captive agents to our online system so that they may quote, bind and issue policies directly. Finally, we offer assumed reinsurance arrangements to carriers whereby we assume up to 100% of the underlying risk for specific classes of business, typically Residential Earthquake, in exchange for a ceding commission. Our assumed reinsurance treaties represent risks that we would ordinarily underwrite on a primary basis and that fit well within our risk tolerance, however, the cedant either (i) has already written these policies or (ii) the cedant wants to issue the policies on its paper but not retain any of the risk and as such prefers an assumed reinsurance partnership. We believe that our carrier partnerships with sophisticated industry participants speak to the value and quality of our products, service offering and systems. Furthermore, carrier partnerships are a highly scalable distribution model as they enable us to tap into a sizable customer base and to quickly build scale in new markets. With all partnerships, we review pricing at the policy level to ensure that the risk characteristics of both new and assumed business are consistent with our underwriting of direct business. We intend to pursue additional carrier partnerships in the future including those that involve PESIC, our E&S company.

Underwriting

Our underwriting team combines comprehensive data analysis with experienced underwriting techniques to build a profitable, stable and diversified book of business. Our underwriting process involves securing an adequate level of underwriting information, classifying and evaluating each individual risk exposure, assessing the impact of the risk upon our existing portfolio, and pricing the risk accordingly. Our overarching underwriting philosophy is ‘to write what we know’ a straightforward approach that allows our underwriters to focus on business they understand and can process quickly without sacrificing diligence and attention to detail.

We develop our underwriting guidelines and pricing models through traditional underwriting metrics, management experience, and advanced data analytics that allow us to assess information about construction type, contingent exposure, location, occupancy type and size and granularly rate exposure at the ZIP code or geocode level. We access data for our pricing models provided from multiple leading risk modeling vendors, and use our information from proprietary extensions of catastrophe models to assist in evaluating soil types, proximity to faults, and loss estimates in the form of modeled marginal impact, AAL and PML. This analytical underwriting framework enables us to offer rate relief in low risk areas and to accurately price locations that are at higher risk.

Personal lines policies are issued via automated underwriting and account for approximately 54% of our gross written premium for the year ended December 31, 2021. Using our predefined underwriting guidelines, distribution partners can rapidly quote and bind accounts lower in limit via automated processing. We believe that automated underwriting of personal lines policies improves efficiency, reduces errors, and enhances the customer experience.

Since commercial lines risks involve additional complexity and do not lend themselves to highly automated underwriting, we combine robust risk analysis an data collection with underwriter expertise to evaluate individual risk and to quote business efficiently. We regularly audit data gathered during our underwriting process to determine the accuracy of rating information and risk pricing. For example, we often inspect properties as part of our underwriting process to discover any unrepaired damage and identify any other conditions that affect the insurability of the property. Our underwriters bring specific line of business experience including underwriting expertise, distribution relationships and support from the reinsurance community. Additionally, we continue to pursue the use of technology to streamline inspections and other components of the underwriting process.

We apply the same principles and discipline to underwriting when selecting program administrator partners. We proactively engage with our program managers to create specific underwriting guidelines and techniques. We regularly conduct underwriting, claims and financial audits to ensure consistent execution upon underwriting guidelines, claims processing and compliance with regulatory requirements.

Ongoing risk management of our portfolio in aggregate is a critical component of our underwriting process. We use third-party catastrophe modeling software to evaluate our ongoing risk exposure. We regularly review the output of these models to evaluate the geographic spread of our risk, including the evaluation of AAL and PML by line of business and for the portfolio as a whole. This review enables us to monitor our exposure to correlated risks and optimize the design and pricing of our reinsurance program including the purchase of appropriate reinsurance coverage.

Claims Management

Given the low frequency nature of the primary perils that we insure, we primarily outsource our claims handling infrastructure to third-party administrators (“TPAs”) to eliminate the expense associated with maintaining full time dedicated claims personnel. We currently contract with multiple TPAs to reduce our reliance on any single TPA, as well as to benefit from expertise of individual vendors in specific lines of business. Our management team is responsible for overseeing our TPAs, including the management of loss reserves, event preparation, settlement, arbitration, and mediation. Claims are reported directly to us and the applicable TPA, which adheres to agreed upon service level standards.

In the case of a catastrophe event, our technology infrastructure and data analytics enable us to identify potentially affected policies immediately and begin assisting our customers by notifying our TPAs, our reinsurance partners and other potentially impacted parties. A network of TPAs improves our ability to mobilize claims adjusters immediately to the areas where our customers are most affected and helps insulate us from the “demand surge” following a catastrophe event. To prepare for a potential catastrophe event, we run simulations and work closely with our TPAs to ensure there are dedicated desk and field adjusters to handle the volume of claims that would be expected in each loss scenario. Using each earthquake and hurricane scenario, we project losses and identify an individualized and optimal catastrophe response plan for each event.

We review claims files and claims reports from our TPAs for accuracy and reasonableness on an ongoing basis. We review all claims received from our TPAs to validate coverage, limits, and deductibles prior to making payment. Additionally, we have certain managerial requirements of our TPAs around notification, reserve approval, payment management, correspondence with insureds, and reports for all claims in excess of the claims analyst’s authority. We also monitor possible litigation and litigation trends associated with our claims.

Reinsurance

We purchase a significant amount of reinsurance from third parties that we believe enhances our business by reducing our exposure to potential catastrophe and attritional losses, limiting volatility in our underwriting performance, and providing us with greater visibility into our future earnings. Reinsurance involves transferring, or ceding, a portion of our risk exposure on policies that we write to another insurer, the reinsurer, in exchange for a premium. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss; see “Risk Factors—Risks Related to Our Business and Industry—We may be unable to purchase third-party reinsurance or otherwise expand our catastrophe coverage in amounts we desire on commercially acceptable terms or on terms that adequately protect us, and this inability may materially adversely affect our business, financial condition and results of operations.”

We use treaty reinsurance and, on a limited basis, facultative reinsurance coverage. Treaty coverage refers to a reinsurance contract that is applied to a group or class of business where all the risks written meet the criteria for that class. Our treaty reinsurance program primarily consists of catastrophe XOL, in which the reinsurer(s) agree to assume all or a portion of the ceding company’s losses relating to a group of policies occurring in relation to specified events, subject to customary exclusions, in excess of a specified amount. Additionally, we buy program specific reinsurance coverage for specific lines of business on a quota share, property per risk, or a facultative basis. In quota share reinsurance, the reinsurer agrees to assume a specified percentage of the ceding company’s losses arising out of a defined class of business in exchange for a corresponding percentage of premiums, net of a ceding commission. Property per risk coverage is similar to catastrophe excess of loss except that the treaty applies in individual property losses rather than in the aggregate for all claims associated with a single catastrophic loss occurrence. Facultative coverage refers to a reinsurance contract on individual risks as opposed to a group or class of business. We use facultative reinsurance selectively to supplement limits or to cover risks or perils excluded from other reinsurance contracts.

We have a robust program utilizing a mix of traditional reinsurers and insurance linked securities. We currently purchase reinsurance from over 80 reinsurers, who either have an “A−” (Excellent) (Outlook Stable) or better financial strength rating by A.M. Best or post collateral. Our reinsurance contracts include special termination provisions that allow us to cancel and replace any participating reinsurer that is downgraded below a rating of “A−” (Excellent) (Outlook Stable) from A.M. Best, or whose surplus drops by more than 20%.

In addition to reinsurance purchased from traditional reinsurers, we have historically incorporated collateralized protection from the insurance linked securities market (e.g. catastrophe bonds). During the first quarter of 2021, the Company closed a $400 million 144A catastrophe bond which became effective June 1, 2021. The catastrophe bond was completed through Torrey Pines Re Pte. Ltd. ("Torrey Pines Re"). Torrey Pines Re. is a special purpose insurer established in Singapore that provides Palomar with indemnity-based reinsurance covering earthquake events.

Our largest single XOL reinsurer, excluding Torrey Pines Re, comprises 6.1% of the total catastrophe XOL reinsurance limit we have in effect. The table below reflects the ratings of our largest individual reinsurers.

Reinsurer Ratings	A.M Best	S&P
Torrey Pines Re 144A Cat Bond	NR	NR
Fidelis Insurance Bermuda Limited / Fidelis Underwriting Limited	A	A-
Renaissance Reinsurance, Ltd. / DaVinci Reinsurance, Ltd / Vermeer Reinsurance, Ltd.	A+	A+
Elementum Re Ltd. obo Allianz Risk Transfer / Hannover Rueck SE	A+	AA-
MS Amlin AG / Lloyd's # 2001 - MS Amlin Underwriting, Ltd.	A	A+
Lancashire Insurance Company Limited / Lloyd's # 2010 - Lancashire Syndicates Ltd.	A	A-
Houston Casualty Company (UK Branch)	A++	A+
Securis ILS Management, Ltd. Bermuda obo Arch Re and Hannover Rueck SE	A+	A+/AA-
Transatlantic Reinsurance Company / obo General Reinsurance Corporation	A++	A++
Lloyd's # 1084 - Chaucer Syndicates Ltd	A	A+

Catastrophe XOL Reinsurance Coverage

Our catastrophe event retention before any tax effect is currently $12.5 million for all perils. Our reinsurance coverage exhausts at $1.68 billion for earthquake events and $700 million for hurricane events, providing coverage in excess of our 1:250 year peak zone PML and in excess of our A.M. Best requirement. In addition, we maintain reinsurance coverage equivalent to or better than the 1 in 250 year PML for our other lines. As of December 31, 2021, our first event retention represented approximately 3.1% of our stockholders' equity.

In the event that multiple catastrophe events occur in a period, many of our contracts include the right to reinstate reinsurance limits for potential future recoveries during the same contract year and preserve our limit for subsequent events. This feature for subsequent event coverage is known as a "reinstatement." In addition, to provide further coverage against the potential for frequent catastrophe events we have $25 million of aggregate XOL reinsurance limit, which is effective through April 1, 2022. This coverage, applying within our per occurrence retention, has an attachment point of $30 million and applies across all perils including but not limited to earthquakes, hurricanes, convective storms, and floods above a qualifying level of $2.0 million in ultimate gross loss. We believe the aggregate reinsurance cover reduces the volatility of our business and we expect to utilize similar coverage in the future.

To assess the sufficiency of our catastrophe XOL reinsurance coverage, we continuously quantify our exposure to catastrophes including earthquakes, hurricanes, tornadoes and hail storms. We evaluate and monitor the total policy limit insured for each peril and in each geographic region, and we use third-party catastrophe models to evaluate the AAL as well as the estimated PML at various intervals. Our PML modeling is consistent with standards established by A.M. Best and includes "demand surge," and loss amplification. To protect against model bias, we perform probabilistic modeling as well as deterministic modeling using a variety of industry models including AIR Touchstone for all perils and regions and RMS RiskLink for all perils and regions.

We believe our current reinsurance program provides coverage well in excess of our theoretical losses from any recorded historical event. This coverage includes events such as the 1906 San Francisco and 1994 Northridge earthquakes. Under our current reinsurance program, because the PML for each of the historical events is less than $1.68 billion, the amount covered by our current reinsurance program, should an event equivalent to either of these two events or other historical events recur, our hypothetical net loss before any tax effect would be capped at our current net retention of $12.5 million as demonstrated in the following table:

Historical Event	12/31/21 modeled PML ($ millions)
CA 1906 San Francisco M7.8	$ 1,317
CA 1994 Northridge M6.7	961
CA 1971 San Fernando M6.7	494
CA 1868 Hayward M7.0	417
HI 1992 Hurricane Iniki	405
NM 1811-12 sequence M7.8	369
NW 1949 Puget Sound M7.1	267
CA 1933 Long Beach M6.4	263
CA 1857 Fort Tejon M7.9	259

While we only select reinsurers whom we believe to have acceptable credit and a minimum A.M. Best rating of “A−”, if our reinsurers are unable to pay the claims for which they are responsible, we ultimately retain primary liability to our policyholders. In addition, at each reinsurance treaty renewal, we consider any plans to change the underlying insurance coverage we offer, our current capital, our risk appetite, and the cost and availability of reinsurance coverage, which may vary from time to time.

Program Specific Reinsurance Coverage

In addition to our catastrophe XOL coverage, we purchase reinsurance for specific programs in order to control our net exposure for any single risk, manage our exposure to attritional losses and improve our economics through ceding a portion of the risk to reinsurers in exchange for a ceding commission. We purchase program specific reinsurance, consisting primarily of quota share coverage, for certain lines of business with an attritional loss component.

Third-Party Capacity

In order to utilize our internal product development, underwriting and distribution expertise on behalf of third-party insurance companies, we launched an affiliated managing general agent called Prospect General Insurance Agency (“PGIA”) in 2016. During 2020, Prospect General Insurance Agency was renamed to Palomar Insurance Agency, DBA Palomar General Insurance Agency (“PGIA”). In 2019, we entered into a new partnership to underwrite commercial flood risk on behalf of a proven partner. We will continue to develop third-party capacity relationships that support our products.

Technology

Our integrated technology systems form the backbone of our business as they enable us to offer quality and timely service to our policyholders and producers, communicate seamlessly with reinsurers and partner carriers, and run our business more efficiently and cost effectively. As a recently formed insurance company, we have the benefit of having built a proprietary operating platform that employs the best practices of our management team’s extensive prior experience and that is not burdened by outdated legacy technology and processes. Our systems offer greater ease of use to distribution partners and provide seamless integration between our pricing models, quoting tools, policy administration systems and portfolio analytics databases. Our proprietary operating platform is based on applications licensed from multiple third-party software vendors. We have invested significantly in customizing, building on top of and extending these applications to increase automation and enhance efficiency. We have dedicated in-house software developers as well as external resources, all of whom report to our Chief Technology Officer. Our internally developed

PASS provides producers direct access to our retail and wholesale distributed products including Residential Earthquake, Commercial Earthquake, Hawaii Hurricane, Inland Marine and Residential Flood. PASS also serves as the administration system for select policy data and the access point for business written through direct personal lines partnerships. PASS enables the effective use of predefined underwriting, providing efficiency and optimization to our production partners and real-time transparency in underwriting and aggregate management. Our software development team develops programing interfaces where applicable so that partner carriers and distribution partners can seamlessly access our system.

Our pricing models are based on the most recent versions of catastrophe models from industry leading vendors and our internal expertise. For certain products where limited models are available, we have worked directly with the vendors to develop proprietary models. We update all of our pricing models as new versions are released, which mitigates our exposure to changes in our business following industry-wide model changes. For personal lines products issued through automated underwriting, our pricing models integrate directly into our policy administration system as well as the systems of program administrator partners. Since our commercial lines products do not lend themselves to highly automated underwriting, we have built a customized operating platform that our underwriters use to evaluate risk and to efficiently quote business. Our custom application platform seamlessly integrates policy administration, billing, and maintenance.

We emphasize the use of technology in our analytics and enterprise risk management (“ERM”) operations. Our analytics team, which reports to our Chief Risk Officer, uses multiple catastrophe modeling software applications to evaluate our ongoing risk exposure. Our data analytics enable us to provide real-time reporting of our in-force portfolio to our reinsurers, TPAs and distribution partners on a regular basis and during severe weather events. This reporting combines content from the catastrophe models that we license with internally developed content. Event reporting is an element of our overall ERM framework which monitors our risks and ensures that we have appropriate controls and preparations are in place. Our technology infrastructure is designed to function through any major disruption, with all data stored offsite and employees provided with the resources to work remotely.

Reserves

When a claim is reported to us or when an event occurs, we establish loss reserves to cover our estimated ultimate losses under all insurance policies that we underwrite, and loss adjustment expenses relating to the investigation and settlement of policy claims. These reserves include estimates of the cost of the claims reported to us (case reserves) and estimates of the cost of claims that have been incurred but not yet reported (“IBNR”) and are net of estimated related salvage, subrogation recoverables and reinsurance recoverables. Reserves are estimates involving actuarial projections of the expected ultimate cost to settle and administer claims at a given time, but are not expected to represent precisely the ultimate liability. Estimates are based upon past loss experience modified for current trends as well as prevailing economic, legal and social conditions. Such estimates will also be based on facts and circumstances then known, but are subject to significant uncertainty based on the outcome of various factors, such as future events, future trends in claim severity, inflation and changes in the judicial interpretation of policy provisions relating to the determination of coverage.

When a claim is reported and investigated by a claims adjuster, we establish a case reserve for the estimated amount of the ultimate payment after an appropriate assessment of coverage, damages and other information as applicable. The estimate is based on general insurance reserving practices and on the claim adjuster’s experience and knowledge of the nature and value of the specific type of claim. Case reserves are revised periodically based on subsequent developments associated with each claim.

We establish IBNR reserves in accordance with industry practice to provide for (i) the estimated amount of future loss payments on incurred claims not yet reported, and (ii) potential development on reported claims. IBNR reserves are estimated based on generally accepted actuarial reserving techniques that consider quantitative loss experience data and, where appropriate, qualitative factors.

We regularly review our loss reserves using a variety of actuarial techniques. We also update the reserve estimates as historical loss experience develops, additional claims are reported and/or settled and new information becomes available. Additionally, our loss reserving is reviewed quarterly for reasonableness by a reputable third-party actuarial firm. A reserve can be increased or decreased over time as claims move towards settlement, which can impact earnings in the form of either adverse development or reserve releases.

The following tables present the development of our loss reserves by accident year on a gross basis and net of reinsurance recoveries during each of the below calendar years:

	Gross Ultimate Loss and LAE						
	Calendar Year				Development- (Favorable) Unfavorable		
Accident Year	2018	2019	2020	2021	2018 to 2019	2019 to 2020	2020 to 2021
				(in thousands)			
Prior	$ 57,602	$ 56,651	$ 55,706	$ 61,740	$ (951)	$ (945)	$ 6,034
2019	—	25,127	22,797	22,156	—	(2,330)	(641)
2020	—	—	171,470	194,752	—	—	23,282
2021	—	—	—	171,922	—	—	—
					$ (951)	$ (3,275)	$ 28,675

	Net Ultimate Loss and LAE						
	Calendar Year				Development- (Favorable) Unfavorable		
Accident Year	2018	2019	2020	2021	2018 to 2019	2019 to 2020	2020 to 2021
				(in thousands)			
Prior	$ 28,377	$ 28,196	$ 28,019	$ 27,988	$ (181)	$ (177)	$ (21)
2019	—	5,772	5,885	5,499	—	113	(386)
2020	—	—	64,179	61,001	—	—	(3,178)
2021	—	—	—	45,042	—	—	—
					$ (181)	$ (64)	$ (3,585)

Investments

Investment income is an important component of our earnings. We collect premiums and are required to hold a portion of these funds in reserves until claims are paid. We invest these reserves, primarily in fixed maturity investments. Our fixed maturity investment portfolio is managed by Conning and Company, an investment advisory firm that is an experienced manager of insurance company assets, and operates under guidelines approved by our Board of Directors. We believe our investment strategy allows us to eliminate the expense of a treasury department while allowing our management to maintain oversight over the investment portfolio.

In the years that we make an underwriting profit, we are able to retain all investment income. Underwriting losses may require us to dedicate a portion of our investment income or capital to cover insurance claims and expenses.

Our cash and invested assets consist of fixed maturity securities, short-term investments, cash and cash equivalents, mutual funds, exchange traded funds and equity securities. Our fixed maturity securities are classified as “available-for-sale” and are carried at fair value with unrealized gains and losses on these securities reported, net of tax, as a separate component of accumulated other comprehensive income (loss). Our equity investments are measured at fair value with changes in fair value recognized in net income. Fair value generally represents quoted market value prices for securities traded in the public market or prices analytically determined using bid or closing prices for securities not traded in the public marketplace. Short-term investments are reported at cost and include investments that are both readily convertible to known amounts of cash and have maturities of 12 months or less upon acquisition by us.

Our investment securities available totaled $465.9 million and $422.3 million at December 31, 2021 and 2020 respectively, and are summarized as follows:

December 31, 2021	Fair Value	% of Total Fair Value
Fixed maturities:		
U.S. Governments	$ 16,870	3.6 %
States, territories, and possessions	4,014	0.9 %
Political subdivisions	6,380	1.4 %
Special revenue excluding mortgage/asset-backed securities	44,498	9.6 %
Industrial and miscellaneous	249,046	53.4 %
Mortgage/asset-backed securities	111,874	24.0 %
Total fixed maturities	$ 432,682	92.9 %
Equity securities	33,261	7.1 %
Total investments	$ 465,943	100.0 %

December 31, 2020	Fair Value	% of Total Fair Value
Fixed maturities:		
U.S. Governments	$ 17,059	4.0 %
States, territories, and possessions	6,636	1.6 %
Political subdivisions	2,152	0.5 %
Special revenue excluding mortgage/asset-backed securities	41,227	9.8 %
Industrial and miscellaneous	245,360	58.1 %
Mortgage/asset-backed securities	85,553	20.3 %
Total fixed maturities	397,987	94.3 %
Equity securities	24,322	5.7 %
Total investments	$ 422,309	100.0 %

Our primary investment focus is to preserve capital to support our insurance operations through investing primarily in high quality fixed maturity securities with a secondary focus on maximizing our risk adjusted investment returns. Investment policy is set by our Board of Directors, subject to the limits of applicable regulations.

Our investment policy imposes strict requirements for credit quality, with a minimum average credit quality of the portfolio being rated “A” or higher by Standard & Poor’s or the equivalent rating from another nationally recognized rating agency. Our investment policy also imposes restrictions on concentrations of securities by class and issuer and any new asset class must be approved by management and our Board of Directors. Given our existing exposure to property values, notably in the state of California, we have imposed restrictions on municipal obligations in the state of California and CMBS single issuers concentrated in the state of California.

Enterprise Risk Management (“ERM”)

We maintain a dedicated ERM function that is responsible for analyzing and reporting our risks, monitoring that risks remain within established tolerances, and monitoring, on an ongoing basis, that our ERM objectives are met. These objectives include ensuring proper risk controls are in place, risks are effectively identified, assessed, and managed, and key risks to which we are exposed are appropriately disclosed. Our ERM framework plays an important role in fostering our risk management culture and practices. We continue to enhance our ERM framework, which is guided by the Own Risk and Solvency Assessment (“ORSA”) model developed by the NAIC. These ongoing enhancements include the creation of an ERM Sub-Committee comprised of executive management and select board members, creation and maintenance of a risk register and regular reporting on risk management.

An additional important part of our ERM is business continuity, including in the circumstances of a catastrophe event. We have established a business continuity team made up of executive management with predefined roles and responsibilities in the event of an emergency response situation and a business continuity communication site where employees are directed to receive instructions that are tailored to various scenarios. We store all data offsite and ensure it is accessible remotely. Our communications, virtual file servers, underwriting and distribution systems, and claims portal are hosted in geographically diverse data centers domestically and globally. We maintain additional offices in Mission Viejo, California and Bloomington, Minnesota to use as redundant locations in the event of a disruptive event in San Diego, and purchase business continuity services to support the La Jolla office in the event of a disruptive event.

Environmental and Climate Change Matters

Our economic model is closely tied to our coverages for natural disasters and catastrophes. We believe the existing scientific consensus that man-made changes to climate conditions are leading to increases in sea levels and global temperatures, and that the severity and frequency of weather-related natural disasters may increase relative to historical experience. We believe that this increase in severe weather, coupled with currently projected demographic trends in catastrophe-exposed regions, contributes to factors that will increase the average economic value of expected losses, increase the number of people exposed per year to natural disasters and in general exacerbate disaster risk, including risks to infrastructure, global supply chains and agricultural production. In addition to the impacts that environmental incidents have on our business, changes to law and regulation related to climate change could also directly affect our business, including state insurance regulations that could impact the Company’s ability to manage property exposures in areas vulnerable to significant climate driven losses, and possible new requirements that insurers integrate the financial risk of climate change into business operations and governance.

From an underwriting standpoint, we carefully consider the development and deployment of insurance products in coastal areas that may be impacted by rising sea levels, and we incorporate scenarios into our catastrophe modeling that involve elevated sea surface temperatures and other relevant data. From an operations standpoint, our efforts include establishing a standing environmental, social, and governance (“ESG”) committee of the Board of Directors that works with the company to establish and measure progress toward several metrics related to climate change and environmental health. We are undertaking a third-party audit of the company’s carbon footprint, as well as options to mitigate that footprint. Evidence of the Company’s commitment to the environment and combating climate change can be found in the Sustainability and Citizenship report available on our corporate website.

The company considers ESG factors as part of its investment strategy and reviews individual investments to ensure congruence with company goals in this area. We have also made commitments to automate manual or paper-intensive processes and promote the paperless delivery of documents to our policyholders and producers. We will remain proactive in our efforts to evolve our business in response to our changing natural environment.

Competition

The specialty insurance industry is highly competitive. While we currently target underserved markets, some of our competitors have greater financial, marketing and management resources and experience than we do. Our primary competitors include national insurance companies, including American International Group, Inc., Chubb Limited, State Farm Mutual Automobile Insurance Company and Zurich Insurance Group Ltd., as well as specialty insurers such as Zephyr Insurance Company, a subsidiary of Heritage Insurance Holdings, and GeoVera Holdings, Inc. We also compete with the E&S market, including Lloyd’s of London in some of our lines. In addition, we compete against state or other publicly managed enterprises including the California Earthquake Authority, the National Flood Insurance Program and the Texas Wind Insurance Association. We may also compete with new market entrants in the future. Competition is based on many factors, including the reputation and experience of the insurer, coverages offered, pricing and other terms and conditions, customer service, relationships with brokers and agents (including ease of doing business, service provided and commission rates paid), size and financial strength ratings, among other considerations.

Ratings

Our insurance group, Palomar Holdings, Inc., currently has a rating of “A−” (Excellent) (Outlook Stable) from A.M. Best, which rates insurance companies based on factors of concern to policyholders. A.M. Best currently assigns 16 ratings to insurance companies, which currently range from “A++” (Superior) to “S” (Rating Suspended).

“A−” (Excellent) (Outlook Stable) is the fourth highest rating. In evaluating a company’s financial and operating performance, A.M. Best reviews the company’s profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its loss and loss expense reserves, the adequacy of its surplus, its capital structure, the experience and competence of its management and its market presence. A.M. Best’s ratings reflect its opinion of an insurance company’s financial strength, operating performance and ability to meet its obligations to policyholders. These evaluations are not directed to purchasers of an insurance company’s securities.

Intellectual Property

We have registered our logo as a trademark in the United States. We will pursue additional trademark registrations and other intellectual property protection to the extent we believe it would be beneficial and cost effective.

Human Capital

Overview

We believe our greatest asset is our talent. As of December 31, 2021, we employed 151 team members. During 2021, our workforce increased by approximately 23% compared to the prior year, and our turnover rate was approximately 20%.

Our business relies on our ability to attract and retain talented team members. To attract and retain talent, we strive to create a diverse, inclusive, and supportive workplace, with opportunities for our team members to develop in their careers. This is supported by competitive compensation, benefits and health and wellness programs, and by programs that build connections between our team members and their communities.

Diversity and Inclusion

We are committed to increasing diversity within our Company. We believe that diversity yields greater creativity and productivity, helps us serve our customers and partners more effectively, and ultimately returns greater value to our shareholders and to the communities in which we do business. We set diversity goals in our annual Sustainability & Citizenship report. In 2021, 39% of our team members identify as a member of an ethnic minority group, compared to 37% in 2020. Our commitment to Diversity and Inclusion follows:

DIVERSITY – We are not all the same. Palomar celebrates our differences, and we identify opportunities for increased innovation and collaboration amongst diverse teams with diverse perspectives.

INCLUSION – Palomar appreciates and takes pride in the active involvement of every team member’s unique contribution within a culture that harmonizes our differences. Our team members understand their important contribution to the greater good and understand that what they do makes a difference, both for the company, and in the larger communities we serve.

COMMUNITY & ENGAGEMENT – Palomar’s commitment to diversity, equality and inclusion extends into the communities where we conduct business. We believe that every organization, regardless of size or scope, can make a meaningful difference on issues of community welfare, justice, and equality. Through our social, personal, and professional networks, we champion our values and actions. We partner with like-minded organizations to drive action and positive change.

EQUALITY – Palomar promotes a work environment where individuals are treated fairly, respectfully and have equal access to resources and opportunities for growth. We encourage our teammates to share ideas and collaborate to remove organizational boundaries, solve problems, and drive company growth.

Compensation, Health and Well Being

We offer fair, competitive compensation and benefits to support our team members overall well-being. Our compensation programs include base pay, annual incentive compensation and, in many cases, long-term equity-based compensation. In 2021, 70% of our workforce received equity awards. We offer team members a comprehensive and leading benefits program that includes a holistic approach to health and wellness. We regularly benchmark programs to ensure our team has access to industry-leading benefits to address all aspects of well-being — physical and mental health, family care, financial support, and community engagement.

In response to the COVID-19 pandemic, many of our team members have been working from home since March 2020. We recently began allowing all employees to return to our offices on a voluntary basis, with established protocols to ensure operational reliability and employee safety. We provide team members a reimbursement to help manage incremental costs associated with remote work. We also regularly check-in with team members to assess their mental health. Team members receive 24/7 access to behavioral health tools and resources and a company paid subscription to Headspace, a meditation and wellness application.

Talent Development

We provide numerous training opportunities for our team members, with a focus on personal and professional development. We utilize “Coaching for Performance” methodologies to manage performance, provide feedback and develop talent. Our talent development programs provide team members resources to achieve career goals and build leadership skills. We encourage all team members to take advantage of company supported learning opportunities that help broaden industry and functional knowledge to help them excel in their current roles as well as advance their overall career objectives. In 2021, our team members completed approximately 1,100 hours of training. We believe in the dynamic allocation of talent, and therefore we encourage interested team members to explore functions outside their current role. To support this belief, we provide a $3,000 tuition and/or certification reimbursement for ongoing development. Lastly, we have a methodical approach to talent development, offering organizational advancement and mentoring services to all team members regardless of position or title. In 2021, 30% of our workforce was promoted or moved into new positions.

During the fourth quarter of 2021, our team members completed an engagement survey, and we received a 90% response rate. We are using the responses and learnings from this survey to inform our future talent management strategies.

Item 1A: Risk Factors

An investment in our common stock involves a high degree of risk. In deciding whether to invest, you should carefully consider the following risk factors, as well as the financial and other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations or prospects and cause the value of our stock to decline, which could cause you to lose all or part of your investment. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial also may become important factors that affect us.

Summary Risk Factors

Our business is subject to numerous risks and uncertainties, these risks include, but are not limited to, the following:

- Claims arising from unpredictable and severe catastrophe events, including those caused by global climate change, could reduce or eliminate our earnings and stockholders' equity, and limit our ability to underwrite new insurance policies;
- We and our customers could be negatively and adversely impacted by the COVID-19 Pandemic (“The Pandemic”), which may result in a decline in demand for our products, a decrease in underwriting income and a decrease in the value of our investment portfolio.
- Our reinsurers may not pay claims on a timely basis, or at all, which may materially adversely affect our business, financial condition, and results of operations
- The inability to purchase third-party reinsurance or otherwise expand our catastrophe coverage in amounts we desire on commercially acceptable terms or on terms that adequately protect us;
- Our risk management and loss limitation methods, including estimates and models, may fail to adequately manage our exposure to losses from catastrophe events and our losses could be materially higher than our expectations;
- A decline in our financial strength rating may adversely affect the amount of business we write;
- In the event that the reinsurance we purchase is inadequate or a reinsurer is unable or unwilling to make timely payments, our operating results and liquidity would be adversely impacted;
- Our business is concentrated in California and Texas and we are exposed more significantly to California and Texas loss activity and regulatory environments;
- The potential loss of one or more key executives or an inability to attract and retain qualified personnel could adversely affect our results of operations;
- We rely on a select group of brokers and program administrators to manage the distribution of a significant portion of our Residential Earthquake, Commercial Earthquake, Specialty Homeowners and Hawaii Hurricane products. Two program administrators with which we have long-standing relationships represented approximately 48% of our gross written premiums for the year ended December 31, 2021, and such relationships may not continue;
- There is intense competition for business in our industry;

- The failure of our information technology and telecommunications systems could adversely affect our business;
- Unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies could have a material adverse effect on our financial condition or results of operations;
- Any failure to protect our intellectual property rights could impair our ability to protect our intellectual property, proprietary technology platform and brand, or we may be sued by third parties for alleged infringement of their proprietary rights;
- We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to complying with public company regulations; and
- Our operating results and stock price may be volatile, or may decline regardless of our operating performance, and holders of our common stock could lose all or part of their investment.

Risks Related to Our Business and Industry

Claims arising from unpredictable and severe catastrophe events, including those caused by global climate change, could reduce or eliminate our earnings and stockholders' equity and limit our ability to underwrite new insurance policies.

