

THE BARNSTABLE

SINCE 1833

2017 Annual Report

*Barnstable County Mutual
Insurance Company*

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Insurance Company*



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THE BARNSTABLE STORY

In 1833, a group of Cape Codders, out of a love for their community, banded together, pooled their resources and formed Barnstable County Mutual Insurance Company, better known today as The Barnstable. Their primary goal was protecting their modest homes from the peril of fire, but they also shared another objective: providing insurance that was unquestionably reliable, fair and sustainable for the Cape Cod community. Although much has changed since 1833, that spirit still drives The Barnstable today.

For the company's first 100 years, conflagration was its greatest risk—the possibility that every home in its portfolio could burn in the same fire. The company effectively mitigated this threat by establishing a 100-foot minimum distance between any two insured homes.



Cape Cod Main Line after the 1938 Hurricane.

This strategy meant The Barnstable did not have to hold much capital or money to support its business and could share most of its profits with policyholders in the form of dividends. In fact, by 1845, the company was so successful in managing its risks that it was returning over 100% of annual premiums to policyholders.

The watershed moment for The Barnstable, as well as for the entire insurance industry, was the Great New England Hurricane of 1938, which destroyed numerous homes across the region. Most of the storm damage was not covered by insurance, however, as very few homeowners had bought coverage for wind damage. After the '38 storm, the market demanded wind protection, and the insurance industry introduced the current homeowner policy.

When The Barnstable adopted the homeowner policy in 1956, it significantly increased risk relative to fulfilling its mission. Now every home in its portfolio could suffer a loss from the same windstorm—a threat to the very existence of the company. No longer could it pay policyholders dividends, as it needed to retain capital to fund payments in case of a severe windstorm. Because the storm potential exceeded its surplus, The Barnstable also had to borrow additional capital in the form of catastrophe reinsurance.

THE BARNSTABLE TODAY

Today, **capital adequacy**—access to enough money—is the lifeblood of our mission. To maintain sustainability in the face of another storm like the 1938 Hurricane, we must maintain financial stability. At the same time, we must carefully manage the size of our insured portfolio to limit the catastrophic loss potential.

Because The Barnstable is organized as a mutual insurance company, we are not pressured by investor demands to produce high returns, which can drive public and venture-capital-backed insurance companies to carry too little capital. Instead, we can stay true to our mission of providing high-quality coastal home insurance.

The only insurance company born on Cape Cod, The Barnstable has been serving the Cape and its coastal neighbors consistently since 1833. As we have always done, we approach policyholder claims as our product and service, addressing them with excellence—quickly and ethically. Like the band of Cape Codders whose

love of this region led them to establish the company that ultimately became The Barnstable, we live in this community and care about it. These core beliefs are what set us apart from our competition.

While you may hope that you never experience an insured loss, The Barnstable is the company you want to be with if you do. We appreciate the trust and support of our independent agents and policyholders, and we look forward to continued success in 2018.

JOHN L. DEMELLO
President & CEO

FINANCIAL POSITION

With our solid profitability and surplus growth, 2017 was another fine year for The Barnstable. Despite a 1.6% decline in policies, the total insured value of the portfolio grew by 4.7%, which represents a jump from 2016's 3.8% growth rate.

In addition, new business grew by 7% over 2016, contributing to an increase in Total Insured Values (TIV). During 2017, growth in capital kept pace with TIV, with Capital to TIV at the end of the year at 3.45%, a 5-basis point improvement over 2016. Driven by strong underwriting profits and common stock returns, surplus grew by 9%. We also increased catastrophe reinsurance by 5%,

from \$276.25M to \$290.62M, and we have committed to further increasing coverage to \$300M by 2019.

All in all, 2017 was an excellent year for The Barnstable. Regardless of risks on the horizon, we are well positioned financially to meet the challenges.

