SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1993

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _________to __________

COMMISSION FILE NUMBER 1-8625

CITADEL HOLDING CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	95-3885184
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
600 NORTH BRAND BOULEVARD GLENDALE, CALIFORNIA	91203
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (818) 956-7100

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $.01 PAR VALUE PER SHARE	AMERICAN STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed 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 X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant, as of March 15, 1994 was $20,034,000.

The number of shares of common stock, par value $.01 per share, of Registrant outstanding as of March 15, 1994 was 6,595,624 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 1994 Proxy Statement, which will be filed with the Securities and Exchange Commission in connection with the Company's 1994 Annual Meeting of Stockholders, are incorporated by reference in Part III hereof.

CITADEL HOLDING CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 1993

PART III

PART IV

PART I

ITEM 1. BUSINESS

CITADEL HOLDING CORPORATION

GENERAL

Citadel Holding Corporation ("Citadel"), incorporated in Delaware in 1983, is a financial services holding company engaged primarily in the savings bank business through its wholly owned subsidiary, Fidelity Federal Bank, a Federal Savings Bank ("Fidelity" or the "Bank"). Citadel is also engaged in the securities brokerage business through its wholly owned subsidiary, Gateway Investment Services, Inc. ("Gateway"). Citadel currently has no significant business or operations other than serving as the holding company for Fidelity and Gateway. Citadel is actively pursuing a significant internal restructuring plan described below in "Recent Developments." Unless otherwise indicated, references to the "Company" include Citadel, Fidelity, and all subsidiaries of Fidelity and Citadel. The principal executive offices of Citadel and Fidelity are located at 600 North Brand Boulevard, Glendale, California 91203, telephone number (818) 956-7100.

Fidelity operates through 42 branches, all of which are located in Southern California, principally in Los Angeles and Orange counties. At December 31, 1993, Fidelity's mortgage loan portfolio (including loans held for sale) aggregated approximately $3.8 billion, of which approximately 71% was secured by residential properties containing 2 or more apartment units, 21% was secured by single family residences and 8% was secured by commercial property. At that same date, 96% of Fidelity's loans consisted of adjustable rate mortgages.

Fidelity funds its portfolio lending operations principally with deposits. At December 31, 1993, Fidelity had deposits of approximately $2.8 billion, exclusive of $593 million in certificates of deposit of $100,000 or more. Other borrowings on that date included $326.4 million in Federal Home Loan Bank ("FHLB") Advances, $100.0 million in mortgage-backed borrowings, $304.0 million in commercial paper backed by a letter of credit issued by the FHLB of San Francisco and $60.0 million in subordinated debt that qualifies as supplementary Tier 2 regulatory capital.

Fidelity's deposit accounts are insured by the Federal Deposit Insurance Corporation (the "FDIC") through the Savings Association Insurance Fund (the "SAIF"). Citadel and Fidelity are subject to the examination, supervision and reporting requirements of the Office of Thrift Supervision (the "OTS"), their primary federal banking regulator. Fidelity is also subject to examination and supervision by the FDIC. See "Regulation and Supervision."

Gateway became a National Association of Securities Dealers, Inc. ("NASD") registered broker/dealer in October 1993. Through Gateway, the Company currently provides customers of the Bank with investment products including a number of mutual funds, annuities and unit investment trusts. Fidelity is implementing a new business strategy that integrates traditional banking functions (mortgage originations and deposit services) with the sale of investment services and products by Gateway. See "Retail Financial Services Group."

The Southern California economy and real estate markets further declined during 1993, adversely affecting the Bank's loan and real estate portfolios. The Company reported a net loss of $67.2 million for the year ended December 31, 1993, as compared to net earnings of $2.0 million and $2.7 million for the years ended December 31, 1992 and 1991, respectively. Pre-tax loss for the Company increased by $99.8 million from a loss of $3.8 million in 1992 to a loss of $103.6 million in 1993. Operating expenses increased $27.4 million in 1993 to $105.3 million from $77.9 million in 1992. The increase in 1993 expenses was attributable in part to increased staffing levels required to manage rising problem assets, strengthen internal asset review, handle increased financial services offered at the retail branch network and expand originations and sales of residential mortgages in the mortgage banking network. The increase in expenses is also attributable to certain nonrecurring charges incurred in connection with the Company's valuation of its intangible assets and further development of the internal reorganization and restructuring plan discussed below, including the write-off of $8.8 million of goodwill and $5.2 million in core deposit intangibles, and an increase of $5.9 million in professional fees, of which approximately $3.3 million was attributable to analysis and development of the Company's restructuring plan and to the related asset valuation process.

