

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND PRESIDENT:

The 126th year of our Company was a busy one which included significant changes in our businesses. We entered the year with an agreement to sell our factoring subsidiary, James Talcott Factors, Inc., to Lloyds and Scottish Limited. The closing of the sale occurred later than anticipated due to delays in obtaining regulatory approval. Unfortunately, the period from year-end to the sale date was a period of high interest rates and an unfavorable economy, particularly in the industries served by the factoring operations. The deterioration in the financial condition of several factoring clients resulted in our establishing substantial provisions for losses prior to the sale. However, on May 27, 1980, the sale was consummated. We sincerely miss our friends at James Talcott Factors and are very appreciative of the support of their employees and management throughout the years. One result of that sale was the elimination of the James Talcott name under which the Company had operated since its inception.

Another major development, on December 3, 1980, we acquired American Investment Company (AIC), a holding company engaged in consumer financing and insurance activities. Through City Finance Company we have been actively engaged in consumer financing for some years; however, insurance not related to consumer financing is a new business to us. We are very pleased with the insurance operations. The comments of Lawrence

L. Hoffman, Chief Operating Officer of the insurance operations, are included in this portion of the annual report.

Our consumer finance operations are headed by Robert P. Brock, Chairman of City Finance Company since 1978. City Finance, which is now part of AIC, had an outstanding year in 1980. The depth of experienced management at City Finance enabled us to begin to integrate the operations of City Finance and AIC and to eliminate duplications. We have found in AIC an experienced, dedicated and very able consumer lending group and look forward to the results of integrated operations. A report by Mr. Brock on the consumer finance operations is also included in this section of the annual report.

In 1980, and in 1981 to date, substantial litigation related to our real estate has been resolved. The resolution of one potential problem enabled our independent auditors to render an unqualified opinion on our financial statements for the first time since 1975.

For the year ended December 31, 1980, the Company had income from continuing operations of \$662,000 or \$.21 per common and dilutive common equivalent share; income from discontinued operations of \$477,000 or \$.15 per common and dilutive common equivalent share; an extraordinary credit from use of net operating loss carryforwards of

\$753,000 or \$.23 per common and dilutive common equivalent share and net income of \$1,892,000 or \$.59 per common and dilutive common equivalent share. The 1980 results include AIC's operating results since its acquisition on December 3, 1980.

For 1979, the Company had a loss from continuing operations of \$1,347,000 or \$.41 per common and dilutive common equivalent share (\$.02 on a fully diluted basis); loss from discontinued operations of \$4,987,000 or \$1.50 per common and dilutive common equivalent share (\$1.22 on a fully diluted basis); extraordinary credits from implementation of the Restructuring Plan and the debt exchange offer of \$25,644,000 or \$7.72 per common and dilutive common equivalent share (\$6.26 on a fully diluted basis) and net income of \$19,310,000 or \$5.81 per common and dilutive common equivalent share (\$5.02 on a fully diluted basis).

In December 1980, management announced that it was exploring the feasibility of and various techniques to accomplish a transaction or series of transactions that might result in its common stockholders being afforded the opportunity to receive approximately \$9 in cash or preferred stock, the terms of which had not yet been determined, in exchange for each share of common stock. Management currently is exploring the feasibility of an exchange offer that would afford holders of up to 1,400,000 shares of its common stock the opportunity to receive preferred stock of

the Company, the terms of which have not yet been determined, in exchange for their shares. Such exchange offer would be made only by means of a prospectus as required by applicable securities laws. We will keep you informed as to decisions taken in this regard.

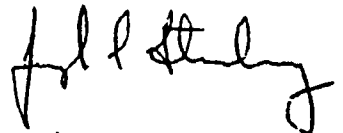
The accomplishments of 1980 required a tremendous effort on the part of our officers and employees. We sincerely thank them for their unselfish efforts and the many sacrifices made on behalf of the Company.

We also are very appreciative of the support of our lenders. We made many requests of them, often on short notice, and they invariably responded in a positive and constructive manner.

This year, for the first time, we are including the annual report filed with the Securities and Exchange Commission on Form 10-K as an integral part of our shareholders' report. This presentation will provide our shareholders with more detailed descriptions of our business, statistical data and financial statements than previously were available in our annual reports.



Ian M. Cumming
Chairman



Joseph S. Steinberg
President

REPORT ON CONSUMER FINANCE OPERATIONS:

The 1980 year proved to be a very challenging but rewarding one for City Finance Company which, until the acquisition of AIC on December 3, 1980, comprised the Company's consumer finance operations. During the first half of the year, we restricted the growth of our receivables, due to the federal government's credit restraint program. This was followed by management's decision to continue the restriction, due to limited availability of funds and the record-high cost of borrowed funds. We concluded the year with a great deal of our energy directed toward the closing of the acquisition of AIC with its very large receivable base.

In spite of the above restraints, the diversion of attention to the AIC acquisition and a depressed economy, City Finance Company had record earnings for the year. Net income amounted to a record \$2,865,000, a gain of 33% over 1979 net income of \$2,152,000. These figures do not include the results of AIC's operations which are included in the financial statements of Leucadia National Corporation from December 3, 1980 to the end of calendar 1980.

