2022 ANNUAL REPORT

THE BARNSTABLE SINCE 1833

SECURITY IN A STORM

The Barnstable's story began in 1833. A group of Cape Codders, with a shared love for their community, pooled their resources and formed *The Barnstable County Mutual Insurance Company.* Protecting their modest homes from the peril of fire was their primary goal. But they also shared another objective, one that still drives **The Barnstable**: providing unquestionably reliable, fair, and sustainable insurance for the Cape Cod community.

For its first 100 years, the greatest risk **The Barnstable** faced was conflagration and with it the possibility that every home in its portfolio could burn in the same fire. The Company mitigated this threat by establishing a 100-foot minimum distance between any two insured homes.

This strategic decision meant the **The Barnstable** did not have to hold much capital to support its business. Instead, it could share profits with policyholders in the form of dividends. In fact, the Company managed its risks so effectively that by 1845, it was returning over 100 percent of annual premiums to policyholders.

The Great New England Hurricane of 1938 was a true watershed moment for **The Barnstable** and the rest of the insurance industry. This catastrophic storm obliterated scores of homes across the region, but because few homeowners had bought coverage for wind damage, most of the storm's devastation was not covered by insurance. Following the '38 storm, the market demanded wind protection, and so the insurance industry introduced the current homeowner policy.

When **The Barnstable** adopted this homeowner policy in 1956, it immediately faced significant 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. Because the Company needed to retain capital to fund payments in case of a severe windstorm, it could no longer pay policyholder dividends. And because the storm potential exceeded its surplus, **The Barnstable** now had to borrow additional capital in the form of catastrophe reinsurance.

THE BARNSTABLE TODAY

Today, **The Barnstable's** mission is to provide top-quality coastal home insurance for the long term. The lifeblood of that mission is *capital adequacy*—access to sufficient money—and our watchwords are *financial stability and sustainability.*

Climate change is very much a reality, and as a result the Cape and Islands face the constant threat of a cataclysm rivaling or exceeding the '38 Hurricane's destructive force. To cover our catastrophic loss potential without compromising our mission, **The Barnstable** carries the appropriate level of capital. We also practice careful portfolio management, controlling the aggregate size of our insured portfolio while simultaneously monitoring the condition of the homes that comprise it.

The Barnstable has been reliably serving the Cape and Islands since 1833. Our business focus is specialized, and we remain as strongly committed to community as that band of Cape Codders who started the Company I90 years ago. At the same time, we are connected to the larger world, with its problems and challenges. Successfully navigating through such an environment demands that we be nimble, shifting strategies and embracing innovations when situations call for it.

Approximately 80 percent of **The Barnstable's** required capital comes from catastrophe reinsurance, a form of borrowed money. However, high inflation and rising interest rates have made borrowing money much more expensive, and the impact of these higher borrowing costs will cause us to recalibrate. As we move forward, we will be faced with the possibility of insuring fewer homes and increasing the price we charge policyholders for their insurance.

In the year ahead, we will take the necessary measures to preserve **The Barnstable's** financial strength through this challenging macroeconomic environment. The overarching objective of **The Barnstable**, the only insurance company born on Cape Cod, is to be there for our policyholders when they need us most, necessitating that we always maintain the resources to honor covered losses.

FINANCIAL POSITION

In **The Barnstable's** Enterprise-Risk-Management program, we have established a target range for our capital—financial resources comprising policyholder surplus and catastrophe-reinsurance coverage limits—equal to between 3 and 5 percent of the Total Insured Value **(TIV)** of **The Barnstable's** insured portfolio. This capital-to-TIV range has been informed by various loss forecasting studies using different generally accepted methods.

Through 2022, **The Barnstable's** financial strength remained consistent. As of December 31, 2022, our capital-to-TIV ratio was 3.36 percent, as it was on December 31, 2021.

And we maintained this consistency despite a demanding fiscal climate. Driven by stock-market losses in the Company's investment portfolio in 2022, policyholder surplus declined 3.8 percent, from $106.67 million to $102.67 million. The rapid rise in the federal-funds interest rate was the primary cause for the stock market declines. Initiated to combat spiraling inflation, these rate increases led to a re-pricing of risk assets in 2022.

For **The Barnstable**, however, underwriting results contributed favorably to surplus growth in 2022, with a 10-percent return on net revenue, which partly offset these investment losses. Meanwhile, we increased catastrophe-reinsurance-coverage limits by $5 million in 2022, from $335 to $340 million in per-occurrence limits, helping to keep overall capital in sync with **TIV**.

