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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2023

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

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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Number of shares of the registrant's common shares outstanding at May 5, 2023: 24,857,872

PALOMAR HOLDINGS, INC.

TABLE OF CONTENTS

Part I: FINANCIAL INFORMATION
Item 1: Financial Statements

Palomar Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except shares and par value data)

	March 31, 2023	December 31, 2022
	(Unaudited)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: $594,736 in 2023; $561,580 in 2022)	$ 554,489	$ 515,064
Equity securities, at fair value (cost: $42,352 in 2023; $42,352 in 2022)	39,356	38,576
Total investments	593,845	553,640
Cash and cash equivalents	80,295	68,108
Restricted cash	65	56
Accrued investment income	4,077	3,777
Premiums receivable	187,910	162,858
Deferred policy acquisition costs, net of ceding commissions and fronting fees	54,187	56,740
Reinsurance recoverable on paid losses and loss adjustment expenses	45,801	39,718
Reinsurance recoverable on unpaid losses and loss adjustment expenses	183,601	153,895
Ceded unearned premiums	232,425	204,084
Prepaid expenses and other assets	41,291	44,088
Deferred tax assets, net	9,005	10,622
Property and equipment, net	540	603
Intangible assets, net	7,948	8,261
Total assets	$ 1,440,990	$ 1,306,450
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and other accrued liabilities	$ 19,401	$ 25,760
Reserve for losses and loss adjustment expenses	264,967	231,415
Unearned premiums	496,182	471,314
Ceded premium payable	173,035	146,127
Funds held under reinsurance treaty	11,356	10,680
Borrowings from credit agreements	71,400	36,400
Total liabilities	1,036,341	921,696
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding as of March 31, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 24,942,196 and 25,027,467 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	3	3
Additional paid-in capital	337,492	333,558
Accumulated other comprehensive loss	(31,041)	(36,515)
Retained earnings	98,195	87,708
Total stockholders' equity	404,649	384,754
Total liabilities and stockholders' equity	$ 1,440,990	$ 1,306,450

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss) (Unaudited)

(in thousands, except shares and per share data)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenues:		
Gross written premiums	$ 250,112	$ 170,934
Ceded written premiums	(170,344)	(89,552)
Net written premiums	79,768	81,382
Change in unearned premiums	3,473	(5,350)
Net earned premiums	83,241	76,032
Net investment income	5,120	2,579
Net realized and unrealized gains (losses) on investments	146	(1,278)
Commission and other income	695	777
Total revenues	89,202	78,110
Expenses:		
Losses and loss adjustment expenses	20,652	14,954
Acquisition expenses, net of ceding commissions and fronting fees	25,679	28,054
Other underwriting expenses	19,222	15,925
Interest expense	1,020	93
Total expenses	66,573	59,026
Income before income taxes	22,629	19,084
Income tax expense	5,316	4,547
Net income	17,313	14,537
Other comprehensive income (loss), net:		
Net unrealized gains (losses) on securities available for sale	5,474	(18,463)
Net comprehensive income (loss)	$ 22,787	$ (3,926)
Per Share Data:		
Basic earnings per share	$ 0.69	$ 0.57
Diluted earnings per share	$ 0.68	$ 0.56
Weighted-average common shares outstanding:		
Basic	24,969,703	25,362,179
Diluted	25,442,902	25,899,290

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(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, 2021	25,428,929	3	$ 318,902	$ 5,312	$ 69,952	$ 394,169
Other comprehensive loss, net of tax	—	—	—	(18,463)	—	(18,463)
Stock-based compensation	—	—	2,760	—	—	2,760
Issuance of common stock via employee stock purchase plan	6,078	—	333	—	—	333
Issuance of common stock via equity incentive plan	15,625	—	53	—	—	53
Repurchases of common stock	(219,061)	—	—	—	(12,989)	(12,989)
Net income	—	—	—	—	14,537	14,537
Balance at March 31, 2022	25,231,571	$ 3	$ 322,048	$ (13,151)	$ 71,500	$ 380,400
Balance at December 31, 2022	25,027,467	3	$ 333,558	$ (36,515)	$ 87,708	$ 384,754
Other comprehensive income, net of tax	—	—	—	5,474	—	5,474
Stock-based compensation	—	—	3,450	—	—	3,450
Issuance of common stock via employee stock purchase plan	7,724	—	394	—	—	394
Issuance of common stock via equity incentive plan	41,685	—	90	—	—	90
Repurchases of common stock	(134,680)	—	—	—	(6,826)	(6,826)
Net income	—	—	—	—	17,313	17,313
Balance at March 31, 2023	24,942,196	$ 3	$ 337,492	$ (31,041)	$ 98,195	$ 404,649

See accompanying notes.

Palomar Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Operating activities		
Net cash provided by operating activities	$ 17,437	$ 49,190
Investing activities		
Purchases of property and equipment	—	(7)
Capitalized software costs	(1,658)	(1,389)
Purchases of fixed maturity securities	(54,871)	(73,921)
Purchases of equity securities	—	(10,002)
Sales and maturities of fixed maturity securities	21,679	38,159
Change in securities receivable or payable, net	950	(7,843)
Payment of additional costs associated with purchase of policy renewal rights	—	(15)
Net cash used in investing activities	(33,900)	(55,018)
Financing activities		
Proceeds from line of credit	35,000	15,000
Proceeds from common stock issued via employee stock purchase plan	394	333
Proceeds from common stock issued via stock option exercises	91	53
Repurchases of common stock	(6,826)	(12,989)
Net cash provided by financing activities	28,659	2,397
Net increase (decrease) in cash, cash equivalents and restricted cash	12,196	(3,432)
Cash, cash equivalents and restricted cash at beginning of period	68,164	50,371
Cash, cash equivalents and restricted cash at end of period	$ 80,360	$ 46,939
Supplementary cash flow information:		
Cash paid for income taxes	$ 1	$ —
Cash paid for interest	$ 1,017	$ —

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

	March 31, 2023 (unaudited)	December 31, 2022
Cash and cash equivalents	$ 80,295	$ 68,108
Restricted cash	65	56
Cash and cash equivalents and restricted cash	$ 80,360	$ 68,164

See accompanying notes.

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”).

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and include the accounts of the Company and its wholly-owned subsidiaries. These condensed consolidated financial statements do not contain all information and footnotes required by U.S. GAAP for complete consolidated financial statements. For a more complete description of the Company’s business and accounting policies, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 1, 2023 (the “2022 Annual Report on Form 10-K”).

In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. All intercompany balances and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results of operations for the full year.

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 condensed 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 condensed 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.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

The Company has not adopted any new accounting guidance during the three months ended March 31, 2023.

Recently issued accounting pronouncements not yet adopted

There are not currently any recent accounting pronouncements or pending accounting guidance that have significance, or potential significance, to the Company’s consolidated financial statements.

2. Investments

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

March 31, 2023	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
			(in thousands)		
Fixed maturities:					
U.S. Governments	$ 51,405	$ 7	$ (1,763)	$ —	$ 49,649
States, territories, and possessions	5,852	128	(466)	—	5,514
Political subdivisions	4,915	—	(481)	—	4,434
Special revenue excluding mortgage/asset-backed securities	37,698	112	(3,569)	—	34,241
Corporate and other	302,810	363	(21,233)	(896)	281,044
Mortgage/asset-backed securities	192,056	454	(12,903)	—	179,607
Total available-for-sale investments	$ 594,736	$ 1,064	$ (40,415)	$ (896)	$ 554,489

December 31, 2022	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
			(in thousands)		
Fixed maturities:					
U.S. Governments	$ 50,802	$ 2	$ (2,253)	$ —	$ 48,551
States, territories, and possessions	5,857	49	(552)	—	5,354
Political subdivisions	4,919	—	(621)	—	4,298
Special revenue excluding mortgage/asset-backed securities	37,260	26	(4,487)	—	32,799
Corporate and other	278,164	79	(23,912)	(236)	254,095
Mortgage/asset-backed securities	184,578	251	(14,862)	—	169,967
Total available-for-sale investments	$ 561,580	$ 407	$ (46,687)	$ (236)	$ 515,064

Security holdings in an unrealized loss position

As of March 31, 2023, the Company held 538 fixed maturity securities in an unrealized loss position with a total estimated fair value of $497.9 million and total gross unrealized losses of $40.4 million. As of December 31, 2022, the Company held 543 fixed maturity securities in an unrealized loss position with a total estimated fair value of $484.7 million and total gross unrealized losses of $46.9 million.

