Message from The Chairman of The Board and the President

1983

Your Company finished its 129th year, with its common shareholders' equity at an all-time high of $73,498,000. The Company's capital base (common shareholders' equity, preferred shares and subordinated indebtedness) was strengthened by the successful completion of two public offerings of preferred stock: $30,000,000 of Series F $2.00 Convertible Exchangeable Preferred Stock in May 1983 through Merrill Lynch White Weld Capital Markets Group; and $50,000,000 of Series G Adjustable Rate Cumulative Preferred Stock in December 1983 through Drexel Burnham Lambert Incorporated. This gives us $179,622,000 of capital base. The capital base is particularly important to finance companies since lenders generally permit senior indebtedness to be a multiple of the capital base.

The 1983 consolidated results of operations reflected improvement in continuing operations. Income from continuing operations in 1983 was $15,596,000 or $2.41 per common share as compared to $10,455,000 or $1.75 per common share in 1982. 1983 extraordinary credits and discontinued operations were $5,126,000 or $.96 per common share. Extraordinary credits and discontinued operations include utilization of tax loss carryforwards and gains on sale of the discontinued real estate finance assets.

A number of other significant events occurred in 1983 and early in 1984:

We have paid off all debt remaining from the 1979 restructuring plan.

A two-for-one stock split in the form of a 100% stock dividend was effected in April 1983.

Our subsidiary, American Investment Company ("AIC"), terminated its bank credit agreement early in 1983 and entered into a $25,000,000 7½ year credit agreement with a bank and participated in a relatively new form of financing called an "interest rate swap". A second $25,000,000 "interest rate swap" was entered into in November and a second $25,000,000 credit agreement was entered into in March 1984. The effect of the interest rate swap agreements and related credit agreements is to effectively convert variable rate debt to a fixed rate which is designed to more appropriately finance our consumer finance operations.

Our Board of Directors authorized the purchase of up to 300,000 common shares. Through March 12, 1984 we have acquired 250,215 common shares at an average cost of $18.47 per share. We consider this an excellent investment for the Company.

On April 2, 1984, our Utah based industrial loan and thrift company was converted into a national bank which will take money market and other non-demand deposits insured by the Federal Deposit Insurance Corporation ("FDIC").

On March 23, 1984, we placed an $18,300,000 non-recourse mortgage on our New York City headquarters building. We also have received several offers, which we are currently evaluating, to sell the building for approximately $18,000,000 in excess of its book value.

On March 29, 1984, we announced that a letter of intent had been signed to acquire Columbia National Life Insurance Company for $18,000,000. Completion of the acquisition is subject to certain conditions.

We continue to be committed to the consumer finance industry and believe that there is a substantial opportunity for growth and future profits. The report of Robert Brock, Chairman of City Finance Company, who leads our consumer finance operations is separately included.

Our life insurance operations are principally conducted through Charter National Life Insurance Company ("Charter"). As we indicated last year, our strategy was to create new life insurance products and to reduce the excessive overhead at Charter. Progress has been made in both areas as is reflected in the report of Charter's chief executive officer, David Cumming, also included separately. In 1983 we continued to defer recognition of all income related to our TAPLAN product, a single premium increasing whole life insurance product. Premiums from TAPLAN were $63,971,000 in 1982 and $57,697,000 in 1983. Experience to date has been satisfactory and we presently expect to consider recognizing income with respect to TAPLAN during 1984.

As reported last year, the Company acquired a majority interest in Cardiff Equities Corporation ("Cardiff"), an AMEX company whose continuing operations are principally in the manufacturing of vanities and electrical cord sets. Our efforts to restructure Cardiff and have it contribute to Leucadia's future profits were significantly advanced in 1983 and should be completed in 1984.

The 1983 year profited from two other bright spots:

Through our partnership in The Jordan Company we have acquired interests sufficient to permit the Company to record our investments under the equity method of accounting in eight companies engaged in various businesses. The Jordan Company is a firm managed by one of our directors, John Jordan II, that specializes in structuring leveraged buy-outs in which we become equity participants with only a modest cash investment. The Company's share of the earnings of those companies included in results of operations was $2,606,000 for 1983 compared to $700,000 for 1982. In addition, included in the 1983 results is a non-cash, non-operating pre-tax gain of $1,350,000 as a result of the successful public offering of its common shares by one of these companies, Bench Craft, Inc., in December 1983.

Terracor was acquired late in 1982 by the Company furnishing the $5,932,000 required to fund its chapter 11 bankruptcy plan. During 1983, Terracor realized proceeds of $5,308,000 from the sale of properties and the collection of instalment notes receivable. Terracor has substantial assets remaining which should provide profits from time to time. In late December, Terracor acquired a small consumer finance company, Town Enterprises, Inc., for $2,500,000.

We remain appreciative of our lenders, capable employees and professional advisors who again performed yeoman service in 1983.

1982 was a year of extraordinary gains. 1983 in many ways was even better because our profits from continuing operations again improved. We are pleased for our loyal shareholders and we hope that our shareholders are pleased as well.

Ian M. Cumming
Chairman

Joseph S. Steinberg
President

Report on Consumer Finance Operations

It is with a great deal of pleasure that I report to you on the record results of our operations during the 1983 year.

