

March 8, 2005

To the Policyholders of Greater New York Mutual Insurance Company

I am pleased to deliver the Annual Report of operations and inform our policyholders that 2004 was, by every measure in our industry, the most successful year in the history of Greater New York Mutual Insurance Company and its two wholly owned stock subsidiaries, Insurance Company of Greater New York, and Strathmore Insurance Company. It was a year of record growth of premiums, net income, surplus, and assets.

Although the industry had favorable results last year, which enabled some insurance companies to reduce their loss reserve deficiencies, A.M. Best in its January 2005 edition of Review and Preview reported that year-end industry loss and environmental reserves were still deficient by about \$59 billion; that price softening in many commercial markets had accelerated more quickly in the latter half of 2004 than most pundits had predicted; that in an attempt to gain market share, standard carriers had already begun to quote on gray area excess and surplus business; and that the need to improve underwriting standards has become more important in recent years as investment income declined in an environment of nominal interest rates.

For our Company, the 2004 year was a continuation of the successful operations that began in 1999. The solid foundation which we had built in prior years for future growth and development was made even stronger last year by our continued disciplined and focused approach to all aspects of our operations. In the last six years, our direct written premium has grown by 272% to \$293 million, admitted assets have grown by 55% to \$721.8 million, and surplus on a statutory basis has grown by 38% to \$249.4 million.

All aspects of our operations were successful as indicated by the notable financial and operational achievements in 2004 as follows:

1. Net premium writings grew by 7.7% to a record level of \$235.7 million compared with the industry's premium growth rate of about 4.8%.
2. The ratio of net premiums written to surplus for the twelve months ending December 31, 2004 was .95 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 38.4% to \$28.2 million. Our after tax income increased 60.2% to \$17.8 million.
4. The combined ratio declined 1.1 points to 97.9% and the operating ratio was a very profitable 86.4%, which we estimated is in excess of 5 points more profitable than the industry's operating ratio.

5. Consolidated statutory surplus increased 7.6%, or \$17.7 million, to a record level \$249.4 million.
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 9.5% or \$62.6 million to \$721.8 million.
  - b. Our bond portfolio of \$557.2 million comprises 77.2% of our admitted assets. Of these bonds 60.6% are securities backed by the full faith and credit of the United States Government, and 32.3% are highly rated municipal bonds.
  - c. Invested assets including accrued investment income at year-end 2004 of \$610.7 million exceeded our loss and loss adjustment expense reserves of \$304.1 million by a wide margin of \$306.6 million, which produces liquidity ratios far and above industry standards.
  - d. 2004 was the twenty-fourth 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 104.3% of the reserves projected by the independent casualty actuaries.
7. Management undertook the reengineering of the General Liability Claims Department in 2001, which has generated a significant reduction in loss costs in each of the ensuing years. Since 2001, the number of claims in suit has declined 18.9%; the number of open general liability claims has declined 6.7%; the average paid claims for the general liability section of the Commercial Multi Peril policy has declined 12.9%; while our direct written general liability premium increased 109.2%.

It is a pleasure to advise that once again, A.M. Best Company affirmed our A+ rating and classified our strong capitalization under its financial model (BCAR) at 225.3%, which is well above the 175% threshold required for a Superior (A++) rating, and considerably higher than the industry's BCAR rating of 187.9%. Standard & Poor's also affirmed our A rating in February 2005, and revised its outlook to positive from stable, and classified our capital adequacy ratio at 312%, well above the threshold of 175% required for a Superior (AAA) capital rating. The Standard and Poor's rating analysis stated in part:

...The revised outlook is based upon our higher level of confidence in the sustainability of GNY's positive increases in operating income. It also reflects the view that GNY's competitive position will be sustainable as the company grows its niche

business at a measured pace through disciplined underwriting and careful risk selection. GNY has met or exceeded all of Standard & Poor's expectations for 2004.

The ratings on GNY reflect its strong earnings in 2004, sustainable strong competitive position in its niche commercial multi-peril business (with early signs of measured growth in other states besides the tri-state area), and extremely strong capital adequacy, partially offset by its geographic concentration in New York...

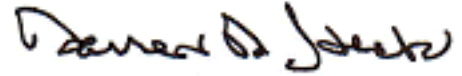
For the last several years the GNY Insurance Companies, on a consolidated basis, have been the fourth largest writer of Commercial Multi Peril business in New York State, and within the Commercial Multi Peril line, the second largest writer of general liability insurance. Also, for the fifth consecutive year in 2004, GNY was named one of the fifty best property/casualty insurance companies in the United States by Ward Financial Group, in terms of performance out of 2,700 property/casualty insurance companies.

Last year, management decided that prudent underwriting practices required the Company to diversify into other areas and regions, and expanded its area of operations into upstate New York, Massachusetts, Pennsylvania, Maryland, and Virginia, and began doing business with many local producers in the important communities of each of those states and regions. The Company also opened a new modern branch office located at 1900 Crown Colony Drive, Quincy, Massachusetts. We believe that these new operations will prove to be most profitable to our producers and to our Companies in the years to come.

In 2004, Mr. Max Freund, who had been a member of our Board for seven years, resigned from the Board for reasons of poor health, and passed away shortly thereafter. Mr. Freund was a devoted director of our Companies, and served with distinction on our Boards. To replace Mr. Freund, the Board of Directors elected Mr. Larry L. Forrester. Mr. Forrester retired from his position as President & CEO of the National Association of Mutual Insurance Companies (NAMIC) after 33 years of service, and became President & CEO of the Insurance Education Foundation, a not for profit organization committed to insurance education at the secondary school level. The Officers and Directors of our Companies are in a position to benefit from Mr. Forrester's vast knowledge and experience in our industry, and we welcome him to our Boards.

In closing, I wish to express appreciation to my fellow officers and our capable, dedicated, and hard working staff who have contributed so significantly to our record 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,

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