

March 11, 2003

To the Policyholders of Greater New York Mutual Insurance Company

I have the pleasure to deliver the Annual Report of operations, on a consolidated basis, of Greater New York Mutual Insurance Company and its wholly owned stock subsidiaries, Insurance Company of Greater New York, and Strathmore Insurance Company.

2002 was the fourth consecutive year of significant growth of our Companies, in which our direct written premium increased by 182% from January 1, 1999 to \$222.4 million as of December 31, 2002. It was also one of the most successful years in our history in terms of the profitability of our Companies, the strength of our loss and loss adjustment expense reserves, and the growth of our statutory surplus. Even with this strong premium growth, we have continued to maintain conservative leverage ratios as measured by every standard in our industry.

Last year, I reported that 2001 was a particularly unprofitable year for the property and casualty insurance industry. It was the year in which the WTC tragedy had occurred, and that in itself made it a defining year for our Companies. Management faced the incalculable risk of terrorism losses going forward, and was presented with the dilemma of choosing between withdrawing from the NYC marketplace, the acknowledged highest terrorism exposed urban area in the nation, or finding a way to deal with this serious problem and safeguard the assets and capital of our Companies. Management devised a plan which redefined its underwriting guidelines, implemented computer mapping software to track risk accumulations and concentrations, purchased stand-alone terrorism reinsurance, and decided to non-renew risks which its underwriters identified as most susceptible to the new terrorism exposure. These steps enabled the Company to provide a much needed market to New York commercial enterprises, and at the same time permitted GNY to continue its growth momentum which began during 1999.

In 2002 the industry began its recovery, but operating results were not much improved from 2001. A.M. Best and industry analysts have identified two principal reasons for the slow recovery: the industry's loss reserves which are about \$40 billion deficient, and this estimate was made after \$31 billion in loss reserve additions were made by most major insurance and reinsurance companies during 2001 and 2002; and the significant decline in investment income from capital losses and the decline in interest rates.

I am pleased to report that the GNY Companies have not suffered the fate of many of our industry competitors, with the result that our statutory surplus had strong growth in 2002. A.M. Best and Standard & Poor's have classified the capital strength and operations of our Companies as superior. The A.M. Best Rating Rationale for 2003 stated in part:

...The rating reflects the group's superior capitalization, sustained operating earnings and solid market position as a leading writer of commercial multi-peril business for habitational, light industrial, restaurants and office buildings in the Northeast and Mid-Atlantic region. These strengths are derived from the group's low underwriting leverage, conservative investment strategy and reserve philosophy. Greater New York's operating performance underscores the groups reputation and expertise in these niche markets, while being unaffected by changes in the equities markets. The rating also considers the improved pricing conditions within these urban territories, underwriting actions taken by management since 2001 and the benefits to be gained by GNY over the near term. The rating also acknowledges the group's loss and claim settlement cost control efforts and the related impact on the underwriting performance. A.M. Best also considers GNY's historically favorable reserve development and management's continued adherence to reserve adequacy...

Standard & Poor's rating analysis contains the following statement about GNY's capital strength:

GNY's capital adequacy ratio as determined by S&P's capital adequacy model was 399.9%, which is considered extremely Strong (AAA level), and is more than twice the floor cap for this rating (175% is considered AAA).

To fully appreciate our results in 2002, it would be helpful to review our results on an aggregate basis for the last ten years. During the ten years ending December 31, 2002, GNY's surplus on a statutory basis has grown by \$105.1 million to \$217.2 million, cash and invested assets have grown by \$62.6 million to \$480.9 million while admitted assets have grown by \$121.6 million to \$572 million; during this period, GNY's income tax obligations were \$47.2 million, and GNY returned \$22.9 million to its policyholders in the form of dividends. In every meaningful respect, these are impressive achievements.

Notable financial achievements in 2002 were as follows:

1. Net premium writings grew by 26.8% to a record level of \$173.9 million or almost twice the industry's premium growth rate of about 14%.
2. The ratio of net premiums written to surplus for the twelve months ending December 31, 2002 was .80 to 1 (2001 - .68 to 1). This reflects conservative leverage, which resulted from the strong growth of our surplus.
3. Pre-tax operating income, on a conservative statutory accounting basis, increased 49.4% to \$12.7 million. The after tax income increased 34.9% to \$5.9 million.
4. The combined ratio declined 6.5 points to 103.4% and the operating ratio was a

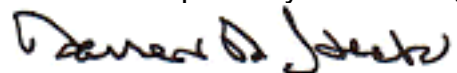
very profitable 85.4%, which we estimated is more than ten points more profitable than the industry's operating ratio.

5. Consolidated statutory surplus increased 8.3%, or \$16.7 million, to a record level \$217.2 million. In contrast, the industry's surplus declined for the third year in a row.
6. Our balance sheet, which on a relative basis is one of the strongest in the industry, reflects asset strength, superior liquidity, conservative leverage and full loss reserves.
 - a. Admitted assets grew 11.6% or \$59.3 million to \$572 million.
 - b. Our bond portfolio of \$457.7 million comprises 80% of our admitted assets. Of these bonds 80.6% are securities backed by the full faith and credit of the United States Government.
 - c. Invested assets at year-end 2002 of \$486.2 million exceeded our loss and loss adjustment expense reserves of \$219.9 million by a wide margin of \$266.3 million, which produces liquidity ratios far and above industry standards.
 - d. 2002 was the twenty-second 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.

In addition to obtaining a continuation of our A+ rating from the A.M. Best Company in 2003, Standard & Poor's in 2002 rated our Companies for the first time with an A rating, and for the third 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.

In closing, I wish to pay tribute to my fellow officers and our capable and dedicated staff, without whose hard work we could not have been able to have such superior results. 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 for the superior performance and skill with which they carried out their duties.

Respectfully submitted,



Warren W. Heck
Chairman of the Board &

Chief Executive Officer