

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
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FILER

**FREMONT GENERAL CORP**

CIK: **38984** | IRS No.: **952815260** | State of Incorporation: **NV** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-08007** | Film No.: **96664593**  
SIC: **6331** Fire, marine & casualty insurance

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2020 SANTA MONICA BLVD  
SANTA MONICA CA 90404

Business Address  
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STE 600  
SANTA MONICA CA 90404  
3103155500

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended September 30, 1996

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8007

FREMONT GENERAL CORPORATION  
(Exact name of registrant as specified in this charter)

Nevada 95-2815260  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2020 Santa Monica Blvd.  
Santa Monica, California 90404  
(Address of principal executive offices)  
(Zip Code)

(310) 315-5500  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15 (d) of Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate the number of shares outstanding of each of the issuer's classes of common stock:

| Class                                   | Shares Outstanding<br>November 8, 1996 |
|---|--|
| -----<br>Common Stock, \$1.00 par value | -----<br>27,501,132                    |

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FREMONT GENERAL CORPORATION

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

|  | September 30,<br>1996  | December 31,<br>1995 |
|--|------------------------|----------------------|
|  | -----                  | -----                |
|  | (Unaudited)            |                      |
|  | (Thousands of dollars) |                      |
| <S>  | <C>                    | <C>                  |
| <b>ASSETS</b>  |                        |                      |
| Securities available for sale at fair value:   |                        |                      |
| Fixed maturity investments (cost: 1996 - \$1,120,967; 1995 - \$1,255,434) ...  | \$ 1,101,332           | \$ 1,296,550         |
| Non-redeemable preferred stock (cost: 1996 - \$376,018; 1995 - \$285,337) ...  | 369,170                | 277,451              |
|  | -----                  | -----                |
| Total securities available for sale .....  | 1,470,502              | 1,574,001            |
| Loans receivable .....   | 1,706,201              | 1,499,043            |
| Short-term investments .....   | 115,264                | 362,163              |
| Other investments .....  | 3,270                  | 1,726                |
|  | -----                  | -----                |
| Total Investments and Loans .....  | 3,295,237              | 3,436,933            |
| Cash .....   | 30,926                 | 39,559               |
| Accrued investment income .....  | 20,617                 | 30,396               |
| Premiums receivable and agents' balances .....   | 100,709                | 107,973              |
| Reinsurance recoverable on paid losses .....   | 8,852                  | 9,422                |
| Reinsurance recoverable on unpaid losses .....   | 611,090                | 289,461              |
| Deferred policy acquisition costs .....  | 25,425                 | 76,638               |
| Costs in excess of net assets acquired .....   | 67,452                 | 70,656               |
| Deferred income taxes .....  | 80,664                 | 78,619               |
| Other assets .....   | 72,675                 | 75,240               |
| Assets held for discontinued operations .....  | 265,675                | 262,502              |
|  | -----                  | -----                |
| Total Assets .....   | \$ 4,579,322           | \$ 4,477,399         |
|  | =====                  | =====                |
| <b>LIABILITIES</b>   |                        |                      |
| Claims and policy liabilities:   |                        |                      |
| Losses and loss adjustment expenses .....  | \$ 1,310,200           | \$ 1,455,692         |
| Life insurance benefits and liabilities .....  | 368,484                | 374,724              |
| Unearned premiums .....  | 88,832                 | 100,481              |
| Dividends to policyholders .....   | 35,048                 | 40,822               |
|  | -----                  | -----                |
| Total Claims and Policy Liabilities .....  | 1,802,564              | 1,971,719            |
| Reinsurance premiums payable and funds withheld .....  | 4,488                  | 5,452                |
| Other liabilities .....  | 54,167                 | 81,371               |
| Thrift deposits .....  | 1,034,502              | 926,312              |
| Short-term debt .....  | 147,368                | 72,191               |
| Long-term debt .....   | 687,295                | 693,276              |
| Liabilities of discontinued operations .....   | 232,161                | 228,988              |
|  | -----                  | -----                |
| Total Liabilities .....  | 3,962,545              | 3,979,309            |
| Commitments and contingencies  |                        |                      |
| Company-obligated mandatorily redeemable preferred securities of<br>subsidiary Trust holding solely Company junior subordinated debentures ..... | 100,000                | -                    |

## STOCKHOLDERS' EQUITY

|   |              |              |
|---|--------------|--------------|
| Common Stock, par value \$1 per share - Authorized: 49,500,000 shares;<br>issued and outstanding: (1996 - 27,501,000 and 1995 - 25,393,000) ..... | 27,501       | 25,393       |
| Additional paid-in capital .....  | 151,647      | 110,103      |
| Retained earnings .....   | 399,808      | 347,607      |
| Deferred compensation .....   | (44,965)     | (6,612)      |
| Net unrealized gain (loss) on investments, net of deferred taxes .....  | (17,214)     | 21,599       |
|   | -----        | -----        |
| Total Stockholders' Equity .....  | 516,777      | 498,090      |
|   | -----        | -----        |
| Total Liabilities and Stockholders' Equity .....  | \$ 4,579,322 | \$ 4,477,399 |
|   | =====        | =====        |

See notes to consolidated financial statements on Form 10-Q.

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&lt;/TABLE&gt;

FREMONT GENERAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>  
<CAPTION>

|   | Three Months Ended<br>September 30,           |            | Nine Months Ended<br>September 30, |            |
|---|---|------------|------------------------------------|------------|
|   | 1996  | 1995       | 1996                               | 1995       |
|   | -----   |            |                                    |            |
|   | (Thousands of dollars, except per share data) |            |                                    |            |
| <S>   | <C>   | <C>        | <C>                                | <C>        |
| Revenues                                    |   |            |                                    |            |
| Property and casualty premiums earned ..... | \$ 120,096                                    | \$ 159,125 | \$ 372,334                         | \$ 457,694 |
| Net investment income .....                 | 30,159  | 31,950     | 95,228                             | 85,842     |
| Loan interest .....                         | 42,216  | 40,488     | 119,270                            | 120,928    |
| Realized investment gains (losses) .....    | (170)   | (69)       | (1,694)                            | 8          |
| Other revenue .....                         | 5,085   | 7,005      | 15,589                             | 26,179     |
|   | -----   | -----      | -----                              | -----      |
| Total Revenues .....                        | 197,386                                       | 238,499    | 600,727                            | 690,651    |
| Expenses                                    |   |            |                                    |            |
| Losses and loss adjustment expenses .....   | 82,035  | 122,463    | 261,540                            | 353,017    |
| Policy acquisition costs .....              | 23,072  | 34,980     | 72,587                             | 95,026     |
| Provision for loan losses .....             | 3,305   | 2,146      | 9,153                              | 10,504     |
| Other operating costs and expenses .....    | 26,562  | 26,714     | 78,522                             | 86,497     |
| Interest expense .....                      | 28,735  | 25,336     | 84,704                             | 72,757     |
|   | -----   | -----      | -----                              | -----      |
| Total Expenses .....                        | 163,709                                       | 211,639    | 506,506                            | 617,801    |
| Income before taxes .....                   | 33,677  | 26,860     | 94,221                             | 72,850     |
| Income tax expense .....                    | 10,738  | 8,595      | 30,339                             | 23,512     |
|   | -----   | -----      | -----                              | -----      |
| Net Income .....                            | \$ 22,939                                     | \$ 18,265  | \$ 63,882                          | \$ 49,338  |
|   | =====   | =====      | =====                              | =====      |

## Per Share Data

|                          |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| Net income:              |         |         |         |         |
| Primary .....            | \$ 0.85 | \$ 0.70 | \$ 2.42 | \$ 1.90 |
| Fully diluted .....      | 0.71    | 0.58    | 2.01    | 1.58    |
| Cash dividends .....     | 0.15    | 0.13    | 0.45    | 0.38    |
| Weighted average shares: |         |         |         |         |
| Primary .....            | 26,961  | 26,190  | 26,345  | 25,987  |
| Fully diluted .....      | 34,199  | 33,408  | 33,563  | 33,232  |

See notes to consolidated financial statements on Form 10-Q.

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&lt;/TABLE&gt;

