



Shareholders Report

For the Year Ending 31 December, 1998

Fourteenth Annual Shareholders Meeting

14th June, 1999

Southampton Princess Hotel
Southampton Bermuda



Protecting the Decision Makers at Independent Community Banks



Agenda Item Five

President's Report



Welcome, friends and shareholders, to First Monetary Mutual Limited's Fourteenth Annual Shareholders Meeting.

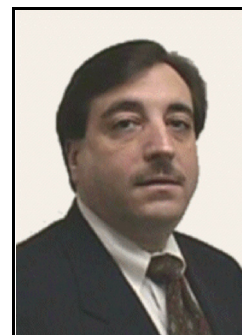
First Monetary remains a strong, pro-active organization dedicated to protecting, promoting and supporting members and member bank operations. We discharged that mission last year and still moved the company forward, despite ongoing strains in the property-casualty environment.

1998 saw continued consolidation in banking and depressed pricing in the company's core insurance businesses. Industry contraction reduced our membership base and premium income. Competition - sparked by the wholesale return of commercial companies to the D&O market - distorted FM's pricing model. While we fully expect the pricing situation to change, the economic effect of fighting a two front war was reflected in First Monetary's somewhat lackluster financial performance. Even so, the FM Board approved a \$100,000 pro-rata dividend based on 31 December 98 share values, marking the third consecutive year dividends were declared. In aggregate, these dividends exceed the total capital contributed to the organization by many members.

Look beyond the current balance sheet and you see where we are headed and cause for optimism. FM long ago recognized that industry consolidation and insurance competition would affect performance, and began taking steps to deal with the impact. We started changing direction in 1994, and have progressively recast the company along the lines of a community bank service provider. By restructuring product delivery systems to better meet the changing needs of community banks, we expanded our product line. In software jar-

gon, we became First Monetary 2.0.

Our strategy now is focused on securing First Monetary's lead role as locator and supplier of breaking news, specialty products and services to FDIC insured community institutions. "The Monetary System", our industry monitoring and product delivery mechanism, is actively being used to identify,



Francis Shashaty, CPCU

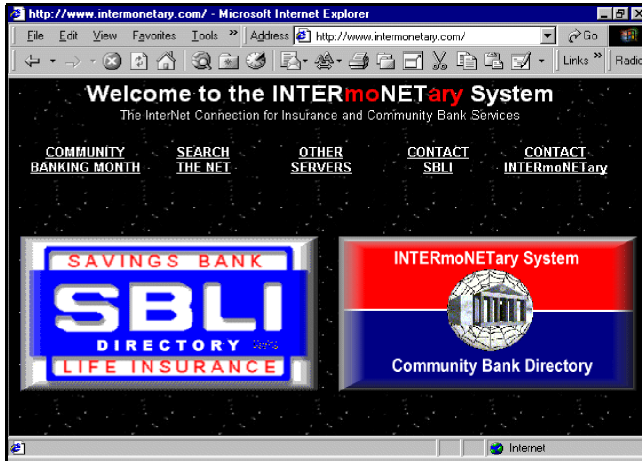
develop and implement risk management solutions that help community bankers work better, work smarter and improve the franchise. These solutions take the form of insurance products, low cost-technology, internet services or management and marketing tools.

During 1998, we refined the mechanism and pushed the first product associated with our targeted-growth plan through production. Our Private Mortgage Insurance Program holds significant promise in a market that is otherwise flat or declining. It went live in the first quarter of 1999.