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 March 31, 2023 and December 31, 2022, are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
March 31, 2023	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(in thousands)			
Fixed maturity securities:						
U.S. Governments	$ 25,586	$ (391)	$ 23,438	$ (1,372)	$ 49,024	$ (1,763)
States, territories, and possessions	3,310	(466)	—	—	3,310	(466)
Political subdivisions	454	(21)	3,980	(460)	4,434	(481)
Special revenue excluding mortgage/asset-backed securities	8,050	(595)	22,928	(2,974)	30,978	(3,569)
Corporate and other	136,179	(6,630)	120,285	(14,603)	256,464	(21,233)
Mortgage/asset-backed securities	77,660	(3,414)	76,058	(9,489)	153,718	(12,903)
Total	$ 251,239	$ (11,517)	$ 246,689	$ (28,898)	$ 497,928	$ (40,415)

	Less Than 12 Months		More Than 12 Months		Total	
December 31, 2022	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(in thousands)			
Fixed maturity securities:						
U.S. Governments	$ 41,077	$ (1,523)	$ 6,853	$ (730)	$ 47,930	$ (2,253)
States, territories, and possessions	3,227	(552)	—	—	3,227	(552)
Political subdivisions	4,298	(621)	—	—	4,298	(621)
Special revenue excluding mortgage/asset-backed securities	25,091	(3,287)	5,080	(1,200)	30,171	(4,487)
Corporate and other	192,185	(15,667)	55,605	(8,481)	247,790	(24,148)
Mortgage/asset-backed securities	118,815	(9,908)	32,448	(4,954)	151,263	(14,862)
Total	$ 384,693	$ (31,558)	$ 99,986	$ (15,365)	$ 484,679	$ (46,923)

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. The Company considers numerous factors in its review as described in Footnote 1 of the Notes to the Consolidated Financial Statements in the 2022 Annual Report on Form 10-K.

The Company has recorded an allowance for credit losses for two investment securities. Based on the Company's review as of March 31, 2023, for the remainder of 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.

Contractual maturities of available-for-sale fixed maturity securities

The amortized cost and fair value of fixed maturity securities at March 31, 2023, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 47,423	$ 45,867
Due after one year through five years	184,515	173,737
Due after five years through ten years	139,084	127,547
Due after ten years	31,658	27,731
Mortgage and asset-backed securities	192,056	179,607
	$ 594,736	$ 554,489

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

Net investment income summary

Net investment income is summarized as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Interest income	$ 5,060	$ 2,558
Dividend income	181	155
Investment expense	(121)	(134)
Net investment income	$ 5,120	$ 2,579

Net realized and unrealized investment gains and losses

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

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Realized gains:		
Gains on sales of fixed maturity securities	$ 28	$ 2
Gains on sales of equity securities	—	—
Total realized gains	28	2
Realized losses:		
Losses on sales of fixed maturity securities	(3)	—
Losses on sales of equity securities	—	—
Total realized losses	(3)	—
Net realized investment gains	25	2
Change in allowance for credit losses	(659)	—
Net unrealized gains (losses) on equity securities	780	(1,280)
Net realized and unrealized gains (losses) on investments	$ 146	$ (1,278)

Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date.

Proceeds from the sale of fixed maturity securities were $5.1 million and $4.8 million for the three months ended March 31, 2023 and 2022, 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 balance sheet. As of March 31, 2023 and December 31, 2022, the carrying value of securities on deposit with state regulatory authorities was $9.6 million and $8.5 million, respectively.

3. Fair Value Measurements

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 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.

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 following tables present the hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022.

March 31, 2023	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Fixed maturity securities				
U.S. Governments	$ —	$ 49,649	$ —	$ 49,649
States, territories, and possessions	—	5,514	—	5,514
Political subdivisions	—	4,434	—	4,434
Special revenue excluding mortgage/asset-backed securities	—	34,241	—	34,241
Corporate and other	—	281,044	—	281,044
Mortgage/asset-backed securities	—	179,607	—	179,607
Equity securities	39,356	—	—	39,356
Cash, cash equivalents, and restricted cash	80,360	—	—	80,360
Total assets	$ 119,716	$ 554,489	$ —	$ 674,205

December 31, 2022	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Fixed maturity securities				
U.S. Governments	$ —	$ 48,551	$ —	$ 48,551
States, territories, and possessions	—	5,354	—	5,354
Political subdivisions	—	4,298	—	4,298
Special revenue excluding mortgage/asset-backed securities	—	32,799	—	32,799
Corporate and other	—	254,095	—	254,095
Mortgage/asset-backed securities	—	169,967	—	169,967
Equity securities	38,576	—	—	38,576
Cash, cash equivalents, and restricted cash	68,164	—	—	68,164
Total assets	$ 106,740	$ 515,064	$ —	$ 621,804

The carrying amounts of financial assets and liabilities reported in the accompanying condensed consolidated balance sheet 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. The carrying amount of the Company's borrowings under the Federal Home Loan Bank ("FHLB") line of credit and U.S. Bank credit agreement (the "Credit Agreement") approximate fair value as the Company is currently borrowing at a variable rate which frequently reprices at market rates.

Transfers between Level 3 and Level 2 securities result from changes in the availability of observable market inputs and are recorded at the beginning of the reporting period. As of March 31, 2023 and December 31, 2022, the Company had no fixed income securities classified as Level 3.

4. Reserve for Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the ending reserve balances for losses and loss adjustment expenses (“LAE”):

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	(in thousands)	
Reserve for losses and LAE net of reinsurance recoverables at beginning of period	$ 77,520	$ 45,419
Add: Incurred losses and LAE, net of reinsurance, related to:		
Current year	17,300	13,449
Prior years	3,352	1,505
Total incurred	20,652	14,954
Deduct: Loss and LAE payments, net of reinsurance, related to:		
Current year	1,393	1,490
Prior years	15,413	7,497
Total payments	16,806	8,987
Reserve for losses and LAE net of reinsurance recoverables at end of period	81,366	51,386
Add: Reinsurance recoverables on unpaid losses and LAE at end of period	183,601	113,726
Reserve for losses and LAE gross of reinsurance recoverables on unpaid losses and LAE at end of period	$ 264,967	$ 165,112

Considerable variability is inherent in the estimate of the reserve for losses and LAE. Although management believes the liability recorded for losses and LAE is adequate, the variability inherent in this estimate could result in changes to the ultimate liability, which may be material to stockholders’ equity.

The Company experienced adverse prior year development of $3.4 and $1.5 million during the three months ended March 31, 2023 and 2022, respectively.

Adverse prior year development during the three months ended March 31, 2023 was primarily due to higher than anticipated severity of attritional losses, offset by lower than anticipated severity of catastrophe losses. Adverse prior year development during the three months ended March 31, 2022 was primarily due to higher than anticipated severity of attritional losses from prior years.

5. Stockholders’ Equity

Common stock reserved for future issuance

Common stock reserved for future issuance consists of the following as of March 31, 2023:

Stock options outstanding under 2019 Equity Incentive Plan	873,346
Restricted stock units outstanding under 2019 Equity Incentive Plan	355,234
Performance stock units outstanding under 2019 Equity Incentive Plan, at target	426,359
Shares authorized for future issuance under 2019 Equity Incentive Plan	3,143,477
Shares authorized for future issuance under 2019 Employee Stock Purchase Plan	1,140,126
Total	5,938,542

Stock based compensation

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

	Three months ended March 31, 2023	2022
	(in thousands)	
Stock-Based Compensation	$ 3,450	$ 2,760

Stock-based compensation expense is recognized on a straight-line basis over the vesting period of equity-based awards. For performance stock units ("PSUs"), any changes to expense resulting from differences in actual performance versus target are recognized over the remaining vesting period of the 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 unaudited condensed consolidated statement 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 two to four-year period with a portion vesting on the first anniversary of the grant date and the remainder vesting monthly over the remaining period, subject to continued service. Stock options expire ten years after the grant date.