FREMONT GENERAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 1996                               | 1995        |
|  | -----<br>(Thousands of dollars)    |             |
| <S>  | <C>                                | <C>         |
| <b>OPERATING ACTIVITIES</b>  |                                    |             |
| Net income .....   | \$ 63,882                          | \$ 49,338   |
| Adjustments to reconcile net income to net cash provided<br>by operating activities:                   |                                    |             |
| Change in premiums receivable and agents' balances<br>and reinsurance recoverable on paid losses ..... | 7,059                              | 762         |
| Change in accrued investment income .....  | 9,779                              | (10,124)    |
| Change in claims and policy liabilities .....  | (173,710)                          | (35,987)    |
| Amortization of policy acquisition costs .....   | 72,587                             | 95,026      |
| Policy acquisition costs deferred .....  | (70,312)                           | (113,414)   |
| Provision for deferred income taxes .....  | 18,854                             | 8,841       |
| Provision for loan losses .....  | 9,153                              | 10,504      |
| Provision for depreciation and amortization .....  | 18,216                             | 13,769      |
| Net amortization on fixed maturity investments .....   | (18,008)                           | (1,888)     |
| Realized investment (gains) losses .....   | 1,694                              | (8)         |
| Change in other assets and liabilities .....   | (28,976)                           | 9,890       |
|  | -----                              | -----       |
| Net Cash Provided by (Used in) Operating Activities ...  | (89,782)                           | 26,709      |
| <b>INVESTING ACTIVITIES</b>  |                                    |             |
| Securities available for sale:   |                                    |             |
| Purchases of securities .....  | (1,286,971)                        | (2,353,101) |
| Sales of securities .....  | 1,297,117                          | 1,611,086   |
| Securities matured or called .....   | 49,955                             | 65,359      |
| Securities held to maturity:   |                                    |             |
| Purchases of securities .....  | -                                  | (117,660)   |
| Sales of securities .....  | -                                  | -           |
| Securities matured or called .....   | -                                  | 5,464       |
| Decrease in short-term and other investments .....   | 245,355                            | 761,212     |
| Loan originations and bulk purchases funded .....  | (508,796)                          | (334,566)   |
| Receipts from repayments of loans .....  | 291,789                            | 256,762     |
| Purchase of subsidiaries, less cash acquired .....   | -                                  | (249,305)   |
| Purchase of property and equipment .....   | (8,815)                            | (5,623)     |
|  | -----                              | -----       |
| Net Cash Provided by (Used in) Investing Activities ...  | 79,634                             | (360,372)   |
| <b>FINANCING ACTIVITIES</b>  |                                    |             |
| Proceeds from short-term debt .....  | 145,401                            | 30,134      |
| Repayments of short-term debt .....  | (72,191)                           | (189,755)   |
| Proceeds from long-term debt .....   | 121,058                            | 315,000     |
| Repayments of long-term debt .....   | (101,004)                          | (42,808)    |
| Net increase in thrift deposits .....  | 108,190                            | 82,147      |
| Annuity contract receipts .....  | 128,543                            | 154,087     |
| Annuity contract withdrawals .....   | (30,756)                           | (12,068)    |
| Proceeds from sale of Preferred Securities .....   | 100,000                            | -           |
| Dividends paid .....   | (10,942)                           | (9,234)     |
| Stock options exercised .....  | 1,374                              | 68          |
| Settlement under life insurance reinsurance agreement .....  | (360,000)                          | -           |
| Net (increase) decrease in deferred compensation plans .....   | (28,158)                           | 4,375       |
|  | -----                              | -----       |
| Net Cash Provided by Financing Activities .....  | 1,515                              | 331,946     |
|  | -----                              | -----       |
| Decrease in Cash .....   | (8,633)                            | (1,717)     |
| Cash at beginning of year .....  | 39,559                             | 31,058      |
|  | -----                              | -----       |
| Cash at September 30, .....  | \$ 30,926                          | \$ 29,341   |
|  | =====                              | =====       |

See notes to consolidated financial statements on Form 10-Q.

</TABLE>

FREMONT GENERAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ON FORM 10-Q  
(Unaudited)

NOTE A --- Basis of Presentation of Financial Statements

These statements have been prepared in accordance with generally accepted accounting principles and, accordingly, adjustments (consisting of normal accruals) have been made as management considers necessary for fair presentations. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995. Certain 1995 amounts have been reclassified to conform to the 1996 presentation.

NOTE B --- Public Offering

On March 1, 1996, Fremont General Financing I, a statutory business trust (the "Trust") and consolidated wholly-owned subsidiary of the Company, sold \$100 million of 9% Trust Originated Preferred Securities<sup>SM</sup> ("the Preferred Securities") in a public offering. The Preferred Securities represent preferred undivided beneficial interests in the assets of the Trust. The proceeds from the sale of the Preferred Securities were invested in 9% Junior Subordinated Debentures of the Company ("the Junior Subordinated Debentures"). The \$100 million Junior Subordinated Debentures are the sole asset of the Trust.

The Preferred Securities will be redeemed upon maturity of the Junior Subordinated Debentures in 2026, subject to the election available to the Company to extend the maturity up to 2045, and they may be redeemed, in whole or in part, at any time on or after March 31, 2001 and under certain specified circumstances.

The Junior Subordinated Debentures rank pari passu with the Company's \$302 million aggregate principal amount at maturity of Liquid Yield Option Notes due 2013, and subordinate and junior to all senior indebtedness of the Company. Payment of distributions out of cash held by the Trust, and payments on liquidation of the Trust or the redemption of the Preferred Securities are guaranteed by the Company to the extent that the trust has funds available to make such payments. The Company has provided for back-up undertakings that, considered together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the Preferred Securities.

NOTE C --- Reinsurance

On January 1, 1996, the Company entered into a reinsurance and assumption agreement with a reinsurer whereby assets and liabilities related to certain life and annuity insurance policies, primarily investment-type contracts and credit life and accident and health, were ceded to the reinsurer. This reinsurance agreement is part of several other agreements which collectively act to significantly reduce the Company's life insurance operations. In the second quarter ended June 30, 1996 these agreements settled, which resulted in the transfer of \$360 million in securities and cash to the reinsurer in support of the liabilities ceded. The effect on net income from these agreements was not material.

NOTE D --- Stockholders' Equity and Per Share Data

The three-for-two Common Stock split declared on December 4, 1995 was distributed on February 7, 1996 to stockholders of record on January 8, 1996.

Per share data have been computed based on the weighted average number of shares outstanding adjusted retroactively for this stock split.

During the first nine months of 1996, the Company purchased an aggregate 1,351,097 shares at an aggregate cost of approximately \$32 million and issued 681,000 shares with a fair value of \$16 million to fund stock-based management and employee benefit programs.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth elsewhere in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

Fremont General Corporation (the "Company"), a nationwide property and casualty insurance and financial services holding company, operates through its wholly-owned subsidiaries in select businesses in niche markets. The three core operating lines of business are workers' compensation insurance, real estate lending and commercial finance lending. Additionally, on a smaller scale, the Company is involved in underwriting various other insurance products.

The following table presents information for the three and nine months ended September 30, 1996 and 1995 with respect to the Company's primary business segments.

<TABLE>  
<CAPTION>

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 1996                                | 1995       | 1996                               | 1995       |
|  | (Thousands of dollars)              |            |                                    |            |
| <S>  | <C>                                 | <C>        | <C>                                | <C>        |
| Revenues:  |                                     |            |                                    |            |
| Workers' compensation .....                                  | \$ 138,974                          | \$ 177,122 | \$ 431,097                         | \$ 504,068 |
| Professional medical liability,<br>corporate and other ..... | 8,802                               | 9,027      | 25,284                             | 28,253     |
| Total property and casualty ...                              | 147,776                             | 186,149    | 456,381                            | 532,321    |
| Financial services .....                                     | 49,333                              | 52,236     | 143,041                            | 157,822    |
| Corporate .....  | 277                                 | 114        | 1,305                              | 508        |
| Total .....  | \$ 197,386                          | \$ 238,499 | \$ 600,727                         | \$ 690,651 |
| Income (Loss) Before Taxes:                                  |                                     |            |                                    |            |
| Workers' compensation .....                                  | \$ 31,514                           | \$ 23,316  | \$ 88,042                          | \$ 61,556  |
| Professional medical liability,<br>corporate and other ..... | (799)                               | (380)      | (1,922)                            | (1,508)    |
| Total property and casualty ...                              | 30,715                              | 22,936     | 86,120                             | 60,048     |
| Financial services .....                                     | 9,724                               | 9,518      | 26,112                             | 25,838     |
| Corporate .....  | (6,762)                             | (5,594)    | (18,011)                           | (13,036)   |
| Total .....  | \$ 33,677                           | \$ 26,860  | \$ 94,221                          | \$ 72,850  |

</TABLE>

The Company generated revenues of approximately \$197 million and \$601 million in the three and nine month periods ended September 30, 1996, as compared to \$238 million and \$691 million for the same periods in 1995. Revenues were lower in the three and nine month periods ended September 30, 1996 as compared to the same periods of 1995, due primarily to lower workers' compensation insurance premiums and lower life insurance premiums in the financial services segment. The lower premiums in the nine month period ended September 30, 1996 as compared to the same prior year period were partially offset by higher net investment income. The higher net investment income is due primarily to higher invested assets resulting from the acquisition on February 22, 1995, of Casualty Insurance Company ("Casualty") from the Buckeye Union Insurance Company. Casualty underwrites workers' compensation insurance primarily in Illinois and several other mid-western states. Casualty currently is the largest underwriter of workers' compensation insurance in Illinois and has provided the Company with a significant presence in the mid-western region. Workers' compensation insurance premiums were lower in the nine month period ended September 30, 1996 as compared to the same prior year period, due primarily to lower

premiums earned in California, partially offset by higher premiums earned in the mid-western region resulting from the acquisition of Casualty. With respect to the three month period ended September 30, 1996, both the west (primarily California) and mid-west regions posted lower workers' compensation earned premiums as compared to the same prior year period. See "Property and Casualty Insurance Operations - Premiums." Lower revenues in the financial services segment are due primarily to lower life insurance premiums as the Company significantly reduced its life insurance operations effective January 1, 1996 by entering into certain reinsurance and assumption agreements with a reinsurer. See "Financial Services." Realized investment gains (losses) in the three and nine month periods ended September 30, 1996 were \$(170,000) and \$(1,694,000), respectively, compared to \$(69,000) and \$8,000, respectively, for the same

periods in 1995.

The Company had net income of \$22.9 million or \$0.85 per share and \$63.9 million or \$2.42 per share for the three and nine month periods ended September 30, 1996, respectively, as compared to \$18.3 million or \$0.70 per share and \$49.3 million or \$1.90 per share, for the same periods in 1995. Income before taxes for the three and nine month periods ended September 30, 1996 was \$33.7 million and \$94.2 million as compared to \$26.9 million and \$72.9 million for the same periods in 1995, representing increases of 25.4% and 29.3% for the three and nine month periods, respectively.

Workers' compensation insurance operations posted income before taxes of \$31.5 million and \$88.0 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$23.3 million and \$61.6 million for the same periods in 1995. The increases in income before taxes of 35.2% and 43.0% for the three and nine month periods, respectively, are due primarily to lower claim frequency and the acquisition of Casualty, offset partially by lower income on the Company's California business. The combined ratio for the three and nine month periods ended September 30, 1996 was 93.3% and 95.5%, respectively, as compared to 100.3% and 100.6% for the same periods in 1995.

