Chairman's Letter ...

Once again, I'm privileged to welcome all of our friends and business associates to the wonderful island of Bermuda, and call to order First Monetary's Eighteenth Annual Shareholder's Meeting. My stint as your Chairman has been highly enjoyable and personally rewarding, and I'm pleased to have had the chance to lead you. My experience over the past two years has given me new insights into the complexities of this company and how it operates, a greater appreciation of the unique challenges that must be addressed to keep it healthy, and an even more profound respect for the talents of the people we have working with us. You'll hear from all of them directly these next two days.

My bedrock belief that running our own risk management company has been fundamentally beneficial to this circle of community bankers has only grown stronger during my tenure. The threats and trends emerging in this highly charged insurance market are proof positive of the wisdom we have exercised in maintaining First Monetary's viability.

Few would deny that the D&O product-pricing model we have long argued was out of synch with underlying risk exposures has now been discarded. For the second year in a row, carriers have raised premiums and scaled back coverage, in some cases substantially. Premiums are up 83% overall this past year, and technology companies have seen spikes as high as 200%. Banks have been spared big hits so far, but it's unlikely that the record profits that have kept our sector's claims low can be sustained for an extended period.

9/11 and the bursting of the stock market bubble only provided the impetus for readjustment. What's now occurring reflects much more fundamental shifts on the part of insurance companies to address underlying disparities between risk and premium on this product line. Once again, First Monetary's arguments have been vindicated.

It's unlikely that anyone will see relief any time soon. With the stock market stalled, claims rising, and reinsurers reeling, it will take this market years to right itself.

One leading D&O carrier's recent decision to bolster loss reserves is likely just the beginning of an industry-wide readjustment, but FM can breathe easy. Stability has been the standing goal of our management, and the wisdom of our tenacity in pursuing it has been proven. Our claims picture has been steady while the commercial market's has deteriorated. The company's movement to secondary insurance positions has reduced risk exposures to a minimum. Our trust fund has matured, there are no losses in our investment portfolio, and our claims reserves don't warrant a second look. We have Lloyd's blessing and have received their backing for reinsurance again this year. Stabilization reserves are similarly sufficient, so FM members can look forward to stable premiums and adequate coverage limits for another year.

Our product line has been further improved with the addition of a new MGIC contract. FM now gives members an enviable choice of the two largest PMI providers in New York State and Pennsylvania. Participation in the program continues to grow, and revenue is building.

Operationally, the picture is similarly encouraging. Expenses have been closely managed and the operating loss halved, tracking our budget projection. Additional membership commitments from Pennsylvania have pushed company membership to the highest level since 1991. Testament to our solid service reputation, we've also been approached by other states outwardly willing to support our growth initiatives.

In closing, I wish to extend my sincere best wishes to the incoming Chairman, Lowell Twitchell, and trust that he will find the job as satisfying and fulfilling as I have. I leave in the firm knowledge that he has the backing of a great team and solidly vibrant organization behind him.

Sincerely,

Angelo J. Di Lorenzo
Chairman, First Monetary Mutual Limited
President, Brooklyn Federal Savings Bank