

March 13, 2001

To the Policyholders of Greater New York Mutual Insurance Company

I am pleased to report that Greater New York Mutual Insurance Company (GNY) and its wholly-owned stock subsidiaries, Insurance Company of Greater New York (Insko), Strathmore Insurance Company (Strathmore), and Brite Insurance Agency, Inc. (Brite), had the most gratifying results in 2000 despite the fact that the results in the property/casualty insurance industry were unsatisfactory. The poor industry results were attributed to the cutthroat competition that had existed for many years, as well as a large shortfall in loss reserves caused by inadequate reserving.

In 2000, the industry began to see the signs of a hardening in the pricing of commercial lines which was driven by: (1) a need to improve underwriting performance to stem the rise of the combined ratios; (2) a concern that investment gains will not be available to make up for operating losses, as was true in the last ten years; and (3) a need to increase primary pricing, to make up for a significant increase in reinsurance rates, to avoid even larger net losses.

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 2000 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, 2000, GNY's surplus on a statutory basis has grown by \$101 million to \$197.3 million, cash and invested assets have grown by \$37.1 million to \$438.1 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 2000 were as follows:

1. Net premium writings increased 38.7% to \$100.7 million. The increase in premium was concentrated in large accounts, which were carefully under-written to produce a profit. The industry's premium writings increased only 5%.

2. Pre-tax operating income amounted to \$11.5 million, a high level which produced an operating ratio of 81.2%, 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 \$7.3 million (1999--\$10.7 million). The decline in net income resulted mostly from a higher level of federal income taxes due to the Tax Reform Act of 1986 adjustments.

4. Consolidated statutory surplus increased 3.6% to a record level \$197.3 million, whereas the industry's surplus declined 4.3%. All of the increase in surplus was derived from operating income, which in A.M. Best's opinion generates surplus of the highest quality. During the last five years, our surplus increased 45.1%, and 98% of this growth was derived from net operating income.

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 costs.

Had our surplus been valued to reflect the foregoing adjustments, surplus would have been valued at \$258.4 million or \$61.1 million greater than the reported statutory amount.

5. The balance sheet continues to reflect superior asset strength, liquidity and full loss reserve position. A.M. Best has attested to our capital strength by assigning GNY a BCAR rating of 268% which is far above the minimum level required for a superior (A++) rating.

Operating comments for 2000 are as follows:

Net premium writings increased 38.7% to \$100.7 million.

Commercial Multi-Peril (CMP) premiums, which comprised 67% of total premiums, amounted to \$78.7 million, or an increase of 26.5% over the premiums written in 1999. 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 49% during the last five years.

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

"The Workers' Compensation market is grossly under priced 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 was more than fulfilled in 1999 and 2000. Last year, the most aggressive writers of workers' compensation lost a great deal of money in this line, and began retrenching and placing greater constraints on underwriting and pricing. The National Council of Compensation Insurance (NCCI) has reported that the 1999 workers' compensation accident year combined ratio was 135% compared with 122% in 1998; that the industry's workers' compensation business in 1999 produced a 9% loss of surplus; and the workers' compensation reserve deficiencies are estimated to be about \$18.3 billion. The accident year combined ratio for 2000 has not yet been reported, but all signs indicate that it has deteriorated even further.

GNY has adhered to its disciplined approach to the underwriting of workers' compensation during this period, surrendered a large volume of workers' compensation during the years of severe price cutting, and consequently avoided the poor underwriting results generally experienced by the industry in this line. In 1999, when market conditions improved, the Company began writing workers' compensation again, and increased its premium in 1999 by 44.3%, and again in 2000 by 79% to \$31 million.

The ratio of net premiums written to surplus for the twelve months ended December 31, 2000 was an ultra-conservative .51 to 1 (1999-- .38 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 nine 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. I am pleased to inform you that in January 2001, we were again awarded an A+ rating.

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

In addition to obtaining a continuation of our A+ rating from the A.M. Best Company, in August 2000, GNY was named one of the fifty best property/ casualty insurance companies by Ward Financial Group, in terms of performance over the past five years out of 2,700 property/casualty insurance companies 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 of our employees, through whose efforts our Company moved from strength to greater strength in 2000.

Respectfully submitted,

Alexander E. Rosenthal