Insurer Climate Risk Disclosure Survey for Reporting Year 2020

Section A

Group Name: Palomar Holdings Grp

Group No. 4977

Section B

NAIC Number	Company Name	Mailing Address
20338	Palomar Specialty Insurance Company	7979 Ivanhoe Ave., Suite 500 La Jolla, CA 92037
16754	Palomar Excess and Surplus Insurance Company	4400 W 78th Street, Suite 120 Bloomington, MN 55435

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Palomar's Climate-Related Financial Disclosure

Palomar recognizes that climate change is perhaps the most complex risk facing society today. As a specialty insurance company writing earthquake, wind, hail, hurricane and flood coverage, climate change directly impacts Palomar's business and insureds. In our corporate reporting on climate change, we apply and adopt the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD's four-pillar framework provides needed guidance on how climate-committed companies such as Palomar can disclose and address risks and opportunities in the changing climate.

Governance

Disclose the organization's governance around climate-related risks and opportunities.

The Board directly and through its committees oversees our risk management policies and practices, including climate-related risk. In 2020, our Board established an Environmental, Social and Corporate Governance ("ESG") Committee that consists of Martha Notaras (Chairperson), Mac Armstrong and Daryl Bradley. The principal duties and responsibilities of the ESG Committee include the on-going commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company. The ESG Committee is a cross-functional management committee of the Company. It assists the management team of the Company in (a) setting general strategy relating to ESG Matters, (b) developing, implementing, and monitoring initiatives and policies based on that strategy, (c) overseeing communications with employees, investors and shareholders with respect to ESG Matters, (d) monitoring and assessing developments relating to, and improving the Company's understanding of ESG Matters, and (e) efficient and timely disclosure of ESG Matters to shareholders.

Our Chief Underwriting Officer and Chief Risk Officer oversee our risk management policies and practices, including climate-related risk. Separately, our Chief Strategy Officer, Chief Legal Officer and Chief Talent & Diversity officer oversee functions responsible for ESG maters. Naturally, all parties contribute to managing climate-related issues for day-to-day business.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Palomar recognizes changes are expected in the frequency, severity and geographical distribution of extreme weather events.   Examples of extreme weather events include the increased number of hurricanes, tropical cyclones, extreme rainfall and associated flooding, drought, longer wildfire seasons or heat waves if society fails to limit climate change to well below an increase of two degrees Celsius. Scientific consensus suggests society is likely to experience devastating impacts as a result of these changes. Current climate models, such as the International Panel on Climate

Change (IPCC) model, indicate physical climate-change risk will begin to rise more materially after the next two decades if left unmitigated.

We believe over the short term, natural climate variability will have a greater impact on natural catastrophe losses than long-term climate-change trends. Regional variations will be large, however, areas that are particularly exposed are likely to experience such changes earlier. To accommodate the evolving nature of climate risk, Palomar considers both near-term (three to five year) and long- term (five to 10 year) time horizons, with the long-term view used as a basis to develop mitigating actions. Overall Palomar considers its near-term climate-change-related risks to be manageable and foreseeable, whereas long-term risks to be elevated and highly uncertain. Long-term risks are changeable based on actions taken in the near-term.

Palomar is exposed to physical risk of climate change through the underwriting of personal and commercial property risks. While assessing and managing the impact of extreme weather events is part of Palomar's core business competency, changes in frequency and severity of events caused by climate change add to the challenges in accurately measuring expected impacts.

There is also a risk that physical events reduce the profitability of investments across asset classes (e.g., equities, real estate, sovereign or corporate bonds), though analysis suggests that very significant impairments would be required for Palomar's portfolio to be materially impacted.

Palomar sees business opportunities both in helping its customers manage physical risk and transition risk, as well as benefiting from the changes required to move towards a low-carbon economy. As an innovative insurer, Palomar is positioned to take advantage through its climate-change-related products and services which enable existing and prospective customers to better understand and manage their exposure to climate risks and to enhance their resilience to both physical and transition risk.