Our insurance operations expose us to claims arising from unpredictable catastrophe events, such as earthquakes, hurricanes, windstorms, floods and other severe events. Furthermore, the actual occurrence, frequency and magnitude of such events are uncertain. While there can be no certainty surrounding the timing and magnitude of earthquakes, some observers believe that significant shifts in the tectonic plates, including the San Andreas Fault, may occur in the future. Over the past several years, changing weather patterns and climatic conditions, such as global warming, have added to the unpredictability and frequency of natural disasters in certain parts of the world, including the markets in which we operate. Climate change may increase the frequency and severity of extreme weather events. This effect has led to conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear that increase hurricane activity. Hurricane activity typically increases between June and November of each year, though the actual occurrence and magnitude of such events is uncertain. The occurrence of a natural disaster or other catastrophe loss could materially adversely affect our business, financial condition, and results of operations. Additionally, any increased frequency and severity of such weather events, including hurricanes, could have a material adverse effect on our ability to predict, quantify, reinsure and manage catastrophe risk and may materially increase our losses resulting from such catastrophe events.

The extent of losses from catastrophes is a function of both the frequency and severity of the insured events and the total amount of insured exposure in the areas affected. The frequency and severity of catastrophes are inherently unpredictable and the occurrence of one catastrophe does not make the occurrence of another catastrophe more or less likely. Increases in the replacement cost of insured property due higher material and labor costs, increases in concentrations of insured property, the effects of inflation, and changes in cyclical weather patterns may increase the severity of claims from catastrophe events in the future. Claims from catastrophe events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year, which could materially adversely affect our financial condition, possibly to the extent of eliminating our total stockholders' equity. We have recently experienced significant catastrophe losses including hurricane related losses during the third and fourth quarters of 2020 and third quarter of 2021. Our ability to underwrite new insurance policies could also be materially adversely impacted as a result of corresponding reductions in our capital. In addition, a natural disaster could materially impact the financial condition of our policyholders, resulting in loss of premiums.

Our catastrophe event retention is currently $12.5 million for all perils. Our reinsurance coverage exhausts at $1.68 billion for earthquake events and $700 million for hurricane events, with coverage in excess of our estimated peak zone 1 in 250 year PML event and in excess of our A.M. Best requirement. While we only select reinsurers whom we believe to have acceptable credit, if our reinsurers are unable to pay the claims for which they are responsible, we ultimately retain primary liability. Furthermore, our earthquake policies do not provide coverage for fire damage arising from an earthquake. While we believe this risk transfer program reduces volatility in our earnings, one or more severe catastrophe events could result in claims that substantially exceed the limits of our reinsurance coverage. Furthermore, catastrophe events which cause our reinsurers to incur losses may increase the cost of reinsurance in future periods or make it more difficult to obtain reinsurance on commercially acceptable terms.

We and our customers could be negatively and adversely impacted by the Pandemic, which may result in a decline in demand for our products, a decrease in underwriting income and a decrease in the value of our investment portfolio.

The ongoing Pandemic and response thereto has impacted and may continue to impact financial markets, businesses, households, and communities. The extent of the impact of the Pandemic on our operational and financial performance will depend on several factors, including the ultimate duration and severity of the Pandemic, the emergence and severity of variant strains, actions taken and restrictions imposed by the government and health officials in response, the effectiveness and adoption of COVID-19 vaccines and therapeutics, the ability for our customers to continue to pay premiums, contraction of the insurance and reinsurance markets, and the ability for reinsurers to satisfy claims, all of which are uncertain and cannot be predicted. In addition, the Pandemic has contributed to financial market volatility, supply chain disruptions, price inflation, and material and labor shortages, all of which may have a negative impact on our business. Continuation of the Pandemic could cause additional reduction in business activity and financial market instability and the global macroeconomic effects of the Pandemic, may persist for an indefinite period, even after the Pandemic has subsided.

Disruptions to the economy from the Pandemic could cause our customers to have less need for insurance coverage, cancel or cease payment on existing insurance policies, modify their coverage, or not renew the policies they hold with us. Policyholders may exaggerate or even falsify claims to obtain higher claims payments. Any of these outcomes would reduce our underwriting income. Inflationary pressures or supply chain shortages caused by the Pandemic may increase our operating expenses and the average size of our loss claims.

We underwrite a significant amount of our commercial insurance policies for businesses such as hotels, motels, retail stores, and professional services. These businesses have been impacted by restrictions placed on them and changes in consumer behavior resulting from the Pandemic. Prolonged restrictions or ongoing changes in consumer behavior as a result of the Pandemic would have a negative adverse impact on these insureds and their revenue streams, which consequently will impact their ability to meet their financial obligations, including purchasing or renewing insurance policies.

In addition, our results of operations depend, in part, on the performance of our investment portfolio. The Pandemic's impact on the economy and financial markets could reduce our net investment income and result in realized investment losses in future periods.

Our reinsurers may not pay claims on a timely basis, or at all, which may materially adversely affect our business, financial condition, and results of operations.

Our ability to grow our business is dependent in part in our ability to secure reinsurance for a substantial portion of the risk associated with our policies. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us (the ceding insurer) of our primary liability to our policyholders. Our current reinsurance program is designed to limit our risk retention to $12.5 million of risk per earthquake or wind event and provide coverage up to $1.68 billion for earthquake events and $700 million for hurricane events, subject to customary exclusions. However, particularly in the event of a major catastrophe, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all these claims. For example, the Pandemic has put financial pressure on the insurance market due to several factors, including the inability of customers to pay premiums and increased claims for business interruption. Increased claim demands for business interruption has put substantial financial pressure on the insurance and reinsurance market which may lead to court action and impact the ability of insurers and reinsurers to satisfy the liability under their policies.

In addition, reinsurers may default in their financial obligations to us as the result of insolvency, lack of liquidity, operational failure, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time consuming, costly, and uncertain of success. If a catastrophic event were to occur and our reinsurers were unable to satisfy their commitments to us, we may be unable to satisfy the liability to our policyholders. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims and existing case law and consider including any amounts deemed uncollectible from the reinsurer in a reserve for uncollectible reinsurance. As of December 31, 2021, we had $157.3 million of aggregate reinsurance recoverables. These risks could cause us to incur increased net losses, and, therefore, adversely affect our financial condition.

We may be unable to purchase third-party reinsurance or otherwise expand our catastrophe coverage in amounts we desire on commercially acceptable terms or on terms that adequately protect us, and this inability may materially adversely affect our business, financial condition and results of operations.

We purchase a significant amount of reinsurance from third parties that we believe enhances our business by reducing our exposure to potential catastrophe losses and reducing volatility in our underwriting performance, providing us with greater visibility into our future earnings. Reinsurance involves transferring, or ceding, a portion of our risk exposure on policies that we write to another insurer, the reinsurer, in exchange for a premium.

We primarily use treaty reinsurance, consisting of excess of loss (“XOL”) coverage. Additionally, we buy program specific reinsurance coverage on a quota share, property per risk or a facultative basis. Treaty coverage refers to a reinsurance contract that is applied to a group or class of business where all the risks written meet the criteria for that class. Facultative coverage refers to a reinsurance contract on individual risks as opposed to a group or class of business. Our catastrophe XOL treaties are divided into multiple layers.

From time to time, market conditions have limited, and in some cases prevented, insurers from obtaining the types and amounts of reinsurance they consider adequate for their business needs. As a result, we may not be able to purchase reinsurance in the areas and for the amounts we desire or on terms we deem acceptable or at all. In addition to reinsurance purchased from traditional reinsurers, we have historically incorporated collateralized protection from the insurance linked securities market (e.g. catastrophe bonds). During the first quarter of 2021, we closed a $400 million 144A catastrophe bond which became effective June 1, 2021. The catastrophe bond was completed through Torrey Pines Re Pte. Ltd. (“Torrey Pines Re”). Torrey Pines Re. is a special purpose insurer established in Singapore whereby Torrey Pines Re provides Palomar with indemnity-based reinsurance covering earthquake events. We may seek to expand our catastrophe XOL coverage through similar bond offerings in the future. However, there can be no assurance that we will be able to complete such offerings on acceptable terms, if at all.

If we are unable to renew our expiring reinsurance contracts on acceptable terms or expand our reinsurance coverage through traditional reinsurers, catastrophe bonds, or otherwise, our loss exposure could increase, which would increase our potential losses related to catastrophe or non-catastrophe events. If we are unwilling to bear an increase in loss exposure, we could have to reduce the level of our underwriting commitments, both of which could materially adversely affect our business, financial condition, and results of operations.

Many reinsurance companies have begun to exclude certain coverages from, or alter terms in, our reinsurance contracts with them. As a result, we, like other insurance companies, write insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose us to greater risk and greater potential losses.

We utilize several risk management and loss limitation methods, including relying on estimates and models. If these methods fail to adequately manage our exposure to losses from catastrophe events, our losses could be materially higher than our expectations, and our business, financial condition, and results of operations could be materially adversely affected.

Our approach to risk management relies on subjective variables that entail significant uncertainties. We manage our exposure to catastrophe losses by analyzing the probability of the occurrence of catastrophe events and their severity and overall impact on our underwriting and investment portfolio. We monitor and mitigate our exposure through a number of methods designed to minimize risk, including underwriting specialization, modeling and data systems, data quality control, strategic use of policy deductibles and regular review of aggregate exposure and probable maximum loss reports, which report the maximum amount of losses that one would expect based on computer or actuarial modeling techniques. These estimates, models, data, and scenarios may not produce accurate predictions; consequently, we could incur losses both in the risks we underwrite and to the value of our investment portfolio due to the overall impact on financial markets from the occurrence of catastrophe events.

In addition, output from our risk modeling software is based on third-party data that we believe to be accurate and reliable. The estimates and assumptions we use are dependent on many variables, such as loss adjustment expenses, insurance-to-value, storm or earthquake intensity, building code compliance and demand surge, which is the temporary inflation of costs for building materials such as lumber and labor resulting from increased demand for rebuilding services in the aftermath of a catastrophe. Accordingly, if the estimates and assumptions used in our risk models are incorrect or if our risk models prove to be an inaccurate forecasting tool, the losses we might incur from an actual catastrophe could be materially higher than our expectation of losses generated from modeled catastrophe scenarios, and our business, financial condition, and results of operations could be materially adversely affected. In addition, our third-party data providers may change the estimates or assumptions that we use in our risk models and/or their data may be inaccurate. Changes in these estimates or assumptions or the use of inaccurate third-party data could cause our actual losses to be materially higher than our current expectation of losses generated by modeled catastrophe scenarios, which in turn could materially adversely affect our business, financial condition, and results of operations.

We run many model simulations to understand the impact of these assumptions on a catastrophe's loss potential. Furthermore, there are risks associated with catastrophe events, which are either poorly represented or not represented at all by catastrophe models. Each modeling assumption or un-modeled risk introduces uncertainty into probable maximum loss estimates that management must consider. These uncertainties can include, but are not limited to, the following:

- The models do not address all the possible hazard characteristics of a catastrophe peril (e.g., the precise path and wind speed of a hurricane);
- The models may not accurately reflect the true frequency of events;
- The models may not accurately reflect a risk's vulnerability or susceptibility to damage for a given event characteristic;
- The models may not account for unusual or unprecedented catastrophe events;
- The models may not accurately represent loss potential to insurance or reinsurance contract coverage limits, terms and conditions; and
- The models may not accurately reflect the impact on the economy of the area affected or the financial, judicial, political, or regulatory impacts on insurance claim payments during or following a catastrophe event.

As a result of these factors and contingencies, our reliance on assumptions and data used to evaluate our entire risk portfolio and specifically to estimate a probable maximum loss is subject to a high degree of uncertainty that could result in actual losses that are materially different from our probable maximum loss estimates and could adversely impact our financial results.

A decline in our financial strength rating may adversely affect the amount of business we write and impact compliance with our debt covenants.

Participants in the insurance industry use ratings from independent ratings agencies, such as A.M. Best, as an important means of assessing the financial strength and quality of insurers. In setting its ratings, A.M. Best performs quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. A.M. Best financial strength ratings range from "A++" (Superior) to "F" for insurance companies that have been publicly placed in liquidation. As of June 30, 2021, A.M. Best has assigned a financial strength rating of “A−” (Excellent) (Outlook Stable) to our insurance company subsidiaries, Palomar Specialty Insurance Company (“PSIC”) and Palomar Excess and Surplus Insurance Company (“PESIC”). A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance company’s ability to meet its obligations to policyholders and such ratings are not evaluations directed to investors and are not a recommendation to buy, sell or hold our common stock or any other securities we may issue. A.M. Best’s analysis includes comparisons to peers and industry standards as well as assessments of operating plans, philosophy and management. A.M. Best periodically reviews our financial strength rating and may revise it downward or revoke it at A.M. Best’s discretion based primarily on its analyses of our balance sheet strength (including capital adequacy and loss adjustment expense reserve adequacy), operating performance and business profile. Factors that could affect such analyses include, but are not limited to:

- If we change our business practices from our organizational business plan in a manner that no longer supports A.M. Best’s rating;
- If unfavorable financial, regulatory or market trends affect us, including excess market capacity;
- If our losses exceed our loss reserves;
- If we have unresolved issues with government regulators;
- If we are unable to retain our senior management or other key personnel;
- If our investment portfolio incurs significant losses; or
- If A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect our rating.

These and other factors could result in a downgrade of our financial strength rating. A downgrade or withdrawal of our rating could result in any of the following consequences, among others:

- Causing our current and future distribution partners and insureds to choose other, more highly-rated competitors;
- Increasing the cost or reducing the availability of reinsurance to us;
- Severely limiting or preventing us from writing new and renewal insurance contracts; or
- Causing us to be out of compliance with the financial covenants in our credit agreement.

In addition, in view of the earnings and capital pressures experienced by many financial institutions, including insurance companies, it is possible that rating organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate or will increase the capital and other requirements employed in the rating organizations’ models for maintenance of certain ratings levels. If our credit rating were to be downgraded, or general market conditions were to ascribe higher risk to our rating levels, due to the Pandemic or otherwise, our access to capital markets and the cost of any equity or debt financing will be negatively impacted. We can offer no assurance that our rating will remain at its current level. It is possible that such reviews of us may result in adverse ratings consequences, which could have a material adverse effect on our financial condition and results of operations.

Our business is concentrated in California and Texas and, as a result, we are exposed more significantly to California and Texas loss activity and regulatory environments.

Our policyholders and insurance risks are currently concentrated in California and Texas, which generated 46% and 12% of our gross written premiums, respectively, for the year ended December 31, 2021. We are exposed to business, economic, political, judicial and regulatory risks due to this concentration that are greater than the risks faced by insurance companies that conduct business over a more extensive geographic area. Any single, major catastrophe event, series of events or other condition causing significant losses in California or Texas could materially adversely affect our business, financial condition and results of operations. Additionally, unfavorable business, economic or regulatory conditions in these states may result in a significant reduction of our premiums or increase our loss exposure.

Changes in California or Texas political climates could result in new or changed legislation affecting the property and casualty insurance industry in general which could have a negative impact on our business.

We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.

We depend on our ability to attract and retain experienced personnel and seasoned key executives who are knowledgeable about our business. The pool of talent from which we actively recruit is limited and may fluctuate based on market dynamics specific to our industry and independent of overall economic conditions. As such, higher demand for employees having the desired skills and expertise could lead to increased compensation expectations for existing and prospective personnel, making it difficult for us to retain and recruit key personnel and maintain labor costs at desired levels. Since the onset of the Pandemic, companies have had issues with employee turnover and finding and hiring qualified employees. These challenges may continue for the foreseeable future.

In particular, our future success is substantially dependent on the continued service of our Co-Founder, Chief Executive Officer and Chairman, Mac Armstrong, and our Chief Financial Officer, Christopher Uchida. Should any of our key executives terminate their employment with us, or if we are unable to retain and attract talented personnel, we may be unable to maintain our current competitive position in the specialized markets in which we operate, which could adversely affect our results of operations.

We rely on a select group of brokers and program administrators, and such relationships may not continue.

The distribution networks of our products are multi-faceted and distinct to each line of business. Our relationship with our brokers or program administrators may be discontinued at any time. Even if the relationships do continue, they may not be on terms that are profitable for us. We distribute a significant portion of our Residential Earthquake, Commercial Earthquake, Specialty Homeowners and Hawaii Hurricane products through longstanding relationships with two program administrators. Each of the four products managed by the program administrators operates as a separate program that is governed by an independent, separately negotiated agreement with unique terms and conditions, including geographic scope, key person provisions, economics and exclusivity. These programs also feature separate managerial oversight and leadership, policy administration systems and retail agents originating policies. In total, these four products accounted for $255.8 million or 48% of our gross written premiums for the year ended December 31, 2021. This amount includes our Value Select Residential Earthquake program, which represents the majority of our Residential Earthquake premium and is administered through a mutually exclusive program administrator agreement with Arrowhead General Insurance Agency for the states of California, Oregon and Washington. The termination of a relationship with one or more significant brokers or program administrators could result in lower gross written premiums and could have a material adverse effect on our results of operations or business prospects.

Because we provide our program administrators with specific quoting and binding authority, if any of them fail to comply with pre-established guidelines, our results of operations could be adversely affected.

We market and distribute certain of our insurance products through program administrators that have limited quoting and binding authority and that in turn sell our insurance products to insureds through retail agents and wholesale brokers. These program administrators can bind certain risks without our expressed approval. If any of these program administrators fail to comply with our underwriting guidelines and the terms of their appointments, we could be bound on a particular risk or number of risks that were not anticipated when we developed the insurance products or estimated losses and loss adjustment expenses. Such actions could adversely affect our results of operations.

Because our business depends on insurance brokers and program administrators, we are exposed to certain risks arising out of our reliance on these distribution channels that could adversely affect our results.

Certain premiums from policyholders, where the business is produced by brokers, are collected directly by the brokers and forwarded to our insurance subsidiaries. In certain jurisdictions, when the insured pays its policy premium to its broker for payment to us, the premium might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to us for those amounts, whether or not we have actually received the premium from the broker. Consequently, we assume a degree of credit risk associated with the brokers with which we work. We review the financial condition of potential new brokers before we agree to transact business with them. Although the failure by any of our brokers to remit premiums to us has not been material to date, there may be instances where our brokers collect premiums but do not remit them to us and we may be required under applicable law to provide the coverage set forth in the policy despite the related premiums not being paid to us. Additionally, the loss or disruption of business from our agents and brokers or the failure or inability of these agents and brokers to successfully market our insurance products, including impacts related to the Pandemic, could have a material adverse effect on our business, financial condition, and results of operations.

Because the possibility of these events occurring depends in large part upon the financial condition and internal operations of our brokers, we regularly meet and communicate with our brokers, monitor broker behavior and review broker financial information on an as-needed basis. If we are unable to collect premiums from our brokers in the future, our underwriting profits may decline, and our financial condition and results of operations could be materially and adversely affected.

Competition for business in our industry is intense.

We face competition from other specialty insurance companies, standard insurance companies and underwriting agencies that are larger than we are and that have greater financial, marketing, and other resources than we do. Some of these competitors also have longer operating history and more market recognition than we do in certain lines of business. In addition, we compete against state or other publicly managed enterprises including the California Earthquake Authority (“CEA”), the National Flood Insurance Program and the Texas Wind Insurance Association. If the CEA decided to provide coverage to non-CEA member carriers or lessened the capital requirements for membership, we would face additional competition in our markets, and our operating results could be adversely affected. Furthermore, it may be difficult or prohibitively expensive for us to implement technology systems and processes that are competitive with the systems and processes of these larger companies.

Competition in the insurance industry is based on many factors, including price of coverage, the general reputation and perceived financial strength of the company, relationships with brokers, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment, and the experience and reputation of the members of our underwriting team in the particular lines of insurance and reinsurance we seek to underwrite. In recent years, the insurance industry has undergone increasing consolidation, which may further increase competition.

Certain new, proposed or potential industry or legislative developments could further increase competition in our industry. These developments include:

- An increase in capital-raising by companies in our lines of business, which could result in new entrants to our markets and an excess of capital in the industry; and

- The deregulation of commercial insurance lines in certain states and the possibility of federal regulatory reform of the insurance industry, which could increase competition from standard carriers.

We may not be able to continue to compete successfully in the insurance markets. Increased competition in these markets could result in a change in the supply and demand for insurance, affect our ability to price our products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits our ability to transact business, our operating results could be adversely affected.

If actual renewals of our existing policies do not meet expectations, our written premium in future years and our future results of operations could be materially adversely affected.

Most of our insurance policies are written for a one-year term. In our financial forecasting process, we make assumptions about the rates of renewal of our prior year's policies. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if we choose not to write a renewal because of pricing conditions, our written premium in future years and our future operations would be materially adversely affected.

In addition, during the fourth quarter of 2020, we purchased the renewal rights of certain Hawaii Hurricane policies from another insurance company. There is no guarantee that current policyholders will renew their Hurricane policies with the us and the ultimate impact of this purchase on our written premiums is uncertain and may be below our expectations.

Our failure to accurately and timely evaluate and pay claims could materially and adversely affect our business, financial condition, results of operations, and prospects.

We must accurately and timely evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately and timely, including the training and experience of our claims representatives, including our third party claims administrators ("TPAs"), the effectiveness of our management, and our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately and timely could lead to regulatory and administrative actions or material litigation, undermine our reputation in the marketplace and materially and adversely affect our business, financial condition, results of operations, and prospects.

In addition, if we do not manage our TPAs effectively, or if our TPAs are unable to effectively handle our volume of claims, our ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, our business could suffer from decreased quality of claims work which, in turn, could adversely affect our results of operations.

We may act based on inaccurate or incomplete information regarding the accounts we underwrite.

We rely on information provided by insureds or their representatives when underwriting insurance policies. While we may make inquiries and take other steps to validate or supplement the information provided, we may make underwriting decisions based on incorrect or incomplete information. It is possible that we will misunderstand the nature or extent of the activities or facilities and the corresponding extent of the risks that we insure because of our reliance on inadequate or inaccurate information.

We may change our underwriting guidelines or our strategy without stockholder approval.

Our management has the authority to change our underwriting guidelines or our strategy without notice to our stockholders and without stockholder approval. As a result, we may make fundamental changes to our operations without stockholder approval, which could result in our pursuing a strategy or implementing underwriting guidelines that may be materially different from the strategy or underwriting guidelines described in our public filings.

Our employees could take excessive risks, which could negatively affect our financial condition and business.

As an insurance enterprise, we are in the business of binding certain risks. The employees who conduct our business, including executive officers and other members of management, underwriters, product managers and other employees, do so in part by making decisions and choices that involve exposing us to risk. These include decisions such as setting underwriting guidelines and standards, product design and pricing, determining which business opportunities to pursue, and other decisions. We endeavor, in the design and implementation of our compensation programs and practices, to avoid giving our employees incentives to take excessive risks. Employees may, however, take such risks regardless of the structure of our compensation programs and practices. Similarly, although we employ controls and procedures designed to monitor employees' business decisions and prevent them from taking excessive risks, these controls and procedures may not be effective. If our employees take excessive risks, the impact of those risks could have a material adverse effect on our financial condition and business operations.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Many factors will affect the amount and timing of our capital needs, including our growth rate and profitability, our claims experience, the availability of reinsurance, market disruptions, and other unforeseeable developments. If we need to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our stockholders could result. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. In any case, such securities may have rights, preferences and privileges that are senior to those of the shares of common stock offered hereby. If we cannot obtain adequate capital on favorable terms or at all, we may not have sufficient funds to implement our operating plans and our business, financial condition or results of operations could be materially adversely affected.

We may not be able to manage our growth effectively.

We intend to grow our business in the future, which could require additional capital, systems development, and skilled personnel. However, we must be able to meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify and hire qualified employees, and effectively incorporate the components of any businesses we may acquire in our effort to achieve growth. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to successfully scale our excess and surplus insurance company, our business and future prospects may be harmed.

During the third quarter of 2020, we launched our excess and surplus lines (E&S) insurance product offerings via our surplus lines subsidiary, Palomar Excess and Surplus Insurance Company (''PESIC''). The E&S market is highly competitive and many of our competitors are better capitalized and have a longer history in the market. While we believe that the underwriting acumen and market expertise we have established through our admitted insurance company, PSIC, can be applied to the surplus lines market as well, there can be no assurances that we will be successful in accurately analyzing risks and scaling a profitable operation in the E&S market. If we are unable to underwrite profitably in the E&S market, our business and future prospects may be adversely impacted.

Our operating results have in the past varied from quarter to quarter and may not be indicative of our long-term prospects.

Our operating results are subject to fluctuation and have historically varied from quarter to quarter. We expect our quarterly results to continue to fluctuate in the future due to a number of factors, including the general economic conditions in the markets where we operate, the frequency of occurrence and severity of catastrophe or other insured events, fluctuating interest rates, claims exceeding our loss reserves, competition in our industry, deviations from expected premium retention rates of our existing policies and contracts, adverse investment performance, and the cost of reinsurance coverage. Additionally, the future impact of the Pandemic on our business, operations, liquidity, financial condition, and results of operations remains uncertain.

We seek to underwrite products and make investments to achieve favorable returns on tangible stockholders' equity over the long term. Our opportunistic nature and focus on long-term growth in tangible equity may result in fluctuations in gross written premiums, loss expenses, and other underwriting expenses from period to period as we concentrate on underwriting contracts that we believe will generate better long-term, rather than short-term, results. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

Our Credit Agreement contains restrictions and covenants that limit our flexibility in operating our business and any debt borrowed under our Credit Agreement exposes us to additional risk and may adversely affect our financial condition and future financial results.

In December 2021, we entered into a Credit Agreement (the "Credit Agreement") with certain lenders which provides a revolving credit facility of up to $100.0 million. Currently, we have no borrowings under the Credit Agreement. If we make borrowings in the future, it may impact our business and financial condition by:

- Requiring the dedication of a portion of our expected cash flows from operations to service our debt, thereby reducing the amount of expected cash flows available for other purposes, including investing, and paying claims and operating expenses and;

- Exposing us to interest rate risk since the interest rate in the credit agreement is a variable rate

In addition, the Credit Agreement contains financial covenants, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions. The financial covenants in the Credit agreement require the Company not to exceed a maximum leverage ratio and maintain a minimum net worth at the end of each quarter. The Company's insurance subsidiaries are also required to maintain a minimum Risk Based Capital Ratio at the end of each year and must always maintain a minimum AM Best Financial Strength rating. All of these covenants and restrictions impact how we operate our business and may limit our flexibility in planning for, or reacting to, changes in our business and industry. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the noteholders or lenders, then, subject to applicable cure periods, any outstanding debt may be declared immediately due and payable.

Risks related to the Economic Environment

The effects of the Pandemic have significantly affected the global and U.S. economies and financial markets, and may further disrupt our operations and the operations of our insureds, agents, and third parties upon which we rely.

The current Pandemic has caused significant disruption in the global and U.S. economies and financial markets. COVID-19 and its variant strains have caused illness, quarantines, cancellation of events and travel, business and school closures, reduction in business activity, increased unemployment, supply chain interruptions, and overall economic and financial market instability. There continue to be significant reported cases of infected individuals throughout the United States and globally. Impacts to our business could be widespread and material impacts may result, including but not limited to, the following:

- employees contracting COVID-19 and/or related variants;
- reductions in our operating effectiveness as certain employees work from home;
- unavailability of key personnel necessary to conduct our business activities;
- volatility in financial markets that could materially affect our investment portfolio valuations and returns;
- government mandates and/or legislative changes, including premium grace periods and presumed Pandemic compensability for all or certain insured groups;
- increases in frequency and/or severity of compensable claims;
- increased credit risk;
- business disruption to independent insurance agents and brokers and/or our partners that market and sell our insurance products; and
- business disruptions to third parties that we outsource certain business functions to and whose technology upon which we rely.

Since the beginning of the Pandemic, we have taken precautions to protect the safety and well-being of our employees while providing uninterrupted service to our policyholders and claimants. However, no assurance can be given that these actions will be sufficient in the future. Furthermore, the macroeconomic effects of the Pandemic may persist for an indefinite period, even after the pandemic has subsided, which could negatively impact demand for our insurance products in the future and result in a material adverse effect on our results of operations and financial condition.

Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in the frequency of claims and premium defaults, and even the falsification of claims, or a combination of these effects, which, in turn, could affect our growth and profitability.

Factors, such as general economic conditions, the volatility and strength of the capital markets, and inflation can affect the business and economic environment. These same factors affect our ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending, and reduced corporate revenue, the demand for insurance products is generally adversely affected, which directly affects our premium levels and profitability. Negative economic factors may also affect our ability to receive the appropriate rate for the risk we insure with our policyholders and may adversely affect the number of policies we can write, and our opportunities to underwrite profitable business. In an economic downturn, our customers may have less need for insurance coverage, cancel or cease payment on existing insurance policies, modify their coverage, or not renew the policies they hold with us. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. These outcomes would reduce our underwriting profit to the extent these factors are not reflected in the rates we charge.

We underwrite a significant portion of our insurance in California and Texas. Any economic downturn in either state could have an adverse effect on our financial condition and results of operations.

Performance of our investment portfolio is subject to a variety of investment risks that may adversely affect our financial results.

Our results of operations depend, in part, on the performance of our investment portfolio. We seek to hold a diversified portfolio of investments that is managed by a professional investment advisory management firm in accordance with our investment policy and routinely reviewed by our Board of Directors. Our investments are subject to general economic conditions and market risks as well as risks inherent to particular securities.

Our primary market risk exposures relate to changes in interest rates and credit quality considerations. Future increases in interest rates could cause the values of our fixed maturity securities portfolios to decline, with the magnitude of the decline depending on the duration of securities included in our portfolio and the amount by which interest rates increase. Some fixed maturity securities have call or prepayment options, which create possible reinvestment risk in declining rate environments. Other fixed maturity securities, such as mortgage-backed and asset-backed securities, carry prepayment risk or, in a rising interest rate environment, may not prepay as quickly as expected.

The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities we hold, or due to deterioration in the financial condition of an insurer that guarantees an issuer’s payments on such investments. Downgrades in the credit ratings of fixed maturities also have a significant negative effect on the market valuation of such securities.

Such factors could reduce our net investment income and result in realized investment losses. Our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the securities we hold in our portfolio does not reflect prices at which actual transactions would occur.

We also invest in marketable equity securities. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value based on the performance of equity markets. Our equity invested assets totaled $33.3 million as of December 31, 2021.

Risks for all types of securities are managed through the application of our investment policy, which establishes investment parameters that include but are not limited to, maximum percentages of investment in certain types of securities and minimum levels of credit quality, which we believe are within applicable guidelines established by the National Association of Insurance Commissioners (“NAIC”), the Oregon Division of Financial Regulation and the California and Arizona Departments of Insurance.

Although we seek to preserve our capital, we cannot be certain that our investment objectives will be achieved, and results may vary substantially over time. In addition, although we seek to employ investment strategies that are not correlated with our insurance and reinsurance exposures, losses in our investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on us.

Our investment portfolio could also be adversely impacted by ratings downgrades, increased bankruptcies and credit spread widenings caused by economic downturns from pandemics or other events. Severe economic downturns could cause impairments in our fixed income portfolio. In addition, declines in fixed income yields would result in decreases in net investment income from future investment activity, including re-investments.

We could be forced to sell investments to meet our liquidity requirements.

We invest the premiums we receive from our insureds until they are needed to pay policyholder claims. Consequently, we seek to manage the duration of our investment portfolio based on the duration of our losses and loss adjustment expense reserves to provide sufficient liquidity and avoid having to liquidate investments to fund claims. Risks such as inadequate losses and loss adjustment reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. We may not be able to sell our investments at favorable prices or at all. Sales could result in significant realized losses depending on the conditions of the general market, interest rates, and credit issues with individual securities.

Risks related to Technology

We employ third-party licensed software for use in our business, and the inability to maintain these licenses, problems with the software we license, or increases to the cost of software licenses could adversely affect our business.

Multiple areas of our business rely on certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software in the future. Unforeseen issues may arise in third-party software platforms which may have an adverse impact on our operations. Integration of new third-party software or modifications to our existing third-party software may require substantial investment of our time and resources. The inability to integrate or operate third-party software successfully or the inadequacy of third-party software may have a material adverse impact on our operations. In addition, the cost of third-party software is significant and we expect it to increase in the future. If we have issues with the functionality or expense of third-party software, we may not be able to find acceptable alternatives in a timely manner or at all. Many of the risks associated with the use of third-party software cannot be eliminated, and these risks could negatively affect our business.

Additionally, the software powering our technology systems incorporates software covered by open source licenses. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that the licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to operate our systems. In the event that portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code or re-engineer all or a portion of our technology systems, each of which could reduce or eliminate the value of our technology systems. Such risk could be difficult or impossible to eliminate and could adversely affect our business, financial condition, and results of operations.

