



Shareholders Report

For the Year Ending 31 December, 1997

Thirteenth Annual Shareholders Meeting

15th June, 1998

Southampton Princess Hotel
Southampton Bermuda



Protecting the Decision Makers at Independent Community Banks



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President's Report



Welcome, friends and shareholders, to the thirteenth annual meeting of First Monetary Mutual Limited.

For those of you who do not already know it, I am an antique car buff, subscriber to the theory that strong beliefs can move mountains, and admirer of computer geeks everywhere who are improving information technology at a blistering pace. It's always been a vision of mine to come across a vintage '65 Mustang in some grandparent's driveway and purchase it for \$300. I enjoy recanting the story of "The Little Engine That Could" for the benefit of my son. Nothing impresses me more than stories about two fellows who develop breakthrough technologies in their garage and revolutionize the computer industry with them.

In writing this piece, I realized that these dreams and visions do not differ very much from those I have always held for First Monetary. In many respects, I simply carried them over to my business life. Indeed, the success story that is First Monetary story is one that is rooted in our ability to see something, believe in it and make it happen.

In a world where the typical life of a company like ours measures six years, it is a testament to our unique-

ness that we have assembled our Board, officers, team members, shareholders, reinsurers, counselors, auditors and administrators to map strategy seven years after the average captive has closed its doors.

Seeing and doing things differently is innovation at its core, and First Monetary has been consistently good at



*Francis Shashaty, CPCU
President & CEO
First Monetary Mutual Limited*

it. What differentiates FM from its counterparts and carries this company forward is our group's vision, cohesiveness, unity of purpose and ability to adapt to changing times -- backed up by our sound and open management philosophy. These strengths have served us well in the past, and they will continue to serve us well in the future.

THE YEAR JUST PASSED

Since our Chairman's message and financial presentation cover the numbers issues in detail, I won't dwell on them here. I want to devote the bulk of my dis-

ussion to tomorrow's First Monetary. By way of review, it's sufficient to say that we achieved our major goals for 1997 and never lost sight of the broad-based needs of shareholders in the process. We took pains to ensure that your First Monetary policy met all market standards, and we set one of our own with the addition of Mortgage Lending Discrimination Coverage. Leveraging the aggressive pricing structure of the D&O market to our advantage, we moved many members into excess insurance positions, where they get the dual benefits of higher combined limits and rate discounts. This approach permitted us to keep our market share and member base intact and our claims at desired levels. While gross receipts have fallen along with our exposure, the benefit of the risk reduction far outweighs the impact of the lost premium. We are stronger because of it.

In services, First Monetary remained in the forefront of efforts to quantify the effects of risk management in banking and improve the utility of services members receive through their free Internet accounts. The INTERmoNETary Network is now drawing the attention of the publishers, non-affiliated trade associations and savings institutions in other states. One of our web-sites

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recently won media acclaim, and we have the pleasure of counting several new guests at this convention. These are significant triumphs -- for all of us -- and I am very pleased to have been associated with them.

THE ROAD AHEAD

Peter Drucker, one of the leading business thinkers of our time, has stated, "The art of progress is to preserve order amid change, and to preserve change amid order." First Monetary has embraced and practiced this philosophy since inception. The company, was launched from a standing start by forward-thinking savings institutions who came up with their own solution to the D&O insurance crisis. In the beginning, First Monetary gave community bankers liability protection no one else would provide. As the market eased, it grew into a risk management company that community bankers could rely upon for information, advice and technical support no one else would volunteer. Now, with financial services changing fast, changing dramatically, and changing in ways that threaten to leave small banks in the lurch, First Monetary is redefining itself again. We are using our distinctive franchise to help community bankers participate in the banking revolution, and give them capacities that no one else

could readily develop.

This ranks as one of the most important shareholder's meetings in the history of

which financial services is moving had them swept away in recent months. Less than mid-way through 1998, national banks have won their case to provide property/casualty insurance and reinsure private mortgage coverage. A wave of mergers has created the first coast-to-coast financial giants. A major bank and underwriting firm have joined forces with the express intention of providing one-stop financial shopping and siphoning off your bread-and-butter mortgage customers. The size and power of these companies dramatically increases the likelihood that the market will drive politics. Deregulation efforts will speed up, expand and intensify.