The following table summarizes stock option transactions for the three months ended March 31, 2023:

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2023	882,892	$ 33.85	-	$ -
Options granted	-	-		
Options exercised	(5,957)	15.24		
Options canceled	(3,589)	64.91		
Outstanding at March 31, 2023	873,346	$ 33.85	6.63	$ 23,374
Vested and Exercisable at March 31, 2023	724,939	$ 28.15	6.33	$ 22,598

As of March 31, 2023, the Company had approximately $2.9 million of total unrecognized stock-based compensation expense related to stock options expected to be recognized over a weighted-average period of 1.47 years.

Restricted Stock Units

RSUs are valued using the closing price of the Company's common stock on their grant date. The Company has issued RSUs with vesting periods of one to five years. All vesting is subject to continued service.

The following table summarizes RSU transactions for the three months ended March 31, 2023:

	Number of shares	Weighted-average grant date fair value
Outstanding at January 1, 2023	271,951	$ 68.90
Granted	123,396	51.32
Released	(35,728)	59.92
Forfeited	(4,385)	52.83
Non-vested outstanding at March 31, 2023	355,234	$ 63.89

As of March 31, 2023, the Company had approximately $19.7 million of total unrecognized stock-based compensation expense related to RSUs expected to be recognized over a weighted-average period of 2.8 years.

Performance Stock Units

The Company issues PSUs with a combination of service, performance, and market conditions.

The majority of PSUs were issued via grants made to certain executives during 2021. These 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 of approximately five years from the date of grant. As of March 31, 2023, none of the stock price milestones have been achieved.

For other PSUs outstanding, 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. Prior to 2023, the PSU's performance period was the fiscal year of the grant. Beginning in 2023, the PSU's performance period is primarily a three-year period beginning with the grant date. At the end of the performance period, the actual results are 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 three months ended March 31, 2023:

	Number of shares	Weighted-average grant date fair value
Outstanding at January 1, 2023	383,103	$ 37.62
Granted	44,354	51.25
Vested	—	—
Forfeited	(1,098)	55.36
Non-vested outstanding at March 31, 2023	426,359	$ 38.99

The PSU grants above represent the number of shares that would vest based on achievement of all stock price milestones in the 2021 executive stock grants and the 100% achievement of the predetermined 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 March 31, 2023, the Company had approximately $12.5 million of total unrecognized stock-based compensation expense related to PSUs expected to be recognized over a weighted-average period of 3.23 years.

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 7,724 shares pursuant to the ESPP during the three months ended March 31, 2023.

Share repurchases

In January 2022, the Board of Directors approved a new share repurchase program which replaced the existing program and authorized the repurchase of up to $100 million of outstanding shares of common stock over the period ending on March 31, 2024.

The Company purchased 134,680 shares for $6.8 million during the three months ended March 31, 2023. 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.

6. Accumulated Other Comprehensive Income

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

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Beginning Balance	$ (36,515)	$ 5,312
Other comprehensive income (loss) before reclassification	6,956	(23,368)
Federal income tax expense	(1,460)	4,907
Other comprehensive income (loss) before reclassification, net of tax	5,496	(18,461)
Amounts reclassified from AOCI	(28)	(2)
Federal income tax expense	6	—
Amounts reclassified from AOCI, net of tax	(22)	(2)
Other comprehensive income (loss)	5,474	(18,463)
Balance at end of period	$ (31,041)	$ (13,151)

7. Underwriting Information

The Company has a single reportable segment and offers primarily property and casualty insurance products. The Company also writes premiums under fronting agreements where it cedes the majority of the premium and risk in exchange for a fronting fee. Gross written premiums ("GWP") by product are presented below:

	Three Months Ended March 31,			
	2023		2022	
	($ in thousands)			
	Amount	% of GWP	Amount	% of GWP
Product				
Fronting Premiums	$ 91,755	36.7 %	$ 29,845	17.5 %
Residential Earthquake	55,725	22.3 %	46,336	27.1 %
Commercial Earthquake	37,770	15.1 %	25,144	14.7 %
Inland Marine	31,049	12.4 %	18,237	10.7 %
Casualty	11,733	4.7 %	5,007	2.9 %
Commercial All Risk	8,376	3.3 %	11,210	6.6 %
Hawaii Hurricane	8,073	3.2 %	6,914	4.0 %
Residential Flood	4,235	1.7 %	2,993	1.8 %
Specialty Homeowners	(59)	— %	16,284	9.5 %
Other	1,455	0.6 %	8,964	5.2 %
Total Gross Written Premiums	$ 250,112	100.0 %	$ 170,934	100.0 %

Gross written premiums by state are as follows:

	Three Months Ended March 31,			
	2023		2022	
	($ in thousands)			
	Amount	% of GWP	Amount	% of GWP
State				
California	$ 131,889	52.7 %	$ 68,718	40.2 %
Texas	23,210	9.3 %	18,979	11.1 %
Florida	12,096	4.8 %	4,962	2.9 %
Washington	11,972	4.8 %	6,881	4.0 %
Hawaii	10,105	4.0 %	8,540	5.0 %
Oregon	6,780	2.7 %	4,373	2.6 %
Illinois	4,702	1.9 %	4,273	2.5 %
New York	3,871	1.5 %	2,380	1.4 %
Other	45,487	18.3 %	51,828	30.3 %
Total Gross Written Premiums	$ 250,112	100.0 %	$ 170,934	100.0 %

Gross written premiums by insurance subsidiary are as follows:

	Three Months Ended March 31,			
	2023		2022	
	($ in thousands)			
	Amount	% of GWP	Amount	% of GWP
Subsidiary				
PSIC	$ 150,704	60.3 %	$ 104,004	60.8 %
PESIC	99,408	39.7 %	66,930	39.2 %
Total Gross Written Premiums	$ 250,112	100.0 %	$ 170,934	100.0 %

8. Income Taxes

The Company calculates its tax provision in interim periods using its best estimate of the effective tax rate expected for the full year. During the three months ended March 31, 2023, the Company's income tax rate of 23.5% was higher than the statutory rate of 21% due primarily to non-deductible executive compensation expense. During the three months ended March 31, 2022, the Company's income tax rate of 23.8% was higher than the statutory rate of 21% also due primarily to non-deductible executive compensation expense.

9. Earnings Per Share

The following table sets out earnings per share of common stock:

	Three months ended March 31,	
	2023	2022
	(in thousands, except shares and per share data)	
Net income	$ 17,313	$ 14,537
Weighted average common shares outstanding:		
Basic	24,969,703	25,362,179
Common Share equivalents	473,198	537,111
Diluted	25,442,902	25,899,290
Earnings per share:		
Basic	$ 0.69	$ 0.57
Diluted	$ 0.68	$ 0.56

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

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.

As of March 31, 2023, the Company's catastrophe event retention is $12.5 million for all perils. As of March 31, 2023, the Company's XOL reinsurance structure provides protection up to $2.15 billion for earthquake events, $1.01 billion for Hawaii hurricane events, and $250 million for continental U.S. hurricane events.

In addition to reinsurance purchased from traditional reinsurers, the Company has historically incorporated collateralized protection from the insurance linked securities market via 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 Pte."). Torrey Pines Re Pte. is a special purpose reinsurance vehicle incorporated in Singapore that provides Palomar with indemnity-based reinsurance covering earthquake events through June 1, 2024. During the second quarter of 2022, the Company also closed a $275 million 144A catastrophe bond which became effective June 1, 2022. This catastrophe bond was completed through Torrey Pines Re Ltd., a Bermuda-domiciled special purpose insurer that provides indemnity-based reinsurance covering earthquake events through June 1, 2025.

11. Credit Agreements

U.S. Bank Credit Agreement

In December 2021, the Company entered into a 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 the Company's 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. In addition to interest on funds borrowed, the Company must pay an unused line fee of 0.25% on any amounts not borrowed.