The failure of our information technology and telecommunications systems could adversely affect our business.

Our business is highly dependent upon our information technology and telecommunications systems, including our underwriting system. We rely on these systems to interact with brokers and insureds, to underwrite business, to prepare policies and process premiums, to perform actuarial and other modeling functions, to process claims and make claims payments, and to prepare internal and external financial statements and information. Some of these systems may include or rely on third-party systems not located on our premises or under our control. Events such as natural catastrophes, pandemics (including the COVID-19 Pandemic), cyber-attacks, terrorist attacks, industrial accidents or computer viruses may cause our systems to fail or be inaccessible for extended periods of time. While we have implemented business contingency plans and other reasonable plans to protect our systems, sustained or repeated system failures or service denials could severely limit our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or otherwise operate in the ordinary course of business.

A significant portion of our employees work remotely and outside of our primary offices on a regular basis. We believe remote work increases the need for our information technology and telecommunications systems to work properly and creates additional operational risk and difficulty should these systems fail.

Security breaches or cyber-attacks could expose the Company to liability and damage its reputation and business.

Our operations depend on the reliable and secure processing, storage, and transmission of confidential and other data and information in our computer systems and networks. Computer viruses, hackers, employee misconduct, and other external hazards could expose our systems to security breaches, cyber-attacks or other disruptions.

Cyberthreats are constantly evolving and becoming increasingly sophisticated and complex, making it increasingly difficult to detect and successfully defend against them. In addition, cyber-attackers (which may include individuals or groups, as well as sophisticated groups such as nation-state and state-sponsored attackers, which can deploy significant resources to plan and carry out exploits) also develop and deploy viruses, worms, credential stuffing attack tools and other malicious software programs, some of which may be specifically designed to attack our products, information systems or networks. Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our products or services to disclose sensitive, personal or confidential information via illegal electronic spamming, phishing or other tactics.

While we have implemented security measures designed to protect against breaches of security and other interference with our systems and networks, our systems and networks may be, and at times are, subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our customers' data and information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors, reputational harm or other damage to our business. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

In addition, the trend toward general public notification of such incidents could exacerbate the harm to our business, financial condition and results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

Any cloud provider service failure or control weakness could adversely affect our business.

We employ cloud-based services to host our applications and intend to expand our use. As we expand our use of cloud-based services, we will increasingly rely on third-party cloud providers to maintain appropriate controls and safeguards to protect confidential information we receive, including personal, personally identifiable, sensitive, confidential or proprietary data, and the integrity and continuous operation of our proprietary technology platform. While we conduct due diligence on these cloud providers with respect to their security and business controls, we may not have the visibility to effectively monitor the implementation and efficacy of these controls. Outside parties may be able to circumvent controls or exploit vulnerabilities, resulting in operational disruption, data loss, defects or a security event. Migrating to the cloud increases the risk of operational disruption should internet service be interrupted. While we have implemented business contingency and other plans to facilitate continuous internet access, sustained or concurrent service denials or similar failures could limit our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or otherwise operate our business. Any such event or failure could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Laws and Regulations

We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives. In addition, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

PSIC is subject to extensive regulation in Oregon, its state of domicile, California, where it is commercially domiciled, and to a lesser degree, the other states in which it operates. PESIC is subject to extensive regulation in Arizona, its state of domicile, and to a lesser degree, the other states in which it writes business. Our Bermuda based reinsurance subsidiary, Palomar Specialty Reinsurance Company Bermuda Ltd. ("PSRE"), is subject to regulation in Bermuda.

Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of investors or stockholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, capital and surplus requirements, investment and underwriting limitations, affiliate transactions, dividend limitations, changes in control, solvency and a variety of other financial and non-financial aspects of our business. Significant changes in these laws and regulations could further limit our discretion or make it more expensive to conduct our business. State insurance regulators and the Bermuda Monetary Authority (the "BMA"), also conduct periodic examinations of the affairs of insurance and reinsurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense constraints that could adversely affect our ability to achieve some or all our business objectives.

Our U.S. insurance subsidiaries are part of an "insurance holding company system" within the meaning of applicable California, Oregon and Arizona statutes and regulations. As a result of such status, certain transactions between our U.S. insurance subsidiaries and one or more of their affiliates, such as a tax sharing agreement or cost sharing arrangement, may not be effected unless the insurer has provided notice of that transaction to the California Department of Insurance, the Oregon Division of Financial Regulation, or the Arizona Department of Insurance, as applicable, at least 30 days prior to engaging in the transaction and the California Department of Insurance, the Oregon Division of Financial Regulation, or the Arizona Department of Insurance, as applicable, has not disapproved such transaction within the 30-day time period. These prior notification requirements may result in business delays and additional business expenses. If any of our U.S. insurance subsidiaries fail to file a required notification or fail to comply with other applicable insurance regulations in California, Oregon or Arizona, as applicable, we may be subject to significant fines and penalties and our working relationship with the California Department of Insurance, the Oregon Division of Financial Regulation, or the Arizona Department of Insurance, as applicable, may be impaired.

In addition, state insurance regulators have broad discretion to deny, suspend, or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, we follow practices based on our interpretations of regulations or practices that we believe generally to be followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, state insurance regulators could preclude or temporarily suspend us from carrying on some or all of our activities or could otherwise penalize us. This could adversely affect our ability to operate our business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could interfere with our operations and require us to bear additional costs of compliance, which could adversely affect our ability to operate our business.

Our U.S. insurance subsidiaries are subject to risk-based capital requirements, based upon the "risk based capital model" adopted by the NAIC, and other minimum capital and surplus restrictions imposed under Arizona, Oregon and California law. These requirements establish the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property and casualty insurers that may be inadequately capitalized by looking at certain inherent risks of each insurer's assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure by any of our U.S. subsidiaries to maintain risk-based capital at the required levels could adversely affect their ability to maintain regulatory authority to conduct business.

PSRE is subject to regulation from the European Union. The European Union adopted the Economic Substance Act 2018 and the Economic Substance Regulations 2018 (together, the "ES Requirements"). As an insurance company, our Bermuda subsidiary conducts a relevant activity and will be subject to the ES Requirements. As a result, our Bermuda subsidiary may be required to change or increase our business operations in Bermuda to meet the new requirements. Compliance with the ES Requirements is required with effect from July 1, 2019.

Unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies could have a material adverse effect on our financial condition and results of operations.

There can be no assurances that specifically negotiated loss limitations or exclusions in our policies will be enforceable in the manner we intend. As industry practices and legal, judicial, social, and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. For example, many of our policies limit the period during which a policyholder may bring a claim, which may be shorter than the statutory period under which such claims can be brought against our policyholders. While these limitations and exclusions help us assess and mitigate our loss exposure, it is possible that a court or regulatory authority or an executive action could nullify or void a limitation or exclusion, such as limitations on business interruption claims caused by pandemics or other crises, or legislation could be enacted modifying or barring the use of such limitations or exclusions. These types of governmental actions could result in higher than anticipated losses and loss adjustment expenses, which could have a material adverse effect on our financial condition or results of operations. In addition, court decisions, such as the 1995 Montrose decision in California could read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions.

These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the frequency or severity of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

We may become subject to additional government or market regulation, including additional regulation around cyber-attacks, which may have a material adverse impact on our business.

Our business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and risk-based capital requirements, and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies. In addition, the Bermuda reinsurance regulatory framework has become subject to increased scrutiny in many jurisdictions. As a result, the BMA has implemented and imposed additional requirements on the companies it regulates, which requirements could adversely impact the operations of PSRE.

Any government mandates and/or legislative changes related to the ongoing Pandemic, including mandated premium refunds or credits and extended premium grace periods, could have a material adverse effect on our results of operations and financial condition. Premium grace periods could significantly increase our expenses while decreasing our short-term revenues which would adversely impact our liquidity.

Additionally, in response to the growing threat of cyber-attacks in the insurance industry, certain jurisdictions have begun to consider new cybersecurity measures, including the adoption of cybersecurity regulations which, among other things, would require insurance companies to establish and maintain a cybersecurity program and implement and maintain cybersecurity policies and procedures. On October 24, 2017, the NAIC adopted its Insurance Data Security Model Law, intended to serve as model legislation for states to enact in order to govern cybersecurity and data protection practices of insurers, insurance agents, and other licensed entities registered under state insurance laws. As we expand our insurance operations, we expect to be impacted by this legislation and be required to file compliance certifications pertaining to this legislation.

We routinely transmit and receive personal, confidential and proprietary data and information by electronic means and are subject to numerous data privacy laws and regulations enacted in the jurisdictions in which we do business, including recent laws in California whose impact on our business are difficult to predict.

While we have implemented cybersecurity policies and procedures, there is no guarantee our policies and procedures will protect our systems against all attacks or comply with all provisions of these evolving regulations.

Changes in tax laws as a result of the enactment of tax legislation could impact our operations and profitability.

Legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law on December 22, 2017. The Tax Act made significant changes to the U.S. federal income tax rules for taxation of individuals and corporations. One of the associated changes which could impact us is a limitation on the deduction of state and local taxes and mortgage interest. This limitation particularly affects taxpayers in states with relatively high home prices and state and local taxes, such as California, where a significant portion of our business is concentrated.

Any future tax legislation or changes to tax laws such as changing the corporate tax rate could have a negative impact on our results of operations and profitability.

If states increase the assessments that we are required to pay, our business, financial condition and results of operations would suffer.

Certain jurisdictions in which PSIC is admitted to transact business require property and casualty insurers doing business within that jurisdiction to participate in insurance guaranty associations. These organizations pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. They levy assessments, up to prescribed limits, on all member insurers in a particular state based on the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. States may also assess admitted companies to fund their respective department of insurance operations. Some states permit member insurers to recover assessments paid through full or partial premium tax offset or in limited circumstances by surcharging policyholders.

PSIC is licensed to conduct insurance operations on an admitted basis in 34 states. As PSIC grows, its share of any assessments in each state in which it underwrites business on an admitted basis may increase. PSIC paid assessments of $0.1 million in 2021. We cannot predict with certainty the amount of future assessments, because they depend on factors outside our control, such as insolvencies of other insurance companies as well as the occurrence of significant catastrophes. Assessments are generally covered by our catastrophe XOL treaties and, to the extent we have experienced a net loss from an event in excess of our net retention, assessments would be recovered from our reinsurers with no additional expense to us. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us (the ceding insurer) of our primary liability to our policyholders. Significant assessments could result in higher operating expenses and have a material adverse effect on our business, financial condition, or results of operations. In addition, while some states permit member insurers to recover assessments paid through full or partial premium tax offset or, in limited circumstances, by surcharging policyholders, there is no certainty that offsets or surcharges will be permitted in connection with any future assessments.

Because we are a holding company and substantially all our operations are conducted by our insurance subsidiaries, our ability to pay dividends depends on our ability to obtain cash dividends or other permitted payments from our insurance subsidiaries.

The continued operation and growth of our business will require substantial capital. We do not intend to declare and pay cash dividends on shares of our common stock in the foreseeable future. Because we are a holding company with no business operations of our own, our ability to pay dividends to stockholders largely depends on dividends and other distributions from our insurance subsidiaries, PSIC, PESIC and PSRE. State insurance laws, including the laws of Oregon, California, Arizona, and the laws of Bermuda restrict the ability of our subsidiaries to declare stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. The maximum dividend distribution absent the approval or non-disapproval of the insurance regulatory authority in Oregon, California and Arizona is limited by Oregon law at ORS 732.576, California law at Cal. Ins. Code 1215.5(g) and Arizona Revised Statute 20-481. Under Oregon statute, dividend payments from PSIC are further limited to that part of available policyholder surplus that is derived from net profits on our business. State insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that dividends up to the maximum amounts calculated under any applicable formula would be permitted. Moreover, state insurance regulators that have jurisdiction over the payment of dividends by PSIC and PESIC may in the future adopt statutory provisions more restrictive than those currently in effect.

PSRE is highly regulated and is required to comply with various conditions before it is able to pay dividends or make distributions to us. Bermuda law, including the Insurance Act 1978, as amended (“Insurance Act”) and the Companies Act 1981, as amended (“Companies Act”) impose restrictions on PSRE’s ability to pay dividends to us based on solvency margins and surplus and capital requirements. These restrictions, and any other future restrictions adopted by the BMA, could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to us by PSRE without affirmative approval of the BMA.

Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking immediate cash dividends should not purchase our common stock.

The effects of litigation on our business are uncertain and could have an adverse effect on our business.

As is typical in our industry, we continually face risks associated with litigation of various types, including disputes relating to insurance claims under our policies as well as other general commercial and corporate litigation. Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

We rely on the use of credit scoring in pricing and underwriting certain of our insurance policies and any legal or regulatory requirements that restrict our ability to access credit score information could decrease the accuracy of our pricing and underwriting process and thus decrease our ability to be profitable.

We use credit scoring as a factor in pricing and underwriting decisions where allowed by state law. Consumer groups and regulators have questioned whether the use of credit scoring unfairly discriminates against some groups of people and are calling for laws and regulations to prohibit or restrict the use of credit scoring in underwriting and pricing. Laws or regulations that significantly curtail or regulate the use of credit scoring, if enacted in states in which we operate, could impact the integrity of our pricing and underwriting processes, which could, in turn, materially and adversely affect our business, financial condition, results of operations and prospects, and make it harder for us to be profitable over time.

Any failure to protect our intellectual property rights could impair our ability to protect our intellectual property, proprietary technology platform and brand, or we may be sued by third parties for alleged infringement of their proprietary rights.

Our success and ability to compete depend in part on our intellectual property, which includes our rights in our proprietary technology platform and our brand. We primarily rely on copyright, trade secret and trademark laws, and confidentiality agreements with our employees, customers, service providers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property may be inadequate. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Additionally, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability and scope of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

Our success also depends in part on us not infringing on the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. In the future, third parties may claim that we are infringing on their intellectual property rights, and we may be found to be infringing on such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. Even if we were to prevail in such a dispute, any litigation could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

Changes in accounting practices and future pronouncements may materially affect our reported financial results.

Developments in accounting practices may require us to incur considerable additional expenses to comply, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. Our consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). The impact of changes in GAAP cannot be predicted but may affect the calculation of net income, stockholders’ equity, and other relevant financial statement line items.

In addition to compliance with GAAP on a consolidated basis, PSIC, PESIC, and PSRE are required to comply with statutory accounting principles (“SAP”). SAP and various components of SAP are subject to constant review by the NAIC and its task forces and committees, as well as state insurance departments to address emerging issues and otherwise improve financial reporting. Various proposals are pending before committees and task forces of the NAIC, some of which, if enacted, could have negative effects on insurance industry participants. The NAIC continuously examines existing laws and regulations. We cannot predict whether or in what form such reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect us.

We incur significant costs as a public company, and our management is required to devote substantial time to complying with public company regulations.

As a public company, we incur certain legal, accounting, and other expenses that we would not incur as a private company. We are subject to the reporting requirements of the Exchange Act, which require, among other things, that we file with the SEC annual, quarterly, and current reports with respect to our business and financial condition and therefore we need to have the ability to prepare financial statements that comply with all SEC reporting requirements on a timely basis. In addition, we are subject to other reporting and corporate governance requirements, including certain requirements of and certain provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which impose significant compliance obligations upon us. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. We must maintain accounting and financial staff and consultants with appropriate public company reporting, technical accounting, and internal control knowledge to satisfy the ongoing requirements of Section 404 and provide internal audit services.

The Sarbanes-Oxley Act and the Dodd-Frank Act, as well as new rules subsequently implemented by the SEC and Nasdaq, have increased regulation of, and imposed enhanced disclosure and corporate governance requirements on, public companies. Our efforts to comply with these evolving laws, regulations and standards increases our operating costs and divert management's time and attention from revenue-generating activities.

These requirements also place significant additional demands on our finance and accounting staff and on our financial accounting and information systems. We must retain accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increased auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. As a public company, we are required, among other things, to:

- prepare and file periodic reports and distribute other stockholder communications, in compliance with the federal securities laws and requirements of Nasdaq;
- define and expand the roles and the duties of our Board of Directors and its committees;
- institute comprehensive compliance and investor relations functions; and
- evaluate and maintain our system of internal control over financial reporting, and report on management's assessment thereof, in compliance with rules and regulations of the SEC and the Public Company Accounting Oversight Board.

We may not be successful in complying with these requirements, and compliance with them could materially adversely affect our business. These requirements increase our costs and may cause us to reduce costs in other areas of our business or increase the prices of our products or services. For example, these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our Board committees or as executive officers.

In addition, if we fail to implement and maintain the required controls with respect to our internal accounting and audit functions, our ability to report our results of operations on a timely and accurate basis could be impaired. If we do not implement the required controls in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, such as the SEC or Nasdaq. Any such action could harm our reputation and the confidence of our investors and customers and could negatively affect our business and cause the price of our shares of common stock to decline.

We are required by Section 404 of the Sarbanes-Oxley Act to evaluate the effectiveness of our internal control over financial reporting. If we are unable to achieve and maintain effective internal controls, our operating results and financial condition could be harmed and the market price of our common stock may be negatively affected.

As a public company with SEC reporting obligations, we are required to document and test our internal control procedures to satisfy the requirements of Section 404(b) of the Sarbanes-Oxley Act, which requires annual assessments by management of the effectiveness of our internal control over financial reporting. We must implement and maintain substantial internal control systems and procedures to satisfy the reporting requirements under the Exchange Act.

During our assessments, we may identify deficiencies that we are unable to remediate in a timely manner. Testing and maintaining our internal control over financial reporting may also divert management's attention from other matters that are important to the operation of our business. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404(b) of Sarbanes-Oxley. If we conclude that our internal control over financial reporting is not effective, the cost and scope of remediation actions and their effect on our operations may be significant. Moreover, any material weaknesses or other deficiencies in our internal control over financial reporting may impede our ability to file timely and accurate reports with the SEC. Any of the above could cause investors to lose confidence in our reported financial information or our common stock listing on Nasdaq to be suspended or terminated, which could have a negative effect on the trading price of our common stock.

Applicable insurance laws may make it difficult to effect a change of control.

Under applicable Oregon, California and Arizona insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner following a public hearing on the proposed acquisition. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors including, among others, the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Oregon, California and Arizona insurance laws and regulations pertaining to changes of control apply to both the direct and indirect acquisition of ten percent or more of the voting stock of an insurer domiciled in that state. Accordingly, the acquisition of ten percent or more of our common stock would be considered an indirect change of control of Palomar Holdings, Inc. and would trigger the applicable change of control filing requirements under Oregon, California and Arizona insurance laws and regulations, absent a disclaimer of control filing and its acceptance by the Oregon, California and Arizona Insurance Departments. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Palomar Holdings, Inc., including through transactions that some or all of the stockholders of Palomar Holdings, Inc. might consider to be desirable.

Risks Related to Ownership of Our Common Stock

Future transactions where we raise capital may negatively affect our stock price.

We are currently a "Well-Known Seasoned Issuer" and may file automatic shelf registration statements at any time with the SEC. Sales of substantial amounts of shares of our common stock or other securities under our current or future shelf registration statements could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities.

Our operating results and stock price may be volatile, or may decline regardless of our operating performance, and holders of our common stock could lose all or part of their investment.

Our quarterly operating results are likely to fluctuate in the future as a publicly traded company. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could subject the market price of our shares to wide price fluctuations regardless of our operating performance. Although we believe we have adequate sources of liquidity over the short- and long-term, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets, in each case, in light of the market volatility and uncertainty as a result of the Pandemic, among other factors, could impact our business and liquidity. You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock is likely to continue to be subject to significant fluctuations in response to the factors described in this "Risk Factors" section and other factors, many of which are beyond our control. Among the factors that could affect our stock price are:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by us or our competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- results of operations that vary from expectations of securities analysis and investors;

- short sales, hedging and other derivative transactions in our common stock;
- guidance, if any, that we provide to the public, any changes in this guidance or our failure to meet this guidance;
- strategic actions by us or our competitors;
- announcement by us, our competitors or our acquisition targets;
- sales, or anticipated sales, of large blocks of our stock, including by our directors, executive officers and principal stockholders;
- additions or departures in our Board or Directors, senior management or other key personnel;
- regulatory, legal or political developments;
- public response to press releases or other public announcements by us or third parties, including our filings with the SEC;
- litigation and governmental investigations;
- changing economic conditions, including those caused by the Pandemic;
- changes in accounting principles;
- any indebtedness we may incur or securities we may issue in the future;
- default under agreements governing our indebtedness;
- exposure to capital and credit market risks that adversely affect our investment portfolio or our capital resources;
- changes in our credit ratings;
- changes in corporate tax rates;
- exchange rate fluctuations; and
- other events or factors, including those from natural disasters, war, pandemics, acts of terrorism, or responses to these events.

The securities markets have from time to time experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. As a result of these factors, investors in our common stock may not be able to resell their shares at or above the price at which they purchased their shares. These broad market fluctuations, as well as general market, economic and political conditions, such as recessions, loss of investor confidence or interest rate changes, may negatively affect the market price of our common stock.

In addition, the stock markets, including Nasdaq, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend, divert management’s attention and resources or harm our business.

Anti-takeover provisions in our organizational documents could delay a change in management and limit our share price.

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us even if such a change in control would increase the value of our common stock and prevent attempts by our stockholders to replace or remove our current Board of Directors or management.

Our charter documents contain anti-takeover provisions that will hinder takeover attempts and could reduce the market value of our common stock or prevent sale at a premium. Our anti-takeover provisions:

- permit the Board of Directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that our Board of Directors are classified into three classes with staggered, three year terms and that directors may only be removed for cause;
- require super-majority voting to amend provisions in our certificate of incorporation and bylaws;
- include blank-check preferred stock, the preference, rights and other terms of which may be set by the Board of Directors and could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise benefit our stockholders;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- specify that special meetings of our stockholders can be called only by our Board of Directors, the chairman of our Board of Directors, or our chief executive officer;
- prohibit stockholder action by other than unanimous written consent;
- provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibit cumulative voting in the election of directors; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a period of time.

Our certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for the following civil actions:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty by any of our directors, officers, employees or agents or our stockholders;
- any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware;
- any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or our bylaws; or
- any action asserting a claim governed by the internal affairs doctrine.

However, this provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, this provision applies to Securities Act claims and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such provision, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. This choice of forum provision, if enforced, may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees, although our stockholders will not be deemed to have waived our compliance with federal securities laws and the rules and regulations thereunder. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation and bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business and our industry. If one or more of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may", "will", "should", "expects", "plans", "anticipates", "could", "intends", "target", "projects", "contemplates", "believes", "estimates", "predicts", "would", "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These forward-looking statements include, among others, statements relating to our future financial performance, our business prospects and strategy, anticipated financial position, liquidity and capital needs and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Our actual results may differ materially from those expressed in, or implied by, the forward-looking statements included in this Annual Report on Form 10-K as a result of various factors, including, among others:

- claims arising from unpredictable and severe catastrophe events could reduce our earnings and stockholders' equity and limit our ability to underwrite new insurance policies;
- the inability to purchase third-party reinsurance or otherwise expand our catastrophe coverage in amounts that are commercially acceptable to us or on terms that adequately protect us;
- the inherent uncertainty of models resulting in actual losses that are materially different than our estimates;
- we and our customers could be negatively and adversely impacted by the Pandemic;
- a decline in our financial strength rating adversely affecting the amount of business we write;
- reinsurance counterparty credit risk;

- the concentration of our business in California and Texas;
- the potential loss of one or more key executives or an inability to attract and retain qualified personnel adversely affecting our results of operations;
- our reliance on a select group of brokers;
- the failure of any of the loss limitations or exclusions we employ, or changes in other claims or coverage issues, having a material adverse effect on our financial condition or results of operations;
- unexpected changes in the interpretation of our coverage or provisions;
- adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity resulting in the sale of fewer policies than expected or an increase in frequency or severity of claims and premium defaults or both, affecting our growth and profitability;
- the performance of our investment portfolio adversely affecting our financial results;
- being forced to sell investments to meet our liquidity requirements;
- extensive regulation adversely affecting our ability to achieve our business objectives or the failure to comply with these regulations adversely affecting our financial condition and results of operations;
- we may become subject to additional government or market regulation;
- the possibility that states could increase the assessments that Palomar Specialty Insurance Company is required to pay;
- the ability to pay dividends being dependent on our ability to obtain cash dividends or other permitted payments from our insurance subsidiary;
- fluctuation and variance in our operating results;
- the possibility that we act based on inaccurate or incomplete information regarding the accounts we underwrite;
- our employees, underwriters and other associates taking excessive risks;
- our inability to obtain future additional capital or obtaining additional capital on unfavorable terms;
- the failure of our information technology and telecommunications systems;
- our inability to protect our trademarks or other intellectual property rights;
- our inability to maintain, or errors in, our third-party and open source licensed software;
- the inability to manage our growth effectively;
- the intense competition for business in our industry;
- the failure of renewals of our existing contracts to meet expectations could affect our written premiums in the future;

- our inability to underwrite risks accurately and charge competitive yet profitable rates to our policyholders;
- the effects of litigation having an adverse effect on our business;
- changes in accounting practices;
- our failure to accurately and timely pay claims;
- legal or regulatory requirements that restrict our ability to access credit score information for purposes of pricing and underwriting our insurance policies;
- increased costs as a result of being a public company; and
- the failure to maintain effective internal controls in accordance with Sarbanes-Oxley.

We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions and other factors described in the section captioned “Risk Factors” and elsewhere in this Annual Report on Form 10-K. These risks are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors that could adversely impact our business and financial performance. Furthermore, new risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed as exhibits to this Annual Report on Form 10-K with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this Annual Report on Form 10-K or to conform such statements to actual results or revised expectations, except as required by law.

Item 1B: Unresolved Staff Comments

None.

Item 2. Properties

Our primary executive offices and insurance operations are located in La Jolla, California, which occupy approximately 14,700 square feet of office space for annual rent and rent-related operating payments of approximately $0.7 million. The lease for this space expires in 2024. We also lease office space in various locations throughout the United States, which we use for operations and administration.

We do not own any real property. We believe that our facilities are adequate for our current needs.

Item 3. Legal Proceedings

We are subject to routine legal proceedings in the normal course of operating our insurance business. We are not involved in any legal proceedings which reasonably could be expected to have a material adverse effect on our business, results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market information for Common Stock

Our common shares began trading on the NASDAQ Global Select Market under the symbol "PLMR" on April 17, 2019. Prior to that time, there was no public market for our common shares. As of February 22, 2022, there were approximately 9 holders of record of our common stock. Because most of our shares of common stock are held by brokers and other institutions on behalf of our stockholders, this number is not representative our total stockholders.

Payment of Dividends

The continued operation and growth of our business will require substantial capital. We do not intend to declare and pay cash dividends on shares of our common stock in the foreseeable future. Because we are a holding company with no business operations of our own, our ability to pay dividends to stockholders largely depends on dividends and other distributions from our U.S. subsidiaries, PESIC and PSIC, and our Bermuda subsidiary, PSRE. State insurance laws, including the laws of Arizona, Oregon and California, and the laws of Bermuda restrict the ability these subsidiaries to declare stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus and restrict dividend payments. Dividend payments are further limited to that part of available policyholder surplus that is derived from net profits on our business. State insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that dividends up to the maximum amounts calculated under any applicable formula would be permitted. Moreover, state insurance regulators may in the future adopt statutory provisions more restrictive than those currently in effect.

Our Bermuda reinsurance subsidiary is highly regulated and is required to comply with various conditions before it is able to pay dividends or make distributions to us. Bermuda law, including the Insurance Act 1978, as amended ("Insurance Act") and the Companies Act 1981, as amended ("Companies Act") impose restrictions on our Bermuda reinsurance subsidiary's ability to pay dividends to us based on solvency margins and surplus and capital requirements. These restrictions, and any other future restrictions adopted by the BMA, could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to us by our Bermuda reinsurance subsidiary without affirmative approval of the BMA.

Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, restrictions imposed by applicable law and other factors our

Board of Directors deems relevant. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking immediate cash dividends should not purchase our common stock.

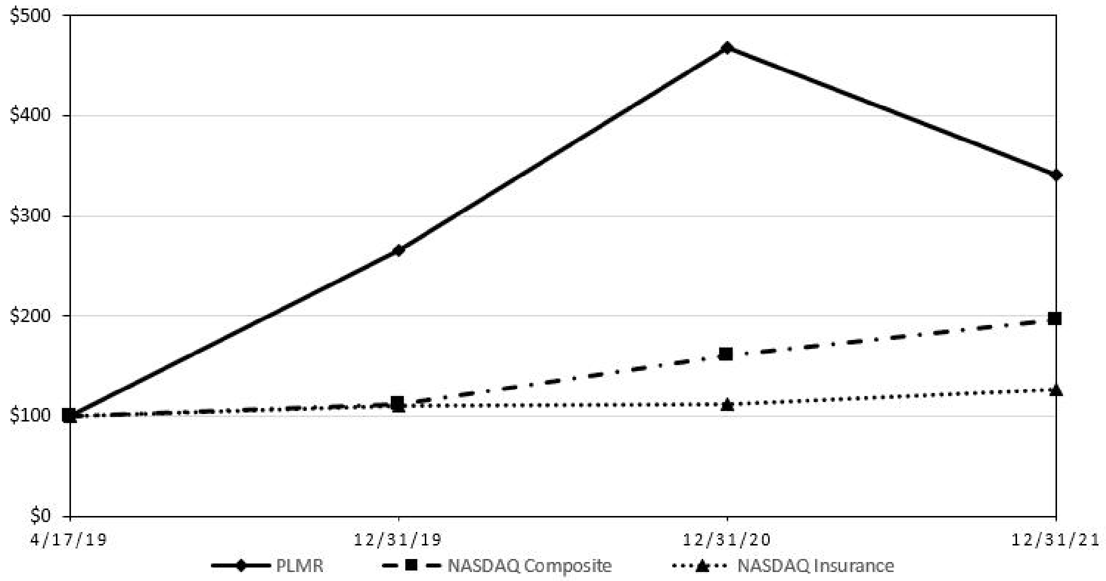
Issuer Purchases of Equity Securities

During the year ended December 31, 2021, the Company's Board of Directors approved the adoption of a share repurchase program which became effective March 31, 2021. The program authorized the repurchase by the Company of up to $40 million of its outstanding shares of common stock through the period ending on March 31, 2023. The Company purchased 239,096 shares for $15.9 million under this program during the 12 months ended December 31, 2021.

Performance Graph

The following performance graph compares the cumulative total shareholder return of an investment in (1) our common stock, (2) the cumulative total returns to the Nasdaq Composite Index and (3) the cumulative total returns to the Nasdaq Insurance Index, for the period from April 17, 2019 (the date our common stock began trading on Nasdaq) through December 31, 2021.

The graph assumes an initial investment of $100. Such returns are based on historical results and are not indicative of future performance.



	April 17, 2019	December 31, 2019	December 31, 2020	December 31, 2021
Palomar Holdings, Inc	$ 100.00	$ 265.88	$ 467.83	$ 341.07
Nasdaq Composite Index	$ 100.00	$ 112.21	$ 161.18	$ 195.66
Nasdaq Insurance Index	$ 100.00	$ 110.88	$ 111.93	$ 126.69

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our historical results of operations and our liquidity and capital resources should be read together with the consolidated financial statements and related notes that appear elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, this Annual Report on Form 10-K contains “forward-looking statements.” You should review the “Special Note Regarding Forward-Looking Statements” and “Risk Factors” sections of this Annual Report on Form 10-K for factors and uncertainties that may cause our actual future results to be materially different from those in our forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K are based on information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statements.

Overview

We are a rapidly growing and innovative insurer focused on providing specialty insurance to residential and commercial customers. Our underwriting and analytical expertise allow us to concentrate on certain markets that we believe are underserved by other insurance companies, such as the markets for earthquake, hurricane, inland marine, and flood insurance. We use proprietary data analytics and a modern technology platform to offer our customers flexible products with customized and granular pricing for both the admitted and excess and surplus lines (“E&S”) markets.

We provide admitted insurance products through our Oregon domiciled insurance company, Palomar Specialty Insurance Company (“PSIC”), and non-admitted insurance products through our Arizona domiciled surplus lines insurance company, Palomar Excess and Surplus Insurance Company (“PESIC”). We distribute our products through multiple channels, including retail agents, program administrators, wholesale brokers, and partnerships with other insurance companies. Our business strategy is supported by a comprehensive risk transfer program with reinsurance coverage that we believe reduces earnings volatility and provides appropriate levels of protection from catastrophic events. Our management team combines decades of insurance industry experience across specialty underwriting, reinsurance, program administration, distribution, and analytics.

