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FREMONT GENERAL CORP
Form 10-Q
August 14, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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 its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

95-2815260
(I.R.S. Employer
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 the 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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| CLASS | SHARES OUTSTANDING JULY 31, 2003 |
|--------------------------------|-------------------------------------|
| Common Stock, \$1.00 par value | 75,789,000 |

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FREMONT GENERAL CORPORATION

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

JUNE 30,
2003

(UNAUDITED)
(THOUSANDS OF

ASSETS

| | |
|--|--------------|
| Cash and cash equivalents | \$ 590,920 |
| Investment securities available for sale at fair value | 94,213 |
| Loans receivable | 4,097,160 |
| Loans held for sale | 2,188,274 |
| Residual interests in securitized loans at fair value | - |
| Accrued interest receivable | 29,267 |
| Deferred income taxes | 220,170 |
| Other assets | 76,886 |
| | ----- |
| Total Assets | \$ 7,296,890 |
| | ===== |

LIABILITIES

| | |
|--|--------------|
| Deposits: | |
| Savings accounts | \$ 1,066,249 |
| Money market deposit accounts | 330,342 |
| Certificates of deposit: | |
| Under \$100,000 | 2,332,954 |
| \$100,000 and over | 1,031,567 |
| | ----- |
| | 4,761,112 |
| Federal Home Loan Bank ("FHLB") advances | 1,550,000 |
| Senior Notes due 2004 | 22,358 |
| Senior Notes due 2009 | 188,823 |
| Liquid Yield Option Notes due 2013 ("LYONs") | 3,168 |
| Other liabilities | 133,225 |
| Liability to discontinued insurance operations | - |
| | ----- |
| Total Liabilities | 6,658,686 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company junior subordinated debentures ("Preferred Securities") | 100,000 |

STOCKHOLDERS' EQUITY

| | |
|--|----------|
| Common stock, par value \$1 per share-- Authorized: 150,000,000 shares; Issued and outstanding: (2003 - 75,785,000 and 2002 - 75,397,000) | 75,785 |
| Additional paid-in capital | 292,764 |
| Retained earnings | 211,236 |
| Deferred compensation | (41,621) |
| Accumulated other comprehensive income | 40 |
| | ----- |

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| | | |
|--|--------------|------|
| Total Stockholders' Equity | 538,204 | --- |
| Total Liabilities and Stockholders' Equity | \$ 7,296,890 | ==== |

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

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED JUNE 30, | | |
|---|---|------------|-------|
| | 2003 | 2002 | |
| | (THOUSANDS OF DOLLARS, EXCEPT AS NOTED) | | |
| INTEREST INCOME: | | | |
| Interest and fee income on loans | \$ 124,389 | \$ 106,935 | \$ 2 |
| Interest income on investment securities | 1,289 | 1,224 | |
| | ----- | ----- | ----- |
| | 125,678 | 108,159 | 2 |
| INTEREST EXPENSE: | | | |
| Deposits | 30,913 | 36,417 | |
| FHLB advances | 5,989 | 2,789 | |
| Senior Notes, LYONs, Preferred Securities and other | 7,040 | 8,760 | |
| | ----- | ----- | ----- |
| | 43,942 | 47,966 | |
| Net interest income | 81,736 | 60,193 | 1 |
| Provision for loan losses | 27,609 | 20,913 | |
| | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 54,127 | 39,280 | 1 |
| NON-INTEREST INCOME: | | | |
| Net gain (loss) on: | | | |
| Whole loan sales of residential real estate loans | 51,740 | 26,394 | |
| Sale of residual interests in securitizations | - | - | |
| Whole loan sales of other loans | 670 | 48 | |
| Extinguishment of debt | (68) | 1,048 | |
| Other | 7,826 | 4,889 | |
| | ----- | ----- | ----- |
| | 60,168 | 32,379 | 1 |
| NON-INTEREST EXPENSE: | | | |
| Compensation | 21,334 | 18,765 | |
| Occupancy | 2,888 | 2,143 | |
| Expenses and losses on real estate owned | 661 | 3,918 | |
| Other | 9,827 | 6,520 | |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-----------|-------|
| | 34,710 | 31,346 | |
| Income before income taxes | 79,585 | 40,313 | 1 |
| Income tax expense | 32,798 | 16,775 | |
| | ----- | ----- | --- |
| Net income from continuing operations | 46,787 | 23,538 | |
| Discontinued insurance operations in regulatory liquidation, net of tax | 44,308 | - | |
| | ----- | ----- | --- |
| Net income | \$ 91,095 | \$ 23,538 | \$ 1 |
| | ===== | ===== | ===== |
| PER SHARE DATA: | | | |
| BASIC: | | | |
| Net income from continuing operations | \$ 0.67 | \$ 0.35 | \$ |
| Discontinued insurance operations in regulatory liquidation, net of tax | 0.63 | - | |
| | ----- | ----- | --- |
| Net income | \$ 1.30 | \$ 0.35 | \$ |
| | ===== | ===== | ===== |
| DILUTED: | | | |
| Net income from continuing operations | \$ 0.62 | \$ 0.33 | \$ |
| Discontinued insurance operations in regulatory liquidation, net of tax | 0.58 | - | |
| | ----- | ----- | --- |
| Net income | \$ 1.20 | \$ 0.33 | \$ |
| | ===== | ===== | ===== |
| CASH DIVIDENDS | \$ 0.05 | \$ 0.02 | \$ |
| WEIGHTED AVERAGE SHARES (IN THOUSANDS): | | | |
| Basic | 70,126 | 66,854 | |
| Diluted | 75,799 | 72,318 | |

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

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | SIX MONTH JUNE |
|---|------------------------|
| | ----- 2003 ----- |
| | (THOUSANDS OF |
| OPERATING ACTIVITIES | |
| Net income from continuing operations | \$ 88,363 |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: | |
| Provision for loan losses | 50,529 |
| Net decrease in residual interests in securitized loans | 22,749 |
| Deferred income tax expense | 52,785 |

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| | |
|--|-------------|
| Depreciation and amortization | 8,991 |
| Change in other assets and liabilities | 14,214 |
| | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE LOANS HELD FOR SALE ACTIVITY | 237,631 |
| Originations of loans held for sale | (5,044,729) |
| Sales of and payments from loans held for sale | 4,529,600 |
| | ----- |
| NET CASH (USED IN) OPERATING ACTIVITIES | (277,498) |
| INVESTING ACTIVITIES | |
| Originations and advances funded for loans held for portfolio | (1,393,371) |
| Payments from and sales of loans held for portfolio | 1,212,295 |
| Investment securities available for sale: | |
| Purchases | (362,098) |
| Maturities or repayments | 651,077 |
| Cash contributions to discontinued insurance operations | (6,625) |
| Purchases of property and equipment | (7,809) |
| | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 93,469 |
| FINANCING ACTIVITIES | |
| Deposits accepted, net of repayments | 215,389 |
| FHLB advances, net of repayments | 375,000 |
| Extinguishment of Senior Notes and LYONS | (49,247) |
| Dividends paid | (5,260) |
| Stock options exercised | 462 |
| Decrease (increase) in deferred compensation plans | 2,229 |
| | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 538,573 |
| Increase in cash and cash equivalents | 354,544 |
| Cash and cash equivalents at beginning of year | 236,376 |
| | ----- |
| Cash and cash equivalents at end of year | \$ 590,920 |
| | ===== |

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

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 accounting principles generally accepted in the United States 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 notes thereto included in the Company's Annual Report

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on Form 10-K for the year ended December 31, 2002. Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

NOTE B: LOANS RECEIVABLE

Loans receivable consist of commercial and residential real estate loans and syndicated commercial loans. Commercial real estate loans, which are primarily variable rate, represent loans secured primarily by first mortgages on properties such as office, retail, industrial, lodging, multi-family and commercial mixed-use properties. Commercial real estate loans are reported net of participations to other financial institutions or investors in the amount of \$111.0 million and \$93.2 million as of June 30, 2003 and December 31, 2002, respectively. Residential real estate loans have loan terms for up to thirty years and are generally secured by first deeds of trust on single-family residences. Syndicated commercial loans are commercial variable rate senior loans and are generally secured by substantially all of the assets of the borrower.