The Company's professional medical liability, corporate and other segment is composed principally of revenues and expenses that pertain to the Company's professional medical liability business ("medical malpractice"), as well as miscellaneous expenses associated with the Company's downstream property and casualty insurance holding company, Fremont Compensation Insurance Group (formerly Fremont Insurance Group, Inc.). Medical malpractice premiums were \$7.6 million and \$21.3 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$7.3 million and \$22.7 million for the same periods in 1995. Income before taxes for the medical malpractice business was \$1.1 million and \$2.9 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$1.3 million and \$3.8 million for the same periods in 1995. The lower income before taxes for the nine months ended September 30, 1996 is consistent with the lower premiums earned in the medical malpractice segment. Expenses of Fremont Compensation Insurance Group include interest expense on debt and other obligations of \$1.7 million and \$4.7 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$1.7 million and \$4.9 million for the same periods in 1995. Since the operations of Fremont Compensation Insurance Group consist primarily of interest expense and overhead expenses, management does not expect it to operate at a profit.

The financial services business segment posted income before taxes for the the three and nine month periods ended September 30, 1996 of \$9.7 million and \$26.1 million, respectively, as compared to \$9.5 million and \$25.8 million for the same periods of 1995. Although income before taxes was relatively flat as compared to the three and nine month periods ended September 30, 1995, the nine month results in 1996 were negatively impacted by the establishment of a specific loan loss reserve associated with a particular loan in the commercial finance loan portfolio. The average loan portfolio in the financial services segment grew to \$1.57 billion in the nine month period ended September 30, 1996 from \$1.50 billion in the same period of 1995. Also impacting the financial services segment in 1996 is the significant reduction in life insurance premiums resulting from certain reinsurance and assumption agreements entered into between the Company and a reinsurer which became effective December 31, 1995 and January 1, 1996. Income before taxes in the life insurance operation was nil in both the three and nine month periods ended September 30, 1996, as compared to \$0.5 million and \$1.6 million for the same periods in 1995. See "Financial Services."

Corporate revenues during the three and nine month periods ended September 30, 1996 and 1995 consisted primarily of investment income, while corporate expenses consisted primarily of interest expense and general and administrative expense. The corporate loss before income taxes for the three and nine month periods ended September 30, 1996 was \$6.8 million and \$18.0 million, respectively, as compared to \$5.6 million and \$13.0 million for the same periods of 1995. The increase in the corporate loss before taxes for the three and nine month periods ended September 30, 1996 over the same periods in 1995, was due primarily to increased interest expense and increased administrative expenses. The increase in interest expense is principally due to additional debt incurred in the acquisition of Casualty, as well as to accrued dividends in connection with a public offering on March 1, 1996 of \$100 million of 9% Trust Originated Preferred Securities<sup>SM</sup> (the "Preferred Securities") sold by a consolidated wholly-owned subsidiary of the Company. See "Liquidity and Capital Resources." Since the proceeds from this offering were invested in 9% Junior Subordinated Debentures of the Company, the accrued dividends on the Preferred Securities have been classified in the Consolidated Statements of Income as interest expense.



Income tax expense of \$10.7 million and \$30.3 million for the three and nine month periods ended September 30, 1996, respectively, represents effective tax rates of 31.9% and 32.2% on pre-tax income of \$33.7 million and \$94.2 million. The Company's effective tax rates are flat as compared to effective tax rates of 32.0% and 32.3% for the same periods in 1995. These effective tax rates are lower than the enacted federal income tax rate of 35%, due primarily to tax exempt investment income which reduces the Company's taxable income.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

The following table represents information for the three and nine month periods ended September 30, 1996 and 1995 with respect to the Company's property and casualty insurance operations:

<TABLE>  
<CAPTION>

|                           | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---------------------------|-------------------------------------|------------|------------------------------------|------------|
|                           | 1996                                | 1995       | 1996                               | 1995       |
|                           | (Thousands of dollars)              |            |                                    |            |
| <S>                       | <C>                                 | <C>        | <C>                                | <C>        |
| Revenues .....            | \$ 147,776                          | \$ 186,149 | \$ 456,381                         | \$ 532,321 |
| Expenses .....            | 117,061                             | 163,213    | 370,261                            | 472,273    |
| Income before taxes ..... | \$ 30,715                           | \$ 22,936  | \$ 86,120                          | \$ 60,048  |

</TABLE>

Revenues from the property and casualty insurance operations consist primarily of workers' compensation insurance premiums earned and net investment income. Expenses consist primarily of loss and loss adjustment expenses, policy acquisition costs and other operating costs and expenses.

PREMIUMS. Premiums earned from the Company's workers' compensation insurance operations were \$112.2 million and \$350.1 million in the three and nine month periods ended September 30, 1996, respectively, as compared to \$151.3 million and \$433.3 million for the same periods of 1995. Premiums were lower in the three and nine month periods ended September 30, 1996 as compared to the same periods of 1995, due primarily to lower premium rates and non-renewals in the west region. For the three and nine month periods ended September 30, 1996, the Company's workers' compensation insurance premiums earned in its western region, consisting primarily of California, accounted for \$42.8 million and \$131.6 million, or 38.2% and 37.6% of the Company's total workers' compensation insurance premiums earned, respectively. This also represents decreases of \$29.2 million and \$96.2 million from the same respective periods in 1995. These decreases were due primarily to the increased price competition resulting from California's adoption of an open rating system and the repeal of the minimum rate law. See "Workers' Compensation Regulation." This increased price competition has led to (i) lower premium rates and (ii) a lower average policy size due to the Company's shift in focus to smaller employers. Additionally, an increase in non-renewing policies have contributed to the lower premium volume in California. The increase in non-renewing policies occurs as a result of certain premium prices falling below required minimum pricing pursuant to the Company's underwriting standards. For the three and nine month periods ended September 30, 1996, the Company's workers' compensation insurance premiums earned in its mid-western region,

consisting primarily of Illinois, accounted for \$69.4 million and \$218.5 million, or 61.8% and 62.4%, respectively, of the Company's total workers' compensation insurance premiums earned. This is compared to \$79.2 million and \$205.4 million in premiums earned in the same respective periods of 1995. The lower premiums earned in the third quarter ended September 30, 1996 as compared to the same period in 1995, are due primarily to price competition in Illinois, where an overall average decrease of 13.6% in advisory rates, which workers' compensation insurance companies in Illinois tend to follow, became effective January 1, 1996. See "Variability of Operating Results." With respect to the nine month period ended September 1996, premiums earned are higher than the same period in 1995, due primarily to the fact that the Casualty acquisition settled on February 22, 1996, and therefore, only seven months of Casualty's operating results are included in the Company's results for the nine month period ended September 30, 1995.

NET INVESTMENT INCOME. Net investment income within the property and

casualty insurance operations was \$27.8 million and \$85.7 million in the three and nine month periods ended September 30, 1996, as compared to \$27.0 million and \$74.6 million for the same periods of 1995. Higher net investment income was earned in the nine month period ended September 30, 1996 as compared to the same period in 1995, due primarily to the fact that only seven months of Casualty's operations are included in the Company's results of operations in the nine month period ended September 30, 1995.

**LOSS AND LOSS ADJUSTMENT EXPENSE.** Workers' compensation loss and loss adjustment expenses ("LAE") were \$75.8 million and \$244.1 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$116.5 million and \$333.8 million for the same periods in 1995. In addition, the ratio of these losses and LAE to workers' compensation insurance premiums earned was 67.5% and 69.7% for the three and nine month periods ended September 30, 1996, respectively, as compared to 77.0% for both the three and nine months ended September 30, 1995. The decreases in incurred loss and LAE in the three and nine month periods ended September 30, 1996 as compared to the same periods of 1995, are due primarily to lower claim frequency and severity in the Company's mid-west region and to a lower level of incurred losses and LAE in the Company's west region resulting from lower insurance premiums earned on California policies which resulted from increased competition. See "Premiums".

The Company regularly reviews its reserving techniques, overall reserve position and reinsurance. In light of present facts and current legal interpretations, management believes that adequate provisions have been made for loss reserves. In making this determination, management has considered its claims experience to date, loss development history for prior accident years and estimates of future trends of claims frequency and severity. However, establishment of appropriate reserves is an inherently uncertain process, and there can be no certainty that currently established reserves will prove adequate in light of subsequent actual experience. Subsequent actual experience has resulted and could result in loss reserves being too high or too low. Future loss development could require reserves for prior periods to be increased, which would adversely impact earnings in future periods.

**POLICY ACQUISITION COSTS AND OTHER OPERATING COSTS AND EXPENSES.** The ratio of policy acquisition costs and other operating costs and expenses to premiums earned is referred to as the expense ratio, which for the Company's workers' compensation business was 25.8% for both the three and nine month periods ended September 30, 1996, respectively, as compared to 23.3% and 23.6% in the same respective periods of 1995. The increase in this ratio in the three and nine month periods ended September 30, 1996 was due primarily to higher operating costs and expenses, partially offset by lower agents' commission costs.

**DIVIDENDS TO POLICYHOLDERS.** In the three and nine month periods ended September 30, 1996 and September 30, 1995, there were no dividends accrued. This is due primarily to a change in the type of workers' compensation insurance policy written on and after January 1, 1995. In 1995, the Company's workers' compensation insurance policies, both in California and those underwritten by Casualty, were predominately written as non-participating, which does not include provisions for dividend consideration. Prior to 1995 the Company's policies were predominately written as participating, thereby obligating the Company to consider the payment of dividends. This shift in policy type is due primarily to the increased competition in the California market which has resulted from the repeal of the minimum rate law, effective January 1, 1995. The Company anticipates that this

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shift to non-participating policies will continue and be a characteristic element of the competitive environment established by the July 1993 California legislation. See "Workers' Compensation Regulation."