Founded in 2014, we have significantly grown our business and have generated attractive returns. We have organically increased gross written premiums from $16.6 million in our first year of operations to $535.2 million for the year ended December 31, 2021, which reflects a compound annual growth rate of approximately 64%. For the year ended December 31, 2021, 55% of our gross written premiums were generated by our Residential Earthquake, Commercial Earthquake and Hawaii Hurricane lines of business, all of which are not subject to attritional losses. We experienced average monthly premium retention rates above 89% overall for these lines of business, providing strong visibility into future revenue.

In February 2014, PSIC was awarded an “A−” rating from A.M. Best Company (“A.M. Best”), a leading rating agency for the insurance industry. An “A−” rating is categorized by A.M. Best as an excellent rating and indicates a stable outlook. In July 2020, PESIC was also awarded an “A−” rating by A.M. Best. In May 2021, A.M. Best affirmed the “A−”rating of PSIC and PESIC. These ratings reflect A.M. Best’s opinion of our subsidiaries’ financial strength, operating performance, and ability to meet obligations to policyholders and are not an evaluation directed towards the protection of investors.

We received regulatory approval for PESIC during the second quarter of 2020 and capitalized PESIC with approximately $100 million in initial surplus. PESIC is domiciled in the State of Arizona and licensed in Arizona to transact across all our existing lines of business. We believe that the underwriting acumen and market expertise we have established in the admitted insurance market is also applicable to the non-admitted market (also known as the “surplus lines” or “E&S” market), and that PESIC enables us to serve certain risks that our admitted products cannot currently satisfy. We began writing E&S business on a national basis during the third quarter of 2020.

We believe that our market opportunity, distinctive products, and differentiated business model position us to grow our business profitably.

COVID-19 Update

The COVID-19 Pandemic (the “Pandemic") continues to impact businesses, households, communities, and financial markets.

Since the beginning of the Pandemic, our focus has been to protect the health of the public and our employees while serving our policyholders and ensuring business continuity. We recently began allowing all employees to return to our offices on a voluntary basis, with established protocols to ensure operational reliability and employee safety. In addition, we have been taking extra physical security and cybersecurity measures to safeguard our systems to serve the operational needs of our workforce and ensure uninterrupted service to our brokers and policyholders.

We have experienced business interruption claims related to the Pandemic. Our All Risk and Commercial Earthquake (Difference in Conditions or “DIC”) policies offer business interruption coverage for insureds for a loss in business income caused by physical damage to the structure. Each of our All Risk policies has a virus and/or communicable disease exclusion. Our DIC policies require physical damage to the structure caused by the covered perils, whether it be an earthquake or flood. We do not expect additional business interruption claims from the Pandemic and have acknowledged and adjudicated each claim received.

The Pandemic's ultimate impact on our results of operations remains uncertain. Since the onset of the Pandemic, we have experienced volatility in the fair value of our investment portfolio due to unrealized losses and gains on our fixed income securities. Additional financial volatility caused by the Pandemic may have a negative impact on our investment portfolio and results of operations. Inflationary pressures caused by the Pandemic may increase our operating expenses and the average size of our loss claims. We have not seen a significant impact on the growth rate of our gross written premiums since the beginning of the Pandemic. However, the Pandemic continues to impact many aspects of the economy and society and the macroeconomic effects of the Pandemic may persist for an indefinite period, even after the Pandemic has subsided. We cannot anticipate all the ways in which the Pandemic or other similar global health crises could adversely impact our business in the future.

Components of our results of operations

Gross Written Premiums

Gross written premiums are the amounts received or to be received for insurance policies written or assumed by us during a specific period of time without reduction for policy acquisition costs, reinsurance costs or other deductions. The volume of our gross written premiums in any given period is generally influenced by:

- Volume of new business submissions in existing products or partnerships;
- Binding of new business submissions in existing products or partnerships into policies;
- Entrance into new partnerships or the offering of new types of insurance products;
- Renewal rates of existing policies; and
- Average size and premium rate of bound policies.

Our gross written premiums are also impacted when we assume unearned in-force premiums due to new partnerships or other business reasons. In periods where we assume a large volume of unearned premiums, our gross written premiums may increase significantly compared to prior periods and the increase may not be indicative of future trends.

Ceded Written Premiums

Ceded written premiums are the amount of gross written premiums ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential losses and to provide additional capacity for growth. We cede premiums primarily through excess of loss ("XOL") agreements and quota share agreements. Ceded written premiums are earned pro-rata over the period of risk covered. The volume of our ceded written premiums is impacted by the amount of our gross written premiums and our decisions to increase or decrease limits or retention levels in our XOL agreements and co-participation levels in our quota share agreements.

Our ceded written premiums can be impacted significantly in certain periods due to changes in quota share agreements. In periods where we modify a quota share agreement, ceded written premiums may increase or decrease significantly compared to prior periods and these fluctuations may not be indicative of future trends. In addition, our XOL costs as a percentage of gross earned premiums may vary each period due to changes of premium in-force during the XOL contract period or due to acceleration of XOL charges or the need to purchase additional reinsurance due to losses.

Net Earned Premiums

Net earned premiums represent the earned portion of our gross written premiums, less the earned portion that is ceded to third-party reinsurers under our reinsurance agreements. Our insurance policies generally have a term of one year and premiums are earned pro rata over the term of the policy.

Commission and Other Income

Commission and other income consist of commissions earned on policies written on behalf of third party insurance companies where we have no exposure to the insured risk and certain fees earned in conjunction with underwriting policies. Commission and other income are earned on the effective date of the underlying policy.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses represent the costs incurred for losses, net of any losses ceded to reinsurers. These expenses are a function of the size and term of the insurance policies we write and the loss experience associated with the underlying coverage. Certain policies we write subject us to attritional losses such as building fires. In addition, most of the policies we write subject us to catastrophe losses. Catastrophe losses are certain losses resulting from events involving multiple claims and policyholders, including earthquakes, hurricanes, floods, convective storms, terrorist acts or other aggregating events. Our losses and loss adjustment expenses are generally affected by:

- The occurrence, frequency and severity of catastrophe events in the areas where we underwrite policies relating to these perils;
- The occurrence, frequency and severity of non-catastrophe attritional losses;
- The mix of business written by us;
- The reinsurance agreements we have in place at the time of a loss;
- The geographic location and characteristics of the policies we underwrite;
- Changes in the legal or regulatory environment related to the business we write;
- Trends in legal defense costs; and
- Inflation in housing and construction costs.

Losses and loss adjustment expenses are based on an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Losses and loss adjustment expenses may be paid out over multiple years.

Acquisition Expenses

Acquisition expenses are principally comprised of the commissions we pay retail agents, program administrators and wholesale brokers, net of ceding commissions we receive on business ceded under quota share reinsurance contracts. In addition, acquisition expenses include premium-related taxes and other fees. Acquisition expenses related to each policy we write are deferred and expensed pro rata over the term of the policy.

Other Underwriting Expenses

Other underwriting expenses represent the general and administrative expenses of our insurance operations including employee salaries and benefits, software and technology costs, office rent, stock-based compensation, licenses and fees, and professional services fees such as legal, accounting, and actuarial services.

Interest Expense

For the year ended December 31 2021, interest expense consists of the unused line fee and amortization of the commitment fee on our credit agreement. We did not incur any interest expense during the year ended December 31, 2020.

Net Investment Income

We earn investment income on our portfolio of invested assets. Our invested assets are primarily comprised of fixed maturity securities, and may also include cash and cash equivalents, and equity securities. The principal factors that influence net investment income are the size of our investment portfolio, the yield on that portfolio, and investment management expenses. As measured by amortized cost, which excludes changes in fair value, caused by changes in interest rates, the size of our investment portfolio is mainly a function of our invested capital along with premium we receive from our insureds, less payments on policyholder claims and other operating expenses. Our balance of invested capital may be impacted in the future by repurchases of shares of our common stock.

Net Realized and Unrealized Gains and Losses on Investments

Net realized and unrealized gains and losses on investments are a function of the difference between the amount received by us on the sale of a security and the security’s cost-basis, mark-to-market adjustments, and credit losses recognized in earnings.

Income Tax Expense

Currently our income tax expense consists mainly of federal income taxes imposed on our operations. Our effective tax rates are dependent upon the components of pretax earnings and the related tax effects.

Key Financial and Operating Metrics

We discuss certain key financial and operating metrics, described below, which provide useful information about our business and the operational factors underlying our financial performance.

Underwriting revenue is a non-GAAP financial measure defined as total revenue, excluding net investment income and net realized and unrealized gains and losses on investments. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of total revenue calculated in accordance with GAAP to underwriting revenue.

Underwriting income is a non-GAAP financial measure defined as income before income taxes excluding net investment income, net realized and unrealized gains and losses on investments and interest expense. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of income before income taxes calculated in accordance with GAAP to underwriting income.

Adjusted net income is a non-GAAP financial measure defined as net income excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, net of tax impact. We calculate the tax impact only on adjustments which would be included in calculating our income tax expense using the estimated tax rate at which the company received a deduction for these adjustments. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of net income calculated in accordance with GAAP to adjusted net income.

Return on equity is net income expressed on an annualized basis as a percentage of average beginning and ending stockholders’ equity during the period.

Adjusted return on equity is a non-GAAP financial measure defined as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending stockholders’ equity during the period. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of return on equity calculated using unadjusted GAAP numbers to adjusted return on equity.

Loss ratio, expressed as a percentage, is the ratio of losses and loss adjustment expenses, to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of acquisition and other underwriting expenses, net of commission and other income to net earned premiums.

Combined ratio is defined as the sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

Adjusted combined ratio is a non-GAAP financial measure defined as the sum of the loss ratio and the expense ratio calculated excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of combined ratio calculated using unadjusted GAAP numbers to adjusted combined ratio.

Diluted adjusted earnings per share is a non-GAAP financial measure defined as adjusted net income divided by the weighted-average common shares outstanding for the period, reflecting the dilution which could occur if equity-based awards are converted into common share equivalents as calculated using the treasury stock method. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of diluted earnings per share calculated in accordance with GAAP to diluted adjusted earnings per share.

Catastrophe loss ratio is a non-GAAP financial measure defined as the ratio of catastrophe losses to net earned premiums. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of loss ratio calculated using unadjusted GAAP numbers to catastrophe loss ratio.

Adjusted combined ratio excluding catastrophe losses is a non-GAAP financial measure defined as adjusted combined ratio excluding the impact of catastrophe losses. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of combined ratio calculated using unadjusted GAAP numbers to adjusted combined ratio excluding catastrophe losses.

Tangible stockholders’ equity is a non-GAAP financial measure defined as stockholders’ equity less intangible assets. See “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of stockholders’ equity calculated in accordance with GAAP to tangible stockholders’ equity.

Results of operations

Year ended December 31, 2021 compared to year ended December 31, 2020

The following table summarizes our results for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Change	Percent Change
	($ in thousands, except per share data)			
Gross written premiums	$ 535,175	$ 354,360	$ 180,815	51.0 %
Ceded written premiums	(223,443)	(155,102)	(68,341)	44.1 %
Net written premiums	311,732	199,258	112,474	56.4 %
Net earned premiums	233,826	155,068	78,758	50.8 %
Commission and other income	3,608	3,295	313	9.5 %
Total underwriting revenue (1)	237,434	158,363	79,071	49.9 %
Losses and loss adjustment expenses	41,457	64,115	(22,658)	(35.3)%
Acquisition expenses	95,433	64,041	31,392	49.0 %
Other underwriting expenses	53,723	34,084	19,639	57.6 %
Underwriting income (loss) (1)	46,821	(3,877)	50,698	NM
Interest expense	(40)	—	(40)	NM
Net investment income	9,080	8,612	468	5.4 %
Net realized and unrealized gains on investments	1,277	1,488	(211)	(14.2)%
Income before income taxes	57,138	6,223	50,915	818.2 %
Income tax expense (benefit)	11,291	(34)	11,325	NM
Net income	**45,847**	**6,257**	**39,590**	**632.7 %**
Adjustments:				
Expenses associated with transactions and stock offerings	563	708	(145)	(20.5)%
Stock-based compensation expense	5,584	2,167	3,417	157.7 %
Amortization of intangibles	1,251	—	1,251	NM
Expenses associated with catastrophe bond	1,704	399	1,305	327.1 %
Tax impact	(1,506)	(664)	(842)	126.8 %
Adjusted net income (1)	**53,443**	**$ 8,867**	**$ 44,576**	**502.7 %**
Key Financial and Operating Metrics				
Annualized return on equity	12.1 %	2.1 %		
Annualized adjusted return on equity (1)	14.1 %	3.0 %		
Loss ratio	17.7 %	41.3 %		
Expense ratio	62.2 %	61.2 %		
Combined ratio	80.0 %	102.5 %		
Adjusted combined ratio (1)	76.1 %	100.4 %		
Diluted earnings per share	$ 1.76	$ 0.24		
Diluted adjusted earnings per share (1)	$ 2.05	$ 0.35		
Catastrophe losses	$ 5,015	$ 50,986		
Catastrophe loss ratio (1)	2.1 %	32.9 %		
Adjusted combined ratio excluding catastrophe losses (1)	73.9 %	67.5 %		

NM-Not Meaningful

(1) Indicates non-GAAP financial measure; see “Reconciliation of Non-GAAP Financial Measures” for a reconciliation of the non-GAAP financial measures to their most directly comparable financial measures prepared in accordance with GAAP.

Gross Written Premiums

Gross written premiums were $535.2 million for the year ended December 31, 2021 compared to $354.4 million for the year ended December 31, 2020, an increase of $181.8 million, or 51.0%. Premium growth was primarily due to an increased volume of policies written across our lines of business which was driven by new business generated with existing partners, strong premium retention rates for existing business, expansion of our products' geographic and distribution footprint, and new partnerships. For commercial products, substantial rate increases also contributed to premium growth.

The following table summarizes our gross written premiums by line of business and shows each line's percentage of total gross written premiums for each period:

	Year Ended December 31, ($ in thousands)					
	2021		2020			
Product	Amount	% of GWP	Amount	% of GWP	Change	% Change
Residential Earthquake	$ 171,048	32.0 %	$ 140,934	39.8 %	$ 30,114	21.4 %
Commercial Earthquake	90,552	16.9 %	58,890	16.6 %	31,662	53.8 %
Specialty Homeowners	67,894	12.7 %	49,849	14.1 %	18,045	36.2 %
Inland Marine	57,124	10.7 %	15,423	4.3 %	41,701	270.4 %
Commercial All Risk	38,640	7.2 %	53,933	15.2 %	(15,293)	(28.4)%
Hawaii Hurricane	30,298	5.6 %	13,824	3.9 %	16,474	119.2 %
Residential Flood	11,652	2.2 %	8,176	2.3 %	3,476	42.5 %
Other	67,967	12.7 %	13,331	3.8 %	54,636	409.8 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 180,815	51.0 %

During the fourth quarter of 2020, we ceased offering Commercial All Risk products on an admitted basis and only offered them on an E&S basis during 2021. This transition caused a decline in premium in our Commercial All Risk line.

The following table summarizes our gross written premiums by insurance subsidiary:

	Year Ended December 31, ($ in thousands)					
	2021		2020			
Subsidiary	Amount	% of GWP	Amount	% of GWP	Change	% Change
PSIC	$ 383,063	71.4 %	$ 324,870	91.7 %	$ 58,193	17.9 %
PESIC	152,111	28.6 %	29,490	8.3 %	122,621	415.8 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 180,814	51.0 %

Ceded Written Premiums

Ceded written premiums increased $68.3 million, or 44.1 %, to $223.4 million for the year ended December 31, 2021 from $155.1 million for the year ended December 31, 2020. The increase was primarily due to increased quota share ceding due to growth in written premium lines subject to quota shares. In addition, XOL reinsurance expense increased due to growth in exposure and additional charges from Winter Storm Uri ("Uri"), which impacted our Specialty Homeowners and Commercial All Risk lines during the first quarter of 2021.

Catastrophe losses from Uri caused us to utilize certain layers of our XOL program which increased our XOL reinsurance expense. During the year ended December 31, 2021, we incurred an additional $7.9 million of expense associated with the reinstatement of our reinsurance program as a result of Winter Storm Uri. During 2020, we also incurred specific XOL expenses resulting from castastrophe events. As a result of hurricanes occurring in the third and fourth quarters of 2020, we fully utilized portions of our XOL coverage and incurred charges of $7.0 million related to the acceleration of XOL expenses and the purchase and utilization of a backup XOL layer.

Ceded written premiums as a percentage of gross written premiums slightly decreased to 41.8% for the year ended December 31, 2021 from 43.8% for the year ended December 31, 2020. This decrease was primarily due to gross written premiums growing at a faster rate than ceded written premiums.

Net Written Premiums

Net written premiums increased $112.4 million, or 56.4%, to $311.7 million for the year ended December 31, 2021 from $199.3 million for the year ended December 31, 2020. The increase was primarily due to higher gross written premiums, primarily in our Earthquake and Inland Marine lines, offset by increased ceded written premiums.

Net Earned Premiums

Net earned premiums increased $78.7 million, or 50.8%, to $233.8 million for the year ended December 31, 2021 from $155.1 million for the year ended December 31, 2020 due primarily to the earned portion of the higher gross written premiums offset by the earned portion of the higher ceded written premiums. The table below shows the amount of premiums we earned on a gross and net basis for each period presented:

	Year Ended December 31,			
	2021	2020	Change	% Change
	($ in thousands)			
Gross earned premiums	$ 433,999	$ 301,457	$ 132,542	44.0 %
Ceded earned premiums	(200,173)	(146,389)	(53,784)	36.7 %
Net earned premiums	$ 233,826	$ 155,068	$ 78,758	50.8 %
Net earned premium ratio	53.9%	51.4%		

Commission and Other Income

Commission and other income increased $0.3 million, or 9.5%, to $3.6 million for the year ended December 31, 2021 from $3.3 million for the year ended December 31, 2020 due primarily to an increase in policies written through our internal managing general agency, Palomar Insurance Agency.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses decreased $22.6 million, or 35.3%, to $41.5 million for the year ended December 31, 2021 from $64.1 million for the year ended December 31, 2020. During the year ended December 31, 2021, losses were primarily attributable to attritional losses and catastrophe losses from Hurricanes Ida and Nicholas and Winter Storm Uri which impacted our Specialty Homeowners and Commercial All Risk lines of business. We also experienced a single castastrophe loss from an excess liability indemnity policy covered by PESIC. During the year ended December 31, 2020, losses were primarily attributable to catastrophe events occurring during the third and fourth quarters in our Specialty Homeowners and Commercial All Risk lines of business.

Losses and loss adjustment expenses consisted of the following elements during the respective periods:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Change	% Change
	($ in thousands)			
Catastrophe losses	$ 5,015	$ 50,986	$ (45,971)	NM
Non-catastrophe losses	36,442	13,129	23,313	177.6 %
Total losses and loss adjustment expenses	$ 41,457	$ 64,115	$ (22,658)	(35.3)%

NM- not meaningful

Our catastrophe loss ratio was 2.1% during the year ended December 31, 2021. Catastrophe losses primarily included losses from losses from Hurricanes Ida and Nicholas, Winter Storm Uri, and a single loss from an excess liability indemnity policy covered by PESIC. Our catastrophe loss ratio was 32.9% during the year ended December 31, 2020. Catastrophe losses primarily included losses from Hurricanes Sally, Laura, Hanna and Zeta.

Our non-catastrophe loss ratio was 15.6% for the year ended December 31, 2021 compared to 8.5% during the year ended December 31, 2020. Non-catastrophe losses increased due mainly to a higher percentage of business in lines subject to attritional losses such as Specialty Homeowners, Inland Marine, Flood, and assumed reinsurance.

Acquisition Expenses

Acquisition expenses increased $31.4 million, or 49.0%, to $95.4 million for the year ended December 31, 2021 from $64.0 million for the year ended December 31, 2020. The primary reason for the increase was increased commissions due to higher earned premiums, offset by increased ceding commissions from quota share arrangements.

Acquisition expenses as a percentage of gross earned premiums were 22.0% for the year ended December 31, 2021 compared to 21.2% for the year ended December 31, 2020. Acquisition expenses as a percentage of gross earned premiums increased due to changes in business mix and changes in our Specialty Homeowners ceding arrangements which increased the percentage of premiums we retained and decreased our ceding commissions. Acquisition expenses as a percentage of gross earned premiums fluctuates based on mix of business produced and quota share arrangements in place.

Other Underwriting Expenses

Other underwriting expenses increased $19.7 million, or 57.6%, to $53.7 million for the year ended December 31, 2021 from $34.1 million for the year ended December 31, 2020. The increase was primarily due to the Company incurring higher payroll, technology, stock-based compensation, and professional fees associated with its growth. In addition, during the first quarter of 2021, other underwriting expenses were significantly impacted by expenses associated with the issuance of a catastrophe bond.

Other underwriting expenses as a percentage of gross earned premiums were 12.4% for the year ended December 31, 2021 compared to 11.3% for the year ended December 31, 2020. Excluding the impact of expenses relating to transactions and stock offerings, stock-based compensation, amortization of intangibles, and catastrophe bonds, other underwriting expenses as a percentage of gross earned premiums were 10.3% for the year ended December 31, 2021 compared to 10.2% for the year ended December 31, 2020. Other underwriting expenses as a percentage of gross earned premiums may fluctuate period over period based on timing of certain expenses relative to premium growth.

Net Investment Income and Net Realized and Unrealized Gains (Losses) on Investments

Net investment income increased $0.5 million, or 5.4%, to $9.1 million for the year ended December 31, 2021 from $8.6 million for the year ended December 31, 2020. The increase was primarily due to a higher average balance of investments during the year ended December 31, 2021 due primarily to proceeds from our June 2020 stock offering and the investing of our cash generated from operations, partially offset by lower yields on recently invested funds.

Net realized and unrealized gains on investments decreased $0.2 million, to a $1.3 million gain for the year ended December 31, 2021 from a $1.5 million gain for the year ended December 31, 2020. This change was due to fluctuations in performance of equity securities held.

The following table summarizes the components of our investment income for each period presented:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Change	% Change
	($ in thousands)			
Interest income	$ 9,119	$ 8,554	$ 565	6.6 %
Dividend income	461	489	(28)	(5.7)%
Investment management fees and expenses	(500)	(431)	(69)	16.0 %
Net investment income	9,080	8,612	468	5.4 %
Net realized and unrealized gains on investments	1,277	1,488	(211)	(14.2)%
Total	$ 10,357	$ 10,100	$ 257	2.5 %

Income Tax Expense (Benefit)

Income tax expense increased to $11.3 million for the year ended December 31, 2021 versus an immaterial benefit during the year ended December 31, 2020. For the year ended December 31, 2021, the difference between our tax rate and the 21% statutory rate relates primarily to a benefit from the permanent component of employee stock option exercises and charges related to state tax accruals. For the year ended December 31, 2020, the difference relates primarily the permanent component of employee stock option exercises.

Reconciliation of Non-GAAP Financial Measures

Underwriting Revenue

We define underwriting revenue as total revenue excluding net investment income and net realized and unrealized gains and losses on investments. Underwriting revenue represents revenue generated by our underwriting operations and allows us to evaluate our underwriting performance without regard to investment income. We use this metric as we believe it gives our management and other users of our financial information useful insight into our underlying business performance. Underwriting revenue should not be viewed as a substitute for total revenue calculated in accordance with GAAP, and other companies may define underwriting revenue differently.

Total revenue calculated in accordance with GAAP reconciles to underwriting revenue as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	
Total revenue	$ 247,791	$ 168,463
Net investment income	(9,080)	(8,612)
Net realized and unrealized gains on investments	(1,277)	(1,488)
Underwriting revenue	$ 237,434	$ 158,363

Underwriting Income

We define underwriting income as income before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, and interest expense. Underwriting income represents the pre-tax profitability of our underwriting operations and allows us to evaluate our underwriting performance without regard to investment income. We use this metric as we believe it gives our management and other users of our financial information useful insight into our underlying business performance. Underwriting income should not be viewed as a substitute for pre-tax income calculated in accordance with GAAP, and other companies may define underwriting income differently.

Income before income taxes calculated in accordance with GAAP reconciles to underwriting income as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	
Income before income taxes	$ 57,138	$ 6,223
Net investment income	(9,080)	(8,612)
Net realized and unrealized gains on investments	(1,277)	(1,488)
Interest expense	40	—
Underwriting income (loss)	$ 46,821	$ (3,877)

Adjusted Net Income

We define adjusted net income as net income excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, net of tax impact. We calculate the tax impact only on adjustments which would be included in calculating our income tax expense using the estimated tax rate at which the company received a deduction for these adjustments. We use adjusted net income as an internal performance measure in the management of our operations because we believe it gives our management and financial statement users useful insight into our results of operations and our underlying business performance. Adjusted net income does not reflect the overall profitably of our business and should not be viewed as a substitute for net income calculated in accordance with GAAP. Other companies may define adjusted net income differently.

Net income calculated in accordance with GAAP reconciles to adjusted net income as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	
Net income	$ 45,847	$ 6,257
Adjustments:		
Expenses associated with transactions and stock offerings	563	708
Stock-based compensation expense	5,584	2,167
Amortization of intangibles	1,251	—
Expenses associated with catastrophe bond	1,704	399
Tax impact	(1,506)	(664)
Adjusted net income	$ 53,443	$ 8,867

Adjusted Return on Equity

We define adjusted return on equity as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period. We use adjusted return on equity as an internal performance measure in the management of our operations because we believe it gives our management and financial statement users useful insight into our results of operations and our underlying business performance. Adjusted return on equity should not be viewed as a substitute for return on equity calculated using unadjusted GAAP numbers, and other companies may define adjusted return on equity differently.

Adjusted return on equity is calculated as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	($ in thousands)	
Numerator: Adjusted net income	$ 53,443	$ 8,867
Denominator: Average stockholder’s equity	378,941	291,135
Adjusted return on equity	14.1 %	3.0 %

Adjusted Combined Ratio

We define adjusted combined ratio as the sum of the loss ratio and the expense ratio calculated excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook. We use adjusted combined ratio as an internal performance measure in the management of our operations because we believe it gives our management and financial statement users useful insight into our results of operations and our underlying business performance. Adjusted combined ratio should not be viewed as a substitute for combined ratio calculated using unadjusted GAAP numbers, and other companies may define adjusted combined ratio differently.

Adjusted combined ratio is calculated as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	($ in thousands)	
Numerator: Sum of losses, loss adjustment expenses, underwriting, acquisition and other underwriting expenses, net of commission and other income	$ 187,005	$ 158,945
Denominator: Net earned premiums	$ 233,826	$ 155,068
Combined ratio	80.0 %	102.5 %
Adjustments to numerator:		
Expenses associated with transactions and stock offerings	(563)	(708)
Stock-based compensation expense	(5,584)	(2,167)
Amortization of intangibles	(1,251)	—
Expenses associated with catastrophe bond	(1,704)	(399)
Adjusted combined ratio	76.1 %	100.4 %

Diluted adjusted earnings per share

We define diluted adjusted earnings per share as adjusted net income divided by the weighted-average common shares outstanding for the period, reflecting the dilution which could occur if equity-based awards are converted into common share equivalents as calculated using the treasury stock method. We use diluted adjusted earnings per share as an internal performance measure in the management of our operations because we believe it gives our management and financial statement users useful insight into our results of operations and our underlying business performance. Diluted adjusted earnings per share should not be viewed as a substitute for diluted earnings per share calculated in accordance with GAAP, and other companies may define diluted adjusted earnings per share differently.

Diluted adjusted earnings per share is calculated as follows:

	Year Ended December 31,	
	2021	2020
	(in thousands except shares and per share data)	
Adjusted net income	$ 53,443	$ 8,867
Weighted-average common shares outstanding, diluted	26,111,904	25,598,647
Diluted adjusted earnings per share	$ 2.05	$ 0.35

Catastrophe Loss Ratio

Catastrophe loss ratio is defined as the ratio of catastrophe losses to net earned premiums. Although we are inherently subject to catastrophe losses, the frequency and severity of catastrophe losses is unpredictable and their impact on our operating results may vary significantly between periods and obscure other trends in our business. Therefore, we are providing this metric because we believe it gives our management and other financial statement users useful insight into our results of operations and trends in our financial performance without the volatility caused by catastrophe losses. Catastrophe loss ratio should not be viewed as a substitute for loss ratio calculated using unadjusted GAAP numbers, and other companies may define catastrophe loss ratio differently.

Catastrophe loss ratio is calculated as follows:

	Year Ended December 31,	
	2021	2020
	($ in thousands)	
Numerator: Losses and loss adjustment expenses	$ 41,457	$ 64,115
Denominator: Net earned premiums	$ 233,826	$ 155,068
Loss ratio	17.7 %	41.3 %
Numerator: Catastrophe losses	$ 5,015	$ 50,986
Denominator: Net earned premiums	$ 233,826	$ 155,068
Catastrophe loss ratio	2.1 %	32.9 %

Adjusted Combined Ratio Excluding Catastrophe Losses

Adjusted combined ratio excluding catastrophe losses is defined as adjusted combined ratio excluding the impact of catastrophe losses. Although we are inherently subject to catastrophe losses, the frequency and severity of catastrophe losses is unpredictable and their impact on our operating results may vary significantly between periods and obscure other trends in our business. Therefore, we are providing this metric because we believe it gives our management and other financial statement users useful insight into our results of operations and trends in our financial performance without the volatility caused by catastrophe losses. Adjusted combined ratio excluding catastrophe losses should not be viewed as a substitute for combined ratio calculated using unadjusted GAAP numbers, and other companies may define adjusted combined ratio excluding catastrophe losses differently.

Adjusted combined ratio excluding catastrophe losses is calculated as follows:

	Year Ended December 31,	
	2021	2020
	($ in thousands)	
Numerator: Sum of losses and loss adjustment expenses, acquisition expenses, and other underwriting expenses, net of commission and other income	$ 187,005	$ 158,945
Denominator: Net earned premiums	$ 233,826	$ 155,068
Combined ratio	80.0 %	102.5 %
Adjustments to numerator:		
Expenses associated with transactions and stock offerings	$ (563)	$ (708)
Stock-based compensation expense	(5,584)	(2,167)
Amortization of intangibles	(1,251)	—
Expenses associated with catastrophe bond	(1,704)	(399)
Catastrophe losses	(5,015)	(50,986)
Adjusted combined ratio excluding catastrophe losses	73.9 %	67.5 %

Tangible Stockholders' Equity

We define tangible stockholders' equity as stockholders' equity less intangible assets. Our definition of tangible stockholders' equity may not be comparable to that of other companies, and it should not be viewed as a substitute for stockholders' equity calculated in accordance with GAAP. We use tangible stockholders' equity internally to evaluate the strength of our balance sheet and to compare returns relative to this measure.

Stockholders' equity calculated in accordance with GAAP reconciles to tangible stockholders' equity as follows:

	December 31,	
	2021	2020
	(in thousands)	
Stockholders' equity	$ 394,169	$ 363,713
Intangible assets	(9,501)	(11,512)
Tangible stockholders' equity	$ 384,668	$ 352,201

Liquidity and Capital Resources

Sources and Uses of Funds

We operate as a holding company with no business operations of our own. Consequently, our ability to pay dividends to stockholders and pay taxes and administrative expenses is largely dependent on dividends or other distributions from our subsidiaries and affiliates, whose ability to pay us is highly regulated.

The Company's U.S. insurance company subsidiaries, PSIC and PESIC are restricted by the statutes as to the amount of dividends that they may pay without prior approval by state insurance commissioners.

Under California and Oregon statute which govern PSIC, dividends paid in a consecutive twelve month period cannot exceed the greater of (i) 10% of an insurance company's statutory policyholders' surplus as of December 31 of the preceding year or (ii) 100% of its statutory net income for the preceding calendar year. Any dividends or distributions in excess of these amounts would require regulatory approval. In addition, under Oregon statute PSIC may only declare a dividend from earned surplus, which does not include contributed capital. Surplus arising from unrealized capital gains or revaluation of assets is not considered part of earned surplus. Based on the above restrictions, PSIC may pay a dividend or distribution of no greater than $45.7 million in 2022 without approval by the California and Oregon Insurance Commissioners.

Under Arizona statute with governs PESIC, dividends paid in a consecutive twelve month period cannot exceed the lesser of (i) 10% of an insurance company's statutory policyholders' surplus as of December 31 of the preceding year or (ii) 100% of its statutory net income for the preceding calendar year. Based on the above restrictions, PESIC may pay a dividend or distribution of no greater than $4.1 million in 2022 without approval of the Arizona Insurance Commissioner.