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 include requirements to maintain a permissible debt to capital ratio, a minimum consolidated net worth, a minimum risk based capital ratio and minimum A.M. Best financial strength rating. The Credit Agreement also contains customary events of default, such as non-compliance with financial covenants. If an event of default occurs, any debt may be declared immediately due and payable. As of March 31, 2023, the Company was in compliance with all debt covenants.

As of March 31, 2023, the Company had $35.0 million of borrowings outstanding on the Credit Agreement at a rate of 6.55%. Interest expense on the Credit Agreement was $0.6 million for the three months ended March 31, 2023.

FHLB Line of Credit

The Company's PSIC subsidiary is a member of the Federal Home Loan Bank of San Francisco ("FHLB"). Membership in the FHLB provides PSIC access to collateralized advances, which can be drawn for general corporate purposes and used to enhance liquidity management. All borrowings are fully secured by a pledge of specific investment securities of PSIC and the borrowing capacity is equal to 5% of PSIC's statutory admitted assets. All advances have a predetermined term and the interest rate varies based on the term of the advance.

As of March 31, 2023, the Company had $36.4 million of borrowings outstanding through the FHLB at the overnight rate of 5.04%. Interest expense on the FHLB line of credit was $0.4 million for the three months ended March 31, 2023.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in part II, item 1A of this Quarterly Report. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors.

The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2023, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report, and in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K as filed with the SEC on March 1, 2023.

References to the "Company," "Palomar," "we," "us," and "our" are to Palomar Holdings, Inc. and its subsidiaries, unless the context otherwise requires.

Overview

We are a specialty insurance company that provides property and casualty insurance products to individuals and businesses. We use our underwriting and analytical expertise to provide products for select markets that we believe are underserved by other insurance companies, including the market for earthquake 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 E&S insurance products through our Arizona domiciled surplus lines insurance company, Palomar Excess and Surplus Insurance Company ("PESIC"). Each of our insurance company subsidiaries as carries an "A-" rating from A.M. Best Company ("A.M. Best"), a leading rating agency for the insurance industry.

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 $881.9 million for the year ended December 31, 2022, which reflects a compound annual growth rate of approximately 64%. We have also been profitable since 2016 and our net income growth since 2016 reflects a compound annual growth rate of 41%.

We seek to continuously grow our income by developing product offerings for lines of business that harness our core competencies and where we believe we can generate attractive risk adjusted returns. Since 2021, we have introduced several new products including General Casualty, Fronting, Professional Liability, and Excess Property to diversify our book of business and broaden our product portfolio. We believe that our market opportunity, distinctive products, and differentiated business model position us to grow our business profitably.

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;
- Exits from existing partnerships or reducing or ceasing to offer existing 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 through excess of loss ("XOL") agreements, quota share agreements, and fronting 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. The volume of ceded written premiums is also impacted by the amount of premium we write under fronting 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. Our XOL costs as a percentage of gross earned premiums also 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. In addition, the volume of premiums ceded in fronting agreements each period may vary due to the timing of entering new fronting partnerships and terminations of fronting partnerships.

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. The majority of our insurance policies have a term of one year and premiums are earned pro rata over the terms of the policies.

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, many 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;
- Inflation in housing and construction costs; and
- Increases in amounts awarded by courts and juries.

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 and fronting fees we receive on business ceded under quota share and fronting reinsurance agreements. 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. We earn fronting fees consistent with how we earn premiums on the underlying insurance policies, on a pro rata basis over the terms of the policies.

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

Interest expense consists of interest incurred on borrowings from our U.S. Bank credit agreement and FHLB line of credit and the unused line fee and amortization of the commitment fee on our U.S. Bank credit agreement.

Net Investment Income

We earn investment income on our portfolio of invested assets. We invest primarily in investment grade fixed maturity securities, including U.S. government issues, state government issues, mortgage and asset-backed obligations, and corporate bonds with a small portion of our portfolio in equity securities and cash and cash equivalents. 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 fair value fluctuations from changes in interest rates or other factors, 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 or borrowings under our credit agreements.

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, credit losses recognized in earnings, and unrealized gains and losses on equity securities. Unrealized gains and losses on fixed maturity securities are recognized as a component of other comprehensive income and do not impact our net income.

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.

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

Annualized 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.

Adjusted underwriting income is a non-GAAP financial measure defined as underwriting income 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 income before income taxes calculated in accordance with GAAP to adjusted underwriting income.

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

Three months ended March 31, 2023 compared to three months ended March 31, 2022

The following table summarizes our results for the three months ended March 31, 2023 and 2022:

	Three months ended March 31, 2023	Three months ended March 31, 2022	Change	% Change
	($ in thousands, except per share data)			
Gross written premiums	$ 250,112	$ 170,934	$ 79,178	46.3 %
Ceded written premiums	(170,344)	(89,552)	(80,792)	90.2 %
Net written premiums	79,768	81,382	(1,614)	(2.0)%
Net earned premiums	83,241	76,032	7,209	9.5 %
Commission and other income	695	777	(82)	(10.6)%
Total underwriting revenue (1)	83,936	76,809	7,127	9.3 %
Losses and loss adjustment expenses	20,652	14,954	5,698	38.1 %
Acquisition expenses, net of ceding commissions and fronting fees	25,679	28,054	(2,375)	(8.5)%
Other underwriting expenses	19,222	15,925	3,297	20.7 %
Underwriting income (1)	18,383	17,876	507	2.8 %
Interest expense	(1,020)	(93)	(927)	NM
Net investment income	5,120	2,579	2,541	98.5 %
Net realized and unrealized gains (losses) on investments	146	(1,278)	1,424	(111.4)%
Income before income taxes	22,629	19,084	3,545	18.6 %
Income tax expense	5,316	4,547	769	16.9 %
Net income	$ 17,313	$ 14,537	$ 2,776	19.1 %
Adjustments:				
Net realized and unrealized (gains) losses on investments(2)	(146)	1,278	(1,424)	(111.4)%
Expenses associated with transactions	—	86	(86)	(100.0)%
Stock-based compensation expense	3,450	2,760	690	25.0 %
Amortization of intangibles	313	315	(2)	(0.6)%
Expenses associated with catastrophe bond	50	200	(150)	(75.0)%
Tax impact	(540)	(592)	52	(8.8)%
Adjusted net income (1)(2)	$ 20,440	$ 18,584	$ 1,856	10.0 %
Key Financial and Operating Metrics				
Annualized return on equity	17.5 %	15.0 %		
Annualized adjusted return on equity (1)	20.7 %	19.2 %		
Loss ratio	24.8 %	19.7 %		
Expense ratio	53.1 %	56.8 %		
Combined ratio	77.9 %	76.5 %		
Adjusted combined ratio (1)	73.3 %	72.1 %		
Diluted earnings per share	$ 0.68	$ 0.56		
Diluted adjusted earnings per share (1)	$ 0.80	$ 0.72		
Catastrophe losses	$ 1,806	$ 481		
Catastrophe loss ratio (1)	2.2 %	0.6 %		
Adjusted combined ratio excluding catastrophe losses (1)	71.2 %	71.4 %		
Adjusted underwriting income (1)	$ 22,196	$ 21,237	$ 959	4.5 %

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.

(2) We now include the impact of net realized and unrealized losses and gains on investments as an adjustment to our net income. As this balance is primarily driven by equity market fluctuations rather than our underlying business performance, we believe adding this adjustment provides a more meaningful comparison of our performance. We have also changed the prior year adjusted net income to conform to this presentation.

