

## Agenda Item One: Chairman's Letter



Permit me to add my name to the long list of bank Presidents who have had the privilege to welcome you to the sunny climes and fine times this Bermuda domicile affords shareholders of First Monetary Mutual Limited. It's an honor to gavel into order our 28th Annual General meeting as Chairman and personal pleasure to address you as friends and associates.

The financial conflagration that has rocked consumers, banks and insurance companies five years running shows tentative signs of dying down, but it's still with us and will stay a burning issue for years. The ripple effects in the real estate, investment and credit markets continue to be felt by everyone. No less consequential are ongoing changes in the regulatory climate that are too often unpredictable, as our own recent, up-close experiences with banking consolidation and the FM/MGIC situation brings into focus.

There's no denying our organization sustained a severe buffeting this year. Many concerns we've shared in previous planning sessions manifested themselves. We were well prepared to deal with those. What flew completely under the radar was the rapid, significant intervention of the CFPB in ways that negatively affect us. While indirect, these actions bent us over backwards, though FM's footing remains secure.

With access to MGIC's PMI income and growth opportunities in that segment of business closed, the "dynamic stasis" policy that's reliably shielded us and served FM so well, so long cannot be relied upon to sustain us long-term. Our company has capital, a great standing in the reinsurance marketplace and assets we can build on, but how we maneuver to replace what's been rather capriciously taken away way is the question up for immediate debate.

It's clear that significant changes in our business profile and go-forward strategy are called for. This organization is no stranger to these scenarios, and has compiled a sterling record fighting through tough scrapes in the past. FM was conceived in a period of banking crisis, and has survived more than one trial-by-fire in its nearly three decade long existence. We can, and are more than prepared to deal with this one.

We have options and will begin to present them during our time together here. The current reality and adjustments necessary are central subjects on the agenda. Before you depart, our management and partners will provide detailed assessments of the company's performance, position and choices. You will also be presented comprehensive outlines of the state of our marketplace. I'll leave it to these individuals to offer details in their presentations. While there is much to cover, you're assured of time to take in this island's many charms and mingle with our distinguished company. I'll restrict my input to this cursory overview.

First Monetary concluded 2012 with \$1,341,516 in cumulative member equity. Short-term deposits exceeding \$600,000 remain on deposit with shareholders. 2012 marked the eighth straight year of profits, with another \$5,000 dividend declared. We witnessed industry consolidation, but held our core membership intact with respect to renewals.

Our risk-averse business philosophy was again vindicated, evidenced by the smoothness of our annual D&O reinsurance treaty renewal with Lloyds. While others fight to hold on to coverage they've had, we're good to go another year with no changes in rates, limits or conditions. Anyone reacting with shock at first glimpse of their latest primary insurance policy ought to appreciate that achievement and FM's ability to maintain stability over time.

Despite the bumpy ride, I have found my stint as Chairman a productive experience, made possible by the unified backing of my associates and fellow shareholders. I commend the foresight and wisdom of our company President, Frank Shashaty, and our Board for the prudent actions they have taken to safeguard our interests and ensure that First Monetary survived this year's developments intact, positioned to report positive results and able to bring us together once more. I'm certain that Mr. Thomas Piche, my successor in the Chair, can reliably count on that same sound judgment to move us in directions that lead to a safe landing.

Sincerely,

A handwritten signature in blue ink, appearing to read "Anthony Milone". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.

Anthony Milone  
Chairman, First Monetary Mutual Limited  
President & CEO, Cross County Savings Bank