Palomar partners with Conning Inc. for investment advice. Conning has been a signatory to the UN Principles of Responsible Investment (PRI) since 2012. Conning became a signatory to PRI's ESG in Credit Ratings statement. In 2020 Palomar added Conning's ESG rating as guidance for investments. In 2021 Palomar started benchmarking investments, focusing on improving the overall investment profile and minimizing weak ESG holdings. The goal is to reduce our investment portfolio percentage of investments with weak ESG ratings.

Palomar considers the risk to its own operations from climate risk as less material, as they are generally not located in highly exposed areas and business continuity plans are in place to react to relevant extreme weather events.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Each major economy is likely to respond to transition risks in specific ways, and within different time periods. Shifts toward a low-carbon economy carried out in specific sectors are likely to affect not only those individual sectors, but other parts of the economy as well. There are at least three aspects to consider within this transition process its effect on technologies, economies, and society. The insurable risks related to these transitions could develop in many ways.

Achieving a transition to a low-carbon economy requires fundamental changes to all parts of the economy. While limiting climate change to 2°C or below will lower physical climate risk, the technological and policy changes required to achieve this create their own sets of risks.

Independent of the precise pathway, the transition could be disruptive, as significant asset price moves are required to shift resources to low-carbon technology on a global scale. Changes in public perception and the regulatory landscape could reshape legal and reputational risks.

Transition risks are more uncertain than physical risks. Palomar uses a climate scorecard to measure transition-risk-related indicators, with Palomar's assessment indicating that a physical risk path currently is significantly more likely than a transition path. However, transition risks and physical risks are not mutually exclusive and can potentially co-exist, depending on the timing, speed and effectiveness of the path followed.

Palomar could be exposed to transition risks if it fails to manage changing market conditions and customer needs as part of the transition to a low-carbon economy. This would result in asset impairment, opportunity cost and lost market share. In a transition scenario, industries unable to de-carbonize could experience declining profitability and lack of re-financing, which could lead to a lack of maintenance with increasing rates of outages and equipment break-downs that translate into higher insurance losses. Failure to manage transition risk could also lead to reputational impacts, both internal and external, resulting from a failure to deliver on publicly stated commitments. Although not considered material in the near-term, the increasing frequency of climate-related legal action suggests climate-related litigation could represent a significant potential risk in the long term.

While transition risks are not considered material in the short term, strategic responses to these risks are underway. These include the definition of an overall differentiated market position on climate change that is tied to the Group's purpose and values, and the development of an underpinning suite of products and services that complement its existing responsible investment strategy. Palomar recently committed to the United Nations Global Compact Business Ambition for 1.5°C campaign limiting average global temperature increases to 1.5°C. The implementation of this will further reduce Palomar's exposure to transition risk.

Climate change could have an impact on the frequency and severity of weather related events in the areas where Palomar provides wind, hail, hurricane and flood coverage. In consideration of these risks, Palomar has instituted certain underwriting guidelines and criteria to mitigate its risk and has employed a robust reinsurance program to address and mitigate its risk of a material climate change impacting business.

Palomar is committed to reducing or mitigating its carbon footprint. Palomar has initiated a work from home initiative due to the COVID-19 virus stay at home orders and plans to continue to have a work from home option to reduce commute time and vehicle emissions. Palomar has also implemented a largely paperless environment. Where allowed Palomar issues policies via email through pdf files and avoids the printing and re-printing of policies, amendments, endorsements, billing statements, etc. Internally, communication is via email and records are kept in paperless form. When we do need to print, we utilize dual side printing. We use energy saving light bulbs, and our lighting and electrical systems use motion sensor technology to automatically turn off electricity when not needed. We have also installed web conferencing technology to reduce the need to travel office to office.

Palomar regularly and continually reviews, monitors and assesses catastrophe model literature, papers, publications for potential effect on Palomar's business. Tests using computer simulations are conducted to assess the effect of climate changes on Palomar's business and policyholders. The weather-related computer models allow Palomar to assess our concentration of risks, claims frequency and product pricing to ensure consumer confidence in our ability to respond to catastrophes as they develop. Our reinsurance brokers also assist in assessing how climate change may affect our business.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Palomar is in the process of identifying key performance indicators (KPIs) to track and ensure improvement in the mitigation of operational and investment related risks.

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