Best's Rating Report

PALOMAR SPECIALTY

PALOMAR SPECIALTY INSURANCE COMPANY

Portland, Oregon

Financial Strength
AM BEST
A– Excellent

A-

Ultimate Parent:
GC Palomar Investor LP

PALOMAR SPECIALTY INSURANCE COMPANY

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Ultimate Parent#: 033565 **FEIN#: 95-2379438**

BEST'S CREDIT RATING

Best's Financial Strength Rating: A- **Outlook**: Stable
Best's Financial Size Category: VII

RATING RATIONALE

Rating Rationale: The ratings and outlooks reflect Palomar Specialty Insurance Company's (Palomar Specialty) favorable risk-adjusted capitalization and management's experience in the residential and commercial earthquake markets. Partially offsetting these positive characteristics are the geographic concentration of business in catastrophe-prone areas and significant reinsurance dependence.

Palomar Specialty was created following the sale of a shell company to management and affiliates and limited partners of private equity firm Genstar Capital. Following the acquisition and initial funding in early 2014, the company's capital position is expected to remain favorable as premium levels increase over time. Additionally, Palomar Specialty's core management team is expected to provide experienced market knowledge in its catastrophe-prone business segments.

Palomar Specialty's concentration of business exposes its earnings and surplus to setbacks from catastrophes, primarily a severe earthquake event. Gross catastrophe leverage for a 1/250-year earthquake is elevated as depicted in a probable maximum loss analysis. The company also maintains significant dependence on reinsurance to reduce its gross earthquake exposure. Nevertheless, Palomar Specialty has reduced its net catastrophe leverage to a manageable level through its catastrophe mitigation strategies and a comprehensive reinsurance program.

Palomar Specialty's ratings and/or outlooks could be negatively impacted by unexpectedly large losses that would materially impact capitalization on a risk-adjusted basis. As a new company formation, failure to execute or a material deviation from business plan as submitted to A.M. Best could result in negative rating pressure.

KEY FINANCIAL INDICATORS ($000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy-holders' Surplus	Comb. Ratio
2012	...	...	...	...	...
2013	...	...	...	...	...
2014	12,587	-4,255	79,225	68,249	72.3
2015	40,819	-3,757	103,558	69,622	67.0
2016	40,347	-2,812	121,077	67,247	92.0

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

In early 2014, the company began focusing on underwriting residential and commercial earthquake business in California and other earthquake exposed states in the Western United States. The company can now write in 23 states. Palomar Specialty has worked with several key partners that allowed it to ramp up its business writings. These partners include program administrators, wholesalers and other insurance companies. In the residential market, the company has developed and aggressively marketed a new product that offers certain enhancements to existing market offerings (sub-limits, deductibles, customizable coverage limits, and a highly granular rating algorithm); provide supplemental market to leading Program Administrators (PA) in certain geographies as well as replacement for certain carriers; develop a high-value home offering; partnership with other residential property writers to offer earthquake companion policy; acquisition of EQ portfolios of residential property insurers; and appointment of selected residential distribution partners where Palomar Specialty management has relationships.

In the commercial market, the company will participate and take share by implementing a pure-play small commercial program focusing on wholesalers that write business with TIVs less than $20.0 million; participate in the PA DIC (difference in condition) program for larger limit shared and layered business up to $15 million per risk; look to acquire books of business from carriers; and appoint select commercial distribution partners that offer the ability to write larger limits and where Palomar Specialty management has relationships.

Territory: The company is licensed in AL, AK, AZ, AR, CA, GA, HI, IL, IN, KS, KY, LA, MS, MO, NV, NC, OK, OR, SC, TN, TX, UT and WA.

2016 BY-LINE BUSINESS ($000)

Product Line	—DPW— ($000)	(%)	Reinsurance —Prem Assumed— ($000)	(%)
Earthquake	50,502	63.5	2,795	100.0
Homeowners	19,298	24.3	...	...
Allied Lines	4,729	5.9	...	...
Fire	4,820	6.1	...	...
All Other	139	0.2	...	...
Total	79,489	100.0	2,795	100.0

Product Line	Reinsurance —Prem Ceded— ($000)	(%)	—NPW— ($000)	(%)	Business Retention (%)
Earthquake	32,621	77.8	20,677	51.2	38.8
Homeowners	6,668	15.9	12,630	31.3	65.4
Allied Lines	999	2.4	3,730	9.2	78.9
Fire	1,589	3.8	3,232	8.0	67.0
All Other	60	0.1	79	0.2	57.0
Total	41,936	100.0	40,347	100.0	49.0

HISTORY

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

MANAGEMENT

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

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

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

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

Officers: President, David M. Armstrong; Executive Vice President and Secretary, Heath A. Fisher; Senior Vice President and Treasurer, Elizabeth W. Seitz (Finance & Accounting); Vice Presidents, Jon M. Christianson, Andrew T. Robinson.

Directors: David M. Armstrong (Chairman), Robert E. Bennett, III, James R. Clark, Francis K. Lee, Cameron K. Martin, Geoffrey I. Miller.

Balance Sheet
Admitted Assets ($000)

	YE 2016	%
Bonds	$ 76,772	63.4
Common stock	18,110	15.0
Cash and short-term invest	10,144	8.4
Other non-affil inv asset	2	0.0
Total invested assets	$105,028	86.7
Premium balances	11,144	9.2
Accrued interest	621	0.5
All other assets	4,283	3.5
Total assets	$121,077	100.0

Liabilities & Surplus ($000)

	YE 2016	%
Loss & LAE reserves	$ 3,336	2.8
Unearned premiums	36,702	30.3
Conditional reserve funds	316	0.3
All other liabilities	13,476	11.1
Total liabilities	$ 53,829	44.5
Surplus notes	17,500	14.5
Capital & assigned surplus	47,310	39.1
Unassigned surplus	2,438	2.0
Total policyholders' surplus	$ 67,247	55.5
Total liabilities & surplus	$121,077	100.0

Best's Rating Report

Why is this *Best's*® *Rating Report* important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

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

The company information appearing in this pamphlet is an extract from the complete AMB Credit Report. You may obtain the complete report by contacting Customer Service at +1(908)439-2200 or customer_service@ambest.com. Please reference the company's identification number (AMB#) listed on this rating report.

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