In addition to the above limitations, any dividend or distribution declared is also subject to state regulatory approval prior to payment. In the future, state insurance regulatory authorities may adopt statutory provisions and dividend limitations more restrictive than those currently in effect.

Insurance companies in the United States are also required by state law to maintain a minimum level of policyholder's surplus. State insurance regulators have a risk-based capital standard designed to identify property and casualty insurers that may be inadequately capitalized based on inherent risks of the insurer's assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. As of December 31, 2021 and December 31, 2020, the total adjusted capital of PSIC and PESIC were in excess of their respective prescribed risk-based capital requirements.

Under the Insurance Act and related regulations, our Bermuda reinsurance subsidiary, PSRE, is required to maintain certain solvency and liquidity levels, which it maintained as of December 31, 2021 and December 31, 2020.

PSRE maintains a Class 3A license and thus must maintain a minimum liquidity ratio in which the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturity securities, accrued interest income, premiums receivable, losses recoverable from reinsurers, and funds withheld. The relevant liabilities include total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2021 and December 31, 2020, we met the minimum liquidity ratio requirement.

Bermuda regulations limit the amount of dividends and return of capital paid by a regulated entity. A Class 3A insurer is prohibited from declaring or paying a dividend if it is in breach of its minimum solvency margin, its enhanced capital requirement, or its minimum liquidity ratio, or if the declaration or payment of such dividend would cause such a breach. If a Class 3A insurer has failed to meet its minimum solvency margin on the last day of any financial year, it will also be prohibited, without the approval of the Bermuda Monetary Authority ("BMA"), from declaring or paying any dividends during the next financial year. Furthermore, the Insurance Act limits the ability of PSRE to pay dividends or make capital distributions by stipulating certain margin and solvency requirements and by requiring approval from the BMA prior to a reduction of 15% or more of a Class 3A insurer's total statutory capital as reported on its prior year statutory balance sheet. Moreover, an insurer must submit an affidavit to the BMA, sworn by at least two directors and the principal representative in Bermuda of the Class 3A insurer, at least seven days prior to payment of any dividend which would exceed 25% of that insurer's total statutory capital and surplus as reported on its prior year statutory balance sheet. The affidavit must state that in the opinion of those swearing the declaration of such dividend has not caused the insurer to fail to meet its relevant margins.

Further, under the Companies Act, PSRE may only declare or pay a dividend, or make a distribution out of contributed surplus, if it has no reasonable grounds for believing that: (1) it is, or would after the payment be, unable to pay its liabilities as they become due or (2) the realizable value of its assets would be less than its liabilities.

Pursuant to Bermuda regulations, the maximum amount of dividends and return of capital available to be paid by a reinsurer is determined pursuant to a formula. Under this formula, the maximum amount of dividends and return of capital available from PSRE during 2022 is calculated to be approximately $4.2 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations. During the year ended December 31 2021, PSRE paid dividends of $15.0 million and $10.0 million to the Company. These dividend payments were approved by the BMA. There were no dividends declared or paid during the year ended December 31, 2020.

One of our insurance company subsidiaries, PSIC, is a member of the Federal Home Loan Bank of San Francisco (FHLB). Membership allows PSIC access to collateralized advances, which may be used to support and enhance liquidity management. The amount of advances that may be taken is dependent on statutory admitted assets. As of December 31, 2021 and 2020, there are no advances outstanding under the FHLB facility.

Cash Flows

Our primary sources of cash flow are written premiums, investment income, reinsurance recoveries, sales and redemptions of investments, and proceeds from offerings of debt and equity securities. We use our cash flows primarily to pay operating expenses, losses and loss adjustment expenses, and income taxes.

Our cash flows from operations may differ substantially from our net income due to non-cash charges or due to changes in balance sheet accounts.

The timing of our cash flows from operating activities can also vary among periods due to the timing by which payments are made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant. Therefore, their timing can influence cash flows from operating activities in any given period. The potential for a large claim under an insurance or reinsurance contract means that our insurance subsidiaries may need to make substantial payments within relatively short periods of time, which would have a negative impact on our operating cash flows.

We generated positive cash flows from operations for the years ended December 31, 2021 and 2020. Management believes that cash receipts from premium, proceeds from investment sales and redemptions, and investment income and reinsurance recoveries, if necessary, are sufficient to cover cash outflows in the foreseeable future.

The following table summarizes our cash flows for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	**2020**
	($ in thousands)	
Cash provided by (used in):		
Operating activities	$ 87,814	$ 57,493
Investing activities	(58,188)	(185,385)
Financing activities	(13,041)	128,329
Change in cash, cash equivalents, and restricted cash	$ 16,585	$ 437

Our cash flow from operating activities has been positive in each of the last two years. Variations in operating cash flow between periods are primarily driven by variations in our gross and ceded written premiums and the volume and timing of premium receipts, claim payments, and reinsurance payments. In addition, fluctuations in losses and loss adjustment expenses and other insurance operating expenses impact operating cash flow.

Cash used in investing activities for each of the last two years related primarily to purchases of fixed income and equity securities in excess of sales and maturities.

Cash used in financing activities for the year ended December 31, 2021 related to the repurchase of $15.9 million of our common stock offset by $2.8 million in proceeds from common stock issued via stock option exercises and our employee stock purchase plan. Cash provided by financing activities for year ended December 31, 2020 was related to the receipt of $35.5 million in net proceeds from the January 2020 stock offering, the receipt of $90.1 million in net proceeds from the June 2020 stock offering, the receipt of $0.7 million in proceeds related to the issuance of common stock via our employee stock purchase plan, and the receipt of $2.0 million related to the issuance of common stock via stock option exercises.

We do not have any current plans for material capital expenditures other than current operating requirements. We believe that we will generate sufficient cash flows from operations to satisfy our liquidity requirements for at least the next 12 months and beyond. The key factor that will affect our future operating cash flows is the frequency and severity of catastrophic loss events. To the extent our future operating cash flows are insufficient to cover our net losses from catastrophic events, we had $516.3 million in cash and investment securities available at December 31, 2021. We also have the ability to access additional capital through pursuing third-party borrowings including our credit agreement, sales of our equity or debt securities or entrance into a reinsurance arrangement.

Contractual Obligations and Commitments

The following table illustrates our contractual obligations and commercial commitments by due date as of December 31, 2021:

	Total	Less Than One Year	One Year to Less Than Three Years	Three Years to Less Than Five Years	More Than Five Years
			(in thousands)		
Reserves for losses and loss adjustment expenses	$ 173,366	$ 136,638	$ 17,522	$ 15,879	$ 3,327
Operating lease obligations	2,244	904	1,340	—	—
Total	$ 175,610	$ 137,542	$ 18,862	$ 15,879	$ 3,327

The reserve for losses and loss adjustment expenses represent management's estimate of the ultimate cost of settling losses. As more fully discussed in "—Critical Accounting Policies—Reserve for Losses and Loss Adjustment Expenses" below, the estimation of the reserve for losses and loss adjustment expenses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our consolidated financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid can be significantly different from the amounts disclosed above.

The amounts in the above table represent our gross estimates of known liabilities as of December 31, 2021 and do not include any allowance for claims for future events within the time period specified. Accordingly, it is highly likely that the total amounts of obligations paid by us in the time periods shown will be greater than those indicated in the table.

Share repurchases

During the year ended December 31, 2021, our Board of Directors authorized a $40 million share repurchase program and we repurchased $15.9 million of shares under this program in 2021. Subsequent to December 31, 2021, our Board of Directors approved a new share repurchase program, replacing the existing program and authorizing the repurchase by the Company of up to $100 million of our outstanding shares of common stock over the period ending on March 31, 2024. Through this program, we may use our capital to repurchase our shares in the future. The timing and amount of future share repurchases will depend on several factors, including our stock price performance, ongoing capital planning considerations, general market conditions, and applicable legal requirements.

Credit Agreement

In December 2021, we entered into a Credit Agreement (the "Credit Agreement") with U.S. Bank National Association which provides a revolving credit facility of up to $100 million through December 8, 2026. Interest on the credit facility accrues on each SOFR rate loan at the applicable SOFR (as defined in the Credit Agreement) plus 1.75% and on each base rate loan at the applicable Alternate Base Rate (as defined in the Credit Agreement) plus 0.75%. A loan may be either a SOFR rate loan or a base rate loan, at our discretion. Outstanding amounts under the Credit Agreement may be prepaid in full or in part at any time with no prepayment premium and may be reduced in full or in part at any time upon prior notice.

As of December 31, 2021 we do not have any outstanding borrowings under the Credit Agreement, but we may seek to borrow under the Credit Agreement in the future.

Financial Condition

Stockholders' Equity

At December 31, 2021 total stockholder's equity was $394.2 million and tangible stockholders' equity was $384.7 million, compared to total stockholders' equity of $363.7 million and tangible stockholders' equity of $352.2 million as of December 31, 2020. Stockholder's equity increased primarily due to net income and due to issuance of common stock and stock-based compensation expense from our equity compensation plans, offset by unrealized losses on our fixed income securities and company repurchases of our common stock. Stock-based compensation expense is treated as an additional paid-in-capital and increases stockholder's equity.

Tangible stockholders' equity is a non-GAAP financial measure. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of stockholders' equity in accordance with GAAP to tangible stockholders' equity.

Investment Portfolio

Our primary investment objectives are to maintain liquidity, preserve capital and generate a stable level of investment income. We purchase securities that we believe are attractive on a relative value basis and seek to generate returns in excess of predetermined benchmarks. Our Board of Directors approves our investment guidelines in compliance with applicable regulatory restrictions on asset type, quality and concentration. Our current investment guidelines allow us to invest in taxable and tax-exempt fixed maturities, as well as publicly traded mutual funds and common stock of individual companies. Our cash and invested assets consist of cash and cash equivalents, fixed maturity securities, and equity securities. As of December 31, 2021, the majority of our investment portfolio, or $432.7 million, was comprised of fixed maturity securities that are classified as available-for-sale and carried at fair value with unrealized gains and losses on these securities, net of applicable taxes, reported as a separate component of accumulated other comprehensive income. Also included in our investment portfolio were $33.3 million of equity securities. In addition, we maintained a non-restricted cash and cash equivalent balance of $50.3 million at December 31, 2021. Our fixed maturity securities, including cash equivalents, had a weighted average effective duration of 3.99 and 3.96 years and an average rating of "A1/A" and "A2/A" at December 31, 2021 and December 31, 2020, respectively. Our fixed income investment portfolio had a book yield of 2.23% as of December 31, 2021, compared to 2.27% as of December 31, 2020.

At December 31, 2021 and December 31, 2020 the amortized cost and fair value on available-for-sale securities were as follows:

December 31, 2021	Amortized Cost or Cost	Fair Value	% of Total Fair Value
		($ in thousands)	
Fixed maturities:			
U.S. Governments	$ 16,713	$ 16,870	3.9 %
States, territories, and possessions	3,789	4,014	0.9 %
Political subdivisions	6,295	6,380	1.5 %
Special revenue excluding mortgage/asset-backed securities	43,301	44,498	10.3 %
Industrial and miscellaneous	245,064	249,046	57.5 %
Mortgage/asset-backed securities	110,960	111,874	25.9 %
Total available-for-sale investments	$ 426,122	$ 432,682	100.0 %

December 31, 2020	Amortized Cost or Cost	Fair Value	% of Total Fair Value
	($ in thousands)		
Fixed maturities:			
U.S. Governments	$ 16,308	$ 17,059	4.3 %
States, territories, and possessions	6,208	6,636	1.7 %
Political subdivisions	2,027	2,152	0.5 %
Special revenue excluding mortgage/asset-backed securities	39,704	41,227	10.4 %
Industrial and miscellaneous	234,049	245,360	61.6 %
Mortgage/asset-backed securities	82,983	85,553	21.5 %
Total available-for-sale investments	$ 381,279	$ 397,987	100.0 %

The following tables provide the credit quality of investment securities as of December 31, 2021 and December 31, 2020:

December 31, 2021	Estimated Fair Value	% of Total
	($ in thousands)	
Rating		
AAA	$ 97,209	22.5 %
AA	65,308	15.1 %
A	165,770	38.3 %
BBB	93,051	21.5 %
BB	11,057	2.5 %
B	268	0.1 %
CCC&Below	125	- %
	$ 432,788	100.0 %

December 31, 2020	Estimated Fair Value	% of Total
	($ in thousands)	
Rating		
AAA	$ 91,156	22.9 %
AA	54,342	13.7 %
A	149,977	37.7 %
BBB	88,817	22.3 %
BB	11,425	2.9 %
NA/NR	2,270	0.5 %
	$ 397,987	100.0 %

The amortized cost and fair value of our available-for-sale investments in fixed maturity securities summarized by contractual maturity as of December 31, 2021 were as follows:

December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value
		($ in thousands)	
Due within one year	$ 21,435	$ 21,550	5.0 %
Due after one year through five years	133,235	134,946	31.2 %
Due after five years through ten years	113,264	115,897	26.8 %
Due after ten years	47,228	48,415	11.2 %
Mortgage and asset-backed securities	110,960	111,874	25.8 %
	$ 426,122	$ 432,682	100.0 %

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. See “Critical Accounting Policies and Estimates- Investment Valuation and Fair Value” for discussion of investment valuation considerations.

Critical Accounting Policies and Estimates

We identified the accounting estimates below as critical to the understanding of our financial position and results of operations. Critical accounting estimates are defined as those estimates that are both important to the portrayal of our financial condition and results of operations and which require us to exercise significant judgment. We use significant judgment concerning future results and developments in applying these critical accounting estimates and in preparing our consolidated financial statements. These judgments and estimates affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of material contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. For a detailed discussion of our accounting policies, see the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents our estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. We do not discount this reserve. We seek to establish reserves that will ultimately prove to be adequate.

We categorize our reserves for unpaid losses and loss adjustment expenses into two types: case reserves and reserves for incurred but not yet reported losses (“IBNR”). Through our third-party administrators (“TPAs”), we generally are notified of losses by our insureds or their agents or brokers. Based on the information provided by the TPAs, we establish initial case reserves by estimating the ultimate losses from the claim, including administrative costs associated with the ultimate settlement of the claim. Our personnel use their knowledge of the specific claim along with internal and external experts, including underwriters and legal counsel, to estimate the expected ultimate losses.

We establish IBNR reserves to provide for (i) the estimated amount of future loss payments on incurred claims not yet reported, and (ii) potential development on reported claims. IBNR reserves are estimated based on generally accepted actuarial reserving techniques that consider quantitative loss experience data and, where appropriate, qualitative factors. With the assistance of an independent actuarial firm, we use statistical analysis to estimate the cost of losses and loss adjustment expenses related to IBNR. Those estimates are based on our historical information, industry information and practices, and estimates of trends that may affect the ultimate frequency of incurred but not reported claims and changes in ultimate claims severity.

We regularly review our reserve estimates and adjust them as necessary as experience develops or as new information becomes known to us. Such adjustments are included in current operations. During the loss settlement period, if we have indications that claims frequency or severity exceeds our initial expectations, we generally increase our reserves for losses and loss adjustment expenses. Conversely, when claims frequency and severity trends are more favorable than initially anticipated, we generally reduce our reserves for losses and loss adjustment expenses once we have sufficient data to confirm the validity of the favorable trends. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimate included in our consolidated financial statements.

The following tables summarize our gross and net reserves for unpaid losses and loss adjustment expenses at December 31, 2021 and 2020.

	December 31, 2021			
Loss and Loss Adjustment Reserves	Gross	% of Total	Net	% of Total
	($ in thousands)			
Case reserves	$ 91,715	52.9 %	$ 26,595	58.6 %
IBNR	81,651	47.1 %	18,824	41.4 %
Total reserves	$ 173,366	100.0 %	$ 45,419	100.0 %

	December 31, 2020			
Loss and Loss Adjustment Reserves	Gross	% of Total	Net	% of Total
Case reserves	$ 74,296	57.6 %	$ 18,447	53.5 %
IBNR	54,740	42.4 %	16,023	46.5 %
Total reserves	$ 129,036	100.0 %	$ 34,470	100.0 %

The process of estimating the reserves for losses and loss adjustment expenses requires a high degree of judgment and is subject to several variables. On a quarterly basis, we perform an analysis of our loss development and select the expected ultimate loss ratio for each of our product lines by accident year. In our actuarial analysis, we use input from our TPAs and our underwriting departments, including premium pricing assumptions and historical experience. Multiple actuarial methods are used to estimate the reserve for losses and loss adjustment expenses. These methods utilize, to varying degrees, the initial expected loss ratio, detailed statistical analysis of past claims reporting and payment patterns, claims frequency and severity, paid loss experience, industry loss experience, and changes in market conditions, policy forms, exclusions, and exposures. The actuarial methods used to estimate loss reserves are:

- *Reported and/or Paid Loss Development Methods*—Ultimate losses are estimated based on historical reported and/or paid loss patterns. Reported losses are the sum of paid and case losses. Industry development patterns are substituted for historical development patterns when sufficient historical data is not available.

- *IBNR-to-Case Reserve Ratio Method*—This method calculates ratios of IBNR to case reserves based on incurred and paid development factors from the development methods. Estimated IBNR equals the product of case reserves and the IBNR-to-case reserve ratio. These IBNR amounts are added to the reported-to-date amount to derive ultimate losses.

- *Reported Bornhuetter-Ferguson Severity Method*—Under this method, ultimate losses are estimated as the sum of cumulative reported losses and estimated IBNR losses. IBNR losses are estimated based on expected average severity, estimated ultimate claim counts and the historical development patterns of reported losses.

- *Reported Bornhuetter Ferguson Pure Premium Method*—Under this method, ultimate losses are estimated as the sum of cumulative reported losses and estimated IBNR losses. IBNR losses are estimated based on expected pure premium and on the historical development patterns of reported losses.

The method(s) used vary based on the line of business and the nature of the loss event. Development patterns for catastrophic events are based on the time since event versus an accident quarter and year pattern used for non-catastrophic events. Considering each of the alternative ultimate estimates, we select an estimate of ultimate loss for each line of business. For Earthquake and “Difference in Conditions” policies, more emphasis is placed on reported methods. For the remainder, a weighted average is selected.

Loss Adjustment Expense reserves are estimated based on the ratio of paid loss adjustment expense to paid loss, which is estimated separately by line of business as well as split by hurricane and excluding hurricane. We then apply this ratio to our estimated unpaid loss, by multiplying the ratio times 50% of loss case reserves and 100% of loss IBNR reserves. This is applied by line of business and accident year to arrive at estimated unpaid loss adjustment expense on a gross basis. We then add the estimated unpaid loss adjustment expense on a gross basis to the paid loss adjustment expense to calculate estimated ultimate loss adjustment expense.

On a quarterly basis, the leaders of our executive management, accounting, actuarial, and claims teams meet to review the recommendations made by the independent actuarial consultant and use their best judgment to determine the best estimate to be recorded for the reserve for losses and loss adjustment expenses on our balance sheet.

Our reserves are driven by several important factors, including litigation and regulatory trends, legislative activity, climate change, social and economic patterns and claims inflation assumptions. Our reserve estimates reflect current inflation in legal claims' settlements and assume we will not be subject to losses from significant new legal liability theories. Our reserve estimates assume that there will not be significant changes in the regulatory and legislative environment. The impact of potential changes in the regulatory or legislative environment is difficult to quantify in the absence of specific, significant new regulation or legislation. In the event of significant new regulation or legislation, we will attempt to quantify its impact on our business, but no assurance can be given that our attempt to quantify such inputs will be accurate or successful.

The table below quantifies the impact of potential reserve deviations from our carried reserve at December 31, 2021. We applied sensitivity factors to incurred losses for the three most recent accident years and to the carried reserve for all prior accident years combined. We believe that potential changes such as these would not have a material impact on our liquidity.

			December 31, 2021		Potential Impact on 2021	
Sensitivity	**Accident Year**	**Net Ultimate LLAE Sensitivity Factor**	**Net Ultimate Incurred LLAE**	**Net LLAE Reserve**	**Pre-tax income**	**Stockholders' Equity***
			($ in thousands)			
Sample increases	2021	5.0 %	$ 45,045	$ 32,876	$ 2,252	$ 1,779
	2020	2.5 %	$ 61,001	$ 10,904	$ 1,525	$ 1,205
	Prior	1.0 %	$ 33,497	$ 1,639	$ 335	$ 265
Sample decreases	2021	(5.0)%	$ 45,045	$ 32,876	$ (2,252)	$ (1,779)
	2020	(2.5)%	$ 61,001	$ 10,904	$ (1,525)	$ (1,205)
	Prior	(1.0)%	$ 33,497	$ 1,639	$ (335)	$ (265)

* Effective tax rate estimated to be 21%

The amount by which estimated losses differ from those originally reported for a period is known as "development." Development is unfavorable when the losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on unresolved claims. Development is favorable when losses ultimately settle for less than the amount reserved, or subsequent estimates indicate a basis for reducing loss reserves on unresolved claims. We reflect favorable or unfavorable development of loss reserves in the results of operations in the period the estimates are changed.

The following tables present the development of our loss reserves by accident year on a gross basis and net of reinsurance recoveries during each of the below calendar years:

	Gross Ultimate Loss and LAE						
					Development- (Favorable) Unfavorable		
	Calendar Year				2018 to	2019 to	2020 to
Accident Year	2018	2019	2020	2021	2019	2020	2021
				(in thousands)			
Prior	$ 57,602	$ 56,651	$ 55,706	$ 61,740	$ (951)	$ (945)	$ 6,034
2019		25,127	22,797	22,156	—	(2,330)	(641)
2020			171,470	194,752	—	—	23,282
2021				171,922	—	—	—
					$ (951)	$ (3,275)	$ 28,675

	Net Ultimate Loss and LAE						
					Development- (Favorable) Unfavorable		
	Calendar Year				2018 to	2019 to	2020 to
Accident Year	2018	2019	2020	2021	2019	2020	2021
				(in thousands)			
Prior	$ 28,377	$ 28,196	$ 28,019	$ 27,988	$ (181)	$ (177)	$ (21)
2019		5,772	5,885	5,499	—	113	(386)
2020			64,179	61,001	—	—	(3,178)
2021				45,042	—	—	—
					$ (181)	$ (64)	$ (3,585)

During the year ended December 31, 2021, our gross incurred losses for accident years 2020 and prior developed unfavorably by $28.7 million. The gross unfavorable development was due primarily to losses on certain 2020 Hurricanes emerging at a higher severity than expected, primarily in our special property lines of business. On a net basis, the development was favorable by $3.6 million due to the effect of ceding gross unfavorable development under our reinsurance program. The catastrophe events which experienced unfavorable development were primarily subject to ceding under our XOL treaties while the catastrophe events which experienced favorable development were subject to a lower amount of ceding.

During the year ended December 31, 2020, our gross incurred losses for accident years 2018 and prior developed favorably by $3.3 million. The gross favorable development was due to reported losses emerging at a lower level than expected, primarily in our homeowners and special property lines of business, offset by higher frequency and severity of losses emerging in our assumed reinsurance line. The net favorable development of $0.1 million reflects the effect of ceding the gross favorability under our reinsurance program.

During the year ended December 31, 2019, our gross incurred losses for accident years 2018 and prior developed favorably by $1.0 million. This favorable development was due to reported losses emerging at a lower level than expected, primarily in our Specialty Homeowners business, offset by higher frequency and severity of claims in our special property lines of business. The net favorable development of $0.2 million reflects the effect of ceding the gross favorability under our reinsurance program.

Although we believe that our reserve estimates are reasonable, it is possible that our actual loss experience may not conform to our assumptions. Specifically, our actual ultimate loss ratio could differ from our initial expected loss ratio or our actual reporting and payment patterns could differ from our expected reporting and payment patterns, which are based on our own data and industry data. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in our financial statements. We regularly review our estimates and adjust them as necessary as experience develops or as new information becomes known to us. Such adjustments are included in the results of current operations.

Investment Valuation and Fair Value

We invest in a variety of investment grade fixed maturity securities, including U.S. government issues, state government issues, mortgage and asset-backed obligations, and corporate bonds. All of our investments in fixed maturity securities and equity securities are carried at fair value, defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress.

In our disclosure of the fair value of our investments, we utilize a hierarchy based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. The three levels of the fair value hierarchy are described below:

Level 1—Unadjusted quoted prices are available in active markets for identical investments as of the reporting date.

Level 2—Pricing inputs are quoted prices for similar investments in active markets; quoted prices for identical or similar investments in inactive markets; or valuations based on models where the significant inputs are observable or can be corroborated by observable market data.

Level 3—Pricing inputs into models are unobservable for the investment. The unobservable inputs require significant management judgment or estimation.

We use independent pricing sources to obtain the estimated fair values of investments. The fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, the fair value is based on a variety of valuation techniques depending on the type of investment. The fair values obtained from independent pricing sources are reviewed for reasonableness and any discrepancies are investigated for final valuation.

The fair value of our investments in fixed maturity securities is estimated using relevant inputs, including available market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. An Option Adjusted Spread model is also used to develop prepayment and interest rate scenarios. These fair value measurements are estimated based on observable, objectively verifiable market information rather than market quotes; therefore, these investments are classified and disclosed in Level 2 of the hierarchy.

The fair value of our investments in equity securities is based on quoted prices available in active markets and classified and disclosed in Level 1 of the hierarchy.

Investment securities are subject to fluctuations in fair value due to changes in issuer-specific circumstances, such as credit rating, and changes in industry-specific circumstances, such as movements in credit spreads based on the market's perception of industry risks. In addition, fixed maturities are subject to fluctuations in fair value due to changes in interest rates. As a result of these potential fluctuations, it is possible to have significant unrealized gains or losses on a security. Unrealized gains and losses on our fixed maturity securities are included in accumulated other comprehensive income as a separate component of total stockholders' equity. Equity securities are carried at fair value with unrealized gains and losses included as a component of net income on the Company's consolidated statement of income. Prior to 2018, unrealized gains and losses on equity securities were included in accumulated other comprehensive income as a separate component of stockholders' equity.

All financial assets measured at amortized cost, including available-for-sale securities are required to be presented at the net amount expected to be collected by means of an allowance for credit losses that is included in net income. Credit losses relating to available-for-sale debt securities are also required to be recorded through a reversible allowance for credit losses, but the allowance is limited to the amount by which fair value is less than amortized cost.

The Company reviews all securities with unrealized losses on a regular basis to assess whether the decline in the securities fair value necessitates the recognition of an allowance for credit losses. Factors considered in the review include the extent to which the fair value has been less than amortized cost, and current market interest rates and whether the unrealized loss is credit-driven or a result of changes in market interest rates. The Company also considers factors specific to the issuer including the general financial condition of the issuer, the issuers industry and future business prospects, any past failure of issuer to make scheduled interest or principal payments, and the payment structure of the investment and the issuers ability to make contractual payments on the investment.

The Company also considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost. When assessing whether it intends to sell a fixed-maturity security or if it is likely to be required to sell a fixed-maturity security before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs, and potential sales of investments to capitalize on favorable pricing.

For fixed-maturity securities where a decline in fair value is below the amortized cost basis and the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a credit-loss charge is recognized in net income based on the fair value of the security at the time of assessment. For fixed-maturity securities that the Company has the intent and ability to hold, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the impairment, which is recognized in net income through an allowance for credit losses. Any remaining decline in fair value represents the noncredit portion of the impairment, which is recognized in other comprehensive income.

The Company reports accrued interest receivable as a component of accrued investment income on its consolidated balance sheet which is presented separately from available-for-sale securities. The Company does not measure an allowance for credit losses on accrued interest receivable and instead would write off accrued interest receivable at the time an issuer defaults or is expected to default on payments.

Deferred Income Taxes

We account for taxes under the asset and liability method, under which we record deferred income taxes as assets or liabilities on our balance sheet to reflect the net tax effect of the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured by applying enacted tax rates in effect for the years in which such differences are expected to reverse.

Our deferred tax assets result from temporary differences primarily attributable to unearned premiums and net operating losses (“NOLs”). Our deferred tax liabilities result primarily from deferred acquisition costs and unrealized gains in the investment portfolio. On a quarterly basis, we review our deferred tax assets and, if we determine that it is more likely than not that some portion or all of the deferred tax assets will not be realized, we reduce our deferred tax asset with a valuation allowance. The assessment requires significant judgement and review of all positive and negative evidence to reach a conclusion that it is more likely than not that all or some of portion of the deferred tax asset will not be realized. We consider multiple factors, including the nature and amount of the deferred tax asset, the expected timing of when an asset will be used, and the historical profitability of our entities.

Recent Accounting Pronouncements

See “Note 2—Recent Accounting Pronouncements” in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for a discussion of accounting pronouncements recently adopted and recently issued accounting pronouncements not yet adopted and their potential impact to our financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risks have been equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. We do not have material exposure to foreign currency exchange rate risk or commodity risk.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. General concern exists about the number of municipalities experiencing financial difficulties in light of the adverse economic conditions experienced over the past several years. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services. We manage the exposure to credit risk in our corporate bond portfolio by investing in high quality securities and by diversifying our holdings.

We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. The majority of our investment portfolio is invested in high credit quality, investment grade fixed maturity securities. We also invest in higher yielding fixed maturities and equity securities. Our fixed maturity portfolio has an average rating by at least one nationally recognized rating organization of "AA−," with approximately 75.9% rated "A−" or better. At December 31, 2021, 2.7% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes some securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

Interest Rate Risk

We manage our exposure to interest rate risk through a disciplined asset/liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. We regularly assess these risks and balance them within the context of our liability and capital position.

As of December 31, 2021 the estimated fair value of our fixed maturities was $432.7 million. We estimate that a 100-basis point increase in interest rates would cause a 1.7% decline in the estimated fair value of our fixed maturities portfolio, while a 100-basis point decrease in interest rates would cause a 3.0% increase in the estimated fair value of that portfolio. The selected scenarios are not predictions of future events, but rather illustrate the effect that such events may have on the fair value of our fixed maturities portfolio.

Inflation

We establish our insurance premiums prior to knowing the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. We attempt to anticipate the potential impact of inflation in our pricing and our establishing of reserves for losses and loss adjustment expenses. Inflation in excess of the levels we have assumed could cause losses and loss adjustment expenses to be higher than we anticipated.

Substantial future increases in inflation could also result in future increases in interest rates, which in turn are likely to result in a decline in the market value of the investment portfolio and cause unrealized losses or reductions in total stockholders' equity.

Seasonality

Our Commercial All Risk, Specialty Homeowners and Hawaii Hurricane businesses expose us to claims from seasonal weather events such as hurricanes and windstorms. The occurrence of such events typically increases between June and November of each year. As a result, we may experience increased losses in our Commercial All Risk, Specialty Homeowners and Hawaii Hurricane lines of business during this period. Our Residential Earthquake and Commercial Earthquake businesses are not subject to seasonality.

