

March 11, 2008

To the Policyholders of Greater New York Mutual Insurance Company

This is the seventh Annual Report that I have had the privilege of delivering to the Policyholders of Greater New York Mutual Insurance Company and its wholly owned stock subsidiaries, Insurance Company of Greater New York, Strathmore Insurance Company, and the newest Company in our Group, GNY Custom.

In many ways, this perhaps, is the most challenging of my Annual Reports. When I delivered last years report to you, it was in discussion of a year which I described as "recordsetting" and "unprecedented in our history." I was delighted then, but there is a downside to delivering such exceptional results. It becomes a hard act to follow, and what do you do for an encore?

Well, I am very pleased to report that what GNY did the year after, in 2007, was to deliver a year that, in many key respects, surpassed even our great results of 2006.

Our unprecedented, recordsetting 2006 pre-tax income of \$41.5 million was surpassed by our recordsetting 2007 pre-tax income of \$44.5 million, a 7.3% increase over 2006 and totaled \$178 million in the last six calendar years.

Our unprecedented, recordsetting 2006 asset base of \$851.4 million was surpassed by our recordsetting 2007 asset base of \$896.7 million, a 5.3% increase.

And, our "best ever" surplus of \$292.1 million in 2006 was far exceeded by our 2007 surplus of \$323.4 million, a 10.7% increase.

To put these numbers in proper context, 2006 was a year in which most of the insurance industry did well. 2007, on the other hand, began with a dramatic return to a soft market, with competition increasing and sluggish growth of premium for all property and casualty insurance companies.

The fact that GNY was able to do so well in 2007 in the face of deteriorating market conditions, I believe, is a testament to our evolving diversification strategy, which we have launched as not only a source of significant new revenues, but also as a part of our post 9/11 enterprise risk management strategy.

We are proud to be serving customers in New York City, as we have since 1914, as well as in our long established operations in New Jersey and Connecticut, where we have served customers since the early 1960s. Now, as many of you know, over the past three or four years, we have also begun serving customers in Pennsylvania, Maryland, Massachusetts, Upstate New York and elsewhere up and down the east coast and Mid-Atlantic States. Growth in these new territories was significant in 2007, and accounted for more than \$42 million in revenues. 2007 also saw our initial entry

into the Midwest, beginning with the great State of Illinois. Ever conservative, GNY had estimated 2007 revenues at about \$1 million in Illinois. However, demand for our services proved to be beyond even our most optimistic projections, and we ended the year with premium revenues of more than four times that-\$4.5 million worth. In 2008, we began offering our services in Michigan, and will begin expanding further into the Midwest as the year progresses.

Other notable financial and operational achievements in 2007 were:

1. Net income increased 25.2% to \$34.1 million, from \$27.2 million in 2006.
2. Our decision to strategically reduce our workers' compensation writings almost wholly contributed to a 4.6% decrease in direct premiums written in 2007, to \$294.5 million from \$308.6 million last year. This leaves our book significantly better positioned for future growth, with our niche market, profitable Commercial Multi Peril insurance, inarguably our area of highest expertise, now constituting more than 90% of our business.
3. The ratio of net premiums written to surplus for the twelve months ending December 31, 2007 was .71 to 1, which reflects conservative leverage from the strong growth of our surplus.
4. GNY's loss ratio improved dramatically to 47%. Our loss adjustment expense ratio increased to 16.5% from 14.9% last year and continues to reflect our efficient and aggressive claims handling, which is evident in our low loss costs. Our combined loss and loss adjustment expense ratio of 62.9% continues to be below industry averages.
5. In 2007, GNY achieved its fifth consecutive year with a combined ratio under 100, which, at 95.3%, was only fractionally off of last year's record level, and compares favorably with the 95.6% combined ratio projected by A.M. Best for the industry.
6. Our net investment income increased 4.4% to \$31.5 million in 2007 from \$30.1 million last year. Net investment income continues to benefit from the large amounts of operating cash flow generated by our operations over the last six years of \$346.9 million. In fact, after several extraordinary years of cash flow levels between around \$60 and nearly \$70 million, our positive cash flow remained strong at \$37.7 million in 2007 or 16% of our earned premium.
7. 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. Our bond portfolio of \$710.1 million comprises 79.1% of our admitted assets. 62.4% of our bonds are invested in securities backed by the full faith and credit of the United States Government,

and, and 30.2% are comprised of highly rated municipal bonds.

