



Shareholders Report

For the Year Ending
31 December, 2000

Sixteenth Annual Shareholders Meeting
11th June, 2001

The Fairmont Southampton Princess Hotel

Southampton Bermuda



First Monetary Mutual Limited, is the Bermuda based mutual insurance company owned by New York and Pennsylvania community banks.

Two Bermuda symbols, the graceful longtail bird and a Bermuda moongate are used to represent First Monetary's Annual Shareholders Meeting held each year in Bermuda. Bermuda's longtail bird, is a symbol of beauty and freedom. The Bermuda moongate is a coral-stone arch-shaped like full moon and symbolises unity, peace and happiness.

Agenda Item Five

President's Report

MOLDING OUR FUTURE

Once again, it's nice to welcome you all "home" for our annual shareholders meeting. Sixteen years ago, we founded First Monetary, and since that time, we've all had a hand in helping it grow up. I think we'd all agree it's not the same organization it was when we put it together. Indeed, it's not even the same organization it was when last we met. Five years ago, we set out ambitious goals for First Monetary in our PROPHET 96 business plan. We've been working to reshape the company ever since, and put it on a track that would promote its continued growth and health in the newly deregulated banking and insurance environment that's become a fact of our business lives.

Simply stated, the PROPHET plan mapped out strategy that would transition First Monetary from a single state, mono-line, captive mutual insurance company into a multi state, multi-product, bank-owned service organization. Attendant to its adoption, we decided that diversification in both products and markets would enable First Monetary to ride out soft market swings in the D&O insurance cycle, and make them less consequential to us from an operating standpoint in the future.

GROWING PAINS

Like the real thing, First Monetary's "adolescence" has been somewhat painful. For several years running, competition in the D&O market has been white-hot. On the strength of investment returns, commercial carriers have stretched pricing and coverage to absurd and unsustainable levels just to maintain sales volumes and market share. First Monetary has been relentlessly forced to square off against much stronger companies who keep getting bigger and whose distribution channels keep getting wider as the insurance industry undergoes radical change and consolidation.

2000 was one of the most challenging years ever, but it's now behind us, and it appears that developments are starting to break our way. Hard work, determination, smart decisions and member commitment have permitted our prodigy to weather everything thrown at it and

rack up some real accomplishments along the way.

The very fact that we've managed to ride things out is certainly one of them. By design, our moderate pricing schedule, conservative risk management philosophy,



Francis J Shashaty, CPCU

and tightly disciplined approach to expense management are formulated and maintained to ensure that First Monetary can sustain operations regardless of what turn the insurance market may take. The consistent application of these standards has carried us through the current soft market and kept losses in check. Big companies that have been more than willing to take on the risk we've cheerfully been shedding are paying for it. Captives that reduced premiums to pace the market and were unable to shed expensive overhead are gone. Mid-size companies that didn't anticipate or react properly to the soft market are suddenly finding themselves without reinsurance. First Monetary, however, is still here, still offers comprehensive D&O insurance on a primary or excess basis, and still has reinsurance on favorable terms. Despite difficult market conditions, we've managed to narrow the revenue deficit in accordance with our business plan.

NEW HOPES

For the past five years, we've made it our primary mission to develop unique, niche products and services that meet the demands of the new financial marketplace, and we've made it our primary goal to take a more diversified company into other states. On both counts, we've made significant strides.



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First Monetary is fast coming to be known as a supplier of specialty reinsurance programs that provide community banks with income from insurance products without big investments in conventional insurance operations. Our concept ideas to reinsure risk on the policy coverages bank patrons need are being progressively translated into successful working programs that benefit community banks, community bank customers and First Monetary alike. Our Private Mortgage Insurance product is building steam, and we have all the requisite regulatory approvals and partnership arrangements in place to do the same thing with title reinsurance. With our working models in place, and some successes under our belt, branching into other chosen markets won't be difficult. We'll keep pursuing them. Just recently, we entered into discussions with a major property casualty insurer, and found willing ears across the table.

To a large extent, the achievement of one milestone in the PROPHET 96 plan was made possible by the decision to get into the business of reinsurance - an expansion of our market to include community banks in neighboring states. At this writing, seven Pennsylvania banks have committed to First Monetary membership, and several more are close to decisions. Over the past two years, we've forged strong ties to the Pennsylvania Association of Community Bankers, whose support and cooperation in marketing our company to its members has been invaluable and unwavering. We're committed to helping the bond grow. Provisions have been made to create additional Board seats for our Pennsylvania associates. PACB's immediate past Chairman, James McLaughlin, now serves as one of First Monetary's directors and several Pennsylvania bankers are serving as alternate directors. We look forward to their contributions.

In my view, reinsurance offers up the means to an end for First Monetary -- on several levels. It gives us an attractive product that can draw new members, restore vitality to our core insurance program, relieve the pressures that soft D&O markets subject us to, and sustain

important ancillary services like americanbanker - first-monetary online and INTERmoNETary Services. Preliminary numbers show that reinsurance programs could go a long way toward closing our residual revenue gap and moving the company back to profitability. Promoting use by the membership itself will be one of our challenges in the year ahead. That shouldn't be a hard challenge to meet.

With these accomplishments in place, we're optimistic about the future, but we're keeping things in perspective. D&O premium pricing has, at last, turned up, so we've turned the corner, but writing profitable business in the near term will remain difficult. 2001 will be demanding year, where a volatile equity market and a slowing U.S. economy narrows margins and challenges the profitability of ALL financial services companies. First Monetary won't be immune, but we won't be strangers to these conditions either.

Much remains to be done, and many challenges await us, but whatever the economic climate, FM now has something strong to offer. That's good news for every current and prospective member.

I'd like to thank our outgoing Chairman, Richard Kosmosinski, for his unwavering support during these tough times. He never flinched from the prospect of a long road trip to Pennsylvania, or lost sight of our shared vision. Neither did any of you, and I'm grateful for it.

Sincerely,



Francis J. Shashaty, CPCU
President & CEO