Assets:	December-17	December-16
Bonds, amortized cost	\$58,335,603	\$54,908,218
Common stocks, market value	24,004,277	24,004,937
Real estate, net of depreciation	2,644,890	2,738,182
Cash & short-term investments	15,268,220	12,027,675
Other invested assets	7,324,042	5,957,395
Premium balances	4,083,495	3,892,008
Other assets	3,190,389	2,921,405
Total Assets	\$114,850,916	\$106,449,820

Liabilities:	December-17	December-16
Loss reserves	\$2,673,700	\$3,049,342
Loss adjustment expense reserves	1,232,188	1,162,419
Unearned premiums	15,459,489	15,268,917
Net deferred tax liability	1,146,538	594,316
Other expenses	3,518,323	3,071,611
Total Liabilities	\$24,030,238	\$23,146,605

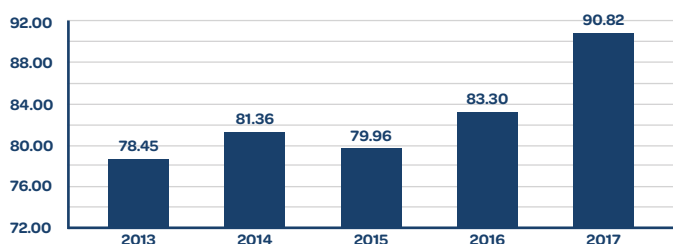
Surplus:	December-17	December-16
Catastrophe reserve*	\$9,148,195	\$9,226,133
Unassigned surplus	81,672,483	74,077,082
Total Surplus	\$90,820,678	\$83,303,215

Total Liabilities & Surplus **\$114,850,916** **\$106,449,820**

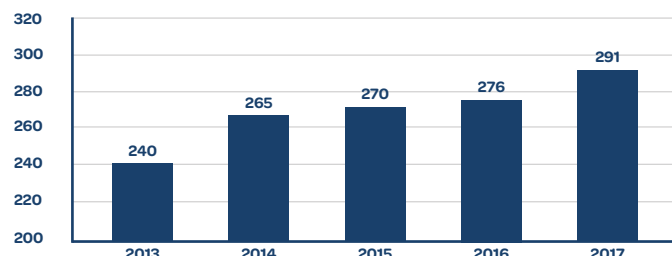
* Estimated pre-tax cost of a hurricane with a probability of occurrence every 100 years, net of catastrophe reinsurance recoveries.

CAPITAL ADEQUACY

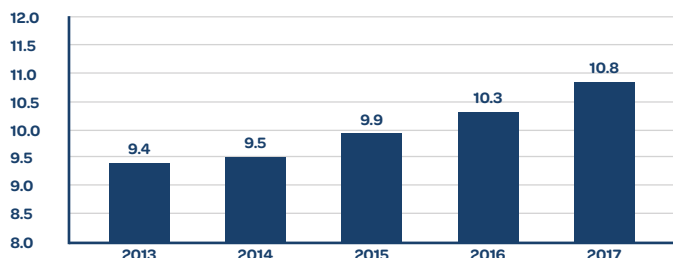
Surplus Capital (\$M)



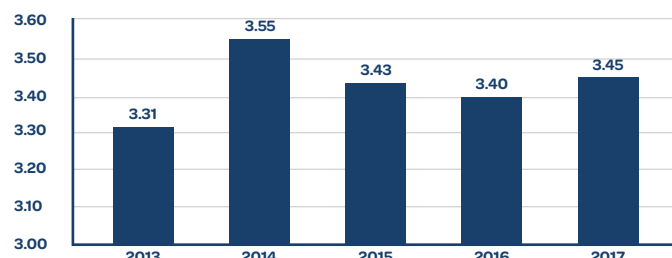
Catastrophe Reinsurance Capital (\$M)



(TIV) Total Insured Values* (\$B)



Capital to TIV** (%)



* The maximum coverage limits of all in-force policies, representing coverages A (dwelling), B (other structures), C (contents) and D (loss of use).

** Capital, comprised of surplus and catastrophe reinsurance, as a percentage of the total insured values.

DIRECTORS

(As of March 1, 2018)

Shawn J. Almeida
David G. Brown
Gary M. DellaPosta
John L. DeMello
Rosemary M. McAndrew
Christine M. Murphy
Jane M. Remy
Charles H. Ritch
William W. Saltonstall
Hamilton N. Shepley
Paul R. Silva
Robert A. Talerman
Gerard P. Williams

OFFICERS

(As of March 1, 2018)

John L. DeMello
President and Chief Executive Officer

Christine M. Murphy
Executive Vice President and Chief Financial Officer

Deborah A. Sutton
Assistant Vice President and Secretary

Howard W. Perkins
Assistant Vice President and Treasurer

**Rated A (Excellent) by A.M. Best,
the leading insurance rating organization.**