More and more development is being chan-

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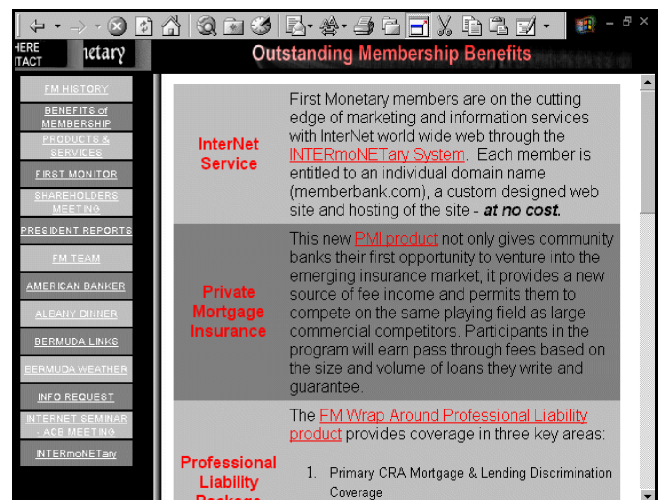


neled through the Monetary System pipeline. Here are the exciting results:

- ◆ In systems, we began with the rollout of the INTERmoNETary System, a first-ever-online portal dedicated to the promotion of community banking and SBLI insurance services. INTERmoNETary marked the start of the company's movement away from mono-line directors & officers and into broad-based services. INTERmoNETary now includes customized member web sites with top-level domain names, interactive forms and e-mail capabilities. In a connected world where professional web page design services remains costly, First Monetary continues to provide a service whose marketing value increases every day, and we do it free of charge.
- ◆ In products, we packaged together a new Employment Practices Liability program with a low, low \$1,000 minimum premium. We made the program even more valuable by giving members an industry standard employee handbook in easy-to-edit word-processing format. A comparable book would cost thousands to develop from scratch.

- ◆ In coverage protection, we added Mortgage and Lending Discrimination Liability coverage to our primary Directors and Officers liability and Wrap-Around Professional liability programs. Our members are now protected against CRA-related issues, without paying an additional dime in premiums.
- ◆ In services, we made complimentary subscriptions to American Banker Online, the internet version of the leading financial services newspaper, accessible to members through a special web portal at americanbanker.firstmonetary.com. We complemented this service with a change to First Monitor, our news and risk management broadcast. This publication is now faxed daily, shaving days, even weeks, off the time it takes a conventional newsletter to deliver the same information. FM members get a synopsis of the day's top market, regulatory, technology and competitive news in plenty of time to act on it.

We accomplished all this while maintaining our other outstanding member benefits, like the capital reinvestment program and shareholders meeting reimbursement. Discounting



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INFO AS IT HAPPENS AND ON-DEMAND

First Monitor
The First Monetary Fax Letter
First Monetary Mutual Insurance Company provides insurance, risk management, and other services to its community bank owners

AMERICAN BANKER ONLINE

Transmission: (Time Sent) Pages: (#)
Route To:

To: (MEMBER NAME) (Note)

TODAY'S HEADLINES
Growth of Domestic Output Tops Predictions, Fueling Speculation that Fed May Raise Rates
Veto-Proof Victory Is Pivotal in House Vote On Bankruptcy Bill
Mercantile's Stock Jumps 11% on Talk Of Takeover
Experts Doubt Checkfree Glitches Will Scare Off On-Line Customers

Member Information

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merger activity, 100% of our shareholders renewed their memberships.

To sustain our operations and growth, we must expand our membership. We expect that the expansion and resources will come in part from the products we are developing and in part from the markets and alliances we are now cultivating. Growth may take some time to develop, and the near-term pressure on earnings will continue, but we're excited about First Monetary 2.0 and the Monetary System. FM has the potential to be a high performing, targeted-growth competitor, and we have a tool in the Monetary System that can efficiently develop products and services with considerable long-term value to the membership.

Our success would not have been possible without the capable commitment of our Board and their alternates, the help of my fellow officers, Chairman Dave Swanson, Vice Chairman Richard Komosinski and Treasurer Angelo DiLorenzo, the support of OdysseyRe in its capacity as reinsurer, the efforts of the Monetary Team and the faith of the general membership. I would like to thank each of you for your hard work and commitment.

Sincerely,

FM Members get breaking financial news in a daily fax broadcast and on-line through a specially configured internet web portal

Francis J. Shashaty, CPCU