City Finance's income before income taxes and interest expense expressed as a percentage of average net receivables also set a record high, at 15.03%. This compares to 14.43% in 1979. This percentage return continues to be unusually high for the consumer finance industry.

Income and expense items are also best analyzed by relating them to average net receivables. On this basis, net revenues were 28.7% of average net receivables in 1980, compared to 28.9% of average net receivables in 1979 and operating expenses decreased to 10.4% of average net receivables in 1980 from 10.9% in 1979.

City Finance's contractual delinquency of 60 days or more was 2.19% of outstanding receivables, an increase from 1.78% in 1979. Net credit losses to average net direct consumer loans outstanding

were 1.90% in 1980, compared to 1.22% in 1979. Credit losses on dealer instalment contracts were .90% of liquidations as compared to 1.06% in 1979. The increase in our delinquency and charge-off rates were a direct result of the depressed economy with its accompanying heavy unemployment, and the increased use of the liberalized exemptions offered in the new bankruptcy code. Although the above delinquency and charge-off ratios show an increase for 1980, they are still among the lowest in the industry.

Although AIC has not experienced earnings on its receivables as favorable as has City Finance, we believe the profile of the average AIC customer is essentially similar to a City Finance customer. Accordingly, I am very optimistic about the great potential offered by the AIC acquisition, and the addition of its experienced personnel, who after several years of an uncertain future with other potential AIC merger partners, are eager to return to the normal routine of the consumer finance business. With AIC's large receivable customer base to work with, our future growth appears to be most promising.

Our management team feels very confident in its ability to improve both the quality of the receivables and earnings. We will, assuming the availability of reasonably priced money, direct our attention to expanding our receivables in those states offering the best gross income yields and strive to continue to decrease our direct costs as a percentage of the net receivables employed.

On balance, 1981 should be a good year for the consumer finance operations.



Robert P. Brock
Chairman of City Finance Company and
Chief Operating Officer of the Consumer
Finance Operations.

REPORT ON INSURANCE OPERATIONS:

The purchase of AIC resulted in Leucadia National Corporation entering the non-credit related insurance business through AIC's subsidiary, Charter National Life Insurance Company, and its subsidiary, Charter American Insurance Company. In addition, City Life Insurance Company, a former subsidiary of City Finance Company, became a subsidiary of Charter American and these three companies now comprise the insurance operations of Leucadia National Corporation.

The purpose of this report is to acquaint you with these companies. The figures mentioned below reflect amounts for all of 1980's operations, though, except for City Life, the earnings of the insurance operations are included only in Leucadia National's consolidated financial statements from December 3, 1980.

CHARTER NATIONAL LIFE INSURANCE COMPANY

During the past decade, a handful of the more than 1,800 life insurance companies in the United States and Canada have effectively reshaped the insurance marketplace and have established

themselves as an important part of the insurance industry. Charter National Life is one of these companies, and is recognized as one of the country's most innovative insurance marketers, operating in the highly competitive life brokerage market and specializing in the underwriting of impaired risk or hard to insure cases, and in the development of innovative life insurance products. The company is licensed in 49 states, the District of Columbia, Canada, and Puerto Rico.

Its most recent product innovations include Single Premium Interest Adjustable Life (SPIAL), a paid-up life insurance policy which utilizes today's high interest rates to produce a lower cost for the consumer. Under this program, Charter may adjust benefits upward or downward every five years, depending upon changes in interest rates. First introduced in late 1979, SPIAL accounted for 44.1% of the Company's new ordinary business written in 1980.

Another new program is the Retired Lives Reserves ("RLR"), a product which provides the equivalent of paid-up group life insurance at retirement to employees of small to medium-size corporations. Charter National offers several versions of this program, one of which was unique to the industry

when first offered by Charter National in late 1978. The Company has pioneered other aspects of RLR, including lifetime funding and excess interest crediting. RLR accounted for 21.5% of the Company's new business in 1980.

The balance of Charter's business results from aggressive underwriting of impaired risk or rated business. The Company uses a highly skilled team of professional underwriters and medical personnel, together with access to domestic and international reinsurance markets, to arrive at an acceptable price for the buyer. This insurance specialty is confined to only a few companies, and Charter National has been in this business since 1967.

Credit insurance operations of Charter National Life have been conducted in two parts, captive and non-captive. The captive credit business is written for customers of the AIC consumer finance operations and the non-captive business is written for non-related parties. Leucadia is not new to the captive business, since City Life has been involved in captive credit insurance for a number of years.

CHARTER AMERICAN INSURANCE COMPANY

Charter American is the property and casualty subsidiary of Charter National Life, and is licensed to operate in 33 states. Except for its credit property lines (household goods and lenders' collateral protection), most other major lines have been historically unprofitable. In 1979, the Company began a planned program of curtailing and/or discontinuing major lines of business which were unprofitable, due to high claim reserves and extraordinary losses. This program should be completed as of May 31, 1981. Charter American expects to eventually confine its activities primarily to credit property lines as a reinsurer.

We in the Charter group look forward to contributing to the operations of Leucadia and believe we will make an important contribution to its future earnings.



Lawrence L. Hoffman, CLU
President of Charter National Life Insurance Company and Charter American Insurance Company and Chief Operating Officer of the Insurance Operations