

March 8, 2011

To the Policyholders of Greater New York Mutual Insurance Company

It's a privilege for me to deliver my ninth Annual Report to the Policyholders of Greater New York Mutual Insurance Company and its wholly owned stock subsidiaries, Insurance Company of Greater New York, Strathmore Insurance Company, and GNY Custom Insurance Company.

2010 was a challenging year for the property and casualty insurance industry, and it was also a challenging year for our Companies. Nevertheless, I am pleased to report that despite the fact that we reported a combined ratio over 100 at 107.3% for the first time in seven years, we were able to increase our surplus to a new milestone of \$405.2 million, and we posted net income of \$17 million.

During the years 2004 – 2010 the industry has been in a cycle of intense price competition that has provoked many other insurance companies to abandon basic underwriting principles and discard pricing integrity. GNY did not do this, and would never do this, because it makes no sense. First, the economy has been in an economic slump since 2008. Second, interest rates have been at historic lows, significantly reducing investment returns. Third, there has been an unusually high frequency of catastrophe-related losses in 2010. Fourth, many insurance companies have eroded the adequacy of their loss reserves by releasing sizable reserves from older accident years. In fact, it was precisely because of these factors that A. M. Best revised its 2011 outlook on the commercial insurance industry from stable to negative.

In many other important ways, our Companies performed better than the industry during 2010. For example, although property catastrophe claims and unusual fire and arson claims resulted in a property underwriting loss ratio of 62.7%, which was high by GNY historical standards, our general liability loss ratio was highly profitable at 47.3%. We attribute this excellent liability-loss ratio to the reengineering of our general liability claims and staff legal departments in 2002, and to the fact that our loss reserves continue to be strong and full. Unlike other companies, we have not used our prior year loss reserves to prop up financial results. Therefore, while other companies' loss reserves are virtually exhausted, ours have continued to be strong. Although our investment income was slightly lower than the prior year at about \$31 million, our investment returns, unlike those of other insurers have been surprisingly consistent, as evidenced by the fact that we have never had an investment default or investment impairment. Last but not least, we have controlled expenses, which means among other things, that we did not have to bring our expense ratio under control like many other insurers by laying off employees.

We attribute this success to the strong and stable foundation which we have forged since our humble beginning in 1914, the stability of our underwriting practices, the prudence of our investment posture and the superiority of our claims handling. Our very capable and well trained staff ensures that these high standards are maintained and service is provided with the highest level of competence and integrity to our policyholders and producers.

In 2010 we continued our diversification strategy in the new regions we began serving about six years ago, namely upstate New York, Pennsylvania, Maryland, Washington D. C., Delaware, Virginia, Massachusetts, New Hampshire, Rhode Island, Illinois, Michigan, Ohio and Indiana. We are pleased to report that these new territories accounted for \$64.2 million in revenues in 2010.

Notable financial and operational achievements in 2010 were:

- Admitted assets were \$934.0 million or \$7.7 million greater than 2009, and grew by \$459.5 million over the last ten years.
- At year-end 2010 our consolidated statutory surplus reached a new milestone of \$405 million, an increase of \$14.2 million or 3.6% over our surplus in 2009, and an increase of \$207.8 million over the last ten years.
- Our direct written premiums decreased 3.5% to \$273.5 million which is in line with the industry which reported declines in commercial lines net premiums of 2%.
- Our combined ratio was 107.3%, against the industry's commercial lines combined ratio of 108.5%. Overall, the industry reported a combined ratio of 103.0% because personal lines results improved during 2010.
- Net income was \$17.0 million, with an operating ratio was 92.6%
- We continued our strategy of reducing our workers' compensation writings, which declined to only 5.3 million or 1.9% of total writings compared with year-end 2003 when this line comprised almost 19% of premiums written. The decision to deemphasize this line is supported by the A .M. Best forecast of an industry calendar year combined ratio for workers' compensation of 117.5% in 2010 and 121.0% in 2011.
- The ratio of net premiums written to surplus for the twelve months ending December 31, 2010 was .51 to 1, which reflects conservative leverage from the strong growth of our surplus, and has well-positioned the Company for growth.

- Our balance sheet on a relative basis is one of the strongest in the industry, and reflects very strong capitalization supported by highly valued assets, and full reserves for losses and loss adjustment expenses, ensuring future stability for the benefit of our policyholders.
- Our bond portfolio of \$748.5 million which represented 80.1% of our admitted assets at December 2010 is comprised of high-quality fixed income investments.
- Invested assets amounting to \$834.4 million, exceeded our loss and loss adjustment expense reserves of \$385.6 million by a huge margin of \$448.8 million. This margin coupled with our strong cash flow produces a superior liquidity profile far and above industry standards.

2010 was the thirtieth consecutive year in which independent casualty actuaries, who are Fellows of the Casualty Actuarial Society, certified the adequacy of our loss and loss adjustment expense reserves to the regulatory authorities, and further, our held reserves were at the top of the reserves projected by these independent casualty actuaries.

A.M. Best Company for many years has awarded our Group of companies an A+ Policyholders' Rating. We are pleased to report that once again in 2010 we were awarded an A+ rating, which was gratifying since only 8.6% of all U.S. P/C insurance companies in 2010 were rated A+ or better.

Best also noted that:

“The rating reflects the group's excellent capitalization, strong operating performance and advantages derived from its local market position as a leading writer of commercial multi-peril business for habitational, light industrial, office building and restaurant risks, primarily in the Northeast region. In addition GNY maintains a conservative investment strategy, which has enabled it to avoid material capital losses during the market volatility in recent years... Furthermore, the group has continued to benefit from its strong reputation and expertise in commercial markets and its long-standing relationships with its insureds and producers.”

In closing, I would like to thank each of our producer partners for their efforts during the year, as well as express my sincere appreciation for the hard work and commitment of our President and Chief Operating Officer, Elizabeth Heck, my fellow officers, our capable staff, and the members of the Board of Directors for their vital contributions during 2010. And, I would like to thank you, our policyholders, for your continued trust and faith in us. You are the reason we are in business, and an important reason for our success.

Respectfully submitted,

Warren W. Heck, CPCU  
Chairman of the Board & Chief  
Executive Officer