Loans held for sale consist solely of residential real estate loans which are aggregated prior to their sale and are carried at the lower of aggregate amortized cost or market.

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NOTE C: DEBT - FREMONT GENERAL CORPORATION

The debt of the holding company, Fremont General Corporation ("FGC"), is detailed in the following table; none of the debt of FGC is guaranteed by the Company's industrial bank, Fremont Investment & Loan ("FIL") (thousands of dollars):

| | JUNE 30, 2003 ----- |
|--|---------------------------|
| Senior Notes due 2004, less discount (2003 - \$27) | \$ 22,358 |
| Senior Notes due 2009, less discount (2003 - \$1,877) | 188,823 |
| Liquid Yield Option Notes due 2013, less discount (2003 - \$2,152) | 3,168 |
| | ----- |
| | \$ 214,349 ===== |

NOTE D: DEPOSITS AND FHLB ADVANCES - FREMONT INVESTMENT & LOAN

FIL funds its operations primarily through the issuance of deposits which are insured up to certain limits by the Federal Deposit Insurance Corporation ("FDIC") and Federal Home Loan Bank ("FHLB") advances.

Certificates of deposit as of June 30, 2003 are detailed by maturity and rates as follows (thousands of dollars):

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| AMOUNT | MATURING BY JUNE 30, | WEIGHTED AVERAGE RATE |
|--------------|-------------------------|--------------------------|
| ----- | ----- | ----- |
| \$ 3,120,867 | 2004 | 2.34% |
| 96,669 | 2005 | 4.10% |
| 96,486 | 2006 | 5.44% |
| 154 | 2007 | 3.90% |
| 2,188 | 2008 | 4.74% |
| 48,157 | 2009 | 5.38% |
| ----- | | ----- |
| \$ 3,364,521 | | 2.53% |
| ===== | | ===== |

Of the total certificates of deposit outstanding at June 30, 2003, \$811.5 million were obtained through brokers.

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The FHLB advances are collateralized by loans pledged to the FHLB. The following table details the amounts due the FHLB as of June 30, 2003 by maturities and rates (thousands of dollars):

| AMOUNT | MATURING BY JUNE 30, | WEIGHTED AVERAGE RATE |
|--------------|-------------------------|--------------------------|
| ----- | ----- | ----- |
| \$ 1,070,000 | 2004 | 1.92% |
| 410,000 | 2005 | 2.61% |
| 70,000 | 2006 | 1.53% |
| ----- | | ----- |
| \$ 1,550,000 | | 2.08% |
| ===== | | ===== |

NOTE E: INDUSTRIAL BANK REGULATORY CAPITAL

FIL is required to maintain certain capital ratios. The minimum ratios to be well-capitalized or adequately capitalized and FIL's actual regulatory capital and ratios as of June 30, 2003 were as follows (thousands of dollars):

| TIER 1 LEVERAGE (AVERAGE ASSETS) | | TIER 1 RISK-BASED CAPITAL (TO RISK WEIGHTED ASSETS) | | TOT CAP WEI |
|-------------------------------------|-------|---|-------|-------------------|
| AMOUNT | RATIO | AMOUNT | RATIO | AMOU |
| ----- | ----- | ----- | ----- | ----- |

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Minimum ratios for:

| | | | | |
|------------------------------|------------|-------|------------|--------------------|
| Well-capitalized | 5.00% | | 6.00% | |
| Adequately capitalized | 3.00% | | 4.00% | |
| Actual amounts and ratios: | | | | |
| June 30, 2003 | \$ 665,016 | 9.98% | \$ 665,016 | 12.36% \$ 733 |

NOTE F: DISCONTINUED INSURANCE OPERATIONS IN REGULATORY LIQUIDATION

In December 2002, the Company accrued a charge by setting up a reserve for the maximum amount of its potential future cash contributions to its discontinued workers' compensation insurance subsidiary, Fremont Indemnity Company ("FIC"). These future contributions included both mandatory and contingent cash contributions as per the July 2, 2002 Letter Agreement of Run-Off and Regulatory Oversight between the California Department of Insurance, the Company and FIC (the "Agreement"). The Agreement was included as an exhibit to the Company's Form 8-K which was filed on July 19, 2002. At December 31, 2002, the total amount of these future potential cash contributions was \$79.5 million (\$74.5 million at present value), payable ratably at \$13.25 million annually over a period of six years.

During the second quarter of 2003, the Company recognized a net of tax gain of \$44,308,000 from the reversal of this reserve for potential future cash contributions to FIC. The gain represents the total maximum amount of cash contributions of \$72,875,000 (\$68,166,000 on a present value basis) that

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remained as of June 4, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation prior to March 1, 2004 extinguishes the obligation of the Company to provide any further cash contributions to FIC. The Insurance Commissioner of the State of California sought, and was granted, an order of conservation over FIC by the Superior Court of the State of California for the County of Los Angeles on June 4, 2003. The conservation order incorporates the Agreement and also provides that nothing in the order is intended to modify any of the provisions of the Agreement. The Insurance Commissioner of the State of California further sought, and was granted, an order of liquidation over FIC by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003.

While the Company owns 100% of the common stock of FIC, the assets and liabilities of FIC are excluded from the accompanying Consolidated Balance Sheet because the Company no longer has effective control over the operation of this subsidiary.

NOTE G: EXTINGUISHMENT OF DEBT

The Company extinguished debt that resulted in gains and losses that are included in non-interest income in the accompanying Consolidated Statement of Operations. Prior period gains have been reclassified from an extraordinary item to conform to this new presentation. The amounts are summarized in the following table:

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| | THREE MONTHS ENDED JUNE 30, | | |
|---|--------------------------------|-----------|------------------------|
| | 2003 | 2002 | |
| | | | (THOUSANDS OF DOLLARS) |
| 7.70% SENIOR NOTES DUE 2004: | | | |
| Par Value of debt extinguished | \$ 45,000 | \$ 44,815 | \$ 4 |
| Pre-tax gain (loss) on extinguishment | (68) | 968 | |
| LIQUID YIELD OPTION NOTES DUE 2013 ("LYONS"): | | | |
| Principal amount of debt extinguished | \$ - | \$ 2,269 | \$ |
| Pre-tax gain on extinguishment | - | 80 | |

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NOTE H: TOTAL COMPREHENSIVE INCOME

The components of total comprehensive income are summarized in the following table:

| | THREE MONTHS ENDED JUNE 30, | | |
|--|--------------------------------|-----------|------------------------|
| | 2003 | 2002 | |
| | | | (THOUSANDS OF DOLLARS) |
| Net income | \$ 91,095 | \$ 23,538 | \$ |
| Other comprehensive income (loss): | | | |
| Net change in unrealized gains during the period | 1 | 35 | |
| Less deferred income tax (expense) benefit | (1) | (12) | |
| Other comprehensive income (loss) | - | 23 | |
| Total comprehensive income | \$ 91,095 | \$ 23,561 | \$ |

NOTE I: OPERATIONS BY REPORTABLE SEGMENT

The Company's business is engaged in four reportable segments: commercial real estate; residential real estate; syndicated commercial and retail banking. Additionally, there are certain corporate revenues and expenses, comprised

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primarily of investment income, interest expense and certain general and administrative expenses, that are not allocated to the reportable segments.