Item 8: Financial Statements

Palomar Holdings, Inc. and Subsidiaries

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Index to Audited Consolidated Financial Statements of Palomar Holdings, Inc. and Subsidiaries as of December 31, 2021 and 2020 and for each of the Three Years Ended December 31, 2021, 2020 and 2019

Schedules other than those listed are omitted for the reason that they are not required, are not applicable or that equivalent information has been included in the financial statements or notes thereto or elsewhere herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Palomar Holdings, Inc. and Subsidiaries

Opinion on Internal Control Over Financial Reporting

We have audited Palomar Holdings, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Palomar Holdings, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedules listed in the Index at Item 15(a) and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
San Francisco, California
February 24, 2022

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Palomar Holdings, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Palomar Holdings, Inc. and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Reserve for Losses and Loss Adjustment Expenses

Description of the Matter	At December 31, 2021, the reserve for losses and loss adjustment expenses (LAE) is $173,366 thousand. As explained in Notes 2 and 9 to the consolidated financial statements, the reserve for losses and LAE represents management's best estimate for unpaid claims and claim adjustment expenses on reported losses and estimates of losses incurred but not reported (IBNR), net of salvage and subrogation recoveries. The liability is based on individual claims, case reserves and other estimates reported by policyholders, as well as management estimates of ultimate losses and loss adjustment expenses. Inherent in the estimates of ultimate losses and loss adjustment expenses are expected trends in claims severity and frequency and other factors that could vary significantly as claims are settled. IBNR reserves include an estimate for future loss payments on incurred claims not yet reported and for expected development on reported claims. There is significant uncertainty inherent in determining management’s best estimate of IBNR, which is sensitive to significant assumptions including the selection of actuarial methods and reported and paid loss emergence patterns. Auditing management’s best estimate of IBNR reserves was complex due to the highly judgmental nature of the assumptions, including selection of actuarial methods and reported and paid loss emergence patterns, used in the valuation process. These assumptions have a significant effect on the valuation of reserves for IBNR claims.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company’s controls over the process for estimating IBNR reserves. This included, among other procedures, testing management review controls in place over the review and approval of methods and assumptions used in estimating IBNR reserves. To test IBNR reserves, our audit procedures included, among others, testing the completeness and accuracy of the data used in the calculation by testing reconciliations of the underlying claims and policyholder data recorded in the source systems to the actuarial reserving calculations and comparing a sample of incurred and paid claims to source documentation. We evaluated with the assistance of our actuarial specialists, the Company’s selection and weighting of actuarial methods compared to methods used in prior periods and in the industry for the specific types of insurance. To evaluate the significant assumptions used by management, we compared the assumptions to current and historical claims trends and to current industry benchmarks. We compared the Company’s recorded reserves to a range of reasonable reserve estimates developed by our actuarial specialists based on independently selected methods and assumptions. We also compared the results of the reserve study prepared by a third-party actuarial firm to management’s recorded reserve. Additionally, we performed a hindsight analysis of the prior period estimates using subsequent claims development.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 2016
San Francisco, California
February 24, 2022

Palomar Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except shares and par value data)

	December 31, 2021	December 31, 2020
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: $426,122 in 2021; $381,279 in 2020)	$ 432,682	$ 397,987
Equity securities, at fair value (cost: $31,834 in 2021; $22,291 in 2020)	33,261	24,322
Total investments	465,943	422,309
Cash and cash equivalents	50,284	33,538
Restricted cash	87	248
Accrued investment income	2,725	2,545
Premium receivable	88,012	48,842
Deferred policy acquisition costs	55,953	35,481
Reinsurance recoverable on paid losses and loss adjustment expenses	29,368	10,162
Reinsurance recoverable on unpaid losses and loss adjustment expenses	127,947	94,566
Ceded unearned premiums	58,315	35,031
Prepaid expenses and other assets	37,072	34,119
Property and equipment, net	527	739
Intangible assets, net	9,501	11,512
Total assets	$ 925,734	$ 729,092
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and other accrued liabilities	$ 21,284	$ 20,730
Reserve for losses and loss adjustment expenses	173,366	129,036
Unearned premiums	284,665	183,489
Ceded premium payable	37,460	22,233
Funds held under reinsurance treaty	10,882	4,515
Deferred tax liabilities, net	3,908	5,376
Total liabilities	531,565	365,379
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized as of December 31, 2021 and December 31, 2020, 0 shares issued and outstanding as of December 31, 2021 and December 31, 2020	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 25,428,929 and 25,525,796 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	3	3
Additional paid-in capital	318,902	310,507
Accumulated other comprehensive income	5,312	13,246
Retained earnings	69,952	39,957
Total stockholders' equity	394,169	363,713
Total liabilities and stockholders' equity	$ 925,734	$ 729,092

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(in thousands, except shares and per share data)

	Year Ended December 31, 2021	2020	2019
Revenues:			
Gross written premiums	$ 535,175	$ 354,360	$ 251,961
Ceded written premiums	(223,443)	(155,102)	(108,332)
Net written premiums	311,732	199,258	143,629
Change in unearned premiums	(77,906)	(44,190)	(43,422)
Net earned premiums	233,826	155,068	100,207
Net investment income	9,080	8,612	5,975
Net realized and unrealized gains on investments	1,277	1,488	4,443
Commission and other income	3,608	3,295	2,671
Total revenues	247,791	168,463	113,296
Expenses:			
Losses and loss adjustment expenses	41,457	64,115	5,593
Acquisition expenses	95,433	64,041	37,259
Other underwriting expenses (includes stock-based compensation of $5,584, $2,167 and $24,103 for the years ended December 31, 2021, 2020 and 2019, respectively)	53,723	34,084	51,299
Interest expense	40	—	1,068
Total expenses	190,653	162,240	95,219
Income before income taxes	57,138	6,223	18,077
Income tax expense (benefit)	11,291	(34)	7,456
Net income	45,847	6,257	10,621
Other comprehensive income, net:			
Net unrealized gains (losses) on securities available for sale, net of taxes	(7,934)	8,560	5,249
Total comprehensive income	$ 37,913	$ 14,817	$ 15,870
Per Share Data:			
Basic earnings per share	$ 1.80	$ 0.25	$ 0.49
Diluted earnings per share	$ 1.76	$ 0.24	$ 0.49
Weighted-average common shares outstanding:			
Basic	25,459,514	24,872,251	21,501,541
Diluted	26,111,904	25,598,647	21,834,934

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholder’s Equity

(in thousands, except share data)

	Number of Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2018	17,000,000	$ 2	$ 68,498	$ (563)	$ 28,355	$ 96,292
Other comprehensive income (loss), net of tax	—	—	—	5,249	—	5,249
Distribution to stockholder	—	—	—	—	(5,120)	(5,120)
Stock-based compensation	—	—	24,103	—	—	24,103
Issuance of common stock in initial public offering, net of offering costs	6,468,750	—	87,411	—	—	87,411
Net income	—	—	—	—	10,621	10,621
Balance at December 31, 2019	23,468,750	$ 2	$ 180,012	$ 4,686	$ 33,856	$ 218,556
Balance at December 31, 2019	23,468,750	$ 2	$ 180,012	$ 4,686	$ 33,856	$ 218,556
Cumulative effect of adopting ASU 2016-13 (Note 2)	—	—	—	—	(156)	(156)
Other comprehensive income (loss), net of tax	—	—	—	8,560	—	8,560
Stock-based compensation	—	—	2,167	—		2,167
Issuance of common stock in January 2020 stock offering, net of offering costs	750,000	—	35,464	—	—	35,464
Issuance of common stock in June 2020 stock offering, net of offering costs	1,150,000	1	90,082	—	—	90,083
Issuance of common stock via employee stock purchase plan	28,367	—	741	—	—	741
Issuance of common stock via equity incentive plan	128,679	—	2,041	—	—	2,041
Net income	—	—	—	—	6,257	6,257
Balance at December 31, 2020	25,525,796	$ 3	$ 310,507	$ 13,246	$ 39,957	$ 363,713
Balance at December 31, 2020	25,525,796	$ 3	$ 310,507	$ 13,246	$ 39,957	$ 363,713
Other comprehensive income (loss), net of tax	—	—	—	(7,934)	—	(7,934)
Stock-based compensation	—	—	5,584	—		5,584
Issuance of common stock via employee stock purchase plan	9,793	—	719	—	—	719
Issuance of common stock via equity incentive plan	132,436	—	2,092	—	—	2,092
Repurchases of common stock	(239,096)	—	—	—	(15,852)	(15,852)
Net income	—	—	—	—	45,847	45,847
Balance at December 31, 2021	25,428,929	$ 3	$ 318,902	$ 5,312	$ 69,952	$ 394,169

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2021	2020	2019
Operating activities			
Net income	$ 45,847	$ 6,257	$ 10,621
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	5,584	2,167	24,103
Depreciation and amortization expense	3,544	1,336	216
Amortization and write-off of debt issuance costs	—	—	921
Allowance for credit loss on fixed maturity securities	106	—	—
Loss on asset disposal	—	—	1
Net realized and unrealized losses (gains) on investments	(1,277)	(1,488)	(4,443)
Amortization of premium on fixed maturity securities	2,317	1,214	431
Deferred income tax expense	641	1,094	646
Changes in operating assets and liabilities:			
Accrued investment income	(180)	(1,159)	(652)
Premium receivable	(39,170)	(12,754)	(17,604)
Deferred policy acquisition costs	(20,472)	(10,280)	(11,149)
Reinsurance recoverables	(52,587)	(87,473)	(2,693)
Ceded unearned premiums	(23,284)	(8,926)	(7,821)
Prepaid expenses and other assets	591	(16,414)	(6,187)
Accounts payable and other accrued liabilities	(946)	5,998	3,287
Reserve for losses and loss adjustment expenses	44,330	112,215	760
Unearned premiums	101,176	53,116	51,243
Ceded premiums payable	15,227	10,850	776
Funds held under reinsurance treaty	6,367	2,857	938
Income taxes payable	—	(1,117)	1,117
Net cash provided by operating activities	87,814	57,493	44,511
Investing activities			
Purchases of property and equipment	(18)	(132)	(115)
Capitalized software costs	(4,836)	(3,942)	(2,811)
Purchases of fixed maturity securities	(166,894)	(295,002)	(211,587)
Purchases of equity securities	(49,680)	(46,944)	(58,858)
Sales and maturities of fixed maturity securities	120,198	124,243	124,151
Sales of equity securities	41,553	45,983	64,820
Securities receivable or payable, net	1,500	(2,523)	1,023
Purchase of policy renewal rights	(11)	(7,068)	—
Net cash used in investing activities	(58,188)	(185,385)	(83,377)
Financing activities			
Proceeds from initial public offering, net of offering costs	—	—	87,411
Distribution to stockholder	—	—	(5,120)
Redemption of Floating Rate Notes	—	—	(20,000)
Proceeds from January 2020 stock offering, net of offering costs	—	35,464	—
Proceeds from June 2020 stock offering, net of offering costs	—	90,083	—
Proceeds from common stock issued via employee stock purchase plan	719	741	—
Proceeds from common stock issued via stock option exercises	2,092	2,041	—
Repurchase of common stock	(15,852)	—	—
Net cash provided by (used in) financing activities	(13,041)	128,329	62,291
Net increase in cash, cash equivalents and restricted cash	16,585	437	23,425
Cash, cash equivalents and restricted cash at beginning of period	33,786	33,349	9,924
Cash, cash equivalents and restricted cash at end of period	$ 50,371	$ 33,786	$ 33,349
Supplementary cash flow information:			
Cash paid for income taxes	$ 2,104	$ 7,182	$ 5,645

Cash paid for interest	$ —	$ —	$ 1,162

The following table summarizes our cash and cash equivalents and restricted cash within the consolidated balance sheets (in thousands):

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 50,284	$ 33,538
Restricted cash	87	248
Cash and cash equivalents and restricted cash	$ 50,371	$ 33,786

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Operations and Basis of Presentation

Summary of Operations

Palomar Holdings, Inc. (“the Company”) is a Delaware incorporated insurance holding company that was founded in 2014. The Company has several wholly owned subsidiaries including an Oregon domiciled insurance company, Palomar Specialty Insurance Company (“PSIC”), a Bermuda based reinsurance company, Palomar Specialty Reinsurance Company Bermuda Ltd. (“PSRE”), an Arizona domiciled surplus lines insurance company, Palomar Excess and Surplus Insurance Company (“PESIC”), and a California domiciled property and casualty insurance agency, Palomar Insurance Agency, DBA Palomar General Insurance Agency (“PGIA”).

PSIC is a property and casualty insurance company domiciled in the state of Oregon. The Company’s core focus is on the residential and commercial earthquake markets in earthquake-exposed states such as California, Oregon, Washington, and states with exposure to the New Madrid Seismic Zone. The Company also offers products tailored to broader geographic regions and perils, including Hawaii residential hurricane, Specialty Homeowners, Inland Marine, and Flood products. PSIC is licensed to underwrite insurance on an admitted basis in 34 states in the United States, as of December 31, 2021, mainly through managing general insurance agencies, wholesale brokers, and independent agents.

PSRE is a Bermuda captive reinsurance company that has historically been used to reinsure certain premiums on a quota share basis exclusively for PSIC.

PESIC is an Arizona domiciled surplus lines insurance company. PESIC is licensed in Arizona to write surplus lines policies across all the Company’s lines of business and was formed and began writing policies in 2020.

PGIA is a property and casualty general insurance agency for PSIC, PESIC, and unaffiliated insurance carriers. As a general insurance agency, PGIA assists in developing insurance products, underwriting insurance policies, and receiving and disbursing funds from premium and loss transactions under contracts on behalf of insurance companies. PGIA earns commissions from the product development, marketing, and servicing of the insurance companies’ programs. PGIA also earns fee income from policyholder transactions.

The Company operates as an insurance holding company system and is subject to the insurance holding company laws of the States of Oregon and Arizona, the states in which PSIC and PESIC are domiciled. The Company is also commercially domiciled in California, making it subject to California insurance holding company laws. These statutes require that each insurance company in the system register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system and domiciled in that state.

The Company has a single operating segment, the property and casualty insurance business. While the Company’s chief operating decision-maker reviews the revenue streams attributable to individual products, operations are managed, resources are allocated, and financial performance is evaluated on a consolidated basis.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Stock Split

On March 15, 2019, the Company effected a 17,000,000 for one forward stock split in conjunction with domestication in the United States. All share and per share information included in the accompanying consolidated financial statements and notes to the consolidated financial statements have been retroactively adjusted to reflect the stock split for the Company's common stock for all periods presented.

Initial Public Offering ("IPO")

On April 22, 2019, the Company completed its IPO with the sale of 6,468,750 shares of common stock at a price to the public of $15.00 per share, including 843,750 shares sold upon the exercise in full of the underwriter's option to purchase additional shares. After underwriter discounts and commissions and offering expenses, net proceeds from the IPO were approximately $87.4 million.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. All revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates reflected in the Company's consolidated financial statements include, but are not limited to, reserves for losses and loss adjustment expenses, reinsurance recoverables on unpaid losses, and the fair values of investments.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include time deposits and marketable securities with original maturities of three months or less at acquisition and are stated at cost, which approximates fair value. The Company maintains cash balances in federally insured financial institutions.

Restricted Cash

Restricted cash includes cash on deposit with reinsurance carriers. Restricted cash also includes cash held in a fiduciary capacity for the benefit of third-party insurance carriers.

Investments

All of the Company's investments in fixed maturity securities are classified as available-for-sale and are carried at fair value.

Investment income consists primarily of interest and dividends. Interest income is recognized on an accrual basis. Premiums and discounts on mortgage-backed securities and asset-backed securities are amortized or accrued using the prospective method which considers anticipated prepayments at the date of purchase. To the extent that the estimated lives of such securities change as a result of changes in estimated prepayment rates, the adjustments are included in net investment income using the prospective method. Dividend income is recognized on the ex-dividend date. Net investment income represents investment income, net of expenses.

Unrealized gains and losses related to fixed maturity securities are included in accumulated other comprehensive income as a separate component of stockholders' equity. Equity securities are carried at fair value with unrealized gains and losses included as a component of net income on the Company's consolidated statement of income and comprehensive income. The Company uses the specific-identification method to determine the cost of fixed maturity securities sold and the first-in, first-out method for lots of equity securities sold.

The Company reviews all securities with unrealized losses on a quarterly basis to assess whether the decline in the securities fair value necessitates the recognition of an allowance for credit losses. Factors considered in the review include the extent to which the fair value has been less than amortized cost, and current market interest rates and whether the unrealized loss is credit-driven or a result of changes in market interest rates. The Company also considers factors specific to the issuer including the general financial condition of the issuer, the issuers industry and future business prospects, any past failure of issuer to make scheduled interest or principal payments, and the payment structure of the investment and the issuers ability to make contractual payments on the investment.

The Company also considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost. When assessing whether it intends to sell a fixed-maturity security or if it is likely to be required to sell a fixed-maturity security before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs, and potential sales of investments to capitalize on favorable pricing.

For fixed-maturity securities where a decline in fair value is below the amortized cost basis and the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a credit-loss charge is recognized in net income based on the fair value of the security at the time of assessment. For fixed-maturity securities that the Company has the intent and ability to hold, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the impairment, which is recognized in net income through an allowance for credit losses. Any remaining decline in fair value represents the noncredit portion of the impairment, which is recognized in other comprehensive income.

The Company reports accrued interest receivable as a component of accrued investment income on its consolidated balance sheet which is presented separately from available-for-sale securities. The Company does not measure an allowance for credit losses on accrued interest receivable and instead would write off accrued interest receivable at the time an issuer defaults or is expected to default on payments.

The Company recorded an immaterial allowance for credit losses related to its available-for-sale securities as of December 31, 2021. As of December 31, 2020, the Company had no allowance for credit losses related to its available-for-sale securities.

Fair Value

Fair value is defined as the price that the Company would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1—Unadjusted quoted prices are available in active markets for identical investments as of the reporting date.

Level 2—Pricing inputs are quoted prices for similar investments in active markets; quoted prices for identical or similar investments in inactive markets; or valuation based on models where the significant inputs are observable or can be corroborated by observable market data.

Level 3—Pricing inputs into models are unobservable for the investment. The unobservable inputs require significant management judgment or estimation.

To measure fair value, the Company obtains quoted market prices for its investment securities from its outside investment managers. If a quoted market price is not available, the Company uses prices of similar securities. The fair values obtained from the outside investment managers are reviewed for reasonableness and any discrepancies are investigated for final valuation.

The fair value of the Company's investments in fixed maturity securities is estimated using relevant inputs, including available market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. An Option Adjusted Spread model is also used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities. These fair value measurements are estimated based on observable, objectively verifiable market information rather than market quotes; therefore, these investments are classified and disclosed in Level 2 of the hierarchy.

The fair value of the Company's investments in equity securities is based on quoted prices available in active markets and classified and disclosed in Level 1 of the hierarchy.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, fixed maturity securities and reinsurance recoverables. The Company places its cash and cash equivalents with high credit quality financial institutions and its fixed maturity securities in securities of the U.S. government, U.S. government agencies, and high credit quality issuers of debt securities. The Company evaluates the financial condition of its reinsurers and reinsures its business with highly rated reinsurers and sometimes requires letters of credit or retains funds from reinsurers (see Note 10).

Premiums Receivable

Premiums receivable represent amounts due from policyholders, insurance agents, or program administrators for policies written. Generally, premiums are collected prior to providing risk coverage, minimizing the Company's exposure to credit risk. Premiums receivable are short-term in nature and due within a year. The Company has established an allowance for uncollectable premiums related to its credit risk, which it reviews on a quarterly basis and adjusts as appropriate. The company considers the current economic environment, specific regulatory developments, and historic payment and cancelation trends by line of business and location when determining whether to record an allowance for uncollectable premiums.

The Company recorded an allowance for uncollectable premiums of $0.3 million and $0.2 million as of December 31, 2021 and December 31, 2020, respectively, and believes that all other amounts are collectable.

Deferred Policy Acquisition Costs

The costs of successfully acquiring new business, principally commission expense and premium taxes, are deferred and amortized over the terms of the policies in force, net of any ceding commissions.

Premiums Earned

Gross premiums written are recorded at policy inception and are earned as revenue ratably over the term of the respective policies. Premiums written not yet recognized as revenue are reflected as unearned premiums on the balance sheet, or as advanced premiums if received prior to the policy effective date. Premiums written where cash is not yet received are recognized as premiums receivable.

A premium deficiency is recognized if the sum of expected losses and loss adjustment expenses, unamortized acquisition costs, and policy maintenance costs exceeds the remaining unearned premiums. A premium deficiency would first be recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency were greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. The Company does not consider anticipated investment income when determining if a premium deficiency exists. There was no premium deficiency at December 31, 2021 or 2020.

Commission and Other Income

Commission and other income is comprised of commissions earned on policies where the Company has no exposure to underlying risk and fees earned in conjunction with underwriting policies. Commission and fee income is earned at the time the policy is written.

Property and Equipment

Property and equipment are capitalized and carried at cost less accumulated depreciation. Depreciation for property and equipment is calculated on a straight-line basis using useful lives of 3 to 5 years. Leasehold improvements and other fixed assets are capitalized and depreciated over the useful lives of the properties and equipment. Expenditures for maintenance and repairs are charged to operations as incurred. Upon disposition, the asset cost and related depreciation are removed from the accounts and the resulting gain or loss is included in the Company's results of operations.

Capitalized Software

Costs associated with the implementation of certain internal systems are capitalized and carried at capitalized cost less accumulated amortization and are included as a component of prepaid expenses and other assets on the Company's consolidated balance sheet. Costs capitalized include internal personnel costs, external developer costs, and interest. The implementation costs relate to systems built on software which the Company purchases under a cloud computing arrangement and accounts for as a service contract. As such, capitalized costs are amortized over the term of the service contract, which currently ends in December 2026.

Intangible Assets

Intangible assets consist of both finite and indefinite lived assets. Finite lived intangible assets consist of customer relationships acquired from another insurer during 2020. Indefinite lived intangible assets consist of state licenses acquired upon formation of the Company. Intangible assets are initially recognized and measured at fair value and are subsequently evaluated for impairment annually or more frequently if circumstances warrant it. No impairments of intangible assets were recognized for the years ended December 31, 2021, 2020 or 2019.

Impairment of Long-Lived Assets

Long-lived assets with finite lives are tested for impairment whenever recognized events or changes in circumstances indicate the carrying value of these assets may not be recoverable. If indicators of impairment are present, the fair value is calculated using estimated future cash flows expected to be generated from the use of those assets. An impairment loss is recognized only if the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. This assessment is based on the carrying amount of the asset or asset group at the date it is tested for recoverability. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset or asset group exceeds its fair value. No impairments of long-lived assets were recognized for the years ended December 31, 2021, 2020 or 2019.

Reserve for Losses and Loss Adjustment Expenses

The reserve for unpaid losses and loss adjustment expenses includes estimates for unpaid claims and claim adjustment expenses on reported losses and estimates of losses incurred but not reported ("IBNR"), net of salvage and subrogation recoveries. The liability is based on individual claims, case reserves and other estimates reported by policyholders, as well as management estimates of ultimate losses and loss adjustment expenses. Inherent in the estimates of ultimate losses and loss adjustment expenses are expected trends in claims severity and frequency and other factors that could vary significantly as claims are settled.

The Company's estimates of ultimate losses and loss adjustment expenses are based in part upon the estimation of claims resulting from natural disasters such as hurricanes and earthquakes. Estimation by management of the ultimate losses and loss adjustment expenses resulting from catastrophic events is inherently difficult because of the potential severity of property catastrophe claims. Therefore, the Company uses both proprietary and commercially available models, as well as historic claims experience, for purposes of providing an estimate of ultimate losses and loss adjustment expenses.

Reserves for IBNR are established in accordance with industry practice to provide for (i) the estimated amount of future loss payments on incurred claims not yet reported, and (ii) potential development on reported claims. IBNR reserves are estimated based on generally accepted actuarial reserving techniques that consider quantitative loss experience data and, where appropriate, qualitative factors.

Ultimate losses and loss adjustment expenses may vary materially from the amounts provided in the consolidated financial statements. Estimates of unpaid losses and loss adjustment expenses are reviewed regularly and, as experience develops and new information becomes known, the liabilities are adjusted as necessary. Such adjustments, if any, are reflected in operations in the period in which they become known and are accounted for as changes in estimates. The Company does not discount its liability for unpaid losses and loss adjustment expenses.

The Company does not write insurance policies covering toxic clean-up, asbestos-related illness or other environmental remediation exposures.

Reinsurance

The Company purchases excess of loss and quota share reinsurance to protect it against the impact of losses. Reinsurance premiums, commissions, ceded unearned premiums are accounted for on bases consistent with the underlying terms of the reinsurance contracts and in proportion to the amount of insurance protection provided. The Company receives ceding commissions in connection with quota share reinsurance. The ceding commissions are capitalized and amortized as a reduction of acquisition expenses. Amounts applicable to ceded unearned premiums are reported as assets in the accompanying consolidated balance sheets. Premiums earned and losses and loss adjustment expenses incurred are stated in the accompanying consolidated statements of income and comprehensive income net of amounts ceded to reinsurers.

Reinsurance recoverables represent balances due to the Company from its reinsurers for paid and unpaid losses and loss adjustment expenses. The Company is exposed to credit losses from reinsurers being unable to meet their obligations. The Company evaluates the financial condition of potential reinsurers and reinsures its business only with highly rated reinsurers with a rating of "A-" (Excellent) (Outlook Stable) or better from A.M. Best. Reinsurers who do not meet the Company's rating criteria are required to post collateral. The Company reviews credit quality of its reinsurers on a quarterly basis. The Company's reinsurance contracts also include special termination provisions that allow the Company to cancel and replace any participating reinsurer that is downgraded below a rating of "A−" from A.M. Best, or whose surplus drops by more than 20%. Historically, the Company has not experienced any credit losses from reinsurance recoverables and did not have an allowance for uncollectable reinsurance recoverables as of December 31, 2021 or December 31, 2020.

Stock Based Compensation Expense

Stock-based compensation expense is recognized on a straight-line basis over the vesting period of awards. The Company does not apply a forfeiture rate to unvested awards and accounts for forfeitures as they occur. For stock option grants, the fair value of awards is estimated using the Black Scholes Model. The fair value of restricted stock units is determined using the closing price of the Company's common stock on the grant date. The fair value of performance stock units containing employee service or company financial performance based conditions is determined using the closing price of the Company's common stock on the grant date. The fair value of performance stock units containing conditions based on performance of the Company's stock is determined using a Monte Carlo simulation. All stock-based compensation is included in other underwriting expenses in the Company's consolidated statements of income and comprehensive income.

Income Taxes

The Company is taxed as a property/casualty insurer for federal income tax purposes. Deferred income tax assets and liabilities are determined based on the difference between the financial statement and the tax bases of assets and liabilities, using enacted tax rates expected to be in effect during the year in which the basis differences reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company recognizes the tax benefit of uncertain tax positions where the position is more likely than not to be sustained assuming examination by taxing authorities. Based on its evaluation for the tax years ended December 31, 2021 and 2020, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Company recognizes interest and penalties related to uncertain tax positions, if any, as a component of income tax expense. The Company has not been assessed interest or penalties by any major tax jurisdictions for the respective tax years ended December 31, 2021, 2020, or 2019.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average common shares outstanding for the period. Diluted earnings per share reflects the dilution which could occur if equity-based awards are converted into common share equivalents as calculated using the treasury stock method. When inclusion of additional common share equivalents increases the earnings per share or reduces the loss per share, the effect on earnings per share is anti-dilutive, and the diluted net earnings or net loss per share is computed excluding these common share equivalents.

Recently adopted accounting pronouncements

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes*. Among other things, ASU 2019-12 eliminates certain exceptions for recognizing deferred taxes for investments, performing intra-period tax allocation and calculating income taxes in interim periods. ASU 2019-12 also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted this guidance on January 1, 2021 and adoption did not have a material impact on its consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

To date, there have been no recent accounting pronouncements not yet effective that have significance, or potential significance, to the Company's consolidated financial statements.

3. Investments

The Company's available-for-sale investments are summarized as follows:

December 31, 2021	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Fixed maturities:				
U.S. Governments	$ 16,713	$ 347	$ (190)	$ 16,870
States, territories, and possessions	3,789	288	(63)	4,014
Political subdivisions	6,295	107	(22)	6,380
Special revenue excluding mortgage/asset-backed securities	43,301	1,273	(76)	44,498
Industrial and miscellaneous	245,064	5,873	(1,891)	249,046
Mortgage/asset-backed securities	110,960	1,377	(463)	111,874
Total available-for-sale investments	$ 426,122	$ 9,265	$ (2,705)	$ 432,682

December 31, 2020	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Fixed maturities:				
U.S. Governments	$ 16,308	$ 756	$ (5)	$ 17,059
States, territories, and possessions	6,208	428	—	6,636
Political subdivisions	2,027	125	—	2,152
Special revenue excluding mortgage/asset-backed securities	39,704	1,525	(2)	41,227
Industrial and miscellaneous	234,049	11,602	(291)	245,360
Mortgage/asset-backed securities	82,983	2,785	(215)	85,553
Total available-for-sale investments	$ 381,279	$ 17,221	$ (513)	$ 397,987

Security holdings in an unrealized loss position

As of December 31, 2021, the Company held 231 fixed maturity securities in an unrealized loss position with a total estimated fair value of $170.1 million and total gross unrealized losses of $2.7 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment. As of December 31, 2020, the Company held 90 fixed maturity securities in an unrealized loss position with a total estimated fair value of $41.5 million and total gross unrealized losses of $0.5 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

The aggregate fair value and gross unrealized losses of the Company's investments aggregated by investment category and the length of time these individual securities have been in a continuous unrealized loss position as of December 31, 2021 and 2020, are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
December 31, 2021	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(in thousands)			
Fixed maturity securities:						
U.S. Governments	$ 5,968	$ (147)	$ 1,457	$ (43)	$ 7,425	$ (190)
States, territories, and possessions	1,444	(63)	—	—	1,444	(63)
Political subdivisions	1,815	(22)	—	—	1,815	(22)
Special revenue excluding mortgage/asset-backed securities	6,280	(76)	—	—	6,280	(76)
Industrial and miscellaneous	94,020	(1,468)	5,570	(423)	99,590	(1,891)
Mortgage/asset-backed securities	51,246	(412)	2,319	(51)	53,565	(463)
Total	$ 160,773	$ (2,188)	$ 9,346	$ (517)	$ 170,119	$ (2,705)

	Less Than 12 Months		More Than 12 Months		Total	
December 31, 2020	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(in thousands)			
Fixed maturity securities:						
U.S. Governments	$ 1,496	$ (5)	$ —	$ —	$ 1,496	$ (5)
States, territories, and possessions	—	—	—	—	—	—
Political subdivisions	—	—	—	—	—	—
Special revenue excluding mortgage/asset-backed securities	520	(2)	—	—	520	(2)
Industrial and miscellaneous	22,718	(234)	203	(57)	22,921	(291)
Mortgage/asset-backed securities	16,092	(211)	496	(4)	16,588	(215)
Total	$ 40,826	$ (452)	$ 699	$ (61)	$ 41,525	$ (513)

The Company reviewed the above securities at each balance sheet date to consider whether it was necessary to recognize a credit loss related to any of these securities. An immaterial allowance for credit losses was recorded pertaining to one investment security as of December 31, 2021. For the remaining securities, the Company determined that the fixed maturity securities' unrealized losses were primarily the result of the interest rate environment and not the credit quality of the issuers. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before the recovery of their amortized cost basis. The Company did not recognize an allowance for credit losses related to any securities for the year ended December 31, 2020.

Contractual maturities of available-for-sale fixed maturity securities

The amortized cost and fair value of fixed maturity securities at December 31, 2021, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 21,435	$ 21,550
Due after one year through five years	133,235	134,946
Due after five years through ten years	113,264	115,897
Due after ten years	47,228	48,415
Mortgage and asset-backed securities	110,960	111,874
	$ 426,122	$ 432,682

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Change in unrealized gains (losses) of investments

The following table presents the change in available-for-sale gross unrealized gains or losses by investment type:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Change in net unrealized gains (losses)			
Fixed maturities	$ (10,148)	$ 10,835	$ 6,602
Net increase (decrease)	$ (10,148)	$ 10,835	$ 6,602

Net investment income summary

Net investment income is summarized as follows:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Interest income	$ 9,119	$ 8,554	$ 5,894
Dividend income	461	489	424
Investment management fees and expenses	(500)	(431)	(343)
Net investment income	$ 9,080	$ 8,612	$ 5,975

Net realized and unrealized investment gains and losses

The following table presents net realized and unrealized investment gains and losses:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Realized gains:			
Gains on sales of fixed maturity securities	$ 466	$ 501	$ 1,405
Gains on sales of equity securities	1,416	62	177
Total realized gains	1,882	563	1,582
Realized losses:			
Losses on sales of fixed maturity securities	(1)	(46)	(84)
Losses on sales of equity securities	—	(68)	(64)
Total realized losses	(1)	(114)	(148)
Net realized investment gains	1,881	449	1,434
Net unrealized gains (losses) on equity securities	(604)	1,039	3,009
Net realized and unrealized gains (losses) on investments	$ 1,277	$ 1,488	$ 4,443

Proceeds from the sale of fixed maturity securities were $17.4 million, $39.8 million and $46.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The Company places securities on statutory deposit with certain state agencies to retain the right to do business in those states. These securities are included in available-for-sale investments on the consolidated balance sheets. At December 31, 2021 and 2020, the carrying value of securities on deposit with state regulatory authorities was $7.5 million and $7.5 million, respectively.

4. Fair value measurements

The following tables present the Company's fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

December 31, 2021	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Fixed maturity securities				
U.S. Governments	$ —	$ 16,870	$ —	$ 16,870
States, territories, and possessions	—	4,014	—	4,014
Political subdivisions	—	6,380	—	6,380
Special revenue excluding mortgage/asset-backed securities	—	44,498	—	44,498
Industrial and miscellaneous	—	249,046	—	249,046
Mortgage/asset-backed securities	—	110,374	1,500	111,874
Equity securities	33,261	—	—	33,261
Cash, cash equivalents, and restricted cash	50,371	—	—	50,371
Total assets	$ 83,632	$ 431,182	$ 1,500	$ 516,314

December 31, 2020	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Fixed maturity securities				
U.S. Governments	$ —	$ 17,059	$ —	$ 17,059
States, territories, and possessions	—	6,636	—	6,636
Political subdivisions	—	2,152	—	2,152
Special revenue excluding mortgage/asset-backed securities	—	41,227	—	41,227
Industrial and miscellaneous	—	245,360	—	245,360
Mortgage/asset-backed securities	—	85,553	—	85,553
Equity securities	24,322	—	—	24,322
Cash, cash equivalents, and restricted cash	33,786	—	—	33,786
Total assets	$ 58,108	$ 397,987	$ —	$ 456,095

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheets including cash and cash equivalents, restricted cash, receivables, reinsurance recoverable, and accounts payable and other accrued liabilities approximate fair value due to their short term-maturity.