**VARIABILITY OF OPERATING RESULTS.** The Company's profitability can be affected significantly by many factors including competition, the severity and frequency of claims, interest rates, regulations, court decisions, the judicial climate, and general economic conditions and trends, all of which are outside of the Company's control. These factors have contributed, and in the future could contribute, to significant variation of results of operations in different aspects of the Company's business from quarter to quarter and year to year. With respect to the workers' compensation insurance business, changes in economic conditions can lead to reduced premium levels due to lower payrolls as well as increased claims due to the tendency of workers who are laid off to submit workers' compensation claims. Legislative and regulatory changes can also contribute to variable operating results for workers' compensation insurance businesses. For example, in 1995 the Company experienced the negative impact of lower premiums and lower profitability on the Company's California workers' compensation business due to increased price competition resulting from legislation enacted in California in July 1993 which, among other things, repealed the minimum rate law effective January 1, 1995. See "Workers' Compensation Regulation." Additionally, price competition in Illinois continues

to impact the Company's profitability, where an overall average decrease of 13.6% in advisory rates, which workers' compensation insurance companies in Illinois tend to follow, became effective January 1, 1996. The Company anticipates that its results of operations and financial condition will continue to be adversely affected by the increased price competition which has lowered the Company's workers' compensation insurance premiums earned in California and Illinois. Also, the establishment of appropriate reserves necessarily involves estimates, and reserve adjustments have caused significant fluctuations in operating results from year to year.

**WORKERS' COMPENSATION REGULATION.** Illinois began operating under an open rating system in 1982 and California began operating under such a system effective January 1, 1995. In an open rating system, workers' compensation companies are provided with advisory rates by job classification and each insurance company determines its own rates based in part upon its particular operating and loss costs. Although insurance companies are not required to adopt such advisory rates, companies in Illinois generally follow such rates. Premiums in Illinois have decreased, due in part to the 13.6% decrease in overall average advisory rates which became effective January 1, 1996. However, insurance companies in California have, since the adoption of an open rating system, generally set their premium rates below such advisory rates. Before January 1, 1995, California operated under a minimum rate law, whereby premium rates established by the California Department of Insurance were the minimum rates which could be charged by an insurance carrier.

In July 1993, California enacted legislation to reform the workers' compensation insurance system and to, among other things, (i) reduce workers' compensation manual premium rates by 7% effective July 16, 1993 and (ii) repeal the minimum rate law effective January 1, 1995. In addition to the July 1993 legislation, in December 1993, the California Insurance Commissioner reduced workers' compensation manual premium rates on new and renewal business an additional 12.7% effective January 1, 1994. In September 1994, California workers' compensation manual premium rates were further reduced by 16% effective October 1, 1994 on all business incepting on or after January 1, 1994.

The repeal of the minimum rate law on January 1, 1995 has resulted in lower premiums and lower profitability in the Company's California workers' compensation insurance business due to increased price competition. The Company believes that its acquisition of Casualty, with policies written primarily outside of California, has lessened the impact of the repeal of the minimum rate law by providing geographic diversity, which mitigates the impact of economic and regulatory changes within a regional marketplace.

**FINANCIAL SERVICES**

The Company's financial services operations are principally engaged in commercial and residential real estate lending through Fremont Investment & Loan and asset-based commercial finance lending through Fremont Financial. The Company also has small premium finance and life insurance operations included in this segment. Revenues consist principally of interest income and, to a lesser extent, fees and other income.

The following table presents information with respect to the Company's financial services operations:

<TABLE>  
<CAPTION>

|                           | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                           | 1996                                | 1995      | 1996                               | 1995       |
|                           | (Thousands of dollars)              |           |                                    |            |
| <S>                       | <C>                                 | <C>       | <C>                                | <C>        |
| Revenues .....            | \$ 49,333                           | \$ 52,236 | \$ 143,041                         | \$ 157,822 |
| Expenses .....            | 39,609                              | 42,718    | 116,929                            | 131,984    |
| Income Before Taxes ..... | \$ 9,724                            | \$ 9,518  | \$ 26,112                          | \$ 25,838  |

</TABLE>

Revenues decreased 5.6% and 9.4% in the three and nine month periods ended September 30, 1996, respectively, as compared to the same periods of 1995, due

primarily to lower life insurance revenues. These lower life insurance revenues resulted from certain reinsurance and assumption agreements which the Company entered into on December 31, 1995 and January 1, 1996, primarily with one reinsurer, whereby assets and liabilities related to certain life and annuity insurance policies, primarily investment-type contracts and credit life and accident and health, were ceded to the reinsurer. The reinsurance agreements are part of several other agreements which collectively act to significantly reduce the Company's life insurance operations. The effect on income before taxes and net income from these agreements was not material.

Income before taxes in the financial services operations was \$9.7 million and \$26.1 million for the three and nine month periods ended September 30, 1996, respectively, as compared to \$9.5 million and \$25.8 million for the same periods of 1995. Income before taxes was relatively flat in the financial services segment for the three and nine month periods ended September 30, 1996 as compared to the same periods of 1995, due primarily to higher income before taxes in the real estate lending operation as lower loan loss experience resulted in a lower provision for loan losses. This was offset substantially by lower income in the commercial finance operation due to a specific loan loss reserve associated with a particular loan in the commercial finance loan portfolio. Additionally, lower income was earned in the life insurance operation due to certain reinsurance agreements which became effective on December 31, 1995 and January 1, 1996 and which resulted in a significant reduction in the Company's life insurance operations in 1996.

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The following table identifies the interest income, interest expense, average interest-bearing assets and liabilities, and interest margins for the Company's real estate lending and commercial finance subsidiaries:

<TABLE>  
<CAPTION>

|  | Nine Months Ended September 30, |           |                    |                    |           |                    |
|--|---------------------------------|-----------|--------------------|--------------------|-----------|--------------------|
|  | 1996                            |           |                    | 1995               |           |                    |
|  | Average<br>Balance              | Interest  | Yield/<br>Cost (1) | Average<br>Balance | Interest  | Yield/<br>Cost (1) |
| (Thousands of dollars, except percents)      |                                 |           |                    |                    |           |                    |
| <S>  | <C>                             | <C>       | <C>                | <C>                | <C>       | <C>                |
| Interest bearing assets (2):                 |                                 |           |                    |                    |           |                    |
| Commercial finance<br>and other assets ..... | \$ 650,888                      | \$ 53,603 | 10.98%             | \$ 607,217         | \$ 54,536 | 11.98%             |
| Real estate lending:                         |                                 |           |                    |                    |           |                    |
| Cash equivalents .....                       | 148,519                         | 5,925     | 5.32               | 88,856             | 3,674     | 5.51               |
| Investments .....                            | 30,196                          | 1,277     | 5.64               | 832                | 16        | 2.56               |
| Commercial real estate loans .....           | 724,363                         | 52,511    | 9.67               | 679,972            | 49,855    | 9.78               |
| Residential real estate loans .....          | 198,727                         | 14,087    | 9.45               | 125,626            | 9,171     | 9.73               |
| Contract loans .....                         | 41                              | -         | -                  | 7,332              | 726       | 13.20              |
| Installment loans .....                      | 538                             | 54        | 13.38              | 2,630              | 252       | 12.78              |
| Finance leases .....                         | -                               | -         | -                  | 45                 | 3         | 8.89               |
| Total interest bearing assets .....          | \$ 1,753,272                    | \$127,457 | 9.69               | \$ 1,512,510       | \$118,233 | 10.42              |
| Interest bearing liabilities:                |                                 |           |                    |                    |           |                    |
| Savings deposits .....                       | \$ 252,918                      | \$ 9,405  | 4.96%              | \$ 110,301         | \$ 4,268  | 5.16%              |
| Time deposits .....                          | 718,757                         | 30,859    | 5.72               | 665,143            | 30,011    | 6.02               |
| Commercial paper and other .....             | 2,132                           | 77        | 4.82               | 18,394             | 974       | 7.06               |
| Securitization obligation .....              | 297,017                         | 13,598    | 6.10               | 318,889            | 15,789    | 6.60               |
| Debt with banks .....                        | 233,940                         | 11,322    | 6.45               | 166,050            | 8,366     | 6.72               |
| Debt from affiliates .....                   | 58,915                          | 2,161     | 4.89               | 47,733             | 1,675     | 4.68               |
| Total interest bearing liabilities ...       | \$ 1,563,679                    | \$ 67,422 | 5.75               | \$ 1,326,510       | \$ 61,083 | 6.14               |
| Net interest income .....                    |                                 | \$ 60,035 |                    |                    | \$ 57,150 |                    |
| Net yield .....                              |                                 |           | 4.57%              |                    |           | 5.04%              |

(1) Annualized.

(2) Average loan balances include non-accrual loan balances.

</TABLE>

The margin between the Company's interest income and cost of funds decreased in the nine month period ended September 30, 1996 as compared to the nine month period ended September 30, 1995, due primarily to an increase in lower yielding cash equivalents and changes in the mix of loans, offset partially by a modest decrease in the cost of savings and time deposits in the real estate lending operation. Additionally, there was a slight decrease in the net margins in the commercial finance lending segment. In the real estate lending operation, the change in portfolio mix occurred as the Company completed in 1996 its shift from high rate, high risk residential real estate loans secured by personal property or junior liens on real estate, to lower yielding residential first trust deed real estate loans. The lower yields on the first trust deed loans are compensated for by the improved underlying collateral and by the improved lien position on the collateral. The net margins decreased in the commercial finance segment due primarily to an increase in the competitive environment.