The dynamics clearly favor large banks, but in business, bigness isn't always better. If that was the case, our battle would have been lost long ago. The real threat confronting community banks is not large-scale mergers per se, but not being able to offer the new services and earn the new fees that large-scale money center banks will. Community banks can hold their own, provided they are permitted to compete on a level playing field.

Going forward, First Monetary's value will lie in its ability to help community banks keep those mortgage customers and blunt the

SIX DIMENSIONS OF PROPHET



First Monetary. We have reached a crossroads in our evolution, and far more important than any discussion we can have today about where we are is one about where we are headed. The bulk of this Shareholder's meeting is devoted to that subject, and we will answer the question together.

THE EMERGING CHALLENGE

Anyone who harbored doubts about the direction in

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market advantage of the majors. First Monetary has the necessary resources, and we will accomplish the task by developing captive products that allow you to compete, market your products creatively and build your bottom lines. The MONETARY SYSTEM PMI program is the first tangible result of our effort to correct the deficiencies that deregulation has created.

OUR BUSINESS STRATEGY

Project DAVID helped First Monetary retrench as the D&O market softened. DAVID restructured First Monetary's financials, preserved its capital and permitted it to operate in what had suddenly become a competitive market teeming with fair weather friends. First Monetary weathered the transition beautifully.

The PROPHET Plan supplanted DAVID and changed the focus to infrastructure. PROPHET put in place the capacity First Monetary and First Monetary shareholders needed to gather data, share knowledge, market products and communicate electronically. It plugged FM into the newly wired world and established an electronic presence for community bankers under the INTERmoNETary network.

Our current business road map, the P.R.O.F.I.T. Plan,

Visitors to First Monetary's website learned important information about the company's operations.

The screenshot shows a web browser window with the address <http://firstmonetary.com/>. The page features a navigation menu on the left with items like 'HOME', 'ABOUT US', 'SERVICES', 'CONTACT US', and 'FAQ'. The main content area displays several news items:

- POSTED: April 13, 1998**
A Special Dinner Event in Albany
Mar 4th 1998. Invited guests to gather at Lombardos Restaurant.
- POSTED: January 7th, 1998**
FM Board Approves PIR/OPIH/ET 1998 Plan
Reinventing First Monetary with The Monetary System and PIR/OPIH/ET.
- MORTGAGE GUARANTEE INSURANCE:**

Below these are icons for 'PRIMARY LIABILITY', 'WRAP AROUND LIABILITY', 'EMPLOYMENT PRACTICES LIABILITY', 'GENERAL LIABILITY', and 'REQUEST FOR INFORMATION'. A section titled 'FIRST MONETARY INTRODUCES MORTGAGE GUARANTEE PROGRAM' includes the text: 'This June, FM members will have the opportunity to provide a service only the largest money center banks offer now. They will be able to reinsure a portion of the private mortgage insurance (PMI) on the loans they write.' It also features an illustration of a person with a house and a person with a document.

Another section titled 'Purpose and Objectives of a PMI Reinsurance Program' lists three goals:

- To expand homeownership by increasing the availability of mortgage credit products
- To increase community banks hands-on involvement in the PMI business
- To create an income stream for the mortgage originator

picks up where the financial restructuring efforts of DAVID and the computerized restructuring efforts of P.R.O.P.H.E.T. left off. P.R.O.F.I.T. takes the assets at our disposal -- our valuable charter, our substantial capital and our impressive technical resources and applies them to move First Monetary into new revenue producing operations and markets unconstrained by state and association boundaries. Our 1998 business plan formalized this requirement by calling for the creation of the MONETARY SYSTEM as First Monetary's product delivery vehicle.

Under P.R.O.F.I.T., First Monetary will continue to attend to our core business -- the D&O market bears watching and shows signs of tightening -- while redefining and expanding that business at the same time. This may seem like a lofty goal, but it must be pursued and can be attained if we continue to pull together as we have in the past. That's our job. That's our challenge. That's our next success story.

Sincerely,

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