Gross Written Premiums

Gross written premiums increased $79.2 million, or 46.3% to $250.1 million for the three months ended March 31, 2023 compared to $170.9 million for the three months ended March 31, 2022. 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 distribution footprint, and new partnerships. 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:

	Three Months Ended March 31,					
	2023		2022			
	($ in thousands)					
Product	Amount	% of GWP	Amount	% of GWP	Change	% Change
Fronting Premiums	$ 91,755	36.7 %	$ 29,845	17.5 %	$ 61,910	207.4 %
Residential Earthquake	55,725	22.3 %	46,336	27.1 %	9,389	20.3 %
Commercial Earthquake	37,770	15.1 %	25,144	14.7 %	12,626	50.2 %
Inland Marine	31,049	12.4 %	18,237	10.7 %	12,812	70.3 %
Casualty	11,733	4.7 %	5,007	2.9 %	6,726	134.3 %
Commercial All Risk	8,376	3.3 %	11,210	6.6 %	(2,834)	(25.3)%
Hawaii Hurricane	8,073	3.2 %	6,914	4.0 %	1,159	16.8 %
Residential Flood	4,235	1.7 %	2,993	1.8 %	1,242	41.5 %
Specialty Homeowners	(59)	— %	16,284	9.5 %	(16,343)	(100.4)%
Other	1,455	0.6 %	8,964	5.2 %	(7,509)	(83.8)%
Total Gross Written Premiums	$ 250,112	100.0 %	$ 170,934	100.0 %	$ 79,178	46.3 %

During the fourth quarter of 2021, we launched our fronting business, known as PLMR-FRONT. In a fronting agreement, we cede the majority of gross written premium and risk in exchange for a fronting fee, which is our primary source of profit in the arrangement. We have subsequently entered several fronting partnerships which drove the above increase in premiums. The volume of fronting premiums written each period may vary due to the timing of entering new fronting partnerships and terminations of existing fronting partnerships.

During the second quarter of 2022, we ceased writing Specialty Homeowners business outside of Texas and converted our Texas Specialty Homeowners business to a fronting arrangement beginning June 1, 2022. These underwriting changes caused the decline in Specialty Homeowners premiums and contributed to the increase in Fronting premiums shown above.

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

	Three Months Ended March 31,					
	2023		2022			
	($ in thousands)					
Subsidiary	Amount	% of GWP	Amount	% of GWP	Change	% Change
PSIC	$ 150,704	60.3 %	$ 104,004	60.8 %	$ 46,700	44.9 %
PESIC	99,408	39.7 %	66,930	39.2 %	32,478	48.5 %
Total Gross Written Premiums	$ 250,112	100.0 %	$ 170,934	100.0 %	$ 79,178	46.3 %

Ceded Written Premiums

Ceded written premiums increased $80.8 million, or 90.2%, to $170.3 million for the three months ended March 31, 2023 from $89.6 million for the three months ended March 31, 2022. The increase was primarily due to increased premiums ceded under quota share and fronting agreements due to growth in the volume of written premiums subject to quota share or fronting agreements. In addition, we incurred increased excess of loss (“XOL”) reinsurance expense mainly due to growth in exposure.

Ceded written premiums as a percentage of gross written premiums increased to 68.1% for the three months ended March 31, 2023 from 52.4% for the three months ended March 31, 2022. This increase was primarily due to increased fronting and quota share cessions as previously described.

Net Written Premiums

Net written premiums decreased $1.6 million, or 2.0%, to $79.8 million for the three months ended March 31, 2023 from $81.4 million for the three months ended March 31, 2022. The decrease was primarily due to increased ceded written premiums from growth in lines of business subject to a quota share, such as Inland Marine, Casualty, and Commercial Earthquake. In addition, ceding increased due to the conversion of our Texas Specialty Homeowners business to a fronting arrangement beginning June 1, 2022. XOL reinsurance expense also increased due to growth in exposure.

Net Earned Premiums

Net earned premiums increased $7.2 million, or 9.5%, to $83.2 million for the three months ended March 31, 2023 from $76.0 million for the three months ended March 31, 2022 due primarily to the earning of increased gross written premiums offset by the earning of ceded written premiums under reinsurance agreements. The table below shows the amount of premiums we earned on a gross and net basis and net earned premiums as a percentage of gross earned premiums in each period presented:

	Three Months Ended March 31,			
	2023	2022	Change	% Change
	($ in thousands)			
Gross earned premiums	$ 225,243	$ 138,924	$ 86,319	62.1 %
Ceded earned premiums	(142,002)	(62,892)	(79,110)	125.8 %
Net earned premiums	$ 83,241	$ 76,032	$ 7,209	9.5 %
Net earned premium ratio	37.0%	54.7%		

Commission and Other Income

Commission and other income decreased $0.1 million to $0.7 million for the three months ended March 31, 2023 from $0.8 million for the three months ended March 31, 2022. The balance decreased due to a decrease in commissions from a lower volume of policies written through our internal managing general agency, Palomar Insurance Agency.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses increased $5.7 million, or 38.1% to $20.7 million for the three months ended March 31, 2023 from $15.0 million for the three months ended March 31, 2022. Losses and loss adjustment expenses consisted of the following elements during the respective periods:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Change	% Change
	($ in thousands)			
Catastrophe losses	$ 1,806	$ 481	$ 1,325	275.5 %
Non-catastrophe losses	18,846	14,473	4,373	30.2 %
Total losses and loss adjustment expenses	$ 20,652	$ 14,954	$ 5,698	38.1 %

Our catastrophe loss ratio was 2.2% during the three months ended March 31, 2023. Catastrophe losses were primarily related to flood losses, offset by favorable development on prior year catastrophe events.

Our catastrophe loss ratio was 0.6% during the three months ended March 31, 2022. Catastrophe losses were related to unfavorable development on prior year catastrophe events.

Our non-catastrophe loss ratio was 22.6% for the three months ended March 31, 2023 compared to 19.1% during the three months ended March 31, 2022. Non-catastrophe losses increased due mainly to higher attritional losses on lines of business subject to attritional losses such as Commercial All Risk, Casualty, and Inland Marine.

Acquisition Expenses

Acquisition expenses decreased $2.3 million, or 8.5%, to $25.7 million for the three months ended March 31, 2023 from $28.0 million for the three months ended March 31, 2022. The decrease was primarily due to higher earned ceding commissions and fronting fees due to an increase in premiums subject to a quota share or fronting agreement. This was partially offset by higher earned premiums which resulted in higher commissions and premium-related taxes. Acquisition expenses as a percentage of gross earned premiums were 11.4% for the three months ended March 31, 2023 compared to 20.2% for the three months ended March 31, 2022. Acquisition expenses as a percentage of gross earned premiums decreased due to the recognition of higher ceding commission and fronting fee income as a percentage of gross earned premiums resulting from changes in mix of business produced.

Other Underwriting Expenses

Other underwriting expenses increased $3.3 million, or 20.7%, to $19.2 million for the three months ended March 31, 2023 from $15.9 million for the three months ended March 31, 2022. The increase was primarily due to the Company incurring higher payroll, technology, and stock-based compensation expenses associated with growth of the Company.

Other underwriting expenses as a percentage of gross earned premiums were 8.5% for the three months ended March 31, 2023 compared to 11.5% for the three months ended March 31, 2022. Excluding the impact of expenses relating to transactions, stock-based compensation, amortization of intangibles, and catastrophe bonds other underwriting expenses as a percentage of gross earned premiums were 6.8% for the three months ended March 31, 2023 compared to 9.0% for the three months ended March 31, 2022. This percentage decreased due to an increase in earned premiums without a corresponding increase in operating expenses. 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 $2.5 million, or 98.5%, to $5.1 million for the three months ended March 31, 2023 from $2.6 million for the three months ended March 31, 2022. The increase was primarily due to a higher average balance of investments during the three months ended March 31, 2023 and higher yields on invested assets.

The Company incurred $0.1 million of net realized and unrealized gains on investments for the three months ended March 31, 2023 compared to $1.3 million of net realized and unrealized losses for the three months ended March 31, 2022 due primarily to lower unrealized losses on our equity securities during the period ended March 31, 2023. Unrealized gains and losses on fixed maturity securities are recognized as a component of other comprehensive income and do not impact our net income. The following table summarizes the components of our investment income for each period presented:

	Three Months Ended March 31,			
	2023	2022	Change	% Change
	($ in thousands)			
Interest income	$ 5,060	$ 2,558	$ 2,502	97.8 %
Dividend income	181	155	26	16.8 %
Investment management fees and expenses	(121)	(134)	13	(9.7)%
Net investment income	5,120	2,579	2,541	98.5 %
Net realized and unrealized gains (losses) on investments	146	(1,278)	1,424	NM
Total	$ 5,266	$ 1,301	$ 3,965	304.8 %
NM- not meaningful				

Income Tax Expense

Income tax expense increased $0.8 million, or 16.9% to $5.3 million for the three months ended March 31, 2023 from $4.5 million for the three months ended March 31, 2022 due to higher pre-tax income for the period ended March 31, 2023. During the three months ended March 31, 2023, our income tax rate of 23.5% was higher than the statutory rate of 21% due primarily to non-deductible executive compensation expense. During the three months ended March 31, 2022, our income tax rate of 23.8% was higher than the statutory rate of 21% also due primarily to non-deductible executive compensation expense.

