

March 12, 2002

To the Policyholders of Greater New York Mutual Insurance Company

I am pleased to report that 2001 was one of the most successful years in the history of 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).

To put these results in perspective, one needs to take into account that 2001 was a particularly bad year for the property and casualty insurance industry. The industry's operating results had significantly deteriorated during 2001, with an estimated loss of surplus of 12.1%, or \$38.4 billion, caused by a number of unfortunate developments: a sizable increase in underwriting losses, including losses from the collapse of Enron and the World Trade Center tragedy, deficient loss reserves caused by an adverse development of prior-year loss reserves, and poor investment returns and capital losses.

In every important respect our companies made significant progress in 2001, and reached a new milestone of growth. A. M. Best in its edition of Review & Preview, subtitled "Everything Changes: P/C Trends Gain Momentum After U.S. Attacks" dated January 2002, made the following statement:

"...Sound operating fundamentals are enabling successful insurers to effectively manage the inevitable underwriting cycle. Ultimately, these frontrunners are better positioned to capitalize on renewed flight-to-quality trends and benefits from the hardening market. Those with higher quality books of business and stronger balance sheets will outperform the industry when the soft market returns..."

We completely support that statement by Best. Throughout our history, we have firmly adhered 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 premiums written to surplus; and to write only quality business at adequate rates. By espousing these principles, we believe that we protect the interests of our policyholders to the greatest extent possible. That we have not deviated from those principles is a testimonial to our disciplined and focused approach to underwriting and to all aspects of our operations.

A. M. Best has acknowledged the disciplined approach to our operations and has consistently over the years awarded our companies an A+ Policyholders' Rating. The current rating rationale states, "The rating applies to a three-member pool, led by Greater New York Mutual Insurance Co. The rating reflects the group's superior capitalization, favorable overall earnings and solid market position as a leading writer

of commercial package business for habitational, light industrial and office building risks in northeastern urban areas. These strengths are derived from the group's low underwriting leverage, conservative investment and operating strategy and solid underwriting performance of its leading business line, commercial multiperil. In addition, the group has adhered to strict underwriting guidelines and adjusted its emphasis in an extremely competitive market..."

Let me first set the background of our results in 2001 with a review of the results on an aggregate basis for the last ten years. During the ten years ending December 31, 2001, GNY's surplus on a statutory basis has grown by \$95.6 million to \$200.5 million, cash and invested assets have grown by \$46 million to \$451.7 million while admitted assets have grown by \$76.5 million to \$512.7 million; during this period, GNY's income tax obligations were \$44.6 million, and GNY returned \$22.6 million to its policyholders in the form of dividends. These are impressive achievements, indeed.

Notable financial achievements in 2001 were as follows:

1. Net premium writings increased 36.2% or more than four times greater than the industry's premium growth rate of 8.5%, to a record level of \$137.2 million.
  2. The ratio of net premiums written to surplus for the twelve months ending December 31, 2001 was an ultra-conservative .68 to 1 (2000 -.51 to 1).
  3. The combined ratio was 109.9%, or 7.1 points lower than the industry's combined ratio of 117%. The operating ratio, which measures overall profitability inclusive of investment income, was a profitable 87.7%, or 18.1 points lower than the industry's unprofitable operating ratio of 105.8%.
  4. Pre-tax operating income declined to \$8.5 million from \$11.5 million due to our adherence to statutory accounting principles, which require the immediate expensing of commissions and other costs associated with the 36.2% increase in premiums. Pre-tax operating income determined on a more realistic GAAP basis, under which commissions and other variable costs are deferred to ensure a proper matching of these costs with related earned premiums, amounted to \$12.7 million or 49% greater than the reported statutory pre-tax operating income of \$8.5 million.
- Net income, after a provision for federal income taxes of \$4.1 million, amounted to \$4.4 million.
  - Consolidated statutory surplus increased 1.6% to a record level \$200.5 million. In contrast, the industry's surplus declined 12.1%.
  - The balance sheet, which is one of the strongest in the industry, reflects superior asset quality, liquidity and a full loss reserve position.

- Total admitted assets grew \$36.9 million, or 7.8%, to \$512.7 million.
- The investment portfolio is comprised of high quality bonds, and includes no junk bonds, no mortgages, no real estate, and no derivatives of any kind.
- 76.5% of all admitted assets were invested in U.S. Treasury obligations.
- Total invested assets of \$457.4 million exceeded loss and loss adjustment expense reserves of \$210.8 million by a wide margin of \$246.6 million, which produces liquidity ratios far and above industry standards.
- Operating cash flow for the 2001 year was a very strong \$19.2 million.
- 2001 was the twenty-first consecutive year in which independent casualty actuaries certified the adequacy of our loss and loss adjustment expense reserves to the regulatory authorities.
- The strength of our capital continues to be superior according to financial models constructed by A. M. Best and the state insurance regulators.

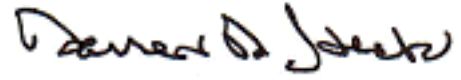
In addition to obtaining a continuation of our A+ rating from the A.M. Best Company, in August 2001, for the second consecutive year, GNY was named one of the fifty best property/casualty insurance companies by Ward Financial Group, in terms of performance over the past five years out of 2,700 property/casualty insurance companies in the United States.

I would like to note the passing of our esteemed Chairman and Chief Executive Officer, Alexander E. Rosenthal, who served our company with devotion and distinction for over sixty-seven years. He made a significant contribution to the success of our company, and left it in excellent condition at the most successful period in its history.

At the six-month anniversary of the World Trade Center disaster, it seems appropriate to comment on the tragedy, which brought to our nation the largest loss of life and property in our history from a single deliberate senseless act. Our hearts go out to the families who suffered from this horrific event. We were pleased to be able to provide assistance to those insureds who sustained property losses, in a timely and open handed manner.

In closing, I wish to pay tribute to my fellow officers and our capable and dedicated staff, without whose able assistance we would not have been able to have experienced such a successful 2001. And, finally, I am most grateful for the outstanding contribution to our companies' success by our Board of Directors and by our President, Dominick Vicari, and by our Executive Vice President, Max Solomon, who retired in September after 53 years of service, for their superior performance and skill with which they performed their duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Warren W. Heck". The signature is written in a cursive style with a large initial "W".

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