At December 31, 1993, the Bank had nonperforming assets ("NPAs") totaling $235.6 million and a general valuation allowance ("GVA") totaling $80.0 million. NPAs include nonaccruing loans, in-substance foreclosed real estate ("ISF") and real estate acquired in settlement of loans by foreclosure or otherwise, but do not include troubled debt restructurings ("TDRs") unless the TDRs would otherwise fall into nonaccruing loans or ISF. At year-end 1993, the Bank's GVA equaled 2.03% of total loans and real estate owned (including ISF, "REO") and 32.8% of NPAs.

The following table sets forth selected financial and other data for the Company at or for the periods indicated:

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
BALANCE SHEET DATA:					
Total assets	$4,390	$4,698	$5,127	$5,698	$4,981
Total loans, net	3,713	3,992	4,551	5,085	4,437
Deposits	3,369	3,458	3,885	3,967	3,317
FHLB Advances	326	581	325	755	725
Other borrowings	408	327	546	594	622
Subordinated notes	60	60	60	60	--
Stockholders' equity(2)	187	223	221	218	195
Stockholders' equity per share(2)	28.41	67.68	67.06	66.25	59.20
Common shares outstanding(1)(2)	6,595,624	3,297,812	3,297,812	3,297,812	3,295,562
OPERATING DATA:					
Net interest income	$ 101	$ 131	$ 142	$ 115	$ 76
Net earnings (loss)	(67)	2	3	23	8
Net earnings (loss) per share	(11.56)	.62	.81	7.07	2.47
Average common and common equivalent shares outstanding(1)(2)	5,809,570	3,297,812	3,297,812	3,298,140	3,296,919
SELECTED OPERATING RATIOS:					
Return on average assets	(1.47)%	0.04%	0.05%	0.44%	0.17%
Return on average equity	(28.92)%	0.91%	1.20%	11.21%	4.24%
Average equity divided by average assets	5.07%	4.66%	4.01%	3.94%	3.97%
Ending equity divided by ending assets	4.27%	4.75%	4.31%	3.84%	3.92%
Operating expenses to average assets	2.30%	1.61%	1.43%	1.26%	1.33%
Efficiency ratio(3)	77.55%	53.16%	51.18%	55.35%	74.31%
ASSET QUALITY DATA--FIDELITY:					
NPAs(4)	$ 236	$ 234	$ 125	$ 48	$ 21
NPAs to total assets	5.37%	4.99%	2.43%	0.85%	0.42%
Nonaccruing loans	$ 93	$ 112	$ 69	$ 30	$ 12
Nonaccruing loans to total loans	2.52%	2.83%	1.53%	0.61%	0.27%
GVA	$ 80	$ 76	$ 52	$ 17	$ 8
GVA to NPAs(5)	32.79%	30.49%	41.99%	34.14%	38.38%
GVA to loans and REO (including ISF)(6)	2.03%	1.82%	1.13%	0.32%	0.18%
Loan GVA to nonaccruing loans and ISF	58.75%	38.15%	55.44%	56.67%	66.67%
OTHER DATA:					
Number of:					
Real estate loan accounts (in thousands)	16	18	21	28	27
Deposit accounts (in thousands)	241	233	238	234	203
Retail branch offices(7)	42	43	43	44	34

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(1) Net of treasury shares, where applicable.

(2) 1993 data includes 3,297,812 shares issued in March 1993 in connection with a stock rights offering which produced net proceeds to the Company of $31.4 million.

(3) The efficiency ratio is computed by dividing total operating expense by net interest income and noninterest income, excluding nonrecurring items, provisions for estimated loan and real estate losses, direct costs of real estate operations and gains/losses on the sale of securities.

(4) NPAs include nonaccruing loans, foreclosed real estate and ISF (net of REO GVA), but do not include TDRs, unless they fall into one of the foregoing categories.

(5) NPAs in this ratio are calculated prior to the reduction for REO GVA.

(6) Loans and REO in the ratio are calculated prior to the reduction for loan and REO GVA, but are net of specific reserves.

(7) All retail branch offices are located in Southern California.

For additional information, see Item 6. "Selected Financial Data," Item 7. "MD&A" and Item 8. "Financial Statements and Supplementary Data."