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 results. 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:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Total revenue	$ 89,202	$ 78,110
Net investment income	(5,120)	(2,579)
Net realized and unrealized (gains) losses on investments	(146)	1,278
Underwriting revenue	$ 83,936	$ 76,809

Underwriting Income and adjusted 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 results. 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.

We define adjusted underwriting income as underwriting income excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook. 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. Adjusted underwriting income should not be viewed as a substitute for pre-tax income calculated in accordance with GAAP. Other companies may define adjusted underwriting income differently.

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

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Income before income taxes	$ 22,629	$ 19,084
Net investment income	(5,120)	(2,579)
Net realized and unrealized (gains) losses on investments	(146)	1,278
Interest expense	1,020	93
Underwriting income	$ 18,383	$ 17,876
Expenses associated with transactions	—	86
Stock-based compensation expense	3,450	2,760
Amortization of intangibles	313	315
Expenses associated with catastrophe bond	50	200
Adjusted underwriting income	$ 22,196	$ 21,237

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:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Net income	$ 17,313	$ 14,537
Adjustments:		
Net realized and unrealized (gains) losses on investments	(146)	1,278
Expenses associated with transactions	—	86
Stock-based compensation expense	3,450	2,760
Amortization of intangibles	313	315
Expenses associated with catastrophe bond	50	200
Tax impact	(540)	(592)
Adjusted net income	$ 20,440	$ 18,584

Annualized Adjusted Return on Equity

We define annualized 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 annualized 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. Annualized 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.

Annualized adjusted return on equity is calculated as follows:

	Three Months Ended March 31,	
	2023	2022
	($ in thousands)	
Annualized adjusted net income	$ 81,761	$ 74,336
Average stockholders' equity	$ 394,701	$ 387,284
Annualized adjusted return on equity	20.7 %	19.2 %

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:

	Three Months Ended March 31,	
	2023	2022
	($ in thousands)	
Numerator: Sum of losses and loss adjustment expenses, acquisition expenses, and other underwriting expenses, net of commission and other income	$ 64,858	$ 58,156
Denominator: Net earned premiums	$ 83,241	$ 76,032
Combined ratio	77.9 %	76.5 %
Adjustments to numerator:		
Expenses associated with transactions	$ —	$ (86)
Stock-based compensation expense	(3,450)	(2,760)
Amortization of intangibles	(313)	(315)
Expenses associated with catastrophe bond	(50)	(200)
Adjusted combined ratio	73.3 %	72.1 %

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:

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except per share data)	
Adjusted net income	$ 20,440	$ 18,584
Weighted-average common shares outstanding, diluted	25,442,902	25,899,290
Diluted adjusted earnings per share	$ 0.80	$ 0.72

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:

	Three Months Ended March 31,	
	2023	2022
	($ in thousands)	
Numerator: Losses and loss adjustment expenses	$ 20,652	$ 14,954
Denominator: Net earned premiums	$ 83,241	$ 76,032
Loss ratio	24.8 %	19.7 %
Numerator: Catastrophe losses	$ 1,806	$ 481
Denominator: Net earned premiums	$ 83,241	$ 76,032
Catastrophe loss ratio	2.2 %	0.6 %

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:

	Three Months Ended March 31,	
	2023	2022
	($ in thousands)	
Numerator: Sum of losses and loss adjustment expenses, acquisition expenses, and other underwriting expenses, net of commission and other income	$ 64,858	$ 58,156
Denominator: Net earned premiums	$ 83,241	$ 76,032
Combined ratio	77.9 %	76.5 %
Adjustments to numerator:		
Expenses associated with transactions	$ —	$ (86)
Stock-based compensation expense	(3,450)	(2,760)
Amortization of intangibles	(313)	(315)
Expenses associated with catastrophe bond	(50)	(200)
Catastrophe losses	(1,806)	(481)
Adjusted combined ratio excluding catastrophe losses	71.2 %	71.4 %

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:

	March 31, 2023	December 31, 2022
	(in thousands)	
Stockholders' equity	$ 404,649	$ 384,754
Intangible assets	(7,948)	(8,261)
Tangible stockholders' equity	$ 396,701	$ 376,493

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 $78.2 million in 2023 without approval by the California and Oregon Insurance Commissioners.

Under Arizona statute which 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 not pay a dividend or distribution in 2023 without approval of the Arizona Insurance Commissioner due to incurring a statutory net loss in 2022.

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. In addition, state insurance regulators may adopt statutory provisions and dividend limitations more restrictive than those currently in effect in the future.

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 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 2023 is calculated to be approximately $3.9 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

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.

Cash Flows

Our primary sources of cash flow are written premiums, investment income, reinsurance recoveries, sales and redemptions of investments, and proceeds from borrowings on our lines of credit. We use our cash flows primarily to pay reinsurance premiums, 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.

Management believes that our current liquidity and cash receipts from written premiums, investment income, proceeds from investment sales and redemptions, and reinsurance recoveries, if necessary, are sufficient to cover cash outflows for each of the Company's insurance subsidiaries in the foreseeable future.

The following table summarizes our cash flows for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	**2022**
	($ in thousands)	
Cash provided by (used in):		
Operating activities	$ 17,437	$ 49,190
Investing activities	(33,900)	(55,018)
Financing activities	28,659	2,397
Change in cash, cash equivalents, and restricted cash	$ 12,196	$ (3,431)

Our cash flow from operating activities was positive during the three months ended March 31, 2023 and 2022 due to net income and a decrease in net operating assets in each period.

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, reinsurance payments, and reinsurance recoveries on paid losses. In addition, fluctuations in losses and loss adjustment expenses and other insurance operating expenses impact operating cash flows.

Cash used in investing activities for the three months ended March 31, 2023 and 2022 related primarily to purchases of fixed maturity securities in excess of sales and maturities in each period.

Cash provided by financing activities for three months ended March 31, 2023 was related to $35.0 million in borrowings from our lines of credit, the receipt of $0.1 million in proceeds from stock option exercises and the receipt of $0.4 million in proceeds from our employee stock purchase plan, offset by the repurchase of $6.8 million of our common stock. Cash provided by financing activities for three months ended March 31, 2022 was related to $15.0 million in borrowings from our FHLB line of credit, the receipt of $0.1 million in proceeds from stock option exercises and the receipt of $0.3 million in proceeds from our employee stock purchase plan, offset by the repurchase of $13.0 million of our common stock.

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 catastrophe losses. To the extent our future operating cash flows are insufficient to cover our net losses from catastrophic events, we had $674.2 million in cash and investment securities available at March 31, 2023. We also have the ability to access additional capital through pursuing third-party borrowings, sales of our equity or debt securities or entrance into a reinsurance arrangement.

Share Repurchases

We also have implemented a share repurchase plan and have used and may use our cash in the future to purchase outstanding shares of our common stock. Under our current share repurchase program, shares may be repurchased from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. We purchased 134,680 shares for $6.8 million under this program during the three months ended March 31, 2023 and $58.8 million remains available for future repurchases.

Credit Agreements

We have the ability to access additional capital through multiple credit agreements.

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 March 31, 2023, we had $35.0 million of borrowings outstanding through the Credit Agreement.

Our PSIC subsidiary is a member of the Federal Home Loan Bank of San Francisco (“FHLB”). Membership in the FHLB provides PSIC access to collateralized advances, which can be drawn for general corporate purposes and used to enhance liquidity management. All borrowings are fully secured by a pledge of specific investment securities of PSIC and the borrowing capacity is equal to 5% of PSIC’s statutory admitted assets. All advances have predetermined term and the interest rate varies based on the term of the advance.