Transfers between Level 3 and Level 2 securities result from changes in the availability of market observable inputs and are recorded at the beginning of the reporting period. As of December 31, 2021, the Company had $1.5 million of fixed income securities classified as Level 3 due to the availability of market observable inputs.

5. Policy Acquisition Costs

The following tables present the policy acquisition costs deferred and amortized over the terms of the policies in force:

	Year ended December 31, 2021	2020	2019
		(in thousands)	
Deferred Policy Acquisition Costs:			
Balance, beginning of year	$ 35,481	$ 25,201	$ 14,052
Additions to deferred balance:			
Direct commissions	133,242	82,786	59,676
Ceding commissions	(32,249)	(19,371)	(17,257)
Premium taxes	8,209	7,024	5,236
Total net additions	109,202	70,439	47,655
Amortization of net policy acquisition costs	(88,730)	(60,159)	(36,506)
Balance, end of year	$ 55,953	$ 35,481	$ 25,201
Acquisition expenses:			
Amortization of net policy acquisition costs	$ 88,730	$ 60,159	$ 36,506
Period costs	6,703	3,882	753
Total Acquisition expenses	$ 95,433	$ 64,041	$ 37,259

6. Intangible Assets

Intangible assets consist of the following:

	December 31, 2021	December 31, 2020
	(in thousands)	
Indefinite-lived intangibles:		
State insurance licenses	$ 744	$ 744
Finite-lived intangibles:		
Customer relationships	10,008	10,768
Accumulated amortization on finite-lived intangibles	(1,251)	—
Total intangible assets	$ 9,501	$ 11,512

State insurance licenses consist of licenses acquired at the inception of PSIC.

Customer relationships represents the fair value of acquired policy renewal rights. The Company began amortizing this intangible asset on a straight line basis in 2021 and is amortizing it over a period of 8 years. Amortization expense for the year ended December 31, 2021 was $1.3 million.

7. Capitalized Assets

Capitalized software balances are as follows:

December 31, 2021	Cost	Accumulated Amortization	Net Book Value
		(in thousands)	
Capitalized Software	$ 13,205	$ (3,831)	$ 9,374

December 31, 2020	Cost	Accumulated Amortization	Net Book Value
		(in thousands)	
Capitalized Software	$ 8,450	$ (1,767)	$ 6,683

Amortization expense relating to capitalized software for the years ended December 31, 2021, 2020 and 2019 was $2.1 million, $1.1 million, and $0.6 million, respectively.

Property and Equipment consists of the following:

December 31, 2021	Cost	Accumulated Depreciation	Net Book Value
		(in thousands)	
Leasehold improvements	$ 879	$ (576)	$ 303
Computer hardware	294	(148)	146
Office equipment and furniture	519	(441)	78
Total	$ 1,692	$ (1,165)	$ 527

December 31, 2020	Cost	Accumulated Depreciation	Net Book Value
		(in thousands)	
Leasehold improvements	$ 879	$ (459)	$ 420
Computer hardware	276	(100)	176
Office equipment and furniture	519	(376)	143
Total	$ 1,674	$ (935)	$ 739

Depreciation expense for the years ended December 31, 2021, 2020 and 2019 was $0.2 million, $0.2 million, and $0.2 million respectively.

8. Leases

The Company has operating leases for office space used to conduct its insurance operations and administration activities. Operating lease right-of-use ("ROU") assets are a component of prepaid expenses and other assets and operating lease liabilities are included in accounts payable and other accrued liabilities in the Company's consolidated balance sheets.

The Company determines whether an arrangement is a lease at its inception. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. To determine the present value of lease payments, the Company uses its incremental borrowing rate, which it calculates based on information available at the lease commencement date. For certain leases that contain options to extend, the options are included in lease liabilities only if the company is reasonably certain the option will be exercised. Variable lease costs such as parking are expensed in the period the obligation is incurred and are not included in the Company's operating lease liability. The Company's lease agreements do not contain any residual value guarantees.

Operating lease costs for the years ended December 31, 2021, 2020 and 2019 were $0.7 million, $0.7 million and $0.6 million, respectively. Operating lease costs are comprised of rental expense for operating leases. Lease expense is recognized on a straight-line basis over the lease term and is included as a component of other underwriting expenses in the Company's consolidated statements of income and comprehensive income.

The following tables provide supplementary information about the Company's leases:

Year ended December 31, 2021	**(in thousands)**
Operating cash outflows from operating leases	$ 879

December 31, 2021	**($ in thousands)**
Operating lease ROU assets	$ 1,636
Operating lease liabilities	$ 2,187
Weighted-average remaining lease term on operating leases	2.5 years
Weighted-average discount rate on operating leases	2.1 %

Future minimum lease payments as of December 31, 2021 are as follows:

Years ending December 31,	**(in thousands)**
2022	$ 904
2023	862
2024	478
2025	—
2026	—
Total future minimum lease payments	$ 2,244
Less: imputed interest	(57)
Total operating lease liability	$ 2,187

9. Reserve for Losses and Loss Adjustment Expenses

Loss and loss adjustment expenses reserves represent management's best estimate of the ultimate cost of all reported and unreported losses incurred for the years ended December 31, 2021, 2020, and 2019. The Company does not discount loss and loss adjustment expense reserves. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency.

In addition to case reserves, which are generally based on reported claims, the Company establishes reserves for incurred but not reported claims (“IBNR”). IBNR reserves are developed to provide for (i) the estimated amount of future loss payments on incurred claims not yet reported, and (ii) potential development on reported claims. IBNR reserves are estimated based on generally accepted actuarial reserving techniques that consider quantitative loss experience data and, where appropriate, qualitative factors. With the assistance of an independent, actuarial firm, the Company uses statistical analysis to estimate the cost of losses and loss adjustment expenses related to IBNR. Those estimates are based on historical information, industry information and practices, and estimates of trends that may affect the ultimate frequency of incurred but not reported claims and changes in ultimate claims severity.

The Company regularly reviews its reserve estimates and adjusts them as necessary as experience develops or as new information becomes known. Such adjustments are included in current operations. During the loss settlement period, if there are indications that claims frequency or severity exceeds initial expectations, the Company generally increases its reserves for losses and loss adjustment expenses. Conversely, when claims frequency and severity trends are more favorable than initially anticipated, the Company generally reduces its reserves for losses and loss adjustment expenses once it has sufficient data to confirm the validity of the favorable trends. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimate included in the Company’s consolidated financial statements.

Although considerable variability is inherent in such estimates, management believes the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Any adjustments to estimates are recorded in the current period.

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE on a net of reinsurance basis to the gross amounts reported in the accompanying consolidated balance sheets:

	Year Ended December 31,		
	2021	**2020**	**2019**
		(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 34,470	$ 3,869	$ 4,165
Add: Incurred losses and loss adjustment expenses, net of reinsurance, related to:			
Current year	45,042	64,179	5,774
Prior years	(3,585)	(64)	(181)
Total incurred	41,457	64,115	5,593
Deduct: Loss and loss adjustment expense payments, net of reinsurance, related to:			
Current year	12,063	31,879	2,179
Prior years	18,445	1,635	3,710
Total payments	30,508	33,514	5,889
Reserve for losses and loss adjustment expense net of reinsurance recoverables at end of period	45,419	34,470	3,869
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	127,947	94,566	12,952
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 173,366	$ 129,036	$ 16,821

The foregoing reconciliation shows loss and loss adjustment expense reserve redundancies of $3.6 million, $0.1 million and $0.2 million developed in 2021, 2020 and 2019, respectively. During 2021, this net favorable reserve development was primarily due to the effect of ceding gross unfavorable development under our reinsurance program and lower than anticipated severity of catastrophe losses associated with certain hurricanes that occurred during the second half of 2020. During 2020, this favorable reserve development related to lower than anticipated frequency and severity of claims in our homeowners and special property lines of business offset by higher than anticipated frequency and severity of claims in our assumed reinsurance line. During 2019, this favorable reserve development was primarily related to lower than originally anticipated frequency and severity of claims in our homeowners lines of business, offset by higher than originally anticipated frequency and severity of claims in our special property lines of business.

The Company compiles and aggregates its claims data by grouping the claims according to the year in which the claim occurred (“Accident Year”) when analyzing claim payment and emergence patterns and trends over time. For the purpose of defining claims frequency, the number of reported claims is by loss occurrence and includes claims that do not result in a liability or payment associated with them.

The Company analyzed the usefulness of disaggregation of its results and determined the characteristics associated with the policies and the related unpaid loss reserves, incurred losses, and payment patterns are similar in nature. The Company separates its special property and other claim experience from its homeowner claim experience when analyzing losses and allocated loss adjustment expenses incurred and paid development and claim count triangles, as there are distinct differences in the development and claim count emergence patterns as well as methods of IBNR projection. The Special Property classification includes fire, allied lines, inland marine, and earthquake claims.

As such, the following tables show the Company’s historical homeowner and special property incurred and cumulative paid losses and LAE development, net of reinsurance, as well as IBNR loss reserves and the number of reported claims on an aggregate basis as of December 31, 2021 and for previous accident years.

The information provided herein about incurred and paid accident year claims development for the years ended December 31, 2020 and prior is presented as unaudited supplementary information.

Incurred Losses and Allocated Loss Adjustment Expenses,
Net of Reinsurance Homeowners’ Insurance (in thousands)

	Year Ended December 31,							As of December 31, 2021	
Accident Year	2015(1)	2016(1)	2017(1)	2018(1)	2019(1)	2020(1)	2021	Incurred but Not Reported Liabilities	Cumulative Number of Claims
2015	$ 2,048	$ 1,785	$ 1,658	$ 1,636	$ 1,642	$ 1,636	$ 1,643	$ —	421
2016		6,069	5,878	5,721	5,636	5,622	5,609	—	1,121
2017			9,354	7,418	6,630	6,388	5,587	—	3,049
2018				2,193	2,008	1,930	1,929	2	799
2019					914	838	807	102	1,213
2020						19,100	15,088	1,470	4,015
2021							8,453	2,866	3,479
Total							$ 39,116	$ 4,440	14,097

Cumulative Paid Losses and Allocated Loss Adjustment Expenses,
Net of Reinsurance Homeowners' Insurance (in thousands)

	Year Ended December 31,						
Accident Year	**2015(1)**	**2016(1)**	**2017(1)**	**2018(1)**	**2019(1)**	**2020(1)**	**2021**
2015	$ 860	$ 1,379	$ 1,523	$ 1,615	$ 1,634	$ 1,636	$ 1,643
2016		4,120	5,356	5,585	5,607	5,619	5,609
2017			7,135	7,375	6,628	6,371	5,586
2018				1,550	1,853	1,922	1,922
2019					546	685	685
2020						13,588	13,095
2021							4,351
Total							$ 32,891
Reserve for losses and loss adjustment expense, net of reinsurance							$ 6,225

(1) Data presented for these calendar years is required supplementary information, which is unaudited.

Average Annual Percentage Payout of Incurred Claims by Age,
Net of Reinsurance Homeowners' Insurance (unaudited)

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5 (2)**	**Year 6 (2)**	**Year 7**
Payout percentage	77.58 %	14.60 %	0.61 %	0.35 %	(4.23)%	(0.18)%	0.43 %

(2) Negative payout percentages are due to timing of reinsurance payments, allocations of reinsurance between different lines of business based on actual results, and allocation of reinsurance to different periods for reinsurance treaties in effect for multiple periods. These are primarily associated with larger recoveries from catastrophe events in earlier years of operation.

Incurred Losses and Allocated Loss Adjustment Expenses,
Net of Reinsurance Special Property Insurance (in thousands)

			Year Ended December 31,					As of December 31, 20201	
Accident Year	**2015(1)**	**2016(1)**	**2017(1)**	**2018(1)**	**2019(1)**	**2020(1)**	**2021**	**Incurred but Not Reported Liabilities**	**Cumulative Number of Claims**
2015	$ 630	$ 719	$ 671	$ 671	$ 678	$ 677	$ 673	$ —	523
2016		1,381	1,249	1,251	1,454	1,453	1,453	—	1,353
2017			3,071	3,475	4,014	4,264	4,974	—	3,615
2018				5,970	6,095	6,009	6,021	—	1,317
2019					3,661	3,385	3,140	33	1,780
2020						42,334	42,160	2,328	2,573
2021							21,383	3,689	1,542
Total							$ 79,804	$ 6,050	12,703

Cumulative Paid Losses and Allocated Loss Adjustment Expenses,
Net of Reinsurance Special Property Insurance (in thousands)

Accident Year	**2015(1)**	**2016(1)**	**2017(1)**	**2018(1)**	**2019(1)**	**2020(1)**	**2021**
2015	$ 265	$ 438	$ 586	$ 626	$ 666	$ 673	$ 673
2016		703	1,064	1,216	1,444	1,453	1,453
2017			1,967	3,344	4,011	4,269	4,974
2018				2,859	6,036	6,009	6,021
2019					1,633	2,825	3,072
2020						18,274	36,127
2021							7,004

Total	59,324
Reserve for losses and loss adjustment expense, net of reinsurance	20,480

(1) Data presented for these calendar years is required supplementary information, which is unaudited.

Average Annual Percentage Payout of Incurred Claims by Age,
Net of Reinsurance Special Property Insurance (unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Payout percentage	43.27 %	35.22 %	10.66 %	6.76 %	6.91 %	0.52 %	— %

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated balance sheets is as follows:

	2021 (in thousands)
Net outstanding liabilities:	
Homeowners' insurance	$ 6,225
Special property	20,480
Reinsurance- Nonproportional assumed property(1)	9,542
Other	9,172
Reserve for losses and loss adjustment expense, net of reinsurance	45,419
Reinsurance recoverable on unpaid claims:	
Homeowners' insurance	$ 17,214
Special property	108,906
Other	1,827
Total reinsurance recoverable on unpaid claims	127,947
Total reserve for losses and loss adjustment expenses	$ 173,366

(1) Reflects the Company's share of Loss and Loss Adjustment Expense related to non-proportional assumed reinsurance business. This amount reflects gross and net reserves related to this treaty and the ultimate incurred amount reflects IBNR only. The Company does not have direct access to individual claim information underlying the assumed quota arrangement. The Company does not use claim frequency information in the determination of loss reserves or for other internal purposes. Based on these considerations, the Company does not believe providing claims frequency information is practicable as it relates to this line of business.

10. Reinsurance

The Company utilizes reinsurance in order to limit its exposure to losses and enable it to underwrite policies with sufficient limits to meet policyholder needs. The Company utilizes both excess of loss (XOL) and quota share reinsurance.

In an XOL treaty, the Company retains losses for any occurrence up to a specified amount (its "retention") and reinsurers assume any losses above that amount. Historically, the Company has had a retention of between $5 million and $15 million for hurricane and earthquake events. As of December 31, 2021, the Company's catastrophe event retention is $12.5 million for all perils. As of December 31, 2021, the Company's XOL reinsurance structure provides protection up to $1.68 billion for earthquake events and $700 million for hurricane events.

In a quota share agreement, the Company transfers, or cedes, part or all of its exposure to a reinsurer who receives a portion of the associated premium in exchange. The reinsurer also must share an agreed upon portion of losses and agreed upon portion of the associated commission expense. The Company has quota share reinsurance agreements on several of its lines with the Commercial Earthquake, Inland Marine, Specialty Homeowners, and Commercial All

Risk lines are currently accounting for the largest amount of ceded written premiums. The following table shows ceded written premiums under quota share arrangements by line of business for certain quota shares:

	Year Ended December 31, 2021	2020	2019
		(in thousands)	
Inland Marine	$ 28,389	$ 5,339	$ 1,506
Specialty Homeowners	27,394	22,295	25,384
Commercial Earthquake	14,447	6,929	—
Commercial All Risk	3,948	19,218	19,236
Others	21,823	5,495	5,230
Total	$ 96,001	$ 59,276	$ 51,356

No other quota share program accounted for more than 10% of total ceded written premiums for the above periods.

The Company recognizes ceded unearned premiums related to quota share agreements as an asset on its consolidated balance sheets. As of December 31, 2021 and 2020, ceded unearned premiums totaled $58.3 million and $35.0 million, respectively. The increase was driven primarily by premium growth in lines subject to quota shares and the timing at which the Company entered quota share arrangements.

As part of its reinsurance program, in May 2017, the Company obtained catastrophe protection through a reinsurance agreement with Torrey Pines Re Ltd. (“TPRe”). In connection with the reinsurance agreement, TPRe issued notes to unrelated investors in an amount equal to the full $166 million of coverage provided under the reinsurance agreement covering a three-year period, ending May 31, 2020. During the first quarter of 2021, the Company closed a $400 million 144A catastrophe bond which became effective June 1, 2021. The catastrophe bond was completed through Torrey Pines Re Pte. Ltd. (“Torrey Pines Re”).

Written premiums ceded under these catastrophe bond agreements were $11.7 million, $5.0 million and $10.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The effect of reinsurance on premiums written and earned and on losses and LAE incurred for the years ended December 31, 2021, 2020 and 2019, is as follows:

	2021		2020		2019	
	Written	Earned	Written	Earned	Written	Earned
			(in thousands)			
Premiums Written and Earned:						
Direct	$ 467,424	$ 384,463	$ 324,253	$ 271,887	$ 220,568	$ 178,536
Assumed	67,751	49,535	30,107	29,569	31,393	21,985
Ceded	(223,443)	(200,172)	(155,102)	(146,388)	(108,332)	(100,314)
Net	$ 311,732	$ 233,826	$ 199,258	$ 155,068	$ 143,629	$ 100,207

	2021		
	Losses	LAE	Total
		(in thousands)	
Losses and LAE Incurred:			
Direct	$ 168,292	$ 13,295	$ 181,587
Assumed	17,184	1,926	19,110
Ceded	(148,106)	(11,134)	(159,240)
Net	$ 37,370	$ 4,087	$ 41,457

	2020		
	Losses	LAE (in thousands)	Total
Losses and LAE Incurred:			
Direct	$ 145,774	$ 18,777	$ 164,551
Assumed	3,485	159	3,644
Ceded	(91,969)	(12,111)	(104,080)
Net	$ 57,290	$ 6,825	$ 64,115

	2019		
	Losses	LAE (in thousands)	Total
Losses and LAE Incurred:			
Direct	$ 20,105	$ 2,837	$ 22,942
Assumed	1,201	34	1,235
Ceded	(16,564)	(2,020)	(18,584)
Net	$ 4,742	$ 851	$ 5,593

The ceding of insurance does not legally discharge the Company from its primary liability for the full amount of the policy coverage, and therefore the Company will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk.

To reduce credit exposure to reinsurance recoverable balances, the Company obtains letters of credit from certain reinsurers that are not authorized as reinsurers under U.S. state insurance regulations. In addition, under the terms of its reinsurance contracts, the Company may retain funds due from reinsurers as security for those recoverable balances. As of December 31, 2021 and 2020, the Company had retained $10.9 million and $4.5 million in funds from reinsurers, respectively. The Company is able to use the funds in the ordinary course of its business. The funds are held in cash and cash equivalents and investments with an offsetting liability on the accompanying consolidated balance sheets.

For the year ended December 31, 2021, reinsurance premiums ceded to the Company's three largest reinsurers totaled $24.7 million, $11.7 million and $10.4 million, representing 20.9% of the total balance. For the year ended December 31, 2020, reinsurance premiums ceded to the Company's three largest reinsurers totaled $9.7 million, $8.6 million and $6.0 million, representing 22.4% of the total balance. For the year ended December 31, 2019, reinsurance premiums ceded to the Company's three largest reinsurers totaled $21.7 million, $7.5 million and $4.9 million, representing 31.5% of the total balance.

At December 31, 2021 reinsurance recoverable on unpaid losses by the Company's three largest reinsurers were $21.9 million, $10.5 million and $9.2 million representing 19.3% of the total balance. At December 31, 2020 reinsurance recoverable on unpaid losses by the Company's three largest reinsurers were $36.0 million, $5.8 million, and $3.1 million representing 42.8% of the total balance. All of the Company's reinsurers are required to have an A.M. best rating of A− (excellent) or better or post collateral.

11. Debt

Floating Rate notes

Prior to May 2019, the Company had $20.0 million floating rate senior secured notes (the "Floating Rate Notes"), bearing interest at the three-month treasury rate plus 6.50% per annum. The Company redeemed its Floating Rate Notes pursuant to their terms on May 23, 2019, at a redemption price equal to 102% of the principal amount of the Floating Rate Notes, or $20.4 million (plus $0.3 million of accrued and unpaid interest thereon). The Company recognized a charge of $1.3 million upon redemption with $0.4 million due to the redemption premium and $0.9 million due to the write-off of unamortized debt issuance costs. The $0.4 million redemption premium was recognized as a component of interest expense and the $0.9 million issuance cost write-off was recognized as a component of other underwriting expenses in the Company's consolidated statements of income and comprehensive income. The Company incurred $1.1 million and paid $1.2 million in interest expense related to the Floating Rate Notes for the year ended December 31, 2019 (inclusive of the $0.4 million redemption premium).

Credit Agreement

In December 2021, the Company entered into a Credit Agreement (the "Credit Agreement") with certain lenders which provides a revolving credit facility of up to $100.0 million (the "Revolving Loan"). The maturity of the facility is December 8, 2026. The Revolving Loan may be either a SOFR rate loan or a base rate loan, at the Company's discretion. The Revolving Loan may be prepaid in full or in part at any time with no prepayment premium and may be reduced in full or in part at any time upon prior notice. Interest on the Revolving Loan accrues on each SOFR rate loan at the applicable SOFR (as defined in the Credit Agreement) plus 1.75% and on each base rate loan at the applicable Alternate Base Rate (as defined in the Credit Agreement) plus (ii) 0.75%. In addition, the Company paid a commitment fee of $0.3 million upon closing of the Credit Agreement and must pay an unused line fee of 0.25% per annum on any unborrowed amount under the Credit Agreement.

The Company's obligations under the Credit Agreement are unsecured with a negative pledge against all assets of Palomar and its subsidiaries as described in the Credit Agreement. The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, financial covenants, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions.

The financial covenants in the Credit agreement require the Company not to exceed a maximum leverage ratio and maintain a minimum net worth at the end of each quarter. The Company's insurance subsidiaries are also required to maintain a minimum Risk Based Capital Ratio at the end of each year and must always maintain a minimum AM Best Financial Strength rating. As of December 31, 2021, the Company was in compliance with all covenants.

The Credit Agreement provides for events of default customary for revolving loans of this type, including but not limited to non-payment, breaches, or defaults in the performance of covenants, insolvency, bankruptcy and the occurrence of a material adverse effect on Palomar. During the existence of an event of default, all outstanding amounts of the Revolving Loan shall bear interest at a rate per annum equal to the rate otherwise applicable thereto plus 2.00%.

As of December 31, 2021, there were no outstanding borrowings under this Credit Agreement. For the year ended December 31, 2021, the Company incurred an immaterial amount of interest related to amortization of the commitment fee and unused line fee paid on the Credit Agreement.

12. Stockholders' Equity

As of December 31, 2021 and December 31, 2020, the Company has 5,000,000 preferred shares authorized with a par value of $0.0001 and no preferred shares issued and outstanding. As of December 31, 2021 and December 31, 2020, the Company has 500,000,000 common shares authorized and 25,428,929 and 25,525,796 common shares issued and outstanding, respectively, with a par value of $0.0001. Additional paid in capital is $318.9 million as of December 31, 2021 and $310.5 million as of December 31, 2020.

Common stock reserved for future issuance consists of the following as of December 31, 2021:

Stock options outstanding under 2019 Equity Incentive Plan	933,051
Restricted stock units outstanding under 2019 Equity Incentive Plan	235,696
Performance stock units outstanding under 2019 Equity Incentive Plan	358,401
Shares authorized for future issuance under 2019 Equity Incentive Plan	2,073,183
Shares authorized for future issuance under 2019 Employee Stock Purchase Plan	681,840
Total	4,282,171

The below table summarizes the Company's stock-based compensation expense for each period presented:

	Year ended December 31,		
	2021	2020	2019
		(in thousands)	
Stock-Based Compensation Expense	$ 5,584	$ 2,167	$ 24,103

Stock-based compensation expense is recognized on a straight-line basis over the vesting period of awards. The Company does not apply a forfeiture rate to unvested awards and accounts for forfeitures as they occur. All stock-based compensation is included in other underwriting expenses in the Company's consolidated statements of income and comprehensive income.

The Company recognized approximately $23.0 million of stock-based compensation expense in March 2019 relating to the modification of its 2014 Management Incentive Plan. The Company began recognizing stock-based compensation expense relating to its 2019 Equity Incentive Plan and the 2019 Employee Stock Purchase Plan upon their inception and initial equity grants in April 2019. Aside from the aforementioned $23.0 million charge, all stock-based compensation expense recognized during the years ended December 31, 2021, December 31, 2020 and December 31, 2019 relates to the 2019 Equity Incentive Plan and 2019 Employee Stock Purchase Plan.

Management Incentive Plan prior to IPO

The Company's former parent, GC Palomar Investor LP, adopted a 2014 Management Incentive Plan (in the form of profits interests) on February 12, 2014 under which certain officers and employees of PSIC and its affiliates were entitled to Class P Units in GC Palomar Investor LP. Class P unit holders were expected to realize value only upon the occurrence of liquidity events meeting requisite financial thresholds after the Class A unit holders recovered their investment. The Class P unit holders had no voting rights. The Company did not record stock-based compensation expense related to this plan prior to 2019 because no liquidity events were probable of occurring.

On March 15, 2019, the Company modified its 2014 Management Incentive Plan by eliminating the requirement of a liquidity event to occur for the holders of its Class P units to realize value. The 12,552,825 Class P units outstanding were modified such that the vesting of each Class P unit holder's awards was accelerated and their Class P distribution percentages were determined and distributed based on these percentages. This modification resulted in a stock compensation charge and corresponding increase to additional paid in capital of $23.0 million during the quarter ending March 31, 2019. The stock compensation charge is included in other underwriting expenses in the Company's consolidated statements of income and comprehensive income.

2019 Equity Incentive Plan

On April 16, 2019, the Company's 2019 Equity Incentive Plan (the "2019 Plan") became effective. The 2019 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance shares and units, and other cash-based or share-based awards. In addition, the 2019 Plan contains a mechanism through which the Company may adopt a deferred compensation arrangement in the future.

A total of 2,400,000 shares of common stock were initially authorized and reserved for issuance under the 2019 Plan. This reserve increases on January 1 of each year through 2029, by an amount equal to the smaller of: 3% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or an amount determined by the board of directors.

Stock Options

Recipients of stock options can purchase shares of the Company's common stock at a price equal to the stock's fair market value on the grant date, determined by the closing price of the Company's common stock on the grant date. Stock options vest over a period between two and four years with between 25% and 50% vesting on the first anniversary of the grant date and the remainder vesting monthly over the remaining period, subject to continued service to the Company. Stock options expire ten years after the grant date.

The following table summarizes stock option transactions for the year ended December 31, 2021:

	Number of shares	Weighted-average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2021	1,008,648	$ 23.92	8.43	$ 66,028
Options granted	73,515	94.28		
Options exercised	(126,449)	16.55		
Options canceled	(22,663)	67.27		
Outstanding at December 31, 2021	933,051	$ 29.41	7.59	$ 36,679
Vested and Exercisable at December 31, 2021	636,961	$ 19.62	7.38	$ 29,283

The total intrinsic value of stock options exercised during the years ended December 31, 2021 and December 31, 2020 was $8.5 million and $7.7 million, respectively. No options were exercised prior to 2020. As of December 31, 2021, the Company had approximately $3.4 million of total unrecognized stock-based compensation expense related to stock options expected to be recognized over a weighted-average period of 1.82 years.

The fair value of each option granted was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions in each year presented:

	Year ended December 31,		
	2021	2020	2019
		(in thousands)	
Risk free rate of return (1)	0.57% - 1.35%	0.32% - 1.52%	1.59% - 2.45%
Expected share price volatility (2)	26.06% - 39.41%	18.13% - 25.67%	18.12% - 18.45%
Expected life in years (3)	5.89	5.63 - 6.08	5.64 - 6.08
Dividend yield (4)	0%	0%	0%

(1) Determined based on the U.S. Treasury yield in effect at the time of the grant for zero-coupon U.S. Treasury notes with remaining terms similar to the expected term of the options.
(2) Determined based on a blend of the Company's historic stock price volatility and the historic volatility of a peer group of publicly traded companies.
(3) Determined using the "simplified method" for estimating the expected option life, which is the average of the weighted-average vesting period and contractual term of the option as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its common stock has been publicly traded.
(4) Determined to be zero as the Company does not currently plan to issue dividends.

Restricted Stock Units

Restricted stock units are valued on their grant date and generally vest either on the first anniversary of the grant date or over a three-year period with one third vesting on each anniversary date, subject to continued service with the Company. The fair value of RSUs is determined using the closing price of the Company's common stock on the grant date.

The following table summarizes RSU transactions for the year ended December 31, 2021:

	Number of shares	Weighted-average grant date fair value
Non vested outstanding at January 1, 2021	14,734	$ 95.86
Granted	228,528	78.70
Vested	(5,987)	91.08
Forfeited	(1,579)	97.08
Non vested outstanding at December 31, 2021	235,696	$ 79.33

As of December 31, 2021, the Company had approximately $16.5 million of total unrecognized stock-based compensation expense related to RSUs expected to be recognized over a weighted-average period of 4.04 years.

Performance Stock Units

During the year ended December 31, 2021, the Company began issuing PSUs to certain employees. The Company issues PSUs with a combination of service, performance, and market conditions.

The majority of PSUs were issued pursuant to the executive stock grants, as described below. For other PSU grants, vesting of PSUs requires a period of future service and the number of shares that vest depends on performance relative to predetermined targets of the Company’s Gross Written Premiums and Adjusted Return on Equity as set by the Compensation Committee. The PSU’s performance period is the fiscal year of the grant. At the end of the performance period, the actual results will be measured against the predetermined targets to determine the number of PSUs to be earned as compensation. The earned PSUs are then subject to a required service period of approximately three years from the grant date before vesting and being issued as common stock.

The following table summarizes PSU transactions for the year ended December 31, 2021:

	Number of shares	Weighted-average grant date fair value
Non vested outstanding at January 1, 2021	—	$ —
Granted	358,658	36.91
Vested	—	—
Forfeited	(257)	97.87
Non vested outstanding at December 31, 2021	358,401	$ 36.87

The PSU grants above represent the number of shares that would vest based on achievement of all stock price milestones in the executive stock grants and the 100% achievement of the predetermined company performance conditions for the other PSU grants. The actual number of PSUs which will vest is subject to adjustment based on the Company’s actual stock price performance and financial performance relative to the predetermined targets. As of December 31, 2021, the Company had approximately $12.2 million of total unrecognized stock-based compensation expense related to PSUs expected to be recognized over a weighted-average period of 4.64 years.

2021 Executive Stock Grants

During the year ended December 31, 2021, the Company granted 192,307 RSUs and 350,000 PSUs to various executives, including the Company’s CEO. The RSUs vest over a period of five years with one fifth vesting upon the first, second and third anniversary of the grants and the remainder vesting monthly thereafter.

The PSUs are earned based on the achievement of stock price milestones. If the Company’s stock price reaches and remains at certain milestones for 30 days, the PSUs shall become earned units and will vest upon completion of a requisite service period. The Company’s CEO must remain as an employee through December 31, 2025, or as an employee and/or director through the fifth anniversary of the grant date the PSUs to vest. Other executives must remain as employees through December 31, 2026 for the PSUs to vest. As of December 31, 2021, none of the stock price milestones have been achieved.

The RSUs were valued based on the closing price of the Company’s stock on the grant date. The PSUs were valued using a Monte Carlo simulation to account for the market condition within the award. The Company expects to recognize $14.6 million of expense relating to the RSUs and $12.4 million relating to the PSUs. The expense shall be recognized straight-line over the requisite service period of approximately five years. Should these executives leave prior to the requisite service period, any recognized compensation expense related to unvested RSUs and PSUs will be reversed.

2019 Employee Stock Purchase Plan

On April 16, 2019, the Company's 2019 Employee Stock Purchase Plan (“the 2019 ESPP”) became effective. A total of 240,000 shares of common stock are initially authorized and reserved for issuance under the 2019 ESPP. In addition, the 2019 ESPP provides for annual increases in the number of shares available for issuance on January 1 of each year through 2029, equal to the smaller of 240,000 shares of the Company’s common stock or such other amount as may be determined by the board of directors.