LOANS RECEIVABLE AND RESERVE ACTIVITY. The following table shows loans receivable in the various financing categories and the percentages of the total represented by each category:

<TABLE>  
<CAPTION>

|   | September 30,<br>1996 |               | December 31,<br>1995 |               |
|---|-----------------------|---------------|----------------------|---------------|
|   | Amount                | % of<br>Total | Amount               | % of<br>Total |
| (Thousands of dollars, except percents)       |                       |               |                      |               |
| <S>   | <C>                   | <C>           | <C>                  | <C>           |
| Accounts receivable and inventory loans:      |                       |               |                      |               |
| Commercial finance .....                      | \$ 457,357            | 26%           | \$ 415,038           | 27%           |
| Term loans:                                   |                       |               |                      |               |
| Commercial finance .....                      | 182,492               | 10            | 110,647              | 7             |
| Real estate lending .....                     | 1,036,153             | 60            | 888,952              | 58            |
| Other .....                                   | 65,493                | 4             | 116,187              | 8             |
| Total term loans .....                        | 1,284,138             | 74            | 1,115,786            | 73            |
| Total loans .....                             | 1,741,495             | 100           | 1,530,824            | 100           |
| Less allowance for possible loan losses ..... | 35,294                | 2             | 31,781               | 2             |
| Loans receivable .....                        | \$ 1,706,201          | 98%           | \$ 1,499,043         | 98%           |

</TABLE>

The following table illustrates the maturities of the Company's loans receivable:

<TABLE>  
<CAPTION>

|  | Maturities at September 30, 1996 |                    |                   |              |
|--|----------------------------------|--------------------|-------------------|--------------|
|  | 1 to 24<br>Months                | 25 to 60<br>Months | Over 60<br>Months | Total        |
| (Thousands of dollars)   |                                  |                    |                   |              |
| <S>  | <C>                              | <C>                | <C>               | <C>          |
| Accounts receivable and inventory loans -- variable rate ..... | \$ 457,357                       | \$ -               | \$ -              | \$ 457,357   |
| Term loans -- variable rate .....                              | 182,517                          | 78,222             | 824,038           | 1,084,777    |
| Term loans -- fixed rate .....                                 | 97,809                           | 33,285             | 68,267            | 199,361      |
| Total .....  | \$ 737,683                       | \$ 111,507         | \$ 892,305        | \$ 1,741,495 |

</TABLE>

The Company monitors the relationship of fixed and variable rate loans and interest bearing liabilities in order to minimize interest rate risk.

Adverse economic developments can negatively affect the Company's business and results of operations in a number of ways. Such developments can, among other things, reduce the demand for loans, impair the ability of borrowers to pay loans and impair the value of the underlying collateral.

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The following table describes the asset classifications, loss experience and reserve reconciliation of the real estate lending and commercial finance operations as of or for the periods ended as shown below:

<TABLE>  
<CAPTION>

|  | September 30,                           |                  |
|--|---|------------------|
|  | 1996                                    | 1995             |
|  | (Thousands of dollars, except percents) |                  |
| <S>  | <C>                                     | <C>              |
| Non-accrual loans .....  | \$ 26,824                               | \$ 42,331        |
| Accrual loans 90 days past due .....   | 349                                     | 1,820            |
| Real estate owned ("REO") .....  | 9,953                                   | 4,596            |
| <b>Total non-performing assets .....</b>   | <b>\$ 37,126</b>                        | <b>\$ 48,747</b> |
| Beginning allowance for possible loan losses .....   | \$ 31,781                               | \$ 27,406        |
| Provision for loan losses .....  | 9,153                                   | 10,504           |
| Reserves established with portfolio acquisitions .....   | 1,830                                   | -                |
| Charge-offs:   |   |                  |
| Commercial finance and other loans .....   | 5,456                                   | 113              |
| Real estate lending:   |   |                  |
| Commercial real estate loans .....   | 2,681                                   | 1,561            |
| Residential real estate loans .....  | 229                                     | 1,158            |
| Contract and installment loans .....   | 94                                      | 207              |
| <b>Total charge-offs .....</b>   | <b>8,460</b>                            | <b>3,039</b>     |
| Recoveries:  |   |                  |
| Commercial finance and other loans .....   | 29                                      | 1,023            |
| Real estate lending:   |   |                  |
| Commercial real estate loans .....   | 564                                     | 1,404            |
| Residential real estate loans .....  | 139                                     | 193              |
| Contract and installment loans .....   | 250                                     | 1                |
| Finance leases .....   | 8                                       | -                |
| <b>Total recoveries .....</b>  | <b>990</b>                              | <b>2,621</b>     |
| <b>Net charge-offs .....</b>   | <b>7,470</b>                            | <b>418</b>       |
| <b>Ending allowance for possible loan losses .....</b>   | <b>\$ 35,294</b>                        | <b>\$ 37,492</b> |
| Allocation of allowance for possible loan losses:  |   |                  |
| Commercial finance and other loans .....   | \$ 13,672                               | \$ 15,830        |
| Real estate lending .....  | 21,622                                  | 21,662           |
| <b>Total allowance for possible loan losses .....</b>  | <b>\$ 35,294</b>                        | <b>\$ 37,492</b> |
| Total loans receivable .....   | \$ 1,741,495                            | \$ 1,545,566     |
| Average total loans receivable .....   | 1,573,796                               | 1,495,260        |
| Net charge-offs to average total loans receivable .....  | 0.63%                                   | 0.04%            |
| Non-performing assets to total loans receivable .....  | 2.13%                                   | 3.15%            |
| Allowance for possible loan losses to total loans receivable .....                               | 2.03%                                   | 2.43%            |
| Allowance for possible loan losses to non-performing assets .....                                | 95.07%                                  | 76.91%           |
| Allowance for possible loan losses to non-accrual loans and accrual loans 90 days past due ..... | 129.89%                                 | 84.92%           |

</TABLE>

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Non-performing assets decreased to \$37.1 million at September 30, 1996 from \$48.7 million at September 30, 1995. This decrease is due primarily to decreases in non-accrual loans in the commercial finance and real estate lending operations, offset partially by an increase in REO in the real estate lending

operation. The decrease in non-accrual loans in the commercial finance lending operation is primarily due to one loan in the commercial finance portfolio classified as non-accrual at September 30, 1995 and subsequently charged-off. The decrease in non-accrual loans in the real estate lending operation is due primarily to improved loan loss experience.

The lower provision for loan losses in the nine month period ended September 30, 1996 as compared to the same period in 1995, is due primarily to improved loan loss experience in the real estate lending operation, offset partially by an additional specific loan loss reserve in the commercial finance operation associated with one loan in the commercial finance portfolio. Substantially all of the charge-offs in the commercial finance segment in the nine months ended September 30, 1996 were also related to this loan. This accounts for the increase in net charge-offs to average total loans receivable to 0.63% at September 30, 1996 from 0.04% at September 30, 1995.

#### LIQUIDITY AND CAPITAL RESOURCES

The property and casualty insurance operations must have cash and liquid assets available to meet their obligations to policyholders in accordance with contractual obligations, in addition to having the funds available to meet ordinary operating costs. These operations have several sources of funds to meet their obligations, including cash flow from operations, recoveries from reinsurance contracts and investment securities. By statute, the majority of the cash from these operations is required to be invested in investment grade securities to provide protection for policyholders. The Company invests in fixed income and preferred equity securities with an objective of providing a reasonable return while limiting credit and liquidity risk. The Company's investment portfolio had an unrealized gain (loss) of \$(26.5) million and \$33.2 million at September 30, 1996 and December 31, 1995, respectively.

The Company's thrift and loan subsidiary finances its lending activities primarily through customer deposits, which have grown to \$1.035 billion at September 30, 1996 from \$926 million at December 31, 1995. In addition, Fremont Investment & Loan is eligible for financing through the Federal Home Loan Bank of San Francisco. This financing is available at varying rates and terms. As of September 30, 1996, \$231 million was available under the facility with \$21 million outstanding.

The Company's commercial finance operation funds its lending activities primarily through its asset securitization program, an unsecured revolving line of credit with a syndicated bank group and its capital. The asset securitization program was established to provide a stable and cost effective source of funds to facilitate the expansion of this business. The securities issued in this program have scheduled maturities in 1997 and 2000, but could mature earlier depending on fluctuations in outstanding balances of loans in the portfolio and other factors. During April 1995, the Company issued \$30 million in subordinated variable rate asset-backed certificates, which mature in 2000, via a private placement. In February 1996, \$135 million in asset-backed certificates were issued which mature in 2000. The proceeds were used, in conjunction with existing cash, to retire \$200 million in previously issued variable rate asset-backed certificates. As of September 30, 1996 there were \$265 million in outstanding variable rate asset-backed certificates. Additionally, up to \$365 million in additional publicly offered asset-backed certificates may be issued pursuant to a shelf registration statement to fund future growth in the commercial finance loan portfolio. In December 1995, a commercial paper facility was established as part of the asset securitization program. This facility, which expires in December 1998, provides for the issuance of up to \$150 million in commercial paper, dependent upon the level of assets within the asset securitization program. As of September 30, 1996, \$47 million was outstanding under this facility. The commercial finance operation's unsecured revolving line of credit is with a syndicated bank group that presently permits borrowings of up to \$400 million, of which \$270 million was outstanding as of September 30, 1996. This credit line is primarily used to finance assets which are not included in the Company's asset securitization program. This credit line expires August 1998.

As a holding company, Fremont General pays its operating expenses, meets its other obligations and pays stockholders' dividends from its cash on hand, management fees paid by its

subsidiaries and dividends paid by its subsidiaries. Stockholders' dividends declared aggregated \$11.7 million and \$9.7 million for the nine months ended September 30, 1996 and 1995, respectively. Several of the Company's subsidiaries are subject to certain statutory and regulatory restrictions and various agreements, principally loan agreements, that restrict their ability to distribute dividends to the Company. The Company expects that during the next few years dividends from its subsidiaries will consist of dividends from its

property and casualty subsidiaries and dividends on preferred stock of its thrift and loan holding company and commercial finance subsidiaries. The maximum amount available for payment of dividends by the property and casualty subsidiaries at December 31, 1995 without prior regulatory approval is approximately \$30 million.

