Shareholders Report

For the Year Ending 31 December, 1999

Fifteenth Annual Shareholders Meeting

19th June, 2000

The Fairmont Southampton Princess Hotel
Southampton Bermuda

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President's Report

Let me add my welcome to the many you've already received as we commence our annual shareholders meeting. It's rewarding to note that the enthusiasm we share for this organization hasn't diminished after fifteen years together. It's a powerful asset that I continue to count on.

This millennium convention marks a significant anniversary that is echoed in our meeting theme. Befitting the occasion, we'll spend our time reflecting hard on what initially brought us together as an organization and, more important, how we keep the "marriage" together. First Monetary has become far more than the D&O insurance company it was originally conceived as. While the changes we've adopted through the years helped us succeed long after similarly structured captives folded camp, the operating environment we find ourselves in today demands even more. The decisions we're now making confront those demands head on. The outcomes of those decisions will determine where we take First Monetary in the future.

Those who buy commercial insurance for their companies had a relatively pleasant task for the past several years, but that's changing. Recent indications are that insurance companies have run out of room to chase market share by cutting premiums and are relying almost exclusively on investment income to earn profits. The industry has been muddling through, quarter after quarter, as excess capacity has progressively forced premiums prices below the level of claims and expenses, turning whole lines of business unprofitable. Standby. Prices have begun to firm, and in some cases rise - as a new emphasis on underwriting results takes precedence over market share.

First Monetary isn't immune to these pressures, but we are able to tolerate them a bit better. The company posted a small operating loss in 1999 that was anticipated, paralleled operating plan projections and was in no way attributable to a departure from First Monetary's disciplined approach to balance sheet management.

Francis Shashaty, CPCU
President & CEO
First Monetary Mutual Limited

First Monetary today remains strongly positioned to avoid the problems that plague conventional insurers, namely, breakdowns in asset quality, quality of reinsurance or adequacy of claim reserves. Our asset quality is excellent. We have $2,000,000 in FDIC insured investments on deposit at shareholder banks. Our reinsurers are A-rated. First Monetary successfully recovered reinsurance protection in two of the past three years, and our relationships with our partners are so strong that one extended support in ex-

cess of the coverage limits provided by the reinsurance treaty. Consistently conservative reserving has permitted us to settle substantial claims without posting changes to reserves that would drag down earnings in under-reserved companies.

The easily tolerable loss we sustained was the direct result of conscious decisions that have, on balance, benefited us. More than 20% of the current loss is attributable to a tax decision that, over time, is still a net winner as detailed below. The remainder could have been offset with modest premium increases, but we've pursued a different strategy to date.

A key element of that strategy has been to move members into wraparound insurance positions. While this action had the immediate impact of reducing gross written premiums, we shed far greater amounts of risk to other companies who will bear the brunt of expenses when claims activity ultimately increases. Simply stated, we have elected to suffer a budgeted operational loss today rather than incur potentially more significant claims in the future.

Where to now? First Monetary has developed two alternative PROPHET plans, both of which assure the continued

Year	Actual Taxable Income (w/election)	Potential Taxable Income (w/o election)	Actual Tax Liability (Per Tax Return)	Potential tax w/o election	Benefit/(Detriment) of election
1999	119,926	(247,058)	30,021	(84,000)	(114,021) (a)
1998	142,509	19,501	27,164	6,630	(20,534)
1997	138,555	115,784	17,687	39,367	21,680
1996	165,785	236,720	28,476	80,485	52,009
1995	141,721	(1,188)	20,344	(404)	(20,748)
1994	85,428	159,174	22,221	54,119	31,898
1993	66,580	119,534	12,213	40,642	28,429
1992	100,789	206,523	27,146	70,218	43,072
1991	147,009	321,845	51,215	109,427	58,212
1990	198,872	502,537	82,774	170,863	88,089
1989	168,236	475,300	60,964	161,602	100,638
1988	95,524	458,043	39,159	155,735	116,576 (b)
1987	(1,776)	(1,776)	-	(604)	(604)
			$ 419,384.19	$ 804,079.19	$ 384,694.99

(a) tax return is not prepared yet (b) Election made in 1988

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President's Report

success of First Monetary. We have reason to be optimistic.

During the past five years, the new First Monetary - or FM2.0 as we have come to call it -- has aggressively moved to grow into a dynamic community bank support organization within the constraints of our operating budget. The process of expanding products, services and potential markets has been ongoing. From web server support of the INTERmoNETary System to daily broadcasts of the First Monitor Newsletter, from the addition of employment practices liability coverage to CRA discrimination protection, we've added attractive products and services to the company mix.

Just this past year, First Monetary unilaterally conceived and implemented a PMI reinsurance program in partnership with Radian Guaranty as a new value-added benefit of organizational membership. That program shows potential. We expect that the importance of captive (re)insurance companies will increase in the newly deregulated bank environment, and that overall reinsurance activity will pick up dramatically in the years to come. Properly managed and developed, reinsurance products like ours could provide substantial revenue streams to our shareholders and carry First Monetary through the current soft market cycle.

While we have been disappointed by our inability to attract members from the New York State commercial and savings bank communities, we remain hopeful that a breakthrough is still possible. To conserve resources however, we have largely suspended efforts in this area and allocated them elsewhere. By far the most promising new relationship is the one we've struck with the Pennsylvania Association of Community Bankers (PACB). In December, 1999, we were notified that the Pennsylvania Insurance Department has sanctioned FM to provide coverage to PACB members. Executive level conferences and presentations have also produced the outline of a title insurance program that would be free of constraints imposed by conventional agency programs. One Pennsylvania based title insurer has signed on to our concept, which could eventually be extended to New York for the benefit of First Monetary members here.

While the road immediately ahead of us remains rocky, we have a sound vehicle to carry us and a good road map. As we go along, there are several paths we can travel to put First Monetary back on the road to higher earnings. I look forward to travelling that road with you.

Francis J. Shashaty, CPCU
President & CEO
First Monetary Mutual Limited