RECENT DEVELOPMENTS

Internal Reorganization and Restructuring

In mid-1992, the Company commenced a series of steps to internally reorganize in order to strengthen the Bank's internal operations and meet the needs of its customer base. First, a new Chief Executive Officer and certain additional senior management personnel were hired to strengthen key areas of future potential growth, such as mortgage banking, residential loan originations, credit administration and retail financial services. The Company broadened the product line of loans originated by the Bank and increased its emphasis on mortgage banking, in particular developing its loan pipeline hedging capability. It also reorganized the retail branch system to integrate the provision of traditional banking services with the provision through Gateway of a broader range of nontraditional financial services and uninsured investment products. Additionally, Fidelity upgraded its systems management capabilities by converting to new computer systems in its retail banking and loan administration operations and by adding state-of-the-art software capability to the asset/liability management function. Fidelity also enhanced its real estate management operations by adding experienced real estate professionals to that department.

In October 1992, the Company hired outside financial advisors to identify and assess strategic alternatives for the Company to pursue with a view to maximizing value for stockholders. In mid-1993, as an outgrowth of the reorganization effort, management evaluated the strategic alternatives available to it and subsequently determined that the proposed restructuring plan described below had the greatest potential to maximize stockholder value in the foreseeable future.

The Company is actively pursuing a restructuring plan that would include both the transfer to a newly-formed Citadel subsidiary or division of certain problem assets of the Bank and a sale of the Bank and Gateway (the "Restructuring"; discussions of the sale of the Bank in the context of the Restructuring include the sale of Gateway). The Company is currently seeking another financial institution (a "strategic buyer") or a new core set of equity investors for the Bank. Any such sale of the Bank will be subject to the approval of Citadel's Board of Directors (the "Board") and stockholders as well as the OTS. Following the proposed sale of the Bank, Citadel would become a real estate company and focus on the servicing and enhancement of its loan and real estate portfolio.

The Restructuring calls for the Bank's disposition of substantially all of its problem assets, together with a small amount of its performing assets, so as to improve the attractiveness of the Bank to potential acquisition or investment candidates. Most of the Bank's problem assets would be transferred to the new Citadel real estate subsidiary or division using securitized debt financing. These assets would consist of commercial and large multifamily loans and real estate owned properties with a current net book value of approximately $401 million. The impact of the January 1994 Northridge Earthquake on the assets to be transferred is not expected to alter significantly the value of such assets. The Restructuring also calls for the Bank's disposition of a smaller group of problem assets, consisting primarily of smaller multifamily loans with a current net book value of approximately $81 million, in a bulk sale to a third-party purchaser or Citadel.

While the Board will fully explore the market values of this Restructuring before making any final decisions, the Board views this approach as having the greatest potential to maximize stockholder value in the foreseeable future. In formulating the proposed Restructuring, the Company believes that the value of

Fidelity to a purchaser or investor would be heavily, and perhaps excessively, discounted due to its problem assets. Thus, it was determined that the Bank's attractiveness to an acquisition or investment candidate would be enhanced if the Bank disposed of these problem assets. However, management also believes that these assets, if managed outside the environment of a federally regulated institution, may present the potential for Citadel stockholders to realize future values that would not be reflected in the bulk sale price of those assets to a third party today. Accordingly, the Restructuring was designed to retain in a Citadel subsidiary or division approximately $401 million of primarily problem assets after a sale of the Bank. Management believes that an asset disposition is critical to a successful major recapitalization program for Fidelity. Citadel has commenced efforts to raise the financing necessary to consummate its problem asset purchase from Fidelity.

Because of the significant conditions to and uncertainty in accomplishing a successful Restructuring, the Company expects that the losses associated with the Restructuring would only be incurred upon the sale of the Bank, at which time the effects of the losses on capital should be offset by either a new infusion of capital from investors, who would purchase ownership of the Bank, or a merger with another financial institution.

The following discussion focuses on certain financial consequences of the Restructuring and is not indicative of the loss content of the Bank's assets in the absence of the Restructuring or other bulk asset dispositions.

To consummate the bulk transfers of assets to a Citadel subsidiary or division and obtain debt financing in the capital markets for the larger transfer, Fidelity would be required to write down these assets to their bulk sale values. These losses would be offset in part by the reduction in the Bank's GVA (reflecting the healthier remaining asset pool) and possible tax benefits. If the restructuring were to be consummated in mid-1994, management's latest estimate is that the Bank's core capital, after giving effect to the writedowns on the asset transfers, tax benefits associated therewith, use of relevant reserves and extraordinary charges relating to the Restructuring, but before giving effect to any new capital infusion into the Bank by the acquiror or new investors, would be approximately $102 million. This estimate will be subject to ongoing adjustment in view of changing variables such as future earnings or losses, changes in the composition and size of the problem assets and other factors.

