

BEST'S RATING REPORT



PALOMAR
SPECIALTY

Palomar Specialty Insurance Company

Portland, Oregon, United States 97204

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Palomar Specialty Insurance Company

Disclosure Information: View A.M. Best's [Rating Disclosure Form](#)

Ultimate Parent: [033565 - GC Palomar Investor LP](#)

A.M. Best Rating Unit: [033566 - GC Palomar Holdings](#)

Best's Credit Ratings:

Rating Effective Date: February 7, 2018

Best's Financial Strength Rating:	A-	Outlook:	Stable	Action:	Affirmed
Best's Issuer Credit Rating:	a-	Outlook:	Stable	Action:	Affirmed

Last Five Rating Events:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
02/07/2018	A-	Stable	Affirmed	a-	Stable	Affirmed
02/15/2017	A-	Stable	Affirmed	a-	Stable	Affirmed
01/21/2016	A-	Stable	Affirmed	a-	Stable	Affirmed
01/08/2015	A-	Stable	Affirmed	a-	Stable	Affirmed
03/12/2014	A-	Stable	First	a-	Stable	Assigned

Rating Rationale:

Palomar Specialty Insurance Company is the lead member of GC Palomar Holdings and it plays a key role in the group's operations. This is further supported by common ownership and common management.

The following text is derived from Best's Insurance Report on GC Palomar Holdings (AMB# 033566):

Balance Sheet Strength: Very Strong

- Strongest risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) at the 99.6 VaR level.
- Capitalization augmented by seven-year \$17.5 million unaffiliated surplus note due 2022.
- Quick, current and overall liquidity ratios exceed its industry composite average.
- Loss reserve development has been favorable in all calendar and accident years.
- Significantly dependent on catastrophe reinsurance coverage for surplus protection.

Operating Performance: Adequate

- GC Palomar Holdings has produced solid operating earnings in recent years, despite the impact of Texas catastrophe losses.
- Operating earnings were tempered in 2016 and 2017 due to weather-related catastrophe losses.
- As a start-up entity, expense ratios are elevated.

Business Profile: Limited

- GC Palomar Holdings writes primarily California earthquake and Texas windstorm coverages.
- Management has local market expertise in the California earthquake segment.
- The group has a business concentration as primarily a California earthquake writer.
- Business partners include program administrators, wholesalers, retail agents and other insurance companies.

Enterprise Risk Management: Appropriate

- GC Palomar Holdings employs a conservative risk management philosophy.
- The group has a formalized ERM framework that includes risk identification and reporting, risk appetite and tolerances, risk management and controls, stress testing and corporate governance.
- GC Palomar Holdings's risk profile is appropriately matched against management's capabilities.
- The group utilizes probabilistic modeling and deterministic modeling of historical events to determine the adequacy of its reinsurance coverage.

Outlook

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

Rating Drivers

GC Palomar Holdings' ratings and/or outlooks could be negatively impacted by unexpectedly large losses that would materially impact risk-adjusted capitalization.

As a new group formation, failure to execute or a material deviation from the business plan as submitted to A.M. Best could result in negative rating pressure.

Financial Statements:

Balance Sheet:

Balance Sheet:

Admitted Assets	Year End - December 31			
	2016 (\$000)	2015 (\$000)	2016 (%)	2015 (%)
Bonds	76,772	71,785	63.4	69.3
Preferred Stock	...	...	...	...
Common Stock	18,110	15,287	15.0	14.8
Cash and Short-term Invest	10,144	4,300	8.4	4.2
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	2	...	...	...
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
Total Invested Assets	105,028	91,371	86.7	88.2
Premium Balances	11,144	8,472	9.2	8.2
Accrued Interest	621	573	0.5	0.6
All Other Assets	4,283	3,142	3.5	3.0
Total Assets	121,077	103,558	100.0	100.0
Liabilities & Surplus	Year End - December 31			
	2016 (\$000)	2015 (\$000)	2016 (%)	2015 (%)
Loss and LAE Reserves	3,336	1,562	2.8	1.5
Unearned Premiums	36,702	28,733	30.3	27.7
Derivatives	...	...	...	...
Conditional Reserve Funds	316	...	0.3	...
All Other Liabilities	13,476	3,641	11.1	3.5
Total Liabilities	53,829	33,936	44.5	32.8
Surplus notes	17,500	17,500	14.5	16.9
Capital and Assigned Surplus	47,310	47,310	39.1	45.7
Unassigned Surplus	2,438	4,813	2.0	4.6
Total Policyholders' Surplus	67,247	69,622	55.5	67.2
Total Liabilities and Surplus	121,077	103,558	100.0	100.0

Source: Bestlink - Best's Statement File - P/C, US

Company History:

Date Incorporated: N/A

Date Commenced: 03/01/1963

Domicile: United States: Oregon

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.

Company Management:

Last significant update on 05/17/2017

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

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

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

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

Officers

President: David M. Armstrong

EVP and Secretary: Heath A. Fisher

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

Vice President: Jon M. Christianson

Vice President: Andrew T. Robinson

Directors

David M. Armstrong (Chairman)

Robert E. Bennett, III

James R. Clark

Francis K. Lee

Cameron K. Martin

Geoffrey I. Miller

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

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