The following data for the three and six months ended June 30, 2003 and 2002 provide certain information related to the reportable segment disclosure. Intersegment eliminations relate to the credit allocated to retail banking for operating funds provided to the other three reportable segments.

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| | COMMERCIAL REAL ESTATE | RESIDENTIAL REAL ESTATE | SYNDICATED COMMERCIAL | RETAIL BANKING | CORPORATE |
|----------------------------------|---------------------------|----------------------------|--------------------------|-------------------|-----------|
| (THOUSANDS OF DOLLARS) | | | | | |
| Three months ended June 30, 2003 | | | | | |
| Total revenues | \$ 77,616 | \$ 104,703 | \$ 624 | \$ 35,345 | \$ 2,616 |
| Net interest income | 49,155 | 33,833 | (12) | 4,175 | (5,416) |
| Income before income taxes | 15,846 | 80,821 | 1,912 | (2) | (18,916) |
| Three months ended June 30, 2002 | | | | | |
| Total revenues | \$ 71,918 | \$ 64,269 | \$ 600 | \$ 41,658 | \$ 2,316 |
| Net interest income | 41,896 | 21,100 | 199 | 3,815 | (6,816) |
| Income before income taxes | 22,656 | 38,432 | (7,620) | 1,407 | (14,516) |
| Six months ended June 30, 2003 | | | | | |
| Total revenues | \$ 154,111 | \$ 207,837 | \$ 635 | \$ 73,300 | \$ 5,216 |
| Net interest income | 96,453 | 62,763 | (180) | 8,611 | (10,716) |
| Income before income taxes | 26,163 | 158,506 | 4,142 | (94) | (38,316) |
| Six months ended June 30, 2002 | | | | | |
| Total revenues | \$ 143,891 | \$ 108,106 | \$ 2,007 | \$ 83,111 | \$ 4,516 |
| Net interest income | 80,115 | 37,129 | 872 | 7,498 | (13,316) |
| Income before income taxes | 42,150 | 62,633 | (8,570) | 1,316 | (27,516) |

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NOTE J: EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30, 2003 and 2002:

THREE MONTHS ENDED

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| | JUNE 30, | | |
|---|-----------------------|-----------|------|
| | 2003 | 2002 | |
| | (IN THOUSANDS, EXCEPT | | |
| Net income from continuing operations (numerator for basic earnings per share) | \$ 46,787 | \$ 23,538 | \$ 8 |
| Effect of dilutive securities: | | | |
| LYONs | 24 | 31 | |
| Net income from continuing operations available to common stockholders after assumed conversions (numerator for diluted earnings per share) | \$ 46,811 | \$ 23,569 | \$ 8 |
| Weighted-average shares (denominator for basic earnings per share) | 70,126 | 66,854 | 6 |
| Effect of dilutive securities: | | | |
| Restricted stock | 5,417 | 5,259 | |
| LYONs | 205 | 205 | |
| Stock options | 51 | - | |
| Dilutive potential common shares | 5,673 | 5,464 | |
| Adjusted weighted-average shares and assumed conversions (denominator for diluted earnings per share) ... | 75,799 | 72,318 | 7 |
| Basic earnings per share | \$ 0.67 | \$ 0.35 | \$ |
| Diluted earnings per share | \$ 0.62 | \$ 0.33 | \$ |

NOTE K: NEW ACCOUNTING STANDARDS

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" that amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition to the fair value method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company believes that the impact of this new standard on the Company's financial position and results of operations will be consistent with the SFAS No. 123 pro forma disclosure.

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In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. FIN 46 applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not believe the adoption of this interpretation will have a significant impact on the Company's financial position and results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" that amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not believe the adoption of this standard will have a significant impact on the Company's financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The effect of SFAS No. 150 on the Company's financial position will be the reclassification of the Company's Preferred Securities to a liability beginning July 1, 2003. SFAS No. 150 will not have an impact on the Company's results of operations.

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

This report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements and the currently reported results are based upon the current expectations and beliefs of Fremont General Corporation ("Fremont") and its subsidiaries (combined "the Company") concerning future developments and their potential effects upon the Company. These statements and the Company's results reported herein are not guarantees of future performance or results and there can be no assurance that actual developments and economic performance will be as anticipated by the Company. Actual developments and/or results may differ significantly and adversely from the Company's expected results as a result of significant risks, uncertainties and factors beyond the Company's control (as well as the various assumptions utilized in determining the Company's expectations) which include, but are not limited to, the following:

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- o the variability of general and specific economic conditions and trends, and changes in, and the level of, interest rates;
- o the impact of competition and pricing environments on loan and deposit products and the resulting effect upon the Company's net interest margin and net gain on sale;
- o changes in the Company's ability to originate loans, and any changes in the cost and volume of loans originated as a result;
- o the ability to access the necessary capital resources in a cost-effective manner to fund loan originations and the condition of the whole loan sale and securitization markets;
- o the ability of the Company to sell or securitize the residential real estate loans it originates, the pricing of existing and future loans, and the net premiums realized upon the sale of such loans;
- o the ability of the Company to sell certain of the commercial real estate loans and foreclosed real estate in its portfolio and the net proceeds realized upon the sale of such;
- o the impact of changes in the commercial and residential real estate markets, and changes in the fair values of the Company's assets and loans, including the value of the underlying real estate collateral;
- o the ability to collect and realize the amounts outstanding, and the timing thereof, of loans and foreclosed real estate, and the variability in determining the level of the allowance for loan losses;
- o the effect of certain determinations or actions taken by, or the inability to secure regulatory approvals from, the Federal Deposit Insurance Corporation, the Department of Financial Institutions of the State of California or other regulatory bodies on various matters;
- o the ability of the Company to maintain cash flow sufficient for it to meet its debt service and other obligations;

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- o the impact and cost of adverse state and federal legislation and regulations, litigation, court decisions and changes in the judicial climate;
- o the ability of the Company to utilize the net operating loss carryforwards currently held and the impact of changes in federal and state tax laws and interpretations, including tax rate changes, and the effect of any adverse outcomes from the resolution of issues with taxing authorities;
- o other events, risks and uncertainties discussed elsewhere in this Form 10-Q and from time to time in Fremont's other reports, press releases and filings with the Securities and Exchange Commission.

The Company undertakes no obligation to publicly update such forward-looking statements.

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GENERAL

Fremont General Corporation ("Fremont" or when combined with its subsidiaries "the Company") is a financial services holding company. The Company's financial services business is consolidated within Fremont General Credit Corporation ("FGCC"), which is engaged in commercial and residential real estate lending nationwide through its California-chartered industrial bank subsidiary, Fremont Investment & Loan ("FIL"). Additionally, there are certain corporate revenues and expenses, comprised primarily of investment income, interest expense and certain general and administrative expenses, which are not allocated by Fremont to FGCC.