To facilitate general corporate operations, in August 1994 the Company obtained a revolving line of credit with a syndicated bank group that permitted borrowings of up to \$150 million. In August 1995, the Company negotiated an increase of this line to \$200 million, of which \$15 million was outstanding as of September 30, 1996. In August 1997, this credit line converts to a term loan of up to \$100 million, with scheduled semi-annual payments through August 2001. In addition, in July 1994 the Company replaced its internally financed loan to its Employee Stock Ownership Plan ("ESOP") with an external bank-financed loan totaling \$11 million. The maximum principal amount of this loan was increased to \$15 million in August 1995. The loan is due in seven equal annual installments commencing on April 1, 1996 and is secured by certain shares of the ESOP. The balance outstanding at September 30, 1996 was \$12 million. The interest and principal payments are guaranteed by the Company.

On February 22, 1995, the Company completed the acquisition of Casualty which resulted in the disbursement of funds totaling \$256.5 million, comprised of \$231.5 million in cash and \$25 million in a note payable to the seller. In September 1995, the note payable to the seller was refinanced using the Company's existing revolving line of credit. The cash used to fund the acquisition includes \$55 million in borrowings under the Company's existing line of credit and the remainder from internally generated funds.

During the third quarter of 1996, an aggregate \$71,243,000 principal amount at maturity of Liquid Yield Option<sup>TM</sup> Notes due October 12, 2013 (Zero Coupon-Subordinated) (the "LYONs") were converted into 1,374,000 shares of the Company's Common Stock. The effect of the conversions was an increase in stockholders' equity and a decrease in long-term debt of \$30 million.

On March 1, 1996, Fremont General Financing I, a statutory business trust (the "Trust") and consolidated wholly-owned subsidiary of the Company, sold \$100 million of 9% Trust Originated Preferred Securities<sup>SM</sup> ("the Preferred Securities") in a public offering. The Preferred Securities represent preferred undivided beneficial interests in the assets of the Trust. The proceeds from the sale of the Preferred Securities were invested in 9% Junior Subordinated Debentures of the Company ("the Junior Subordinated Debentures"). The \$100 million Junior Subordinated Debentures are the sole asset of the Trust. The Preferred Securities will be redeemed upon maturity of the Junior Subordinated Debentures in 2026, subject to the election available to the Company to extend the maturity up to 2045, and they may be redeemed, in whole or in part, at any time on or after March 31, 2001 and under certain specified circumstances. The Junior Subordinated Debentures rank pari passu with the Company's \$302,477,000 aggregate principal amount at maturity of Liquid Yield Option<sup>(TM)</sup> Notes due 2013, and subordinate and junior to all senior indebtedness of the Company. Payment of distributions out of cash held by the Trust, and payments on liquidation of the Trust or the redemption of the Preferred Securities are guaranteed by the Company. The Company used the proceeds from the sale of the Junior Subordinated Debentures to reduce outstanding debt under the Company's revolving line of credit by approximately \$50 million, and the remaining proceeds have been used for general corporate purposes. The reduction of \$50 million in the Company's revolving line of credit occurred over several months, with the final reduction paid in May 1996.

Net cash provided by (used in) operating activities of continuing operations was \$(89.8) million and \$26.7 million for the nine months ended September 30, 1996 and 1995, respectively. Net cash provided by (used in) continuing operations decreased in the nine months ended September 30, 1996 over the same period of 1995 due primarily to a decrease in claims and policy liabilities, a lower amortization of policy acquisition costs and a decrease in other liabilities due primarily to the settlement of accrued operating costs. These conditions were partially offset by higher net income, a decrease in premiums receivable and agents' balances, lower policy acquisition costs deferred and a higher provision for deferred income taxes. The decreases in claims and policy

liabilities, premiums receivable and agents' balances and the lower policy acquisition costs deferred and amortized resulted principally from lower premium volume in the Company's workers' compensation insurance business. The higher provision for deferred income taxes resulted primarily from the decrease in claims and policy liabilities, offset partially by a decrease in deferred policy acquisition costs.

Net cash provided by (used in) investing activities increased to \$79.6



million from \$(360.4) million for the nine months ended September 30, 1996 and 1995, respectively. The increase in net cash provided by (used in) investing activities is due primarily to a decrease in investment purchases, net of sales, maturities, and calls, the February 1995 purchase of Casualty for a net cash disbursement of \$249.3 million and an increase in receipts from repayments of loans. These conditions were partially offset by an increase in loan originations. The significant decrease in short-term and other investments of \$515.9 million and the significant level of securities purchased in the nine months ended September 30, 1995, was due primarily to the effects of investing the acquired short-term investment portfolio of Casualty into long-term securities.

Net cash provided by financing activities was \$1.5 million and \$331.9 million in the nine months ended September 30, 1996 and 1995, respectively. Net cash provided by financing activities decreased in the nine months ended September 30, 1996 as compared to the same period of 1995, due primarily to the lower long-term debt proceeds, net of repayments, the payment in 1996 of \$360.0 million in settlement of certain reinsurance and assumption agreements within the life insurance operation which became effective January 1, 1996 between the Company and a reinsurer (see "Financial Services"), as well as an increase in deferred compensation plans. These conditions were partially offset by an increase in the proceeds from short-term debt, net of repayments, an increase in thrift deposits and the impact of the proceeds from the sale of 9% Trust Originated Preferred Securities<sup>SM</sup> on March 1, 1996 in a public offering by the trust. The lower long-term debt proceeds, net of repayments is due principally to lower long-term bank line activity within the commercial finance operation. The increase in deferred compensation plans is due primarily to the repurchase by the Company of its Common Stock in the first quarter of 1996 pursuant to certain deferred compensation programs. The increase in short-term debt proceeds is due primarily to \$77 million in reverse repurchase agreements outstanding at September 30, 1996, an increase of \$31 million in commercial paper borrowings, and lower repayments of short-term bank line debt within the commercial finance operation.

The amortized cost of the Company's invested assets were \$1.62 billion and \$1.91 billion at September 30, 1996 and December 31, 1995, respectively. Contributing to the \$290 million decrease in the invested assets were \$363.4 million in settlement of certain reinsurance and assumption agreements with a reinsurer which became effective January 1, 1996 (see "Financial Services"), \$90 million in cash flow used in operating activities, a \$44 million decrease in net annuity receipts in the life insurance operations and \$28 million used to fund certain deferred compensation plans. These conditions were partially offset by \$100 million in proceeds from the public offering on March 1, 1996 of 9% Trust Originated Preferred Securities<sup>SM</sup> by a subsidiary of the Company and a \$77 million increase in reverse repurchase agreements.

The Company's property and casualty premium to surplus ratio for the year ended December 31, 1995 was 2.3 to 1, which is within industry guidelines. The FDIC has established certain capital and liquidity standards for its member institutions, and Fremont Investment & Loan was in compliance with these standards as of September 30, 1996.

The Company believes that its existing cash, its bank lines of credit, revenues from operations and other available sources of liquidity will be sufficient to satisfy its liquidity needs for the next several years.

The Company's strategy is to expand its business to the extent possible without adversely impacting its loan portfolio and policyholder base. However, the Company's strategic model is not dependent on growth as a source of liquidity. While the level of revenues will obviously affect results of operations, the Company's liquidity is not dependent on future revenue growth.

#### CHANGES IN ACCOUNTING PRINCIPLES

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement No. 121 ("FASB 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations, including intangible assets, when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. FASB 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted FASB 121 in the first quarter of 1996 and the effect of adoption was not material.

Also, in 1995, the FASB issued Statement 123 ("FASB 123"), "Accounting for Stock-Based Compensation" that is effective for fiscal years beginning after December 15, 1995. FASB 123 establishes a method of accounting for stock-based compensation that is based on the fair value of stock options and other similar

stock-based instruments and encourages, but does not require, adoption of that method. The Company has elected to continue following Accounting Principles Board Opinion No. 25 for measuring compensation cost. Pursuant to FASB 123, the Company will disclose pro forma net income and earnings per share calculated as if the recognition and measurement provisions of the new standard had been adopted.

PART II - OTHER INFORMATION

Item (s) 1- 5: None

Item 6: Exhibits and Reports on Form 8-K  
(a) Exhibits

| Exhibit No.<br>----- | Description<br>-----   |
|----------------------|--|
| 2.1                  | Stock Purchase Agreement among Fremont Compensation Insurance Company, Fremont General Corporation, the Buckeye Union Insurance Company, The Continental Corporation and Casualty Insurance Company, Dated as of December 16, 1994. (Filed as Exhibit No. 2.1 to Current Report on Form 8-K, as of February 22, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 2.2                  | Amendment No. 1 to Stock Purchase Agreement among Fremont Compensation Insurance Company, Fremont General Corporation, the Buckeye Union Insurance Company, The Continental Corporation and Casualty Insurance Company, Dated as of December 16, 1994. (Filed as Exhibit No. 2.2 to Current Report on Form 8-K, as of February 22, 1995, Commission File Number 1-8007, and incorporated herein by reference.)                                       |
| 3.1                  | Restated Articles of Incorporation of Fremont General Corporation. (Filed as Exhibit No. 3.1 to Registration Statement on Form S-3 File No 33-64771 which was declared effective on March 1, 1996, and incorporated herein by reference.)  |
| 3.2                  | Certificate of Amendment of Articles of Incorporation of Fremont General Corporation. (Filed as Exhibit 3.2 to Registration Statement on Form S-3 File No. 33-64771 which was declared effective on March 1, 1996 and herein incorporated by reference.)   |
| 3.3                  | Amended and Restated By-Laws of Fremont General Corporation. (Filed as Exhibit No. 3.3 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |
| 4.1                  | Form of Stock Certificate for Common Stock of the Registrant. (Filed as Exhibit No. (1) Form 8-A filed on March 17, 1993, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 4.2                  | Indenture with respect to Liquid Yield Option Notes Due 2013 between the Registrant and Bankers Trust Company. (Filed as Exhibit No. 4.4 to Registration Statement on Form S-3 filed on October 1, 1993, and incorporated herein by reference.)  |
| 4.3                  | Indenture among the Registrant, the Trust and First Interstate Bank of California, a California banking corporation, as trustee. (Filed as Exhibit No. 4.3 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |
| 4.4                  | Declaration of Trust among the Registrant, the Regular Trustees and The Chase Manhattan Bank (USA), a Delaware banking corporation, as Delaware trustee. (Filed as Exhibit No. 4.4 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |
| 4.5                  | Amended and Restated Declaration of Trust among the Registrant, the Regular Trustees, The Chase Manhattan Bank (USA), a Delaware banking corporation, as Delaware trustee, and The Chase Manhattan Bank, N.A., a national banking association, as Institutional Trustee. (Filed as Exhibit No. 4.5 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.) |

