

Shareholders Report

For the Year Ending 31 December, 2003

Chartered in 1986, First Monetary Mutual Limited is a Bermuda based insurance company owned and operated by commercial banks, savings banks and savings and loan associations in the states of New York and Pennsylvania.

Membership in the organization affords primary or wraparound Director's and Officer's Liability insurance coverage as a core benefit, and opportunities to build revenue streams through participation in the Company's title and private mortgage reinsurance programs.

Ancillary benefits include a Shareholder's meeting allowance, member reinvestment program, web site design & hosting, on-line access to the American Banker and comprehensive risk management services.



Two Bermuda symbols, the graceful longtail bird and a Bermuda moongate represent First Monetary's Annual Shareholders Meeting held each year in Bermuda.

Bermuda's longtail bird, is a symbol of beauty and freedom.

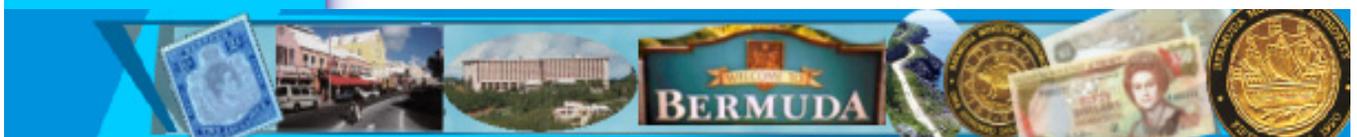
The Bermuda moongate is a coral-stone arch shaped like full moon and symbolizes unity, peace and happiness.

Nineteenth Annual Shareholders Meeting

14th June, 2004

The Fairmont Southampton Princess Hotel

Southampton, Bermuda



Agenda Item Five

President's Report

I once again extend a heartfelt welcome to Bermuda and First Monetary's annual shareholders' meeting. Thank you all for privilege to shepherd your commitment to the organization we've created nineteen consecutive years. In the course this presentation and the ones that follow, the Monetary team and I will assess where developments of the past year have left this company, and elaborate on the actions taken to reinvigorate it and seize on a tantalizingly close promise of renewed growth.

A good part of this past year was spent soul searching. I'll be the first to admit it was arguably one of the most challenging we have confronted since inception. One doesn't have to dig deep to observe that the solid and continued firming in D&O premium pricing our Chairman rightfully indicates should have taken hold now simply hasn't materialized. Commercial insurers are still loath to turn away business from an industry that has churned out record profits for the past three years, and therefore limited eye-popping increases to other service sectors.

Stated simply, the commercial insurance market wants to provide D&O coverage to community banks in 2004 with the almost the same fervor they were unwilling to provide it in 1986. This puts severe stress on FM's pricing model.

At the same time, a report card assessment of FM's position shows that the Company remains unexposed to real and significant investment and underwriting hemorrhages that major carriers may experience.

FM's steadfast, member-first commitment to maintaining coverage availability at stable prices, and its overriding desire to avoid risk inadequate to the premium return precludes us from marking to market. We simply will not price our product through competitor's lenses and in direct contradiction to FM's established beliefs. I can assure you that the pause in the D&O market's firming is only temporary, and will last only as long as the banking sector remains an attractive underwriting risk. Premiums will race to catch up when profits begin to get squeezed.

It remains that FM can't ignore reality in the intervening period, however. If we can't grow our customer base or increase premiums short-term, planning dictates that we focus on expense reduction.

In acknowledgment of this reality, First Monetary formed a strategic planning committee in December to examine the issue and construct a business plan that addresses the situation. What emerged from our February session was a strong and universal commitment to continue moving forward, and full recognition of the fact that doing so requires FM to

balance its operating budget. As a group, we developed a plan that involves shared sacrifice for all stakeholders and gets us to the mark. It's one that I'm certain we can all support.

The text of the management report is appended as reference. Reduced to its core elements, FM's business plan calls for a 50% reduction in the minimum and deposit premium First Monetary has traditionally paid for reinsurance, a 40% reduction in direct administrative costs paid to Rex Wyon Services, a temporary elimination of marketing expenses, reductions in



Francis J Shashaty, CPCU
President & CEO

meeting line expenses of the operating budget, and personal reimbursement adjustments. Fully affected, it gets us to the balanced budget we seek while keeping our product line in total, our reinsurance umbrella intact, and our key meeting a free member benefit. Various members of the Monetary team with us today will devote time to formal and in-depth discussions of the financials and individual line items in the course of their follow-up presentations.

To this point in my presentation, I've deliberately ignored the potential upside contributions ancillary products and investments can add to the bottom line. PMI volume, slow to build initially, is now growing at a 20% annual clip, and is beginning to vie with D&O in terms of strategic importance. Investment returns should inch up this year after a long period of decline. New BOLI opportunities have surfaced that hold great promise for our bottom line, and a new, "entry-level" D&O product is under consideration to restart growth in that area. If the stars align for us, FM could very well finish the next two years in the black, and poised for solid growth thereafter. It is even conceivable that FM will emerge a far more diversified looking company at the end of the period. Strategic planning will continue throughout its duration to capitalize on opportunities as they emerge.

None of this would be possible without the ongoing help and support of our Chairman, Board, and members of the Monetary team, all of whom played parts in getting us where we need to be. Thanks also to our friends at PACB and the New Jersey League for their continuing support. A major strength of this organization is the unique way its management, members and close associates pull together in a common cause, and its in this context that their help is duly noted and appreciated. Thanks to everyone for your many ideas, strong encouragement and limitless enthusiasm.