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto presented under Item 1, and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

RESULTS OF OPERATIONS

The Company reported net income of \$91,095,000 and \$132,671,000 for the second quarter of 2003 and for the six months ended June 30, 2003, respectively. This is compared to net income of \$23,538,000 and \$41,595,000 for the respective periods in 2002. The following table presents a summary of the Company's income before income taxes and net income for the quarterly and six month periods ended June 30, 2003 and 2002, respectively:

| | THREE MONTHS ENDED JUNE 30, | | S |
|--|--------------------------------|-----------|-------|
| | 2003 | 2002 | 2 |
| | (THOUSANDS OF DOLLARS) | | |
| Income (loss) before income taxes: | | | |
| Financial services | \$ 95,536 | \$ 54,097 | \$ 18 |
| Unallocated corporate interest and other expenses | (15,951) | (13,784) | (3 |
| | ----- | ----- | ----- |
| Income before income taxes from continuing operations | 79,585 | 40,313 | 15 |
| Income tax expense | (32,798) | (16,775) | (6 |
| | ----- | ----- | ----- |
| Net income from continuing operations | 46,787 | 23,538 | 8 |
| Discontinued insurance operations in regulatory liquidation, net of taxes | 44,308 | - | 4 |
| | ----- | ----- | ----- |
| Net income | \$ 91,095 | \$ 23,538 | \$ 13 |
| | ===== | ===== | ===== |

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SECOND QUARTER OF 2003 AS COMPARED TO SECOND QUARTER OF 2002

The Company's financial services operation recorded income before taxes of \$95.5 million for the second quarter of 2003 as compared to \$54.1 million for the second quarter of 2002. This increase in financial services pre-tax income for the second quarter of 2003, which represents a 77% increase over the results for the second quarter of 2002, and an after tax gain of \$44.3 million on the reversal of a reserve for potential cash contributions to the Company's discontinued workers' compensation insurance subsidiary, Fremont Indemnity Company ("FIC"), are the primary reasons for the increase in net income during the second quarter of 2003, offset to a lesser degree by increases in the amount of unallocated corporate interest and other expense and in income tax expense. See "Financial Services Operation" for further discussion regarding the financial services operation's results.

During the second quarter of 2003, the Company recognized a net of tax gain of \$44,308,000 from the reversal of its reserve for potential future cash contributions to FIC. The gain represents the total maximum amount of cash contributions of \$72,875,000 (\$68,166,000 on a present value basis) that remained as of June 4, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation prior to March 1, 2004 extinguishes the obligation of the Company to provide any

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further cash contributions to FIC. The Insurance Commissioner of the State of California sought, and was granted, an order of conservation over FIC by the Superior Court of the State of California for the County of Los Angeles on June 4, 2003. The conservation order incorporates the Agreement and also provides that nothing in the order is intended to modify any of the provisions of the Agreement. The Insurance Commissioner of the State of California further sought, and was granted, an order of liquidation over FIC by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003.

The unallocated corporate interest and other expense loss before taxes for the quarter ended June 30, 2003, was \$15.9 million as compared to \$13.8 million for the same quarter in 2002. While interest expense was \$1.8 million lower in the second quarter of 2003, due to lower levels of holding company debt outstanding, than in the second quarter of 2002, incentive compensation expense was higher by \$1.1 million during the second quarter of 2003 and during the second quarter of 2002, the gain on the extinguishment of debt was \$1.1 million higher and other operating expenses were lower primarily due to a reversal of approximately \$900,000 in amounts accrued for various expense items.

During the quarter ended June 30, 2003, the Company extinguished \$45.0 million in principal amount of its publicly traded 7.70% Senior Notes due 2004 and recognized a pre-tax loss of \$68,000, as compared to the extinguishment of \$44.8 million in principal amount of its 7.70% Senior Notes due 2004 with a pre-tax gain of \$1.05 million during the quarter ended June 30, 2002.

Income tax expense of \$32.8 million and \$16.8 million for the quarters ended June 30, 2003 and 2002, respectively, represents effective tax rates of 41.2% and 41.6%, respectively, on income before income taxes from continuing operations of \$79.6 million and \$40.3 million for the same respective periods. The effective tax rates for both periods presented are different than the federal enacted tax rate of 35%, due mainly to various state income tax

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provisions within the Company's financial services operation.

FIRST SIX MONTHS OF 2003 AS COMPARED TO FIRST SIX MONTHS OF 2002

The Company's financial services operation recorded income before taxes of \$183.3 million for the first six months of 2003 as compared to \$96.3 million for the first six months of 2002. This represents an increase of 90% for the first six months of 2003 over the first six months of 2002. This increase in the financial services operation's results, coupled with the previously discussed after tax gain of \$44.3 million on the reversal of the reserve for potential cash contributions to FIC during the

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second quarter of 2003, offset by higher incentive compensation costs and lower gains on the extinguishment of debt in the unallocated corporate expenses, are the primary reasons for the increase in net income for the first six months of 2003 as compared to the first six months of 2002.

During the first six months of 2003, the Company extinguished \$49.3 million in principal amount of its 7.70% Senior Notes due 2004, with a pre-tax gain of \$25,000. During the first six months of 2002, the Company extinguished \$50.8 million in principal amount of its 7.70% Senior Notes due 2004 and \$2.3 million in principal amount at maturity of its LYONS, with a pre-tax gain of \$1.93 million.

Income tax expense of \$62.0 million and \$28.4 million for the six month periods ended June 30, 2003 and 2002, respectively, represents effective tax rates of 41.3% and 40.6%, respectively, on income before taxes from continuing operations of \$150.4 million and \$70.0 million for the same respective periods. The effective tax rates for both periods differ from the federal enacted tax rate of 35% primarily due to various state income tax provisions within the Company's financial services operation.

FINANCIAL SERVICES OPERATION

The following table summarizes the Company's financial services operation's earnings for the respective quarters indicated:

| | THREE MONTHS ENDED JUNE 30, | | |
|--|--------------------------------|------------|-------|
| | 2003 | 2002 | 2003 |
| | (THOUSANDS OF DOLLARS) | | |
| FINANCIAL SERVICES | | | |
| Interest and fee income on loans | \$ 124,389 | \$ 106,935 | \$ 2 |
| Interest income on investment securities | 1,170 | 980 | |
| | ----- | ----- | ----- |
| Total interest income | 125,559 | 107,915 | 2 |

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| | | | |
|---|-----------|-----------|-------|
| Interest expense | 37,242 | 39,234 | |
| | ----- | ----- | |
| Net interest income | 88,317 | 68,681 | 1 |
| Provision for loan losses | 27,609 | 20,913 | |
| | ----- | ----- | |
| Net interest income after provision for loan losses | 60,708 | 47,768 | 1 |
| Net gain on whole loan sales of residential real estate loans . | 51,740 | 26,394 | |
| Net gain on sale of residual interests in securitizations | - | - | |
| Other non-interest income | 8,496 | 4,937 | |
| Operating expenses | (25,408) | (25,002) | (|
| | ----- | ----- | |
| Income before income taxes | \$ 95,536 | \$ 54,097 | \$ 1 |
| | ===== | ===== | ===== |