| Exhibit No.<br>----- | Description<br>-----  |
|----------------------|---|
| 4.6                  | Preferred Securities Guarantee Agreement between the Registrant and The Chase Manhattan Bank, N.A., a national banking association, as Preferred Guarantee Trustee. (Filed as Exhibit No. 4.6 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.) |
| 4.7                  | Common Securities Guarantee Agreement by the Registrant. (Filed as Exhibit No. 4.7 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 4.8                  | Form of Preferred Securities. (Included in Exhibit 4.5). (Filed as Exhibit No. 4.8 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 4.9                  | Form of 9% Junior Subordinated Debenture. (Included in Exhibit 4.3). (Filed as Exhibit No. 4.9 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.1                 | Fremont General Corporation Employee Stock Ownership Plan as amended. (Filed as Exhibit No. 10.1 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.2                 | Amended and Restated Trust Agreement for Fremont General Corporation Employee Stock Ownership Plan. (Filed as Exhibit No. 10.2 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.3                 | Fremont General Corporation and Affiliated Companies Investment Incentive Program as amended. (Filed as Exhibit No. 10.3 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.4(a)              | Trust Agreement for Investment Incentive Program. (Filed as Exhibit No. (10)(xi) to Annual Report on Form 10-K, for the Fiscal Year Ended December 31, 1993, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.4(b)              | Amendment to Trust Agreement for Investment Incentive Program. (Filed as Exhibit No. 10.4 (b) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |
| 10.5(a)              | Supplemental Retirement Plan of the Company. (Filed as Exhibit No. (10)(v) to Annual Report on Form 10-K, for the Fiscal Year Ended December 31, 1990, Commission File Number 1-8007, and incorporated herein by reference.)  |
| 10.5(b)              | Amendment to Supplemental Retirement Plan. (Filed as Exhibit No. 10.5 (b) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |
| 10.6                 | Trust Agreement for Supplemental Retirement Plan of the Company and the Senior Supplemental Retirement Plan of The Company, as amended. (Filed as Exhibit No. 10.6 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)                            |
| 10.7                 | Senior Supplemental Retirement Plan, as amended. (Filed as Exhibit No. 10.7 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)   |

| Exhibit No.<br>----- | Description<br>----- |
|----------------------|----------------------|
|----------------------|----------------------|

- 10.8(a) Excess Benefit Plan of the Company. (Filed as Exhibit No. (10)(vi) to Annual Report on Form 10-K, for the Fiscal Year Ended December 31, 1993, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.8(b) Amendment to Excess Benefit Plan of the Company. (Filed as Exhibit No. 10.8 (b) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.8(c) Trust Agreement for Excess Benefit Plan. (Filed as Exhibit No. 10.8 (c) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.9 Non-Qualified Stock Option Plan of 1989 of the Company. (Filed as Exhibit No. 10.9 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.10(a) Long-Term Incentive Compensation Plan of the Company - Senior Executive Participation.
- 10.10(b) Long-Term Incentive Compensation Plan of the Company.
- 10.11 1995 Restricted Stock Award Plan, as amended. (Filed as Exhibit No. (10)(i) to Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.12 Fremont General Corporation Employee Benefits Trust Agreement ("Grantor Trust") dated September 7, 1995 between the Company and Merrill Lynch Trust Company of California. (Filed as Exhibit No. 10.12 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.13 Employment Agreement between the Company and James A. McIntyre. (Filed as Exhibit No. (10)(i) to Quarterly Report on Form 10-Q for the period ended March 31, 1994, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.14(a) Employment Agreement between the Company and Louis J. Rampino. (Filed as Exhibit No. 10.14 (a) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.14(b) Employment Agreement between the Company and Wayne R. Bailey. (Filed as Exhibit No. 10.14 (b) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.15 Management Continuity Agreement between the Company and Raymond G. Meyers. (Filed as Exhibit No. 10.15 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.16 1996 Management Incentive Compensation Plan of the Company. (Filed as Exhibit No. 10.16 to Quarterly Report on Form 10-Q, for the quarter ended March 31, 1996, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.17 Continuing Compensation Plan for Retired Directors. Filed as Exhibit No. 10.17 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)

| Exhibit No.<br>----- | Description<br>-----  |
|----------------------|---|
| 10.18                | Non-Employee Directors' Deferred Compensation Plan. (Filed as Exhibit No. 10.18 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.) |
| 10.19(a)             | Amended and Restated Credit Agreement among Fremont General Corporation, Various Lending Institutions and the Chase Manhattan   |

Bank, N.A., As Agent. (Filed as Exhibit No. (10)(xiii) to Quarterly Report on Form 10-Q for the period ended September 30, 1995, Commission File Number 1-08007, and incorporated herein by reference.)

- 10.19(b) Amendment to Credit Agreement. (Filed as Exhibit No. 10.19 (b) to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.20 Keep Well Agreement, dated as of August 24, 1995 by the Company in connection with the Credit Agreement among Fremont General Corporation, Various Lending Institutions and the Chase Manhattan Bank, N.A., As Agent. (Filed as Exhibit No. 10.20 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007, and incorporated herein by reference.)
- 10.21 Credit Agreement \$15,000,000 by and among Merrill Lynch Trust Company of California as trustee for the Fremont General Corporation Employee Stock Ownership Trust. The Plan Committee (hereinafter described) on behalf of the Fremont General Corporation Employee Stock Ownership Plan, Fremont General Corporation, and First Interstate Bank of California August 10, 1995. (Filed as Exhibit No. (10)(viii) to Quarterly Report on Form 10-Q for the period ended September 30, 1995, and incorporated herein by reference.)
- 11 Statement re: Computation of per share earnings.
- 27 Financial Data Schedule

(b) Report on Form 8-K. None filed during the quarter ended September 30, 1996.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FREMONT GENERAL CORPORATION

Date: November 14, 1996

/s/ LOUIS J. RAMPINO

-----  
Louis J. Rampino, President,  
Chief Operating Officer and Director

Date: November 14, 1996

/s/ JOHN A. DONALDSON

-----  
John A. Donaldson, Controller  
and Chief Accounting Officer

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FREMONT GENERAL CORPORATION  
LONG-TERM INCENTIVE COMPENSATION PLAN OF 1996  
SENIOR EXECUTIVE PARTICIPATION

TO: PARTICIPANT

PURPOSE OF THE PLAN

To provide you with an incentive to achieve the pre-tax earnings target for Fremont General Corporation over the three year term of the Plan, of \$400,000,000.

TARGET BONUS

Your target bonus award for this Plan will be equal to your average compensation (base salary or midpoint, whichever is higher) over the three year term of the Plan. The bonus award will be determined based on the actual pre-tax earnings achieved as illustrated in the table below.

| PRE-TAX RESULTS % OF TARGET | ACTUAL BONUS AS% OF TARGET BONUS |
|-----------------------------|----------------------------------|
| 60%                         | 60%                              |
| 70%                         | 70%                              |
| 80%                         | 80%                              |
| 90%                         | 90%                              |
| 100%                        | TARGET 100%                      |
| 110%                        | 125%                             |
| 120% or more                | 150%                             |

STOCK APPRECIATION FEATURE

You may elect to tie your cash bonus award, as determined by the formula above, to the performance of Fremont General Corporation's common stock over the three year term of the Plan.

If you elect this feature, your bonus will first be calculated as described above using the Plan's standard formula. The STOCK APPRECIATION FEATURE will then be applied to the result of that calculation. The election of this feature will adjust the bonus that you would otherwise have been awarded by dividing the amount determined under the Plan's formula by \$24.00 (which was the price of Fremont stock at the beginning of the Plan term). This adjustment determines a number of "common stock equivalent units". These "units" will then be multiplied by the "closing" trading price of the stock at the maturity of the Plan. This calculation will yield your actual bonus award under the STOCK APPRECIATION FEATURE. The "closing" trading price will be the average of the daily closing prices (NYSE) of the stock for each trading day commencing on the day after Fremont General releases its year-end 1998 earnings and the day prior to the February 1999 Fremont General Board Meeting.

#### STOCK APPRECIATION FEATURE - EXAMPLE

Assume for illustration purposes that the LTICP award you earned for the 1993-1995 Plan was \$250,000, which was equal to 100% of your average compensation over the Plan term. By applying the STOCK APPRECIATION FEATURE described above, this 1995 bonus compensation amount would have been divided by the price of FGC stock at the inception of the Plan (\$20.25 as adjusted for splits and dividend) yielding 12,345 "units". These 12,345 "units" would then have been multiplied by the closing trading price at Plan maturity (\$36/share) for a total bonus award of \$444,420.

Note: This example is for illustration only. Nevertheless, you can estimate the potential of this bonus option under the new Plan by applying the same calculations. The price of the stock at the inception of this new Plan was \$24.00 per share.

Election of the STOCK APPRECIATION FEATURE must be made at the inception of the Plan and is irrevocable.

#### PARTICIPANT ELIGIBILITY AND QUALIFICATION

You have been designated by the Board of Directors of Fremont General to participate in this Plan. You must be actively employed in good standing at the Plan Maturity date (12/31/98) to qualify for an award under the terms of the Plan.

#### TERM OF THE PLAN

The LTICP is effective as of January 1, 1996, and matures in December 31, 1998.