As of March 31, 2023, we had $36.4 million of borrowings outstanding through the FHLB line of credit.

Stockholders’ Equity

At March 31, 2023 total stockholders’ equity was $404.6 million and tangible stockholders’ equity was $396.7 million, compared to total stockholders’ equity of $384.8 million and tangible stockholders’ equity of $376.5 million as of December 31, 2022. Stockholder’s equity increased primarily due to net income earned for the period, activity related to stock-based compensation, and unrealized gains on fixed maturity securities and was partially offset by share repurchases made during the period.

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 March 31, 2023, the majority of our investment portfolio, or $554.5 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 $39.4 million of equity securities. In addition, we maintained a non-restricted cash and cash equivalent balance of $80.3 million at March 31, 2023. Our fixed maturity securities, including cash equivalents, had a weighted average effective duration of 3.93 and 3.81 years and an average rating of "A1/A+" and "A1/A+" at March 31, 2023 and December 31, 2022, respectively. Our fixed income investment portfolio had a book yield of 3.40% as of March 31, 2023, compared to 3.30% as of December 31, 2022.

At March 31, 2023 and December 31, 2022 the amortized cost and fair value on available-for-sale securities were as follows:

March 31, 2023	**Amortized Cost or Cost**	**Fair Value**	**% of Total Fair Value**
		($ in thousands)	
Fixed maturities:			
U.S. Governments	$ 51,405	$ 49,649	9.0 %
States, territories, and possessions	5,852	5,514	1.0 %
Political subdivisions	4,915	4,434	0.8 %
Special revenue excluding mortgage/asset-backed securities	37,698	34,241	6.2 %
Corporate and other	302,810	281,044	50.7 %
Mortgage/asset-backed securities	192,056	179,607	32.3 %
Total available-for-sale investments	$ 594,736	$ 554,489	100.0 %

December 31, 2022	**Amortized Cost or Cost**	**Fair Value**	**% of Total Fair Value**
		($ in thousands)	
Fixed maturities:			
U.S. Governments	$ 50,802	$ 48,551	9.4 %
States, territories, and possessions	5,857	5,354	1.1 %
Political subdivisions	4,919	4,298	0.8 %
Special revenue excluding mortgage/asset-backed securities	37,260	32,799	6.4 %
Corporate and other	278,164	254,095	49.3 %
Mortgage/asset-backed securities	184,578	169,967	33.0 %
Total available-for-sale investments	$ 561,580	$ 515,064	100.0 %

The following tables provide the credit quality of investment securities as of March 31, 2023 and December 31, 2022:

March 31, 2023	Estimated Fair Value	% of Total
	($ in thousands)	
Rating		
AAA	$ 191,117	34.5 %
AA	58,882	10.6 %
A	186,946	33.7 %
BBB	106,397	19.2 %
BB	9,151	1.7 %
B	481	0.1 %
CCC & Below	1,515	0.2 %
	$ 554,489	100.0 %

December 31, 2022	Estimated Fair Value	% of Total
	($ in thousands)	
Rating		
AAA	$ 182,620	35.4 %
AA	55,438	10.8 %
A	171,292	33.3 %
BBB	95,402	18.5 %
BB	10,047	1.9 %
B	236	0.1 %
CCC & Below	29	— %
	$ 515,064	100.0 %

The amortized cost and fair value of our available-for-sale investments in fixed maturity securities summarized by contractual maturity as of March 31, 2023 were as follows:

March 31, 2023	Amortized Cost	Fair Value	% of Total Fair Value
	($ in thousands)		
Due within one year	$ 47,423	$ 45,867	8.3 %
Due after one year through five years	184,515	173,737	31.3 %
Due after five years through ten years	139,084	127,547	23.0 %
Due after ten years	31,658	27,731	5.0 %
Mortgage and asset-backed securities	192,056	179,607	32.4 %
	$ 594,736	$ 554,489	100.0 %

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

Reinsurance

We purchase a significant amount of reinsurance from third parties that we believe enhances our business by reducing our exposure to potential catastrophe 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 excess of loss (“XOL”) coverage, 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 XOL coverage 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 100 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 via 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 Pte.”). Torrey Pines Re Pte. is a special purpose reinsurance vehicle incorporated in Singapore that provides Palomar with indemnity-based reinsurance covering earthquake events through June 1, 2024. During the second quarter of 2022, the Company also closed a $275 million 144A catastrophe bond which became effective June 1, 2022. This catastrophe bond was completed through Torrey Pines Re Ltd., a Bermuda-domiciled special purpose insurer that provides indemnity-based reinsurance covering earthquake events through June 1, 2025.

The Company is currently seeking to expand its catastrophe XOL coverage through a catastrophe bond offering, which is expected to close in the second quarter of 2023, and may seek similar catastrophe bond offerings in the future. There can be no assurances that the catastrophe bond offering will close in the expected timeline, on acceptable terms, or at all.

Our catastrophe event retention is currently $12.5 million for all perils. Our reinsurance coverage exhausts at $2.15 billion for earthquake events, $1.01 billion for Hawaii hurricane events, and $250 million for continental U.S. hurricane events, providing coverage in excess of our 1 in 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.

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, the Company has historically obtained aggregate reinsurance coverage. During the three months ended March 31, 2023 and 2022, we maintained $25 million of aggregate XOL reinsurance limit. 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 net loss. Based on our strategic plan to reduce volatility and contract our exposure to continental U.S. hurricane risk, we made the decision not to renew this aggregate cover after it expires on March 31, 2023 as we believe its utility has diminished. We intend to pursue alternative forms of risk transfer that provide protection from multiple severe events.

Subsequent to March 31, 2023, we secured $187.5 million of incremental XOL limit from a syndicated panel of long-term trading partners which will incept between April 1, 2023 and June 1, 2023 and provide coverage through June 1, 2024.

Critical Accounting Estimates

We identified the accounting estimates which are 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 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 condensed consolidated financial statements. These judgments and estimates affect our reported amounts of assets, liabilities, revenues and expenses and the disclosure of our material contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the condensed consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. Our critical accounting policies and estimates are described in our annual consolidated financial statements and the related notes in our 2022 Annual Report on Form 10-K.

There have been no significant changes in our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in Management’s Discussion and Analysis of Financial Condition and Operations included in our 2022 Annual Report on Form 10-K

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market risk is a general term describing the potential economic loss associated with adverse changes in the fair value of financial instruments. Our condensed 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.

Credit risk is the potential loss resulting from adverse changes in an issuer’s ability to repay its debt obligations. In general, we manage the exposure to credit risk in our investment 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 78.8% rated “A−” or better. At March 31, 2023, 2.0% 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that our controls and procedures will detect all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to legal proceedings which arise in the ordinary course of business. We believe that the outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our condensed consolidated financial position.

Summary Risk Factors

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

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 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 loss reserves are established based on estimates and may be inadequate to cover actual incurred losses which could have a material adverse impact on our results of operations and financial condition;
- 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;
- Our business is concentrated in California and Texas and we are exposed more significantly to California and Texas loss activity and regulatory environments;
- We rely on a select group of brokers and program administrators, and such relationships may not continue.
- There is intense competition for business in our industry;

Risks Related to the Economic Environment:

- Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could affect our growth and profitability;

Risks Related to Technology:

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

- Security breaches or cyber-attacks could expose us to liability and damage our reputation and business;

Risks Related to Laws and Regulations:

- We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives;

- 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;

- 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

Risks Related to Ownership of our Common Stock:

- 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. We have experienced significant losses from catastrophe events multiple times in our history and we may incur significant losses from future catastrophe events. 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 to 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. 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 $2.15 billion for earthquake events, $1.01 billion for Hawaii hurricane events, and $250 million for continental U.S. 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 threshold. In addition to our event retention, we may also incur additional reinsurance expenses upon a catastrophe event. 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.

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. While our current reinsurance program is designed to limit our risk retention, 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.

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 catastrophe 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 March 31, 2023, we had $229.4 million of aggregate reinsurance recoverables. These risks could cause us to incur increased net losses, and, therefore, adversely affect our financial condition.

