

Chairman's Letter



It is my privilege as Chairman to welcome you, our members and honored guests, to beautiful Bermuda and First Monetary Mutual Limited's thirteenth annual shareholder's meeting.

We have an interesting and informative program in store for you over the next two days. There is much to discuss, but we can promise you that there will also be time to enjoy the marvelous setting and the distinguished company. In the course of our meeting, we will assess First Monetary's 1997 performance, identify and analyze trends in Director's and Officers Liability, Employment Practices Liability and risk management, and detail what this company is doing to prepare for the future.

A review of the balance sheet shows that our financials remain rock solid. First Monetary concluded 1997 with \$2,131,324 in member equity. At year-end, short term deposits of \$2,300,000 were on deposit with 23 of our own shareholders.

Despite lower gross premium sales due to continued industry consolidations and reduced investment income attributable to lower rates paid on Member deposited CDs, 1997 income before taxes was \$89,267. Net claim expenses remained characteristically low, totaling only \$21,277 during the period.

The company declared a dividend of \$100,000, effectively reducing shareholder premiums for the second year in a row. Since First Monetary does not function as a traditional insurer, making sure that our coverage remained as broad and comprehensive as possible, our premiums stable, our risk exposure limited, our membership services responsive, and our reserves adequate to pay potential claims once again took priority over profits.

Measured against all these benchmarks, First

Monetary is squarely where we want it to be. As deregulation accelerates, it is also well positioned and uniquely suited to serve as the community banker's springboard into the brave new world of integrated financial services. Approval of the 1998 P.R.O.F.I.T. Plan, formation of the MONETARY SYSTEM and the decision to move forward with our PMI Program has allowed us to take big and important strides in efforts to improve the products we offer and develop the new ones we will need tomorrow.

People are beginning to notice us. Our on-line presence and capabilities are expanding, and our outreach initiatives to financial trade groups everywhere are starting to reap benefits. We will touch on all of these subjects during our time together.

I would like to personally thank my fellow Board members, First Monetary's President and CEO, Frank Shashaty, and the rest of the First Monetary team. Your efforts made this forum possible and my first year as Chairman an educational, enjoyable and rewarding experience. Hats off to all my fellow member/owners for the support that you have consistently shown this company. Your commitment remains the foundation of First Monetary's strength as we prepare for operations in the next millennium.

Sincerely,

A handwritten signature in blue ink, which appears to read "Dan Lawrence".

Chairman, First Monetary Mutual Limited
President, Canton Federal