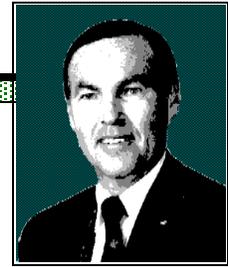


# Chairman's Letter



Welcome to Bermuda and the Tenth Annual Shareholders Meeting of First Monetary Mutual Limited.

This year's assembly is special. Over the next few days, we will be celebrating the tenth anniversary of First Monetary. We are saluting a job well done over the Company's first ten years, while preparing ourselves for the next decade of service.

Webster defines an anniversary as "the annual recurrence of an event that took place in some previous year or its commemorative celebration on this date". This year, we do both. Yes, we are holding a commemorative celebration marking First Monetary's first ten years, and well we should. In single decade, we have created a company that is a growing asset for its member\owners, while providing a solid directors and officers liability insurance policy that is both innovative and conservatively underwritten.

Beyond commemoration of our anniversary, however, this year's Shareholders Meeting marks the recurrence of the creation of First Monetary. As has been the case throughout the first ten years, First Monetary's creation is happening again this year.

Our common interest that flows like a thread through the fabric of our industry is risk management. There is a strong movement afoot to quantify the risk management function in banking. This is good, it's helpful, but we've recognized all along that we are a business of risk managers. First Monetary, from its inception, has provided risk management counseling for its member\owners. Through risk management seminars at the annual Shareholders Meeting, the First Monitor publication and individual consultations, First Monetary extolled the importance of structured risk management long before it became fashionable. And, during the Shareholders Meetings and other member-owner gatherings, we've all had an opportunity to discuss this and other important issues among ourselves.

As member\owners of an insurance company, we are perhaps more aware of the importance of sufficient D&O coverage than most bankers. It is important that we not become complacent about our D&O coverage. Recent events within the banking industry underscore the fact that negative events can happen quickly, and lawsuits are filed even more quickly. It is imperative that we bear this in mind as we continue to craft First Monetary's coverages. Even more important, we need to bear in mind the fact that at any time -- for reasons we can't even comprehend now -- all of the D&O insurers who are back in the marketplace can pull out just as quickly as they did ten years ago. We need to keep this in mind as we work to ensure that First Monetary's coverage will always be available.

When first created ten years ago, First Monetary responded to the crisis in the D&O marketplace that denied liability coverage to insurable institutions. Together, we created a company that provided basic D&O insurance for its

members. When traditional carriers moved out of the market entirely, or added restrictions that effectively rendered policies useless, First Monetary created a D&O policy that was conservatively underwritten, yet responsive to the special needs of our industry. Where there was a void, we filled it -- and filled it well.

Later, as the crisis abated and traditional carriers started to re-enter the market, First Monetary was recreated as an innovative company dedicated to providing better coverage for its member\owners. That led to wrap-around coverage, spousal coverage, IRA coverage, employee coverage and many more. These innovations were so successful, the traditional carriers adopted them as standard policy features.

Now, as the D&O market has become clogged with an alphabet soup of underwriters, brokers and trade organizations pushing policies at ever lower premiums, First Monetary is again being recreated. Through an aggressive pricing policy and an enhancement of benefits for policyholders, First Monetary will remain competitive in the market, while expanding its role as an organization of shared member\owner common interest.

In my years as Chairman of First Monetary, I have been truly impressed at the company's ability to continue to recreate itself to meet the needs of its member\owners. First Monetary's policy process is open, fair and responsive to the concerns of its member\owners. This is due, in large part, thanks to the efforts of Frank Shashaty, First Monetary's organizing director, chief executive and resident visionary.

As I complete my term as Chairman of First Monetary, I want to thank each of you for your cooperation and support. Our members have been supportive and loyal from the beginning. We have an excellent and hard-working staff, who carry out their responsibilities in a most professional manner. And, our Board of Directors has devoted many hours carrying out the aims and objectives of our company.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kenneth J. Abt".

**Kenneth J. Abt**  
**Chairman, First Monetary Mutual Limited**  
**President, First Federal of Middletown**