COMBINED BALANCE SHEET

	December 2022	December 2021
Assets		
Bonds, amortized cost	$70,125,554	$64,494,968
Common stocks, market value	14,146,107	18,992,644
Real estate, net of depreciation	2,373,967	2,456,775
Cash & short term investments	16,827,468	21,422,624
Other invested assets	18,661,683	21,342,104
Premium balances	4,440,641	4,234,607
Goodwill	6,183,933	6,990,533
Other assets	4,016,417	3,254,044
Total Assets	**$136,775,770**	**$143,188,299**
Liabilities		
Loss reserves	$4,601,289	$4,375,388
Loss adjustment expense reserves	1,649,691	1,798,741
Unearned premiums	16,867,081	16,929,989
Net deferred tax liability	628,389	1,704,192
Notes payable	5,934,387	6,726,023
Other expenses	4,429,203	4,981,502
Total Liabilities	**34,110,040**	**36,515,835**
Surplus		
Catastrophe reserve*	15,931,445	13,995,557
Unassigned surplus	86,734,285	92,676,907
Total Surplus	**102,665,730**	**106,672,464**
Total Liabilities & Surplus	**$136,775,770**	**$143,188,299**

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

DIRECTORS (As of March 1, 2023)

Shawn J. Almeida
Michael J. Ayrer
David G. Brown
Gary M. DellaPosta
John L. DeMello
Rosemary M. McAndrew
Christine M. Murphy
Charles H. Ritch
William W. Saltonstall
Hamilton N. Shepley
Robert A. Talerman

OFFICERS (As of March 1, 2023)

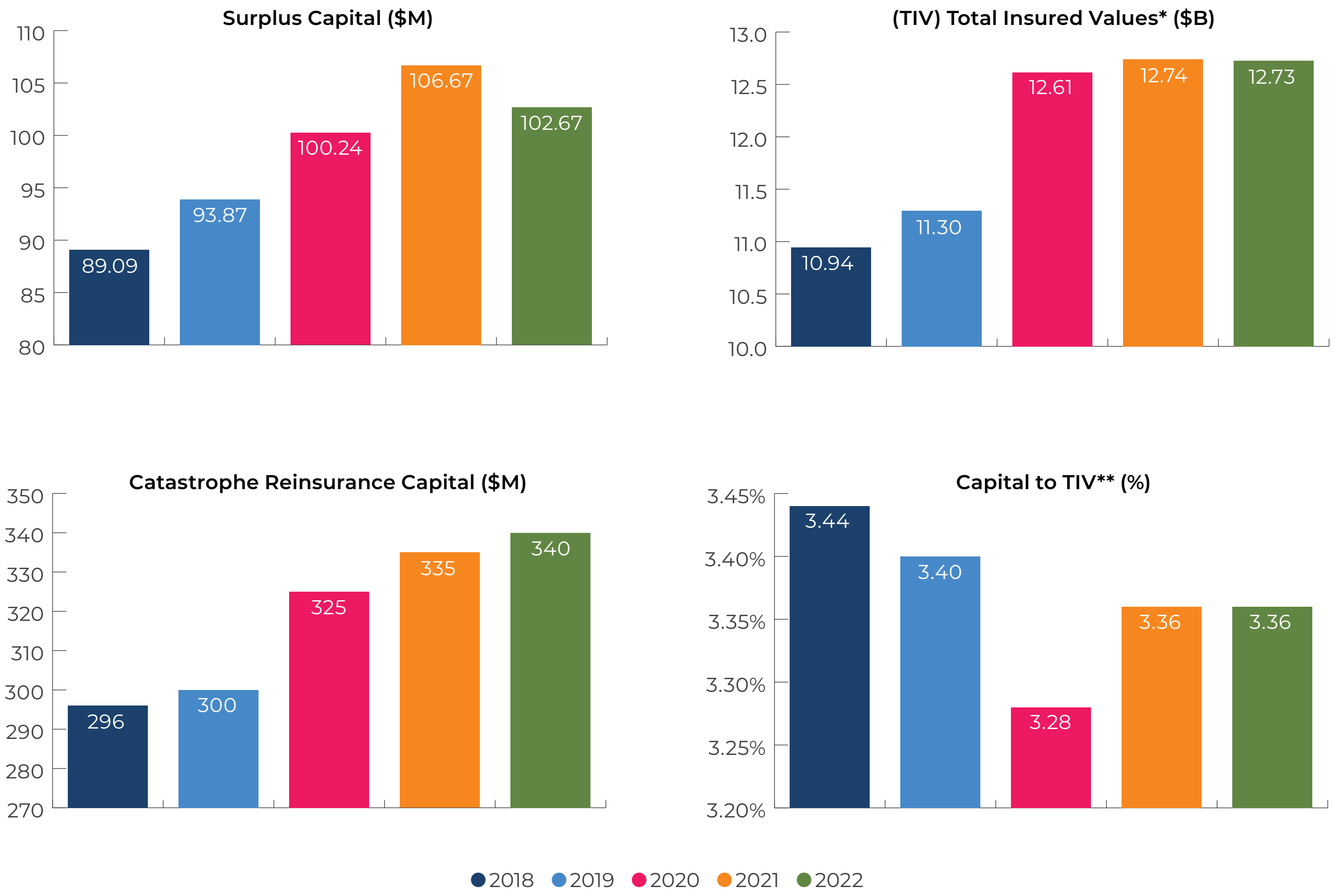
John L. DeMello, *President and Chief Executive Officer*

Christine M. Murphy, *Executive Vice President and Chief Financial Officer*

Deborah A. Sutton, *Vice President and Secretary*

Howard W. Perkins, *Assistant Vice President and Treasurer*

5 YEAR CAPITAL ADEQUACY



*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.