The Company's financial services operation recorded income before taxes of \$95.5 million for the second quarter of 2003 as compared to \$54.1 million for the first quarter of 2002. The increase in

income before taxes for the second quarter of 2003 represents a 77% increase over the results for the second quarter of 2002 and is a result of significantly increased levels of net interest income and net gain on the sale of residential real estate loans, offset by a higher provision for loan losses. The net interest income for the second quarter of 2003 was \$88.3 million as compared to \$68.7 million for the second quarter of 2002. The increase in net interest income is primarily a result of an increase in the net average interest-earning assets. Average interest-earning assets increased 26% to \$6.70 billion during the second quarter of 2003, as compared to \$5.30 billion during the second quarter of 2002. The net interest income margin also increased to an annualized 5.28% for the second quarter of 2003 from 5.20% for the second quarter of 2002. The net gain on the sale of residential real estate loans, net of reductions in the carrying valuations of loans held for sale, increased from \$26.4 million in the second quarter of 2002 to \$51.7 million for the second quarter of 2003. This increase is primarily attributable to a significant increase in the volume of loans sold in the two comparable quarters. A total of \$2.35 billion in loans were sold during the second quarter of 2003, as compared to loan sales of \$1.27 billion during the second quarter of 2002. The net gain percentage (net gain after allocated costs and adjustments to the carrying valuations of loans held for sale, divided by net whole loan sales) on these sales increased from 2.07% in the second quarter of 2002 to 2.20% in the second quarter of 2003. The provision for loan losses increased to \$27.6 million for the second quarter of 2003 as compared to \$20.9 million for the second quarter of 2002. The Company's net loans receivable (excluding loans held for sale), before the allowance for loan losses, were approximately \$4.29 billion at June 30, 2003, as compared to \$4.14 billion and \$4.05 billion at December 31, 2002 and June 30, 2002, respectively. The Company's residential real estate loans held for sale have increased from \$1.06 billion at June 30, 2002 to \$2.19 billion at June 30, 2003; this increase is reflective of a significant increase in loan production volume - during the second quarter of 2002, residential real estate loan originations totaled \$1.54 billion as compared to \$2.92 billion for the second quarter of 2003.

For the first six months of 2003, the Company's financial services operation recorded income before taxes of \$183.3 million, as compared to \$96.3 million for the first six months of 2002. The increase is primarily the result

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of increased net interest income and net gain on the sale of residential real estate loans, a net gain on the sale of residual interests in three securitizations in the amount of \$17.5 million, offset by increases in the provision for loan losses and operating expenses. Net interest income increased during the first six months of 2003 due to an increase of 26% in average interest-earning assets (from \$5.13 billion during the first six months of 2002 to \$6.48 billion during the first six months of 2003) and an increase in the net interest income margin percentage. The net interest income margin percentage increased from 5.09% for the first six months in 2002 to 5.28% for

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the similar period in 2003 as a result of the Company's cost of funds decreasing more than the yields on the Company's commercial real estate loan portfolio. The gain on the sale of residential real estate loans increased during the first six months of 2003 primarily as a result of significantly increased levels of loan sales volume. The increase in loan sales volume is driven by a significant increase in loan origination volume. During the first six months of 2003 and 2002, total loan sales were \$4.53 billion and \$2.17 billion, respectively, and loan origination volume was \$5.25 billion and \$2.87 billion, respectively. The provision for loan losses increased to \$50.5 million for the first six months of 2003 as compared to \$36.4 million for the first six months of 2002; this increase is primarily reflective of a higher level of non-performing assets at June 30, 2003 and a continued contraction in economic conditions. Operating expenses increased as a result of increased loan origination volume and employee incentive compensation.

The following table shows loans receivable outstanding (excluding loans held for sale) in the various financing categories as of the dates indicated:

| | JUNE 30, 2003 | ----- |
|--|------------------|-----------|
| | | (THOUS |
| Commercial real estate loans: | | |
| Bridge | \$ 1,800,090 | |
| Permanent | 1,272,333 | |
| Construction | 477,513 | |
| Single tenant credit | 288,408 | |
| | | ----- |
| | | 3,838,344 |
| Residential real estate loans - portfolio | 460,237 | |
| Syndicated commercial loans | 6,958 | |
| Other - consumer loans | 4,352 | |
| | | ----- |
| | | 4,309,891 |
| Deferred fees and costs | (21,626) | |
| | | ----- |
| Loans receivable before allowance for loan losses | 4,288,265 | |
| Allowance for loan losses | (191,105) | |
| | | ----- |
| Loans receivable, net of allowance for loan losses | \$ 4,097,160 | |
| | | ===== |

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Residential real estate loans held for sale \$ 2,188,274
 =====

As of June 30, 2003, approximately 41% and 10% of the Company's commercial real estate loans outstanding were secured by properties located within California and New York, respectively; no other state represented greater than 8% of the loan portfolio. The Company's largest single commercial real estate loan outstanding at June 30, 2003 was \$56.2 million; this loan has a total loan commitment of \$67.9 million, however, it is cross-collateralized and cross-defaulted with another loan with the same investment fund on a related real estate project. The combined loan principal

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outstanding and total loan commitment of these two loans at June 30, 2003 is \$70.2 million and \$81.9 million, respectively. The Company's largest net commitment for a single loan at June 30, 2003 was \$104.0 million; this represents the maximum potential loan amount to the borrower. In addition, the commercial real estate loan portfolio's largest concentration by common investor or sponsor totaled \$74.7 million in loan principal outstanding and \$87.8 million in total loan commitment at June 30, 2003, and is from two investment funds (common advisor), comprised of three separate loans, each of which was performing as of June 30, 2003.

The following table stratifies the commercial real estate portfolio by loan amounts outstanding as of June 30, 2003 (in thousands of dollars, except percents and number of loans):

| LOAN SIZE RANGE | NUMBER OF LOANS | TOTAL LOANS OUTSTANDING | % |
|-------------------------------|--------------------|----------------------------|-------|
| ----- | ----- | ----- | ---- |
| \$0 - \$5 million | 355 | \$ 703,911 | 18% |
| > \$5 million - \$10 million | 108 | 789,353 | 21% |
| > \$10 million - \$15 million | 47 | 582,806 | 15% |
| > \$15 million - \$20 million | 25 | 416,656 | 11% |
| > \$20 million - \$30 million | 28 | 700,223 | 18% |
| > \$30 million - \$40 million | 12 | 402,733 | 10% |
| > \$40 million - \$50 million | 3 | 133,631 | 4% |
| > \$50 million | 2 | 109,031 | 3% |
| | ----- | ----- | ---- |
| | 580 | \$ 3,838,344 | 100% |
| | ===== | ===== | ===== |

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The following tables identify the interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net