Our loss reserves are established based on estimates and may be inadequate to cover actual incurred losses which could have a material adverse impact on our results of operations and financial condition

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 seek to establish adequate reserves; however, our ultimate liability may be greater than our estimate.

The process of estimating the reserves for losses and loss adjustment expenses requires a high degree of judgment and is subject to several variables. 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.

We are subject to uncertainties which impact the adequacy of our reserves. For example, when we write “occurrence” policies, we are obligated to pay covered claims, up to the contractually agreed amount, for any covered loss that occurs while the policy is in force. Accordingly, claims may arise in years after a policy has lapsed. In addition, catastrophe events often involve a significant number of claims and ultimate cost of settling all claims is inherently difficult to predict upon the event’s occurrence.

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.

If our loss reserves should prove to be inadequate, we will be required to increase our reserves resulting in a reduction in our net income and stockholders' equity in the period where the inadequacy is identified. Material increases to our reserves may impact our liquidity, our financial rating, and our ability to comply with debt covenants.

For further information on our loss reserving methodology, see "Management's Discussion and Analysis-Critical Accounting Policies and Estimates- Reserve for Losses and Loss Adjustment Expenses".

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.

The reinsurance market historically has been a cyclical market characterized by periods of sufficient or excess capital (soft market cycle) as well as shortages of capital (hard market cycle). 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. A hard market cycle may increase our cost of reinsurance, force us to increase our loss retention, or limit the amount of reinsurance we are able to purchase, all of which would have an adverse impact on our business and results of operations.

In addition to reinsurance purchased from traditional reinsurers, we have historically incorporated collateralized protection from the insurance linked securities market via 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 Pte."). Torrey Pines Re Pte. is a special purpose reinsurance vehicle incorporated in Singapore that provides Palomar with indemnity-based reinsurance covering earthquake events through June 1, 2024. During the second quarter of 2022, the Company also closed a $275 million 144A catastrophe bond which became effective June 1, 2022. This catastrophe bond was completed through Torrey Pines Re Ltd., a Bermuda-domiciled special purpose insurer that provides indemnity-based reinsurance covering earthquake events through June 1, 2025. We may seek similar catastrophe 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 our written premiums, both of which could materially adversely affect our business, financial condition, and results of operations.

In addition, as we grow our written premiums and enter new lines of business we will seek out new types of reinsurance and will need to purchase reinsurance on commercially acceptable terms in order to reduce the risk associated with entering new lines of business. The inability to purchase appropriate reinsurance for new lines of business would have a negative impact on our ability to grow our written premiums and maintain our current level of profitability.

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 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, 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 or severity 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 adequately consider the impact of current inflation on the magnitude of modeled losses;
- 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 March 31, 2023, 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, 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.

We and our customers could be negatively and adversely impacted by pandemics, disease outbreaks and other public health crises, such as the COVID-19 pandemic.

Since March 2020, the COVID-19 pandemic has impacted financial markets, businesses, households, and communities. The extent of the impact of COVID-19 or another similar event on our operational and financial performance depends on several factors, including the ultimate duration and severity of the event, 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 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. While policy terms and conditions in the lines of business written by us would be expected to preclude coverage for virus-related claims, court decisions and governmental actions may challenge the validity of any exclusions or our interpretation of how such terms and conditions operate.

Pandemics have historically 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. Furthermore, since our results of operations are partially dependent on the performance of our investment portfolio, a pandemic's impact on the economy and financial markets could reduce our net investment income and result in realized investment losses in future periods. The macroeconomic effects of the COVID-19 Pandemic may persist for an indefinite period, even after the Pandemic has subsided. We cannot anticipate all the ways in which COVID-19 or other similar global health crises could adversely impact our business in the future.

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 47% and 10% of our gross written premiums for the year ended December 31, 2022 and 53% and 9% for the three months ended March 31, 2023. 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. Recently, companies have had issues with employee turnover and finding, hiring, and retaining 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, Hawaii Hurricane, and Fronting products through relationships with certain program administrators. Each of the 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.

For the year ended December 31, 2022, our largest program administrator distributed $322.4 million or 36.6% of our gross written premiums and our second largest program administrator distributed $95.1 million, or 10.8% of our gross written premiums. There were no other program administrators which distributed greater than 10% of our gross written premiums for the year ended December 31, 2022.

For the three months ended March 31, 2023, our largest program administrator distributed $72.0 million or 28.6% of our gross written premiums, our second largest program administrator distributed $41.1 million, or 16.4% of our gross written premiums, and our third largest program administrator distributed $28.9 million, or 11.6% of our gross written premiums. There were no other program administrators which distributed greater than 10% of our gross written premiums for the three months ended March 31, 2023.

Our largest program administrator, Arrowhead General Insurance Agency, distributes our Value Select Residential Earthquake program, which represents the majority of our Residential Earthquake premium and is administered through a mutually exclusive agreement with for the states of California, Oregon and Washington. The agreement remains in effect until terminated by either party upon 180 days' prior written notice to the other party for cause. 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 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. For example, an increase in capital-raising by companies with whom we compete could result in new entrants to our markets and an excess of capital in the industry. Additionally, the possibility of federal regulatory reform of the insurance industry 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, the volume of fronting premiums written may vary significantly in future periods due to the timing of entering large fronting partnerships and terminations of large fronting partnerships.

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 evaluate and 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 would be subject to covenants that restrict our ability to freely operate our business. 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, technology development, and skilled personnel. To grow effectively, we must be able to meet our capital needs and expand our systems, technology, and internal controls effectively. We also must allocate our human resources optimally, including identifying, hiring, and retaining qualified employees, and effectively incorporating 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.

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, volatility in investment performance and gains and losses on our equity securities, and the cost of reinsurance coverage.

In addition, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity (soft market cycle) as well as periods when shortages of capacity increase premium levels (hard market cycle). We expect our business and results of operations to be continuously impacted by these market cycles.

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, reinsurance expenses, 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

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. An economic downturn which particularly impacts 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. Increasing interest rates may also cause a decline or impairment of the fair value of certain securities due to the impact of increasing interest rates on the issuer's business. 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. Such deteriorations may be caused or magnified by interest rate fluctuations. 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 $39.4 million as of March 31, 2023.

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 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, a significant catastrophe event, 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

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, 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 us to liability and damage our 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 and employee training 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.

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.

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 COVID-19 or other events, 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.

Any future tax legislation or changes to tax laws such as changing the corporate or personal tax rate or changes to allowed tax deductions could have a negative impact on our results of operations and profitability by causing us to incur additional tax expense or by having a financial impact on our policyholders.

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 37 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 and $0.6 million in 2022 and $0.1 million for the three months ended March 31, 2023. 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 may be 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 finance 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, 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;
- 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;
- interest or exchange rate fluctuations; and
- other events or factors, including those from natural disasters, war, pandemics, acts of terrorism, cyber-attacks 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, through 2027, 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share repurchases

On January 24, 2022, the Company’s Board of Directors approved the adoption of a share repurchase plan that authorizes the repurchase of up to $100 million of outstanding shares of common stock through the period ending on March 31, 2024. The approved plan replaced the Company’s previous $40 million share repurchase program.

Under the share repurchase program, shares may be repurchased from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. The Company purchased 134,680 shares for $6.8 million at an average price of $50.65 per share under this program during the three months ended March 31, 2023. Approximately $58.8 million remains available for future repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
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 Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Date File (embedded within the Inline XBRL document)

Signatures

Pursuant to the requirements 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.

Palomar Holdings, Inc.

Date: May 8, 2023	By: /s/ Mac Armstrong Mac Armstrong Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Date: May 8, 2023	By: /s/ T. Christopher Uchida T. Christopher Uchida Chief Financial Officer (Principal Financial and Accounting Officer)

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 report on Form 10-Q 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: May 8, 2023

/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 report on Form 10-Q 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: May 8, 2023

/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 Quarterly Report on Form 10-Q of Palomar Holdings, Inc. (the “Company”) for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Mac Armstrong, as 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: May 8, 2023	By:	/s/ Mac Armstrong
	Name:	Mac Armstrong
	Title:	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Date: May 8, 2023	By:	/s/ T. Christopher Uchida
	Name:	T. Christopher Uchida
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)