#### PAYMENT OF BONUS AWARD

The bonus earned under the terms of this Plan is payable in cash after the Plan maturity date. The payment is subject to all applicable tax withholding and reporting requirements then in effect. Some or all of this payment may be deferred into a Deferred Compensation Plan.

#### DISCLAIMER

The LTICP is a non-funded bonus compensation Plan which is contingent upon specific performance as set forth above and is not subject to ERISA requirements. There is no provision for accrual of any non-forfeitable vesting rights. This LTICP and any of its terms may be modified, suspended, or terminated at any time in any manner at the sole discretion of the Board of Directors of Fremont General Corporation.

FREMONT GENERAL CORPORATION  
LONG-TERM INCENTIVE COMPENSATION PLAN OF 1996

PURPOSE OF THE PLAN

It is the purpose of Fremont's executive compensation policies and practices to attract, retain and motivate executives and key employees and to reward their success in achieving the financial goals that increase Shareholder value. In that regard, the Long-term Incentive Compensation Plan ("LTICP") is designed to link a substantial portion of the compensation of our executives directly to the long-range growth and increased value of the Company.

To accomplish this, the LTICP pays generous bonus awards upon the successful achievement, over a three (3) year period, of the earnings goals described herein.

Participating Companies

The following companies are designated as participating companies. These may be changed and others may be added from time to time at the discretion of the Board of Directors.

Fremont General Corporation  
Fremont Compensation Insurance Company  
Fremont Financial Corporation  
Fremont Investment & Loan  
FIC/Medical Professional Liability Division  
Fremont Premium Finance Corporation

Individual Participation

Officers and other key management employees, as designated by the Board of each participating company and approved by the Board of Fremont General, shall be eligible to participate in the LTICP. The Corporate Personnel Department maintains the rosters of designated participants and issues notices of participation to those designated. New Participation New participants may be added from time to time upon the approval of the Personnel Officer pursuant to the following schedule:

- o New participants entering the LTICP after inception but prior to 12/31/96 will be eligible for full participation.



- o New participants entering the LTICP on or after 1/1/97 but prior to 12/31/97 will be eligible for prorated participation as follows:
- o Entrants between 1/1/97 and 6/30/97 will be eligible for a maximum of two-thirds of any appropriate bonus award;
- o Entrants between 7/1/97 and 12/31/97 will be eligible for a maximum of one-half of any appropriate bonus award.
- o No new participant will enter the LTICP after 12/31/97.

Individual Bonus Awards

A. Bonus Awards Bonus awards to designated participants in each company will be earned upon the achievement of at least 60% of that company's TARGET, and will increase commensurate with performance greater than 60% of TARGET as follows:

Bonus as Percent of Base Salary\*

| Pre-Tax Earnings Results | Grades 14 & Below | Grades 15 & Above |
|--------------------------|-------------------|-------------------|
| Minimum                  | 60%               | 25%               |
|                          | 70%               | 30%               |
|                          | 80%               | 35%               |
|                          | 90%               | 40%               |
| Target                   | 100%              | 50%               |
|                          | 110%              | 75%               |
| Maximum                  | 120%              | 100%              |

\*"Base Salary" will be the arithmetic average of the participants' actual annualized salary or the participants' salary grade midpoint, whichever is greater, as of December 31 of each of the three (3) plan years.

B. Additional Bonus The LTICP provides for an "additional bonus" of one-half (50%) of any bonus earned pursuant to the schedule above.

The additional bonus will be awarded if Fremont General Corporation achieves at least 120% of its three (3) year pre-tax earnings target of \$400,000,000 (or \$480,000,000).

Participant Eligibility and Qualification

Participants who have been designated by the Board of Directors of Fremont General to participate in this Plan must be actively employed in good standing at the Plan Maturity date (12/31/98) to qualify for an award under the terms of

the Plan.

Term of the Plan The LTICP is effective as of January 1, 1996, and matures on December 31, 1998.

#### Payment of Bonus Award

The bonus earned under the terms of this Plan is payable in cash after the Plan maturity date. The payment is subject to all applicable tax withholding and reporting requirements then in effect. Some or all of this payment may be deferred into a Deferred Compensation plan.

#### Disclaimer

This LTICP is a non-funded bonus compensation plan which is contingent upon specific performance as set forth above and is not subject to ERISA requirements. There is no provision for accrual of any non-forfeitable vesting rights. This LTICP and any of its terms may be modified, suspended, or terminated at any time and in any manner at the sole discretion of the Fremont General Corporation's Board of Directors.

FREMONT GENERAL CORPORATION  
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

EXHIBIT 11

<TABLE>  
<CAPTION>

|  | Three Months Ended<br>September 30,           |          | Nine Months Ended<br>September 30, |          |
|--|---|----------|------------------------------------|----------|
|  | 1996  | 1995*    | 1996                               | 1995*    |
|  | (Amounts in thousands, except per share data) |          |                                    |          |
| <S>  | <C>   | <C>      | <C>                                | <C>      |
| Primary:   |   |          |                                    |          |
| Weighted average shares outstanding  | 26,008  | 25,391   | 25,398                             | 25,391   |
| Net effect of dilutive stock options -<br>based on the treasury stock method<br>using average market price   | 953   | 799      | 947                                | 596      |
| Total  | 26,961  | 26,190   | 26,345                             | 25,987   |
| Net income   | \$22,939                                      | \$18,265 | \$63,882                           | \$49,338 |
| Per share earnings   | \$0.85  | \$0.70   | \$2.42                             | \$1.90   |
| Fully Diluted:   |   |          |                                    |          |
| Weighted average shares outstanding  | 26,008  | 25,391   | 25,398                             | 25,391   |
| Net effect of dilutive stock options -<br>based on the treasury stock method<br>using the quarter-end market price,<br>if higher than average market price | 1,043   | 808      | 977                                | 632      |
| Assumed conversion of LYONs:   | 7,148   | 7,209    | 7,188                              | 7,209    |
| Total  | 34,199  | 33,408   | 33,563                             | 33,232   |
| Net income   | \$22,939                                      | \$18,265 | \$63,882                           | \$49,338 |
| Income adjustments for fully diluted computation:  |   |          |                                    |          |
| Add interest expense and amortization<br>of prepaid expense, net of federal<br>income tax, for assumed conversion<br>of LYONs                              | 1,185   | 1,139    | 3,543                              | 3,325    |
| Total  | \$24,124                                      | \$19,404 | \$67,425                           | \$52,663 |
| Per share earnings   | \$0.71  | \$0.58   | \$2.01                             | \$1.58   |

\* Adjusted retroactively for all stock splits and dividends.  
</TABLE>

<TABLE> <S> <C>

<ARTICLE> 7

<LEGEND>

This schedule contains summary financial information extracted from SEC Form 10-Q and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<CIK> 0000038984

<NAME> FREMONT GENERAL CORPORATION

<MULTIPLIER> 1,000

| <S>                          | <C>           |
|------------------------------|---------------|
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| <FISCAL-YEAR-END>            | DEC-31-1996   |
| <PERIOD-START>               | JAN-01-1996   |
| <PERIOD-END>                 | SEP-30-1996   |
| <DEBT-HELD-FOR-SALE>         | 1,101,332     |
| <DEBT-CARRYING-VALUE>        | 0             |
| <DEBT-MARKET-VALUE>          | 0             |
| <EQUITIES>                   | 369,170       |
| <MORTGAGE>                   | 0             |
| <REAL-ESTATE>                | 0             |
| <TOTAL-INVEST>               | 3,295,237<F1> |
| <CASH>                       | 30,926        |
| <RECOVER-REINSURE>           | 8,852         |
| <DEFERRED-ACQUISITION>       | 25,425        |
| <TOTAL-ASSETS>               | 4,579,322     |
| <POLICY-LOSSES>              | 1,678,684     |
| <UNEARNED-PREMIUMS>          | 88,832        |
| <POLICY-OTHER>               | 0             |
| <POLICY-HOLDER-FUNDS>        | 35,048        |
| <NOTES-PAYABLE>              | 834,663       |
| <PREFERRED-MANDATORY>        | 100,000       |
| <PREFERRED>                  | 0             |
| <COMMON>                     | 27,501        |
| <OTHER-SE>                   | 489,276<F2>   |
| <TOTAL-LIABILITY-AND-EQUITY> | 4,579,322     |
| <PREMIUMS>                   | 372,334       |
| <INVESTMENT-INCOME>          | 95,228        |
| <INVESTMENT-GAINS>           | (1,694)       |
| <OTHER-INCOME>               | 134,859<F3>   |
| <BENEFITS>                   | 261,540       |
| <UNDERWRITING-AMORTIZATION>  | 72,587        |
| <UNDERWRITING-OTHER>         | 22,540        |
| <INCOME-PRETAX>              | 94,221        |
| <INCOME-TAX>                 | 30,339        |
| <INCOME-CONTINUING>          | 63,882        |

|  |        |
|--|--------|
| <DISCONTINUED>   | 0      |
| <EXTRAORDINARY>  | 0      |
| <CHANGES>  | 0      |
| <NET-INCOME>   | 63,882 |
| <EPS-PRIMARY>  | 2.42   |
| <EPS-DILUTED>  | 2.01   |
| <RESERVE-OPEN>   | 0      |
| <PROVISION-CURRENT>  | 0      |
| <PROVISION-PRIOR>  | 0      |
| <PAYMENTS-CURRENT>   | 0      |
| <PAYMENTS-PRIOR>   | 0      |
| <RESERVE-CLOSE>  | 0      |
| <CUMULATIVE-DEFICIENCY>  | 0      |
| <FN>   |        |
| <F1>Total investments and loans receivable.  |        |
| <F2>Additional paid-in capital, Retained earnings, Deferred compensation and Net unrealized gain (loss) on investments, net of deferred taxes. |        |
| <F3>Loan interest and Other revenue.   |        |
| </FN>  |        |

</TABLE>