

### Chairman's Message

I am pleased to be able to report that Greater New York Mutual Insurance Company (GNY) and its wholly-owned stock subsidiary, Insurance Company of Greater New York (Insko), had most gratifying results in 1999, despite the fact that for many years the property/casualty insurance industry in the United States has witnessed cut-throat price competition. Our companies now also include Strathmore Insurance Company, (Strathmore), a wholly-owned stock subsidiary of GNY, and Brite Insurance Agency, Inc. (Brite), also, wholly owned by GNY.

A. M. Best has predicted that the results of the price war have been so devastating, that one-third of the 1,100 companies in the United States will have lost operating autonomy or otherwise withdrawn from the market in the next five years.

How did we accomplish what we did which is so much in conflict with most of the property/casualty industry as a whole? We did it by firmly adhering to our basic principles which are: to maintain a strong financial position with full and adequate reserves monitored by independent casualty actuaries, to invest only in the safest and least volatile of securities, preferably in the obligations of the U.S. Treasury, to maintain a conservative ratio of net written premium to surplus and to write only quality business at adequate rates. By espousing these principles, we believe that we best protect the interests of our policyholders. It is a point of pride to know that through the years we have not deviated from our basic principles one iota, which is a testimonial to our disciplined and focused approach to all aspects of our operations.

Let me first set the background of our results in 1999 by a review of the results on an aggregate basis for the last ten years. This was the most punishing and destructive decade in the history of the property/casualty insurance industry in the United States. How did the GNY Companies fare? During those years ending December 31, 1999, GNY's surplus on a statutory basis has grown by \$94.1 million to \$190.4 million, cash and invested assets have grown by \$36.2 million to \$437 million; during this period, GNY's income tax obligations were over \$45 million, and GNY returned over \$23 million to its policyholders in the form of dividends. These are impressive achievements, indeed.

Notable financial achievements in 1999 were as follows:

1. Net premium writings increased 14.2% to \$72.6. The industry's premium writings increased only 2.3%.
2. Pre-tax operating income amounted to \$12.7 million, a very high level which produced an operating ratio of 78.2%, or far more profitable than the industry's operating ratio which is estimated to be in the high nineties.

3. Net income after a provision for federal income taxes amounted to \$10.7 million (1998--\$14.9 million). The decline in net income is primarily attributable to a lag in the earning of premium revenues.
4. Consolidated statutory surplus increased 5.8% to a record level \$190.4 million, or far greater than the industry's surplus increase of only .5%. All of the increase in surplus was derived from operating income which, in A. M. Best's opinion, generates surplus of the highest quality.

Our Companies' financial statements continue to be presented under conservative statutory accounting conventions which reflect: (a) loss reserves at undiscounted values; (b) acquisition costs expensed currently; (c) bonds valued at amortized cost.

Had our surplus been valued to reflect the foregoing adjustments, surplus would have been valued at \$242.2 million or \$52 million greater than the reported statutory amount.

5. The balance sheet continues to reflect superior asset strength, liquidity and a full loss reserve position. A. M. Best has attested to our capital strength by assigning GNY a BCAR rating of 159.4% which is far above the minimum level required for a superior (A++) rating.

Operating comments for 1999 are as follows:

Net premium writings increased 14.2% to \$72,646,000.

Commercial Multi-Peril (CMP) premiums, which comprised 72% of total premiums, amounted to \$62.2 million, or comparable to the premiums written in 1998. Due to the prolonged and fierce price competition which I mentioned at the beginning of this report, the industry's premium growth in this line has been negligible since 1987. GNY has fared much better in recent years. GNY's premiums in this line have grown 27% during the last five years.

On the subject of Workers' Compensation, I repeat what I said in my report of 1999 about the market in 1998.

"The Workers' Compensation market is grossly underpriced both by new entrants, who have little understanding of the pricing and reserving complexities in this line, and by larger companies who are subsidizing this business. The present pricing structure is generating large underwriting losses which are temporarily obscured by under-reserving as well as stop loss reinsurance arrangements designed to artificially lower loss ratios. GNY refuses to compete at the present pricing levels which, in the near future, will impair the balance sheets of numerous companies. We believe that the industry's combined ratio will climb well into the 120s by the year 2000, at which time we fully expect to regain our market share."

I am pleased to report that this prediction is being fulfilled in 1999 and 2000.

The ratio of net premiums written to surplus for the twelve months ended December 31, 1999 was an ultra-conservative .38 to 1 (1998-- .35 to 1).

GNY's capital adequacy, as measured by the Risk-Based Capital formula established by the insurance regulators, continues to be exceptionally strong (over four times as great as required).

Our investment portfolio includes no junk bonds, no mortgages, no real estate, no derivatives of any kind or nature and no swaps.

A. M. Best Company has consistently over the years awarded GNY an A+ Policyholders' Rating and on March 23, 2000 re-affirmed our A+ Policyholders' Rating.

There is no doubt that GNY's paper is rated amongst the strongest of the property/casualty insurers in the United States.

I wish to commend the outstanding contribution to our companies' success by our Board of Directors and by our President and Chief Operating Officer, Warren W. Heck, and by our Executive Vice President, Max Solomon. Their dedication and devotion to the company and the skill with which they perform their duties cannot be adequately described in mere words.

In conclusion, I wish to express my gratitude to all our employees, through whose efforts our Company moved from strength to greater strength in 1999.

Respectfully submitted,

Alexander E. Rosenthal