The Bank does not intend to implement the above-described bulk problem asset dispositions, or to incur the consequent losses, in the absence of an acquisition of the Bank by another financial institution or financial investors who are able to infuse additional core capital into the Bank. Any such acquisition will also require the approval of Citadel's Board and stockholders, as well as the OTS, which will condition its approval in part on the adequacy of the capital of the Bank after the Restructuring.

No assurances can be given that the proposed Restructuring can be successfully implemented.

On March 4, 1994, The Chase Manhattan Bank, N.A. ("Chase"), one of four lenders under Fidelity's $60 million subordinated loan agreement of 1990 (the "Subordinated Loan Agreement"), sued Fidelity, Citadel and Citadel's Chairman of the Board, alleging, among other things, that the transfer of assets pursuant to the Restructuring would constitute a breach of the Subordinated Loan Agreement, and seeking to enjoin the Restructuring and to recover damages in unspecified amounts. In addition, the lawsuit alleges that past responses of Citadel and Fidelity to requests by Chase for information regarding the Restructuring violate certain provisions of the Subordinated Loan Agreement and that such alleged violations, with the passage of time, have become current defaults under the Subordinated Loan Agreement. While the other three lenders under the Subordinated Loan Agreement hold $25 million of the subordinated notes (the "Notes"), none of them has joined Chase in this lawsuit. The Company is evaluating the lawsuit and, based on its current assessment, the Company does not believe that the allegations have merit. See Item 7. "MD&A--Capital Resources and Liquidity" for additional considerations relating to the Subordinated Loan Agreement.

OTS Examinations

In January 1994, Citadel and the Bank received reports of the various regular examinations conducted by the OTS in 1993. As a result of the findings of the OTS in its safety and soundness examination of the Bank, Fidelity will be subject to higher examination assessments and is subject to additional regulatory restrictions including, but not limited to, (a) a prohibition, absent prior OTS approval, on increases in total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter; (b) a requirement that the Bank submit to the OTS for prior review and approval the names of proposed new directors and executive officers and proposed employment contracts with any director or senior officer; (c) a requirement that the Bank submit to the OTS for prior review and approval any third-party contract outside the normal course of business; and (d) the OTS would have the ability, in its discretion, to require 30 days' prior notice of all transactions between Fidelity and its affiliates (including Citadel and Gateway).

The OTS also expressed concern in a number of specific areas principally relating to asset quality, asset review administration and the resulting negative impact on capital levels and earnings, as well as management effectiveness in certain areas. Management believes that the proposed Restructuring, if accomplished, would be responsive to most of the OTS' concerns.

Capital and Liquidity

Despite the negative impact of losses and provisions to GVA on the Bank's earnings and thus its capital, at December 31, 1993 and to date, the Bank was and is classified as "adequately capitalized" for purposes of the prompt corrective action regulations promulgated by the OTS. An institution is "adequately capitalized" if its ratio of core capital to adjusted total assets ("core capital ratio") is at least 4.0%, its ratio of core capital to risk-weighted assets is at least 4.0% and its ratio of total capital to risk-weighted assets is at least 8.0%. At December 31, 1993, Fidelity's ratios were 4.15%, 6.27% and 9.32%, respectively. See "Regulation and Supervision--FDICIA Prompt Corrective Action Requirements" and Item 7. "MD&A--Capital Resources and Liquidity." However, Citadel supplemented the Bank's capital in 1993 with two capital infusions totaling $28.0 million, without which the Bank would have had to significantly reduce its assets or at December 31, 1993 the Bank would not have met the 4% core capital requirement of the "adequately capitalized" category, and thus the Bank would have been classified as "undercapitalized" for purposes of the OTS' prompt corrective action regulations. See "Regulation and Supervision--FDICIA Prompt Corrective Action Requirements".