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interest margins for the Company's financial services operation for the periods indicated:

| | THREE MONTHS ENDED JUNE 30 | | | |
|---|--|------------|--------------------|--------------------|
| | ----- 2003 ----- | | | |
| | AVERAGE BALANCE | INTEREST | YIELD/ COST (1) | AVERAGE BALANCE |
| | ----- (THOUSANDS OF DOLLARS, EXCEPT PERCENTAGES) ----- | | | |
| Interest-earning assets (2) : | | | | |
| Commercial real estate loans | \$ 3,845,668 | \$ 74,379 | 7.76% | \$ 3,454,530 |
| Residential real estate loans (3) .. | 2,656,244 | 49,922 | 7.54 | 1,621,000 |
| Syndicated commercial loans | 12,031 | 88 | 2.93 | 63,380 |
| Investment securities | 190,684 | 1,170 | 2.46 | 160,440 |
| | ----- | ----- | ----- | ----- |
| Total interest-earning asset | \$ 6,704,627 | \$ 125,559 | 7.51% | \$ 5,299,360 |
| | ===== | ===== | ===== | ===== |
| Interest-bearing liabilities: | | | | |
| Time deposits | \$ 3,572,867 | \$ 24,197 | 2.72% | \$ 3,264,370 |
| Savings deposits | 1,356,177 | 6,716 | 1.99 | 1,089,860 |
| Debt with FHLB | 1,005,505 | 5,988 | 2.39 | 457,040 |
| Other | 25,820 | 341 | 5.30 | 5,660 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities ... | \$ 5,960,369 | \$ 37,242 | 2.51% | \$ 4,816,950 |
| | ===== | ===== | ===== | ===== |
| Net interest income | | \$ 88,317 | | |
| | | ===== | | |
| Percent of average interest-earning assets (1) : | | | | |
| Interest income | | 7.51% | | |
| Interest expense | | 2.23% | | |
| | | ----- | | |
| Net interest margin | | 5.28 % | | |
| | | ===== | | |

SIX MONTHS ENDED JUNE 30

2003

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| | AVERAGE BALANCE | INTEREST | YIELD/ COST (1) | AVERAGE BALANCE |
|--|---------------------------------|------------|--------------------|--------------------|
| | ----- | ----- | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT P | | | |
| Interest-earning assets (2) : | | | | |
| Commercial real estate loans | \$ 3,797,428 | \$ 148,353 | 7.88% | \$ 3,478,31 |
| Residential real estate loans (3) .. | 2,481,925 | 94,572 | 7.68 | 1,436,95 |
| Syndicated commercial loans | 17,174 | 100 | 1.17 | 80,10 |
| Investment securities | 184,611 | 2,316 | 2.53 | 131,34 |
| | ----- | ----- | ----- | ----- |
| Total interest-earning assets | \$ 6,481,138 | \$ 245,341 | 7.63% | \$ 5,126,72 |
| | ===== | ===== | ===== | ===== |
| Interest-bearing liabilities: | | | | |
| Time deposits | \$ 3,615,442 | \$ 50,703 | 2.83% | \$ 3,230,04 |
| Savings deposits | 1,284,870 | 13,581 | 2.13 | 1,044,41 |
| Debt with FHLB | 863,713 | 10,836 | 2.53 | 365,17 |
| Other | 15,114 | 360 | 4.80 | 4,48 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities . | \$ 5,779,139 | \$ 75,480 | 2.63% | \$ 4,644,11 |
| | ===== | ===== | ===== | ===== |
| Net interest income | | \$ 169,861 | | |
| | | ===== | | |
| Percent of average interest-earning assets(1) : | | | | |
| Interest income | | 7.63% | | |
| Interest expense | | 2.35% | | |
| | | ----- | | |
| Net interest margin | | 5.28% | | |
| | | ===== | | |

The Company's net interest margin as a percentage of average interest-earning assets increased to 5.28% in the second quarter of 2003 as compared to 5.20% for the second quarter of 2002. The slight increase in the Company's net interest margin is due primarily to higher net spreads between the commercial real estate loan yields and the effective cost of funds employed to fund these assets as the interest yields on deposits declined on a quarter-to-quarter comparison more than the yields on commercial real estate loans did. This is due in part to the presence of interest rate floors (in which the total of the variable base rate, such as six-month LIBOR, plus the related spread on a commercial real estate loan will not contractually drop below a certain absolute level, such as 7%) on a significant number of the Company's commercial real estate loans, as well as various economic and market factors.

The following tables report the non-performing asset classifications, accruing loans past due 90 days or more, loan loss experience and allowance for

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loan losses reconciliation of the financial services operation as of or for the respective periods ended:

| | JUNE 30, 2003 | DECEMBER 31, 2002 |
|---|--|----------------------|
| | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT PERCENTAGES) | |
| Non-accrual loans receivable: | | |
| Commercial real estate loans | \$ 82,134 | \$ 70,031 |
| Residential real estate loans - portfolio | 6,897 | 5,600 |
| Residential real estate loans - held for sale | 5,287 | 6,709 |
| Syndicated commercial loans | 6,854 | 11,239 |
| Other | - | - |
| | ----- | ----- |
| | 101,172 | 93,579 |
| Real estate owned ("REO"): | | |
| Commercial real estate loans | 20,962 | 10,598 |
| Residential real estate loans - portfolio | 602 | 315 |
| Residential real estate loans - held for sale | 1,348 | 2,850 |
| | ----- | ----- |
| | 22,912 | 13,763 |
| | ----- | ----- |
| Total non-performing assets ("NPA") | \$ 124,084 | \$ 107,342 |
| | ===== | ===== |
| Accruing loans past due 90 days or more: | | |
| Commercial real estate loans | \$ 2,322 | \$ - |
| Residential real estate loans | - | - |
| Other | - | - |
| | ----- | ----- |
| | \$ 2,322 | \$ - |
| | ===== | ===== |
| NPA to total loans receivable, loans held for sale ("HFS") and REO | 1.91% | 1.84% |
| Accruing loans past due 90 days or more to total loans receivable and HFS | 0.04% | 0.00% |

| | THREE MONTHS ENDED JUNE 30, | SIX MONTHS ENDED JUNE 30, |
|--|--|------------------------------|
| | ----- | ----- |
| | 2003 | 2003 |
| | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT PERCENTAGES) | |

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| | | | |
|---|------------|------------|------------|
| Beginning allowance for loan losses | \$ 175,162 | \$ 114,076 | \$ 161,190 |
| Provision for loan losses | 27,609 | 20,913 | 50,529 |
| Charge-offs: | | | |
| Commercial real estate loans | (11,690) | (9,419) | (20,312) |
| Residential real estate loans - portfolio | (64) | (22) | (234) |
| Syndicated commercial loans | - | (7,640) | (199) |
| Other | - | - | - |
| | ----- | ----- | ----- |
| Total charge-offs | (11,754) | (17,081) | (20,745) |
| | ----- | ----- | ----- |
| Recoveries: | | | |
| Commercial real estate loans | - | - | - |
| Residential real estate loans - portfolio | 29 | 4 | 63 |
| Syndicated commercial loans | 58 | - | 67 |
| Other | 1 | 2 | 1 |
| | ----- | ----- | ----- |
| Total recoveries | 88 | 6 | 131 |
| | ----- | ----- | ----- |
| Net charge-offs | (11,666) | (17,075) | (20,614) |
| | ----- | ----- | ----- |
| Ending allowance for loan losses | \$ 191,105 | \$ 117,914 | \$ 191,105 |
| | ===== | ===== | ===== |
| Allowance for loan losses to total loans receivable* | 4.46% | 2.91% | 4.46% |
| Net loan charge-offs to average total loans receivable (excluding HFS)** | 1.10% | 1.70% | 0.99% |

* At end of period indicated

** Annualized

| | JUNE 30, 2003 | DECEMBER 31 2002 |
|---|------------------|---------------------|
| | ----- | ----- |
| Allocation of allowance for loan losses: | | |
| Commercial real estate loans | \$ 180,014 | \$ 147,228 |
| Residential real estate loans - portfolio | 9,055 | 7,844 |
| Syndicated commercial loans | 2,035 | 6,118 |
| Other | 1 | - |
| | ----- | ----- |
| Total allowance for loan losses | \$ 191,105 | \$ 161,190 |
| | ===== | ===== |