- b. Invested assets including accrued investment income at year-end 2007 of \$779 million exceeded our loss and loss adjustment expense reserves of \$396.4 million by a very large margin of \$382.5 million, which produces liquidity ratios far and above industry standards.
- c. 2007 was the twenty-seventh 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 109% of the reserves projected by these independent casualty actuaries.

I am also pleased to report that GNY has again earned an A.M. Best's A+ rating, as it has each period for more than 26 years. In its report released in May 2007 Best classified our capitalization under its financial model (BCAR) at 248.8%, which is well above the 175% threshold required for a Superior (A++) rating, and considerably higher than GNY's peer group BCAR rating of 201.8%. We are particularly proud of our A+ rating since only 9.8% of all Commercial Property & Casualty companies were rated A+ or better by A.M. Best in 2007. Best also noted that:

"... (GNY) has continued to benefit from its reputation and expertise in commercial markets and the long-standing relationships it has with its insureds and producers..."

A.M. Best expects the group's operating performance to continue to improve and to remain at strong, sustainable levels, commensurate with its current rating level."

Standard & Poors as well reaffirmed GNY "A" rating in 2007, citing a "strong competitive position in commercial multi-peril lines, very strong capital adequacy, and strong operating performance."

Other highlights of 2007 were numerous. We licensed our new excess and surplus lines subsidiary, GNY Custom in the State of Arizona, and began doing business January 1, 2008 in New York, Illinois and Washington D.C, with an A+ rating, and \$40 million in capitalization. GNY Custom is looking at a wide range of business that would not be appropriate for our standard companies, but could be written profitably as excess and surplus lines.

GNY also continued its advocacy for a better, long term Federal backstop for terrorism coverage in 2007, and working with the National Association of Mutual Insurance Companies (NAMIC), I was called upon to again testify before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, which I proudly did for the fourth time in the last three years. We are pleased that, working together, the industry's efforts helped lead to a very favorable

seven year extension to the Terrorism Risk Insurance Act, which was signed into law by President Bush in the last days of December of 2007.

GNY continued to enjoy favorable media coverage in 2007. The Insurance Journal published its "Salute to Super Regionals," a massive research project which sought to define this emerging category. Out of thousands of insurers, 139 true Super Regionals were identified, and, I'm proud to say, we were one of them, meeting all of the researchers' stringent criteria and then some.

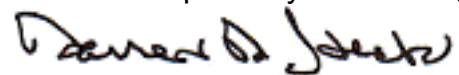
A profile on the company and myself was completed for the "CEO Perspective" section of the American Management Association's MWORLD magazine, and GNY's expansion plans were featured in a September 24 spread in the Insurance Journal-East Region Magazine, entitled "From the Big Apple to the Corn State."

And, with expansion such an important part of our business, we also created a new ad campaign and media schedule, supporting our producers with new ads in business and industry publications in Maryland, Pennsylvania, Illinois and other new territories, getting our name out there and more familiar to potential new customers.

Finally, I am proud to have been tapped as the new Chairman of NAMIC's Federal Affairs Committee, a role which will allow me to pursue my goals to generate favorable recognition for GNY, as well as continue to promote issues vital to the success of my fellow NAMIC members and the insurance industry as a whole.

In closing, I would like to thank each of our producer partners for their efforts during the year, as well as express my sincere appreciation for the hard work and commitment of my fellow officers, our capable staff, and the members of the Board of Directors for their vital contributions to GNY in 2007. And, I would like to thank you, the policyholders of Greater New York Mutual Insurance Company, for your continued trust and faith in us. You are the reason we are in business, and the reason, I believe, that GNY has enjoyed such rewarding success for nearly 100 years.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Warren W. Heck".

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