

Message from The Chairman of The Board and The President:

The 1982 year was an outstanding year in the 128 year history of your Company. Many events, the foundation for which had been laid during the last few years, came to fruition in 1982. In addition, the Company took advantage of other opportunities as they arose to improve the Company's financial condition and to lay the foundation for future growth.

Although the 1982 consolidated results of operations reflect several significant transactions recorded as extraordinary or non-recurring items in the consolidated income statement, perhaps the most significant transaction was the sale in early February of approximately \$65,000,000 of such receivables. This sale completed the planned \$125,000,000 reduction of consumer finance receivables. The funds from this sale were utilized to retire substantially all of the American Investment Company ("AIC") variable rate indebtedness and ultimately to acquire a portion of AIC's long-term indebtedness at a substantial discount. After completing this sale, the Company's consumer finance operations were principally located in those states where City Finance Company has historically operated most successfully.

We are committed to the consumer finance industry and believe there is a substantial opportunity for growth and future profits. Our consumer finance operations are headed by Robert Brock and supported by a highly competent and experienced staff. His report on the consumer finance operations is separately included.

During 1982 we had discussions with several potential buyers for Charter National Life Insurance Company ("Charter") our life insurance subsidiary. However, we have decided not to sell Charter. We determined that its profitability was being substantially reduced by excessive overhead. David Cumming, Vice President and General Counsel of your Company, was elected Chairman and President of Charter with instructions to reduce the excessive overhead and develop new life insurance products. We are happy to report that progress is being made in that regard.

In 1982, Charter introduced its TAPLAN product, which is discussed in more depth in David Cumming's report on the insurance operations. In summary, sales of TAPLAN in 1982 were approximately \$63,971,000. However, as much as TAPLAN has characteristics substantially different from that of other insurance products sold by Charter, we have decided to defer recognition of all income related

to TAPLAN until we have had more experience with it. Our experience to date has been satisfactory and we believe it is likely that TAPLAN and other similar products will add substantially to our future profits.

We see Charter as a provider of specialty insurance products that include increasing cash value features and hope to significantly expand this area of our business.

In the spring of 1982 we perceived an opportunity to retire AIC's low rate long-term indebtedness at a substantial discount from principal amount principally using cash generated from the sale of the consumer finance receivables. We believed that interest rates were declining from historically high levels and that AIC would be able to borrow in the future at lower rates—particularly in light of the substantial improvement in AIC's operations and capitalization. Cash tender offers for AIC and the Company's debt resulted in an aggregate \$42,036,000 principal amount of indebtedness being acquired for approximately \$30,161,000.

The 1982 results of operations include extraordinary credits aggregating \$24,192,000 and non-recurring credits including a gain from settling a long-outstanding federal income tax matter. Discontinued operations include gains of \$7,200,000 from the sale of certain real estate properties and approximately \$1,600,000 from the sale of the casualty insurance subsidiary. In 1983, we expect, AIC's dividends and earnings will enable the Company to reduce a substantial portion of the Company's outstanding bank indebtedness.

The Company was involved in several acquisitions in 1982. It acquired 57% of the outstanding common shares and certain convertible and non-convertible debt of Cardiff Equities Corporation ("Cardiff"), formerly TFI Companies, Incorporated, an American Stock Exchange company with remaining interests in building materials distribution and manufacturing. As we expected at the time of the tender, Cardiff has not operated profitably since acquisition, principally because of the depressed economy. Since Cardiff was purchased at less than the reported book value and is independently financed, our financial exposure is limited to our relatively modest remaining investment. We ultimately expect Cardiff to be a positive contributor to earnings and a vehicle for growth in the non-financial area. Cardiff has required a disproportionate amount of management's time and attention and in retrospect, our timing of this acquisition could have been better.

In mid-December, the Company acquired Terracor, a company which had been in chapter 11 bankruptcy proceedings and formerly controlled by your Company's Chairman. Prior to approving the acquisition, the Board of Directors appointed a committee of independent directors and engaged real estate appraisers and independent investment bankers to review the transaction. We believe we acquired Terracor's assets at less than fair value and ended litigation that was occupying substantial management time. We also became a partner with John W. Jordan II, a Director of the Company, in The Jordan Company, a firm specializing in structuring leveraged buy-outs. As a result during 1982, we became a 22-30% equity owner in four companies. These companies have operated profitably since acquisition and the Company recorded its portion of their earnings in results of operations.

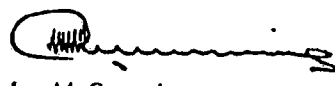
AIC terminated its bank credit agreement early in 1983 and in related transactions (i) entered into a \$25,000,000 7½ year credit agreement with a bank and (ii) participated in a relatively new form of financing called an "interest rate swap". These related transactions have the effect of converting the variable rate credit agreement borrowings into a 12.2%

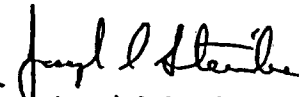
maximum fixed rate financing. The Company also called for redemption, on March 1, 1983, its 6% Convertible Subordinated Debentures.

On March 10, 1983, the Board of Directors declared a two-for-one stock split to be effective in the form of a 100% stock dividend payable on April 6, 1983 to stockholders of record on March 23, 1983.

We are very appreciative of the support of our bank lenders who have again responded to our frequent requests in a constructive and innovative manner, often on very short notice. We are also thankful for our very capable employees and professional advisors of whom we often make unreasonable requests, but who always fulfill such requests in an unfailing manner while continuing to perform their more routine assignments in an extraordinary fashion.

1982 was an extraordinary year which we cannot expect will soon be repeated. It has provided a strong financial foundation which will be a basis for future earnings growth. It was a year our loyal shareholders deserved.


Ian M. Cumming
Chairman


Joseph S. Steinberg
President