Non-performing assets increased to \$124.1 million, or 1.91% of total loans receivable, loans held for sale and real estate owned at June 30, 2003, from \$107.3 million or 1.84% at December 31, 2002 and \$106.7 million or 2.09% at June 30, 2002. Accruing loans 90 days or greater past due totaled \$2.3 million at

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June 30, 2003. The level of non-performing assets fluctuates and specific loans can have a material impact upon the total. During the second quarter of 2003, there were four loans restructured as to their terms and included in accrual status at June 30, 2003. The total loan principal outstanding under these four loans was \$36.9 million at June 30, 2003 and the Company incurred \$1.6

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million in charge-offs related to the restructuring of these four loans during the second quarter of 2003. During the second quarter of 2002, there were six commercial real estate loans, with a total outstanding balance of \$56.8 million at June 30, 2002, that were restructured and included in accrual status. Of the six loans restructured during the second quarter of 2002, one (original total balance of \$4.7 million) was ultimately foreclosed upon during the fourth quarter of 2002, and the other five (original total balance of \$52.1 million) remained on accrual status as of June 30, 2003. The Company incurred \$656,000 in charge-offs related to the restructuring of the six loans during the second quarter of 2002.

The provision for loan losses for the second quarter of 2003 increased to \$27.6 million, as compared to \$20.9 million in the second quarter of 2002. The allowance for loan losses, as a percentage of total loans receivable, excluding loans held for sale, increased to 4.46% as of June 30, 2003, as compared to 2.91% at June 30, 2002. The increase in the provision for loan losses during the second quarter of 2003, as compared to the second quarter of 2002, is primarily due to a slightly increased level of commercial real estate loan net charge-offs in the second quarter of 2003 and a small amount of growth in the total loan portfolio. Total net charge-offs in the second quarter of 2003 totaled \$11.7 million, as compared to \$17.1 million for the second quarter of 2002. The \$11.7 million in net charge-offs for the second quarter of 2003 were substantially all related to commercial real estate loans; of the \$17.1 million in net charge-offs for the second quarter of 2002, \$9.4 million was related to commercial real estate loans and \$7.7 million to syndicated commercial loans. The increase in net charge-offs for commercial real estate loans during 2003 is primarily a reflection of the effect of a contracted economic environment.

LIQUIDITY AND CAPITAL RESOURCES

FIL finances its lending activities primarily through Federal Deposit Insurance Corporation ("FDIC") insured customer deposits, which totaled \$4.8 billion at June 30, 2003. FIL is also eligible for financing through the Federal Home Loan Bank of San Francisco ("FHLB"), which financing is available at various rates and terms. At June 30, 2003, FIL had borrowing availability with the FHLB of \$1.71 billion, of which \$1.55 million was borrowed and outstanding. In addition, FIL has a line of credit with the Federal Reserve Bank of San Francisco ("FRB") with a borrowing availability of \$149.3 million at June 30, 2003. There were no amounts outstanding under the line of credit with the FRB at June 30, 2003. The FDIC has established certain capital and liquidity standards for its member institutions, and FIL was in compliance with these standards as of June 30, 2003. The Company

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believes it has sufficient liquidity and capital resources to fund its financial

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services operation for the foreseeable future.

As a holding company, Fremont pays its operating expenses, interest expense and stockholders' dividends, and meets its other obligations primarily from its cash on hand and intercompany-tax payments from FIL. Dividends of \$3.8 million and \$1.4 million were paid on Fremont's common stock in the quarters ending June 30, 2003 and 2002, respectively; however, the Company can give no assurance that future common stock dividends will be declared.

Fremont has available to it significant federal tax net operating loss carryforwards, which may be utilized to reduce or eliminate future tax payments. As a result, intercompany payments of federal tax obligations from FIL, which would otherwise be payable to taxing authorities, are available for use by Fremont for general working capital purposes, including the extinguishment of debt. The Company currently pays various state taxes, primarily California Franchise Taxes, as there are no significant state net operating loss carryforwards available to it for offset. The Company has certain California Franchise Tax issues pending resolution. The Company does not believe that the ultimate outcome of these matters, which are expected to take several years to resolve, will have a material effect on the Company's financial position or liquidity.

Fremont has cash and short term investments of \$80.7 million at June 30, 2003 and no debt maturities until March of 2004 and believes that, with its other available sources of liquidity, it will have sufficient means to satisfy its liquidity needs for at least the next twelve months.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk resulting primarily from fluctuations in interest rates arising from balance sheet financial instruments such as investments, loans and debt. Changes in interest rates will affect the Company's net investment income, loan interest, net gain on the sale of residential real estate loans, interest expense and total stockholders' equity. The level of net gain on the sale of residential real estate loans is highly dependent upon the level of loan origination volume and the net premium paid by the purchasers of such loans. Both the volume and net premium, in turn, are highly dependent upon changes in, and the level of, interest rates and other economic factors. The Company may experience a decrease in the amount of net gain it realizes should significant interest rate increases occur or if other economic factors have a negative impact on the value and volume of the loans the Company originates. The objective of the Company's asset and liability management activities is to provide the highest level of net interest and investment income and to seek cost effective sources of capital, while maintaining acceptable levels of interest rate and liquidity risk.

As part of its residential real estate mortgage banking operations, the Company enters into commitments to originate loans ("interest rate lock commitments"), which represent commitments that have been extended by the Company, generally for the period of 30 days, at a stated interest rate to its potential borrowers. The Company determined that its interest rate lock commitments have met the definition of derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"; however, the impact of the change in fair value of such derivative instruments is not material to the Company's results of operations. Typically, the Company hedges

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the risk of overall changes in the fair value for its loans held for sale through entering into forward loan sale commitments.

Quantitative and qualitative disclosures about the Company's market risk are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. There have been no material changes in such risks or in the Company's asset and liability management activities during the six months ended June 30, 2003.

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ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2003, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. The evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2003. There have been no changes in the Company's internal controls over financial reporting that occurred in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II - OTHER INFORMATION

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

- a) The Annual Meeting of Stockholders was held on May 29, 2003.
- b) The following directors were elected to serve until the next Annual Meeting of Stockholders or until their successors have been elected and qualified:

| | |
|-------------------|-------------------|
| James A. McIntyre | Robert F. Lewis |
| Wayne R. Bailey | Louis J. Rampino |
| Thomas W. Hayes | Dickinson C. Ross |

- c) The directors named in (b) above were elected. The results of the voting of the 68,432,439 shares represented at the meeting are summarized in the following table:

| | FOR | VOTES WITHHELD |
|----------------------|------------|-------------------|
| | ----- | ----- |
| J. A. McIntyre | 65,419,340 | 3,013,099 |
| W. R. Bailey | 65,430,010 | 3,002,429 |
| T. W. Hayes | 65,300,109 | 3,132,330 |
| R. F. Lewis | 65,281,794 | 3,150,645 |

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| | | |
|---------------------|------------|-----------|
| L. J. Rampino | 60,383,382 | 8,049,057 |
| D. C. Ross | 65,249,940 | 3,182,469 |

- d) The appointment of the accounting firm of Ernst & Young LLP as the Corporation's Independent Auditors was ratified. The results of the voting of the 68,432,439 shares represented at the meeting are summarized in the following table:

| FOR --- | AGAINST ----- | ABSTAINED ----- |
|------------|------------------|--------------------|
| 67,329,156 | 847,520 | 255,763 |

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ITEM 6: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a) EXHIBITS.

| EXHIBIT NO. | DESCRIPTION |
|----------------|---|
| 3.1 | Restated Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 1998, Commission File Number 1-8007.) |
| 3.2 | Certificate of Amendment of Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1998, Commission File Number 1-8007.) |
| 3.3 | Amended and Restated By-Laws of Fremont General Corporation. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.) |
| 4.1 | Form of Stock Certificate for Common Stock of the Registrant. (Incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.) |
| 4.2 | Indenture with respect to Liquid Yield Option Notes Due 2013 between the Registrant and Bankers Trust Company. (Incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 filed on October 1, 1993, Registration Number 33-68098.) |
| 4.3 | Indenture among the Registrant, the Trust and Bank of New York (originated with First Interstate Bank of California), a New York Banking Corporation, as trustee. (Incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number |

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1-8007.)