Highlights of our year were:

- Record financial results
  - Increased gross income
  - Reduced operating expenses
- Increased investment in receivables
  - Receivables increased 26% in operating branches
  - Seven new offices were opened
  - Town Enterprises, Inc. was acquired on December 30, 1983
- Reduced delinquency and losses
  - a 34% reduction in the percentage of direct loans contractually delinquent by 60 days or more
  - a 42% reduction in the loss ratio
  - a 30% reduction in the provision for bad debt losses

In my report to you last year, I stated that we were entering 1983 with receivables of excellent quality and high yields, which should result in an outstanding profit contribution for the Company. Our results were even better than anticipated. Based on operating data we use in the management of the business, earnings before deducting interest expense and income taxes stated as a percentage of average gross receivables was 16.1% in 1983 compared to 13.25% in 1982, a 22% increase, and a record percentage return on our investment for the Company. This was accomplished by increasing our gross income and by reducing both operating expenses and bad debt losses.

Consumer finance receivables increased by $49,100,000 in 1983. This represents an increase of $55,508,000 in the operating branches and a reduction of $6,408,000 in the liquidating branches. We added 7 operating branches during the year and now conduct business in 157 locations in 16 states. Our average net receivable per operating branch was $1,822,000 at December 31, 1983 compared to $1,485,000 at December 31, 1982.

Continued improvement in delinquency resulted in increased collections which improved gross income. Contractual delinquency on direct loans 60 days or more past due continued to show improvement from 4.68% in 1982 to 3.09% in 1983. These ratios are considerably better than industry averages and once again show that we continue to maintain excellent quality receivables. We hope to have continued low bad debt write-offs and high yields.

Bad debt charge-offs were lower in 1983 than in 1982, going from 2.9% to 1.7%, for a 42% reduction. We hope for continued improvement in this ratio in 1984.

The consumer finance business made a strong showing in 1983. The consumer regained confidence in the future of the economy and re-entered the marketplace in increased numbers. As a result, our volume of sales finance and direct loan business increased, which led to the increase in our receivables. I do not anticipate any slowdown in 1984, as bargains in the marketplace continue to appeal to the consumer. We intend to actively solicit consumers in our servicing areas and hope to continue the growth achieved in 1983. We believe growth is the key to continued reduction in operating expense through the handling of more dollars in earning assets in each branch location.

As I see it, the biggest challenge facing us in 1984 is to maintain the spread between gross income and the cost of funds. Competition in the form of reduced rates has been widely noted during the last half of 1983 and will likely expand further in 1984 if the lower cost of short-term funds continues. We, however, will continue to exercise careful judgement in properly matching both the pricing and the maturity of our loans with the cost and term of borrowed funds.

Despite the problem of a possible squeeze on gross income in 1984, we are very optimistic of our continued ability to show additional improvements in our financial results as well as in our operating ratios. With increased receivables and reduced delinquency, we are positioned for additional record profits in 1984 and look forward with a great deal of enthusiasm to being a major contributor to the profits of Leucadia.

Robert P. Brock

Robert P. Brock
Chairman of the Board
City Finance Company

Report on Insurance Operations

The non-captive insurance business of Leucadia is principally conducted through Charter National Life Insurance Company, which is licensed in all states (except New York), the District of Columbia, Puerto Rico and in seven provinces of Canada.

Life insurance as a business has been dramatically changed over the last decade by external events. The marketplace has shown increasing sensitivity to the investment elements of life insurance products as interest rates have fluctuated. Life insurance products have become much more flexible as computer software and hardware have been created to administer complex contracts.

The combination of high interest rates and automated administration has permitted smaller companies such as Charter to compete effectively with the very large companies; the general level of competition has become very intense. Charter has responded to these changes in several ways though none of these changes are designed to put Charter in direct competition with the largest companies for the mass market.

TAPLAN, our single premium increasing whole life product, was the major new business producer in 1983 as it was in 1982. Premium revenues were $57,697,000 for 1983. TAPLAN combines increasing death benefits with significant cash values which increase at rates competitive with other tax-deferred investments.

For financial reporting purposes, Charter has continued to defer recognition of all operating income applicable to TAPLAN. Though we have been pleased with TAPLAN's experience, we can not yet be certain what profits will be because of uncertainties as to future interest rates, mortality and, particularly, persistency. We intend to reevaluate our TAPLAN experience in 1984 and may then begin to recognize profits.

Proposed tax legislation makes it likely that TAPLAN will not be sold in the future. In order to provide a saleable contract to satisfy demands for a TAPLAN like policy, CHART-A-PLAN was introduced in January 1984. This is a flexible premium life policy with significant cash values, designed to meet the requirements of the proposed new law.

In addition to TAPLAN and CHART-A-PLAN, Charter has continued to be innovative and to introduce new products.

> In 1983 Charter began marketing immediate and structured settlement annuities. These types of products produced $6,477,000 in premium revenues. Our modest result has made it clear that success in this area will require a more effective marketing effort.
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> Credit insurance is generally issued with little or no regard for the health of the insured. It is therefore very expensive and essentially unsaleable to sophisticated consumers obtaining large loans. Charter is developing an inexpensive decreasing term contract for larger size loans which would justify the underwriting effort. Charter hopes to market the contract initially through tax shelter syndicators. Charter, has in the past and in 1984, will market traditional credit insurance, primarily through small banks in conjunction with consumer loans.
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> Charter has commenced selling inexpensive term insurance with annual commissions. The Company hopes to market this product through broker-dealers.

During 1983, Charter continued to have significant success in decreasing overhead. General expenses in 1983 were 25% less than in 1982. The Company anticipates further decreases though they will be less dramatic. Despite the decrease in overhead, the Company continues to improve its performance and service standards.

The 1983 results reflect significant progress toward establishing Charter as a profitable company with innovative products. We are also actively seeking to acquire other life insurance companies. The expected benefits of such acquisitions are (1) purchase of life insurance contracts at a cost lower than that of obtaining new business in traditional ways (2) efficiencies created by eliminating duplication of policy maintenance costs and (3) new product opportunities.

We hope to make Charter a stronger and more profitable company in 1984.

David Cumming
President