Under the 2019 ESPP, employees can purchase Company stock at a discount via payroll withholdings. The 2019 ESPP is administered through employee participation in discrete offering periods. During each discrete offering period employee funds are withheld, and the stock purchase occurs upon the conclusion of the offering period. The Company issued 9,793 and 28,367 shares pursuant to the ESPP during the years ended December 31, 2021 and December 31,2020, respectively.

Share repurchases

On March 29, 2021, the Company’s Board of Directors approved the adoption of a share repurchase program which became effective March 31, 2021. The program authorized the repurchase by the Company of up to $40 million of its outstanding shares of common stock. The Company purchased 239,096 shares for $15.9 million under this program during the year ended December 31, 2021. The Company accounts for share repurchases by charging the excess of repurchase price over the common stock’s par value entirely to retained earnings. All repurchased shares are retired and become authorized but unissued shares.

13. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) ("AOCI") are as follows:

	Year Ended December 31, 2021	2020	2019
		(in thousands)	
Balance as of January 1	$ 13,246	$ 4,686	$ (563)
Other comprehensive income (loss) before reclassification	(9,579)	11,292	6,555
Federal income tax (expense) benefit	2,012	(2,371)	(1,344)
Other comprehensive income (loss) before reclassification, net of tax	(7,567)	8,921	5,211
Amounts reclassified from AOCI	(464)	(456)	47
Federal income tax expense (benefit)	97	95	(9)
Amounts reclassified from AOCI, net of tax	(367)	(361)	38
Other comprehensive income (loss)	(7,934)	8,560	5,249
Balance at end of period	$ 5,312	$ 13,246	$ 4,686

14. Underwriting Information

The Company has a single reportable segment and offers primarily earthquake, wind, inland marine, and flood insurance products. Gross written premiums ("GWP") by product are presented below:

	Year Ended December 31, 2021 Amount	2021 % of GWP	2020 Amount	2020 % of GWP	2019 Amount	2019 % of GWP
			($ in thousands)			
Product						
Residential Earthquake	$ 171,048	32.0 %	$ 140,934	39.8 %	$ 130,473	51.8 %
Commercial Earthquake	90,552	16.9 %	58,890	16.6 %	38,741	15.4 %
Specialty Homeowners	67,894	12.7 %	49,849	14.1 %	32,788	13.0 %
Inland Marine	57,124	10.7 %	15,423	4.3 %	2,465	1.0 %
Commercial All Risk	38,640	7.2 %	53,933	15.2 %	30,358	12.0 %
Hawaii Hurricane	30,298	5.6 %	13,824	3.9 %	10,764	4.3 %
Residential Flood	11,652	2.2 %	8,176	2.3 %	5,216	2.1 %
Other	67,967	12.7 %	13,331	3.8 %	1,156	0.4 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 251,961	100.0 %

Gross written premiums by state are as follows:

	Year Ended December 31,					
	2021		2020		2019	
	($ in thousands)					
	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
State						
California	$ 244,416	45.6 %	$ 172,765	48.8 %	$ 141,743	56.3 %
Texas	62,893	11.8 %	67,974	19.2 %	44,087	17.5 %
Hawaii	34,993	6.5 %	16,398	4.6 %	11,851	4.7 %
Florida	27,386	5.1 %	5,795	1.7 %	—	— %
Washington	23,608	4.4 %	14,328	4.0 %	9,607	3.8 %
North Carolina	15,271	2.9 %	11,143	3.1 %	3,894	1.5 %
Oregon	13,677	2.6 %	10,038	2.8 %	7,396	2.9 %
Illinois	12,133	2.3 %	6,133	1.7 %	6,133	2.4 %
Other	100,798	18.8 %	49,786	14.1 %	27,250	10.9 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ 251,961	100.0 %

Gross written premiums by insurance subsidiary are as follows:

	Year Ended December 31,					
	2021		2020		2019	
	($ in thousands)					
	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
Subsidiary						
PSIC	$ 383,063	71.4 %	$ 324,870	91.7 %	$ —	0.0 %
PESIC	152,111	28.6 %	29,490	8.3 %	—	0.0 %
Total Gross Written Premiums	$ 535,175	100.0 %	$ 354,360	100.0 %	$ —	0.0 %

The Company distributes a significant portion of its Residential Earthquake, Commercial Earthquake, Specialty Homeowners and Hawaii Hurricane products through longstanding relationships with two program administrators. Each of the four products managed by the program administrators operates as a separate program that is governed by an independent, separately negotiated agreement with unique terms and conditions, including geographic scope, key men provisions, economics and exclusivity. These programs also feature separate managerial oversight and leadership, policy administration systems and retail agents originating policies. In total, these four products accounted for $255.8 million or 48.2% of the Company's gross written premiums for the year ended December 31, 2021, $191.3 million or 54.0% of the Company's gross written premiums for the year ended December 31, 2020, and $148.6 million or 59.0% of the Company's gross written premiums for the year ended December 31, 2019.

15. Retirement and Post-Employment Retirement Plans

For employees meeting certain eligibility requirements, the Company provides a defined contribution retirement plan under IRC Section 401(k). Under a safe-harbor plan, the Company contributes 3% of each participant's gross wages regardless of the employee's contribution. For the years ended December 31, 2021, 2020 and 2019 the Company's contributions to the plan were $0.7 million, $0.3 million and $0.3 million, respectively.

16. Income Taxes

The components of the Company's federal income tax expense (benefit) are as follows:

	December 31, 2021	2020	2019
	(in thousands)		
Current	$ 10,650	$ (1,128)	$ 6,810
Deferred	641	1,094	646
Income tax expense (benefit)	$ 11,291	$ (34)	$ 7,456

As of December 31, 2021 and 2020, significant components of the Company's deferred tax assets and liabilities were as follows:

	December 31, 2021	2020
	(in thousands)	
Deferred tax assets:		
Losses and LAE reserve discount	$ 279	$ 238
State tax net operating losses	2,879	680
Unearned premiums	9,569	6,272
Capitalized organizational costs	214	244
Deferred compensation	997	511
Other	1,285	652
Total deferred tax assets	$ 15,223	$ 8,597
Deferred tax liabilities:		
Deferred acquisition costs	$ (11,754)	$ (7,454)
Unrealized gains on investments	(1,612)	(3,884)
Internally developed software	(1,969)	(1,283)
Other	(919)	(672)
Total deferred tax liabilities	(16,254)	(13,293)
Net deferred tax liability before valuation allowance	(1,031)	(4,696)
Valuation allowance	(2,879)	(680)
Total net deferred tax liabilities	$ (3,910)	$ (5,376)

The valuation allowance shown above relates to deferred tax assets associated with state net operating loss carryforwards. These carryforwards do not meet the "more likely than not" criteria under *ASC 740, Income Taxes* due to the limited carryforward period. The amount of the deferred tax assets considered realizable could be adjusted if estimates of future taxable income during the carryforward period change or if objective negative evidence in the form of cumulative losses is no longer present.

As of December 31, 2021, there are no federal net operating losses or tax credit carryforwards.

The following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the tax years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,					
	2021		2020		2019	
	($ in thousands)					
Expense computed at federal tax rate	$ 11,999	21.00 %	$ 1,321	21.00 %	$ 3,802	21.00 %
Stock-based compensation	(1,067)	(1.87)%	(1,538)	(24.44)%	4,822	26.63 %
Dividend received deduction and tax-exempt interest	(81)	(0.14)%	(67)	(1.06)%	(36)	(0.20)%
Valuation allowance	2,199	3.85 %	606	9.63 %	(1,677)	(9.27)%
Other	(1,759)	(3.08)%	(356)	(5.67)%	545	3.01 %
Income tax expense (benefit)	$ 11,291	19.76 %	$ (34)	(0.54)%	$ 7,456	41.17 %

For the year ended December 31, 2021, the difference relates primarily to a benefit from the permanent component of employee stock option exercises and charges related to state tax accruals. For the year ended December 31, 2020, the difference relates primarily the permanent component of employee stock option exercises. For the year ended December 31, 2019, this difference relates primarily to a non-deductible stock compensation charge of $23.1 million incurred by the Company in March 2019. For the years ended December 31, 2021 and Decembers 31, 2020, the Company increased its valuation allowance relating to deferred tax assets associated with state net operating losses. The Company reversed the valuation allowance on its U.S. tax attributes during the year ended December 31, 2019 because of Domestication in the United States and projected future operating income in the U.S.

As of December 31, 2021 and 2020, the Company had no uncertain tax positions that required either recognition or disclosure in the consolidated financial statements. This is not expected to change significantly during the next twelve months. The Company classifies interest and penalties, if any, related to the liability for unrecognized tax benefits as a component of the provision for income taxes. The Company's income tax returns for 2018 through 2020 remain subject to examination by the tax authorities.

17. Earnings Per Share

The following table sets forth the computation of earnings per share of common stock:

	Year ended December 31,		
	2021	2020	2019
	(in thousands, except shares and per share data)		
Net income	$ 45,847	$ 6,257	$ 10,621
Weighted average common shares outstanding:			
Basic	25,459,514	24,872,251	21,501,541
Common Share equivalents	652,390	726,396	333,393
Diluted	26,111,904	25,598,647	21,834,934
Earnings per share:			
Basic	$ 1.80	$ 0.25	$ 0.49
Diluted	$ 1.76	$ 0.24	$ 0.49

Common share equivalents relate to outstanding stock options and PSUs under the 2019 Plan and unpurchased shares under the 2019 ESPP and are calculated using the treasury stock method.

18. Statutory financial information

U.S.

U.S. state insurance laws and regulations prescribe accounting practices for determining statutory net income and capital and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. Statutory accounting practices ("SAP") prescribed or permitted by regulatory authorities for the Company's insurance subsidiaries differ from U.S. GAAP. The principal differences between SAP and GAAP as they relate to the financial statements of the Company's insurance subsidiaries are (a) policy acquisition costs are expensed as incurred under SAP, whereas they are deferred and amortized under GAAP, (b) certain assets are not admitted for purposes of determining surplus under SAP, (c) investments in fixed income securities are carried at fair value under GAAP whereas such securities are carried at amortized cost under SAP, and (d) the criteria for recognizing net DTAs and the methodologies used to determine such amounts are different under SAP and GAAP.

Combined statutory net income and statutory capital surplus for the U.S. insurance subsidiaries, PSIC and PESIC as of December 31, 2021, 2020 and 2019 and for the years then ended are summarized as follows:

	December 31,		
	2021	2020	2019
		(in thousands)	
Statutory net income (loss)	$ 51,410	$ 1,753	$ (17,911)
Statutory capital and surplus	271,977	213,721	116,296

Risk-Based Capital ("RBC") requirements promulgated by the NAIC require property/casualty insurers to maintain minimum capitalization levels determined based on formulas incorporating various business risks of the insurance subsidiaries. As of December 31, 2021 and 2020, the company's capital and surplus exceeds its authorized control level.

Bermuda

Under the Bermuda Insurance Act, 1978 and related regulations, PSRE is required to maintain certain solvency and liquidity levels. The minimum statutory solvency margin required at December 31, 2021 and 2020 was approximately $1.2 million and $1.2 million, respectively. Actual statutory capital and surplus at December 31, 2021 and 2020 was $15.7 million and $39.2 million, respectively. PSRE had statutory net income of $1.4 million, $0.9 million and $18.5 million for 2021, 2020 and 2019, respectively.

PSRE had stockholder's equity of $17.0 million and $41.9 million on a GAAP basis at December 31, 2021 and 2020, respectively. The principal difference between statutory capital and surplus and stockholder's equity presented in accordance with GAAP are prepaid expenses, which are non-admitted assets for Bermuda statutory purposes. In the third and fourth quarter of 2021 PSRE distributed $15.0 million and $10.0 million in dividends to the Company.

PSRE maintains a Class 3A license and thus must maintain a minimum liquidity ratio in which the value of its relevant assets is not less than 75.0% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturity securities, accrued interest income, premiums receivable, losses recoverable from reinsurers, and funds withheld. The relevant liabilities include total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2021 and 2020, the Company met the minimum liquidity ratio requirement.

19. Dividend Restrictions

U.S.

The Company's U.S. insurance company subsidiaries, PSIC and PESIC are restricted by the statutes as to the amount of dividends that they may pay without prior approval by state insurance commissioners.

Under California and Oregon statute which govern PSIC, dividends paid in a consecutive twelve month period cannot exceed the greater of (i) 10% of an insurance company's statutory policyholders' surplus as of December 31 of the preceding year or (ii) 100% of its statutory net income for the preceding calendar year. Any dividends or distributions in excess of these amounts would require regulatory approval. In addition, under Oregon statute, PSIC may only declare a dividend from earned surplus, which does not include contributed capital. Surplus arising from unrealized capital gains or revaluation of assets is not considered part of earned surplus. Based on the above restrictions, PSIC may pay a dividend or distribution of no greater than $45.7 million in 2022 without approval by the California and Oregon Insurance Commissioners.

Under Arizona statute with governs PESIC, dividends paid in a consecutive twelve month period cannot exceed the lesser of (i) 10% of an insurance company's statutory policyholders' surplus as of December 31 of the preceding year or (ii) 100% of its statutory net income for the preceding calendar year. Based on the above restrictions, PESIC may pay a dividend or distribution of no greater than $1.2 million in 2022 without approval of the Arizona Insurance Commissioner.

In addition to the above limitations, any dividend or distribution declared is also subject to state regulatory approval prior to payment. In the future, state insurance regulatory authorities may adopt statutory provisions and dividend limitations more restrictive than those currently in effect.

Bermuda

Bermuda regulations limit the amount of dividends and return of capital paid by a regulated entity. A Class 3A insurer is prohibited from declaring or paying a dividend if it is in breach of its minimum solvency margin, its enhanced capital requirement, or its minimum liquidity ratio, or if the declaration or payment of such dividend would cause such a breach, or if there are reasonable grounds for believing there has been such a breach. Pursuant to Bermuda regulations, the maximum amount of dividends and return of capital available to be paid by a reinsurer is determined pursuant to a formula. Under this formula, the maximum amount of dividends and return of capital available to the Company from PSRE during 2022 is calculated to be approximately $4.2 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

20. Commitments and Contingencies

Litigation

The Company is subject to legal proceedings arising from the normal conduct of its business. In the opinion of management, any ultimate liability that may arise from these proceedings will not have a material effect on the Company's financial position.

Letters of Credit

As of December 31, 2021, the Company has three irrevocable standby letters of credit for the benefit of ceding insurance companies to secure the unearned premium assumed by PSIC. The bank letters of credit amount to $1.5 million, $0.3 million and $0.4 million. The $1.5 million and $0.4 million letters of credit expire December 31, 2022 with no renewal terms. The $0.4 million letter of credit auto renews each year. The letters of credit are collateralized by $3.2 million of U.S. Treasury bonds which are included in available-for-sale investments on the consolidated balance sheets.

In addition, the Company established a Regulation 114 Trust account for the benefit of ceding insurance companies to secure the unearned premium assumed by PSIC. As of December 31, 2021 the trust had a par value of $2.2 million.

Schedule II

Palomar Holdings, Inc. and Subsidiaries
Balance Sheets (Parent Company)
(In Thousands, except shares and par value data)

	December 31, 2021	December 31, 2020
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: $50,916 in 2021, $50,177 in 2020)	$ 49,221	$ 51,252
Equity securities, at fair value: (cost: $1,724 in 2021, $1,661 in 2020)	1,839	1,727
Total investments	51,060	52,979
Cash and cash equivalents	4,437	7,290
Accrued investment income	313	300
Prepaid expenses and other assets	966	7,322
Receivables from subsidiaries	2,322	1,552
Investment in subsidiaries	365,018	317,663
Total assets	$ 424,116	$ 387,106
Liabilities and Stockholders' equity		
Liabilities:		
Accounts payable and other liabilities	$ 4,672	$ 94
Payables to subsidiaries	11,102	17,923
Federal income tax payable	10,265	—
Deferred tax liabilities	3,908	5,376
Total liabilities	29,947	23,393
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized as of December 31, 2021 and December 31, 2020, respectively, 0 shares issued and outstanding as of December 31, 2021 and December 31, 2020	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 25,428,929 and 25,525,796 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	3	3
Additional paid-in capital	318,902	310,507
Accumulated other comprehensive income	5,312	13,246
Retained earnings	69,952	39,957
Total stockholders' equity	394,169	363,713
Total liabilities and stockholders' equity	$ 424,116	$ 387,106

See accompanying notes.

Schedule II

Palomar Holdings, Inc. and Subsidiaries
Statements of Income (Parent Company)
(In Thousands)

	Year Ended December 31,		
	2021	2020	2019
Revenues:			
Net investment income	$ 555	$ 939	$ 1,039
Net realized and unrealized gains on investments	217	63	131
Total revenues	772	1,002	1,170
Expenses:			
Other operating expenses	19,480	8,696	8
Income (loss) before income taxes	(18,708)	(7,694)	1,162
Income tax expense (benefit)	11,039	(34)	7,441
Loss before equity in net income of subsidiaries	(29,747)	(7,660)	(6,279)
Equity in net income of subsidiaries	75,594	13,917	16,900
Net income	45,847	6,257	10,621
Other comprehensive income:			
Net unrealized gains on securities available for sale	580	1,075	708
Equity in other comprehensive income (loss) of subsidiaries, net of taxes	(8,514)	7,485	4,541
Total comprehensive income	$ 37,913	$ 14,817	$ 15,870

See accompanying notes.

Schedule II

Palomar Holdings, Inc. and Subsidiaries
Statements of Cash Flows (Parent Company)
(In Thousands)

	Year Ended December 31,		
	2021	**2020**	**2019**
Operating activities			
Net income	$ 45,847	$ 6,257	$ 10,621
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(75,594)	(13,917)	(16,900)
Stock-based compensation expense	4,755	—	—
Net realized and unrealized losses on investments	(217)	(63)	(131)
Amortization of premium on fixed maturity securities	443	350	114
Deferred income tax expense	634	1,094	646
Changes in operating assets and liabilities:	13,596	7,772	4,218
Net cash provided by (used in) operating activities	(10,536)	1,493	(1,432)
Investing activities			
Purchases of fixed maturity securities	(2,177)	(71,048)	(73,901)
Sales and maturities of fixed maturity securities	11,396	6,651	13,930
Cash paid to subsidiaries	(15,595)	(59,789)	—
Cash received from subsidiaries	27,100	—	226
Net cash provided by (used in) investing activities	20,724	(124,186)	(59,745)
Financing activities			
Proceeds from initial public offering, net of offering costs	—	—	87,411
Distribution to stockholder	—	—	(5,120)
Redemption of Floating Rate Notes	—	—	(20,000)
Proceeds from January 2020 stock offering, net of offering costs	—	35,464	—
Proceeds from June 2020 stock offering, net of offering costs	—	90,083	—
Proceeds from common stock issued via equity incentive plans	2,811	2,782	—
Repurchase of common stock	(15,852)	—	—
Net cash provided by (used in) financing activities	(13,041)	128,329	62,291
Net (decrease) increase in cash and cash equivalents	(2,853)	5,636	1,114
Cash and cash equivalents at beginning of period	7,290	1,654	540
Cash and cash equivalents at end of period	$ 4,437	$ 7,290	$ 1,654
Supplementary cash flow information:			
Cash paid for income taxes	$ 2,104	$ 7,182	$ 5,645

See accompanying notes.

Schedule II

1. Accounting Policies

Organization

Palomar Holdings, Inc. (“the Company”), is an insurance holding company that domesticated in Delaware in March 2019. Prior to domestication in Delaware, the Company was known as GC Palomar Holdings (“GCPH”), which was a Cayman Islands incorporated insurance holding company formed on October 4, 2013 when GC Palomar Investor LP (“GCPI”) acquired control of GCPH.

Basis of Presentation

The accompanying condensed financial statements have been prepared using the equity method. Under the equity method, the investment in consolidated subsidiaries is stated at cost plus equity in undistributed earnings of consolidated subsidiaries since the date of acquisition. These condensed financial statements should be read in conjunction with the Company’s consolidated financial statements.

Estimates and Assumptions

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ from those estimates.

Schedule V

Palomar Holdings, Inc. and Subsidiaries
Valuation and Qualifying Accounts

(in thousands)	Balance at Beginning of Period	Additions Amounts Charged to Expense	Deductions Amounts Written Off	Balance at End of Period
Year Ended December 31, 2021				
Valuation Allowance for deferred tax assets	$ 680	$ 2,199	$ —	$ 2,879
Valuation Allowance for premium receivable	$ 203	$ 285	173	$ 315
Year Ended December 31, 2020				
Valuation Allowance for deferred tax assets	$ 74	$ 606	$ —	$ 680
Valuation Allowance for premium receivable	$ 150	$ 53	$ —	$ 203

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of December 31, 2021, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Our internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, management used the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the audit committee of our board of directors.

Based on that assessment under the framework in Internal Control-Integrated Framework (2013), management concluded that the company's internal control over financial reporting was effective as of December 31, 2021. Pursuant to Section 404(c) of the Sarbanes-Oxley Act, our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting for the year ended December 31, 2021, which is included above.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to our Proxy Statement with respect to our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to our Proxy Statement with respect to our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to our Proxy Statement with respect to our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transaction and Director Independence

The information required by this item is incorporated herein by reference to our Proxy Statement with respect to our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to our Proxy Statement with respect to our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) Financial Statements and Financial Statement Schedules- All financial statement schedules are filed as part of this report under Item 8- Financial Statements.

(3) Exhibits

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, filed with the SEC on March 15, 2019).
3.2	Certificate of Amendment to Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, filed with the SEC on March 15, 2019).
3.3	Bylaws (incorporated by reference to Exhibit 3.3 to the Company's Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on April 1, 2019).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 2 to Registration Statement on Form S-1, filed with the SEC on April 8, 2019).
4.2	Description of the Registrant's Securities (incorporated by reference to Exhibit 4.2 to the Company's 2020 Annual Report on Form 10-K, filed with the SEC on March 9, 2021)
10.1+	2019 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, filed with the SEC on March 15, 2019).
10.2+	2019 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, filed with the SEC on March 15, 2019).
10.3+	Executive Employment Agreement, dated July 15, 2021, by and between the Company and Mac Armstrong (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 19, 2021).
10.4+	Form of Executive Employment Agreement (Named Executive Officers) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on November 5, 2021).
10.5+	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, filed with the SEC on March 15, 2019).
10.6†	Program Administrator Agreement, dated as of February 19, 2014 (as amended by that certain First Amendment to Program Administrator Agreement, dated as of July 14, 2014, that certain Second Amendment to Program Administrator Agreement, dated as of March 21, 2016, that certain Third Amendment to Program Administrator Agreement, dated as of May 29, 2018 and that certain Second Amendment to Schedule H of the Program Administrator Agreement, dated as of August 29, 2018), by and between Palomar Specialty Insurance Company and Arrowhead General Insurance Agency, Inc. (incorporated by reference to Exhibit 10.7 to the Company's Amendment No. 2 to Registration Statement on Form S-1, filed with the SEC on April 8, 2019).
10.7+	Form of Notice of Grant of Performance Stock Units under 2019 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's 2020 Annual Report on Form 10-K, filed with the SEC on March 9, 2021)
10.8+	Form of Performance Stock Units Agreement under 2019 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's 2020 Annual Report on Form 10-K, filed with the SEC on March 9, 2021)

Exhibit Number	Exhibit Description
10.9+	Credit Agreement (Revolver), dated December 8, 2021, by and between the Registrant, the lenders listed therein and U.S. Bank National Association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 9, 2021).
10.10+	Guaranty, dated December 8, 2021, made in favor of U.S. Bank National Association by Registrant, Palomar Specialty Insurance Company, Palomar Excess and Surplus Insurance Company and Palomar Insurance Agency, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 9, 2021).
21.1	List of subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\+ Management contract or compensatory plan or arrangement.

† Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10).

* This certification is deemed not filed for purposes of section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 24, 2022.

Palomar Holdings, Inc.

By: /s/ Mac Armstrong
Mac Armstrong
Chairman and Chief Executive Officer

POWER OF ATTORNEY

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mac Armstrong and T. Christopher Uchida, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mac Armstrong Mac Armstrong	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 24, 2022
/s/ T. Christopher Uchida T. Christopher Uchida	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2022
/s/ Daryl Bradley Daryl Bradley	Director	February 24, 2022
/s/ Robert E. Dowdell Robert E. Dowdell	Director	February 24, 2022
/s/ Catriona M. Fallon Catriona M. Fallon	Director	February 24, 2022
/s/ Daina Middleton Daina Middleton	Director	February 24, 2022

/s/ Martha Notaras Martha Notaras	Director	February 24, 2022
/s/ Richard H. Taketa Richard H. Taketa	Lead Independent Director	February 24, 2022

Exhibit 21.1

Legal Name	**Jurisdiction of Incorporation**
Palomar Insurance Holdings, Inc	Delaware
Palomar Specialty Insurance Company	Oregon
Palomar Excess and Surplus Insurance Company	Arizona
Palomar Specialty Reinsurance Company Bermuda, Ltd.	Bermuda
Palomar Insurance Agency DBA Palomar General Insurance Agency	California

Exhibit 23.1

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-239385) of Palomar Holdings, Inc. and Subsidiaries and Registration Statements on Form S-8 (Nos. 333-230908, 333-236957, and 333-255860) pertaining to the 2019 Equity Incentive Plan and 2019 Employee Stock Purchase Plan of Palomar Holdings, Inc. and Subsidiaries of our reports dated February 24, 2022, with respect to the consolidated financial statements and schedules of Palomar Holdings, Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of Palomar Holdings, Inc. and Subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2021.

/s/ Ernst & Young LLP

San Francisco, California
February 24, 2022

11.2.11.11.1 Example #10A-- Consent for use in a Form 10-K that upon filing will automatically be incorporated by reference in multiple effective SEC registration statements

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-XXXXX) of XYZ Company,

(2) Registration Statement (Form S-4 No. 333-XXXXX) of XYZ Company, and

(3) Registration Statement (Form S-8 No. 333-XXXXX) pertaining to the Employees' Savings Plan of XYZ Company;

of our report[s] dated March 11, 20Y0, with respect to the consolidated financial statements of XYZ Company [and the effectiveness of internal control over financial reporting of XYZ Company] included in this Annual Report (Form 10-K) of XYZ Company for the year ended December 31, 20X9.

This example assumes the auditor's report on the financial statements and the auditor's report on internal control over financial reporting are [included] [incorporated by reference] in the Form 10-K. In other situations, our consent should be modified accordingly. [Note A]

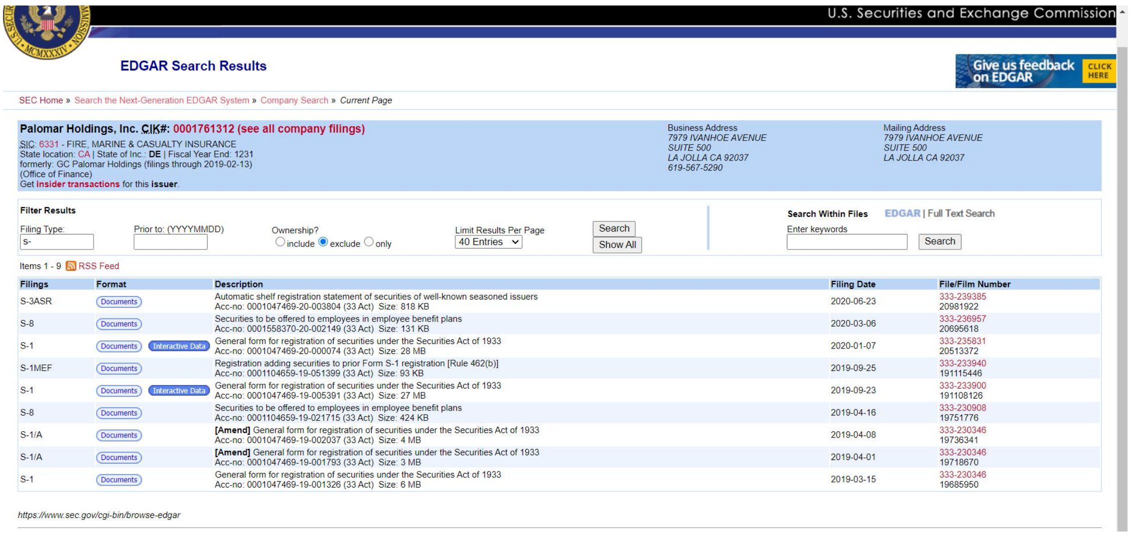
When we also include our audit opinion on financial statement schedule(s) required in Form 10-K within our consent, we make required adjustments to this example as shown in Example #10B and [Note A] below. See further guidance in section 11.2.7 of this Manual.

[Note A] - Where the Form 10-K includes one or more reports, but incorporates by reference one or more other reports, the consent is modified accordingly. See Example #6.

For example, when the Form 10-K includes our report on the financial statement schedule(s) (See Example 10B), but incorporates by reference our report[s] on financial statements and internal control over financial reporting from the annual report to shareholders, the consent is modified as follows:

...our report[s] dated March 11, 20Y0, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of XYZ Company, incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 20X9, and the financial statement schedule[s] of XYZ Company included herein.

https://live.atlas.ey.com/#document/486820?pref=20011/9/147&query=11.2.11.11%20consent&crumb=8/486819



U.S. Securities and Exchange Commission

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Palomar Holdings, Inc. CIK#: 0001761312 (see all company filings)
SIC: 6331 - FIRE, MARINE & CASUALTY INSURANCE
State location: CA | State of Inc.: DE | Fiscal Year End: 1231
formerly: GC Palomar Holdings (filings through 2019-02-13)
(Office of Finance)
Get insider transactions for this issuer.

Business Address
7979 IVANHOE AVENUE
SUITE 500
LA JOLLA CA 92037
619-567-5290

Mailing Address
7979 IVANHOE AVENUE
SUITE 500
LA JOLLA CA 92037

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Ownership? include exclude only
Limit Results Per Page 40 Entries
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Search

Items 1 - 9 RSS Feed

Filings	Format	Description	Filing Date	File/Film Number
S-3ASR	Documents	Automatic shelf registration statement of securities of well-known seasoned issuers Acc-no: 0001047469-20-003804 (33 Act) Size: 818 KB	2020-06-23	333-239385 20981922
S-8	Documents	Securities to be offered to employees in employee benefit plans Acc-no: 0001558370-20-002149 (33 Act) Size: 131 KB	2020-03-06	333-236957 20695618
S-1	Documents Interactive Data	General form for registration of securities under the Securities Act of 1933 Acc-no: 0001047469-20-000074 (33 Act) Size: 28 MB	2020-01-07	333-235831 20513372
S-1MEF	Documents	Registration adding securities to prior Form S-1 registration [Rule 462(b)] Acc-no: 0001104659-19-051399 (33 Act) Size: 93 KB	2019-09-25	333-233940 191115446
S-1	Documents Interactive Data	General form for registration of securities under the Securities Act of 1933 Acc-no: 0001047469-19-005391 (33 Act) Size: 27 MB	2019-09-23	333-233900 191108126
S-8	Documents	Securities to be offered to employees in employee benefit plans Acc-no: 0001104659-19-021715 (33 Act) Size: 424 KB	2019-04-16	333-230908 19751776
S-1/A	Documents	**[Amend]** General form for registration of securities under the Securities Act of 1933 Acc-no: 0001047469-19-002037 (33 Act) Size: 4 MB	2019-04-08	333-230346 19736341
S-1/A	Documents	**[Amend]** General form for registration of securities under the Securities Act of 1933 Acc-no: 0001047469-19-001793 (33 Act) Size: 3 MB	2019-04-01	333-230346 19718670
S-1	Documents	General form for registration of securities under the Securities Act of 1933 Acc-no: 0001047469-19-001326 (33 Act) Size: 6 MB	2019-03-15	333-230346 19685950

https://www.sec.gov/cgi-bin/browse-edgar

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mac Armstrong, certify that:

1. I have reviewed this Annual Report on Form 10-K of Palomar Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2022

/s/ Mac Armstrong
Mac Armstrong
Chairman of the Board and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, T. Christopher Uchida, certify that:

1. I have reviewed this Annual Report on Form 10-K of Palomar Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2022

/s/ T. Christopher Uchida
T. Christopher Uchida
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Palomar Holdings, Inc. (the "Company") for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Mac Armstrong, as Chairman and Chief Executive Officer of the Company, and T. Christopher Uchida, Chief Financial Officer, hereby certify pursuant to Title 18, Chapter 63, Section 1350 of the United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2022	By:	/s/ Mac Armstrong
	Name:	Mac Armstrong
	Title:	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Date: February 24, 2022	By:	/s/ T. Christopher Uchida
	Name:	T. Christopher Uchida
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)