- 4.4 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. (Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.5 Preferred Securities Guarantee Agreement between the Registrant and The Chase Manhattan Bank, N.A., a national banking association, as Preferred Guarantee Trustee. (Incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.6 Common Securities Guarantee Agreement by the Registrant. (Incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.7 Form of Preferred Securities. (Included in Exhibit 4.5). (Incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 10.1(a) Fremont General Corporation and Affiliated Companies Investment Incentive Plan and Amendments Number One, Two, Three and Four. (Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2002, Commission File Number 1-8007.)
- 10.1(b) Amendment Number Five to the Fremont General Corporation and Affiliated Companies Investment Incentive Plan (2000 restatement).
- 10.2(a) * Fremont General Corporation Investment Incentive Program Trust. (Incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1993, Commission File Number 1-8007).

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| EXHIBIT NO. | DESCRIPTION |
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| 10.2(b) * | Amendment to the Fremont General Corporation Investment Incentive Program Trust. (Incorporated by reference to Exhibit 10.4 to Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.) |
| 10.3(a) * | Fremont General Corporation Supplemental Executive Retirement Plan. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 filed on April 9, 2001, Registration Number 333-58560.) |

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- 10.3(b)* First Amendment to the Fremont General Corporation Supplemental Executive Retirement Plan. (Incorporated by reference to Exhibit 10.1(b) to Quarterly Report on Form 10-Q, for the period ended June 30, 2001, Commission File Number 1-8007.)
- 10.3(c)* Second and Third Amendments to the Fremont General Corporation Supplemental Executive Retirement Plan. (Incorporated by reference to Exhibit 10.3(c) to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2002, Commission File Number 1-8007.)
- 10.4* Fremont General Corporation 2003 Excess Benefit Plan. (Incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2002, Commission File Number 1-8007).
- 10.5* Fremont General Corporation 2003 Excess Benefit Plan Trust Agreement. (Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2002, Commission File Number 1-8007).
- 10.6* Fremont General Corporation Deferred Compensation Trust. (Incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-8 filed on April 9, 2001, Registration Number 333-58560.)
- 10.7* 1997 Stock Plan and related agreements. (Incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q, for the period ended June 30, 1997, Commission File Number 1-8007.)
- 10.8* Management Incentive Compensation Plan of Fremont General Corporation and Affiliated Companies. (Incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q, for the period ended March 31, 2000, Commission File Number 1-8007).
- 10.9* 2002 Long Term Incentive Compensation Plan of the Registrant. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended September 31, 2002, Commission File Number 1-8007.)
- 10.10* 1995 Restricted Stock Award Plan As Amended and forms of agreement thereunder. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8/S-3 filed on December 9, 1997, Registration Number 333-17525.)
- 10.11(a)* Fremont General Corporation Employee Benefits Trust Agreement ("Grantor Trust") dated September 7, 1995 between the Registrant and Merrill Lynch Trust Company of California. (Incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 10.11(b)* November 11, 1999 Amendment to Exhibit A to the Fremont General Corporation Employee Benefits Trust ("Grantor Trust") dated September 7, 1995 between the Registrant and Merrill Lynch Trust Company of California. (Incorporated by reference to Exhibit 10.13(a) to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1999, Commission File Number 1-8007.)

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10.12(a)* Employment Agreement between the Registrant and James A. McIntyre dated January 1, 1994. (Incorporated by reference to Exhibit (10)(i) to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1994, Commission File Number 1-8007.)

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| 10.12(c)* | Second Amendment to Employment Agreement between the Registrant and James A. McIntyre dated August 8, 1997. (Incorporated by reference to Exhibit 10.14(c) to the Registrant's Quarterly Report on Form 10-Q, for the period ended September 30, 1997, Commission File Number 1-8007.) |
| 10.12(d)* | Third Amendment to Employment Agreement between the Registrant and James A. McIntyre dated August 1, 2000. (Incorporated by reference to Exhibit 10.9(d) to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.) |
| 10.13* | Employment Agreement between the Registrant and Louis J. Rampino dated February 25, 2000. (Incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.) |
| 10.14* | Employment Agreement between the Registrant and Wayne R. Bailey dated February 25, 2000. (Incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.) |
| 10.15* | Employment Agreement between the Registrant and Raymond G. Meyers dated February 25, 2000. (Incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 2000, Commission File Number 1-8007.) |
| 10.16* | Management Incentive Compensation Plan of Fremont General Corporation and Affiliated Companies. (Incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2001, Commission File Number 1-8007.) |
| 10.17* | Continuing Compensation Plan for Retired Directors. (Incorporated by reference to Exhibit 10.17 to the Registrant's |

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Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)

- 10.18 California Department of Insurance Letter Agreement of Run-Off and Regulatory Oversight of the Fremont Compensation Insurance Group, Inc. Workers' Compensation Insurance Companies dated July 2, 2002. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 19, 2002, Commission File Number 1-8007.)
- 10.19 Transition Agreement by and among Fremont Compensation Insurance Group, Inc., Fremont Compensation Insurance Company, Fremont Indemnity Company, Fremont Pacific Insurance Company and Ayniles Insurance Company dated as of May 31, 2002. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 19, 2002, Commission File Number 1-8007).
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management or compensatory plans or arrangements.

With respect to long-term debt instruments, the Registrant undertakes to provide copies of such agreements upon request by the Commission.

(b) REPORTS ON FORM 8-K:

On April 29, 2003 the Company filed a Current Report on Form 8-K, Item 9, furnishing Regulation FD Disclosure to report its results of operations for the first quarter of 2003.

On June 2, 2003 the Company filed a Current Report on Form 8-K, Item 5, to report that rating agency Fitch upgraded Fremont General Corporation's senior debt rating to CCC+ (from CCC-) and moved the outlook to "Stable".

On June 5, 2003 the Company filed a Current Report on Form 8-K, Item 5, to report that the Superior Court of the State of California for the County of Los Angeles, the Insurance Commissioner of the State of California was granted an order of conservation over Fremont Indemnity Company ("FIC").

On July 31, 2003, the Company filed a Current Report on Form 8-K, Item 12, furnishing Regulation FD Disclosure to report its results of operations for the second quarter of 2003.

SIGNATURES

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: August 13, 2003

/s/ LOUIS J. RAMPINO

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

Date: August 13, 2003

/s/ PATRICK E. LAMB

Patrick E. Lamb, Senior Vice President,
Controller and Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

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