Citadel, with only $2.3 million in liquid assets at December 31, 1993, and ongoing expenses in connection with the contemplated Restructuring, is not in a position to make further capital contributions to the Bank, nor does Citadel have ready access to additional funds under current circumstances. See Item 7. "MD&A--Capital Resources and Liquidity." Management anticipates that the Bank will incur losses in the first and second quarters of 1994. The losses will, in the absence of a new capital infusion or a reduction in the Bank's total assets, reduce the Bank's core capital ratio to less than 4%. In an effort to maintain the Bank's core capital ratio above 4% at March 31, 1994 by downsizing its balance sheet, the Bank has entered into an agreement to sell approximately $160 million of single family and multifamily (2 to 4 units) performing loans in the first quarter of 1994. Additionally, in order to maintain the Bank's capital above the regulatory minimums necessary to continue to be designated "adequately capitalized" while the Restructuring is pursued, management continues to explore possibilities for increasing the Bank's capital, either through the issuance of new equity or the sale of assets. Management may also consider further downsizings in the Bank's balance sheet through additional loan sales, although such dispositions of income-producing assets would reduce the Bank's future income. Downsizing options will be limited due to the relative illiquidity of the commercial and multifamily loan portfolio.

Because of Fidelity's current capital levels, dividends and distributions from Fidelity will not be available to Citadel for the foreseeable future. Thus, Citadel's current cash balances, together with future dividends from Gateway, are the only sources of cash to Citadel. Gateway's ability to pay dividends to Citadel may be restricted by certain regulatory net capital rules. See "Regulation and Supervision--Gateway." Management believes that Citadel's cash resources will only be sufficient to meet Citadel expenditures through mid-1994. If the Restructuring is not completed at such time, Citadel will be required to raise additional cash to fund its expenditures, and no assurances can be given that Citadel will be able to raise any such funds.

The defaults alleged by Chase under the Subordinated Loan Agreement and possible resulting cross defaults under other debt instruments could also adversely affect the liquidity of the Company. See Item 7. "MD&A--Capital Resources and Liquidity."

Impact of Not Accomplishing the Restructuring

If the Restructuring is not accomplished, the Bank will be required to take other actions to maintain its capital ratios, including the further downsizing of the Bank and the raising of additional equity. If such actions are not successful, the Bank would likely become "undercapitalized" for purposes of the prompt corrective action regulations of the OTS. The consequences of becoming undercapitalized would include, but would not be limited to, (a) the obligation of Fidelity to file a capital restoration plan that is accompanied by an acceptable Citadel guarantee; (b) restrictions on asset growth, branch acquisitions and new activities; (c) a prohibition on dividends and capital distributions by Fidelity (subject to certain limited exceptions); and (d) increased monitoring by the OTS. An acceptable capital restoration plan guarantee would require Citadel to demonstrate appropriate assurances of its ability to perform on the guarantee. Given Citadel's current capital resources and liquidity position, no assurance can be given that such a Citadel guarantee would be found acceptable by the OTS. Failure to provide an acceptable capital restoration plan could result in additional OTS sanctions typically reserved for "significantly undercapitalized" institutions. These discretionary sanctions include, but are not limited to, (a) OTS authority to require the recapitalization, merger or sale of the Bank; (b) divestiture of subsidiaries of the Bank or a holding company divestiture of the Bank; (c) more stringent asset growth restrictions than applicable to "undercapitalized" institutions; and(d) management changes, including election of new directors, and dismissal of directors or senior officers who have held office for more than 180 days, among other things.

If the Restructuring is not successful and if the Bank has no viable problem asset disposition alternative, the Bank anticipates that it may be required to increase its GVA to higher levels that cannot currently be determined. Further, should the Restructuring not be accomplished and the Bank's financial condition continue to deteriorate, the future viability of the Bank and Citadel may be significantly threatened unless the Company is able to raise substantial additional capital.

Northridge Earthquake

The Northridge Earthquake of January 17, 1994, and subsequent aftershocks will adversely affect the Bank's loan and real estate portfolios. The Bank's portfolio includes loans and REO with a net book value of approximately $937 million secured by or comprised of 1,414 multifamily (5 units or more), 15 commercial, and 2,313 single family and multifamily (2 to 4 units) collateral properties in the primary earthquake areas. After the earthquake, the Bank's appraisers surveyed all the multifamily (5 units or more) and commercial properties located in these areas which secured the Bank's loans or constitute REO of the Bank. The Bank also made selected inspections at more remote locations where damage has been reported. In total, approximately 1,450 properties have been inspected. Of such inspected properties, 231 properties, representing loans and REO with a net book value of $140 million, have been identified as having sustained more than "cosmetic" damage. Of such 231 properties, 204 properties related to the Bank's loans and REO with a net book value of $124 million were identified as having "possible serious damage" and an additional 27 properties with a net book value of $16 million were identified as "actually or potentially condemned". The Bank commissioned structural and building engineers or building inspectors to estimate the cost of repairs to properties in these two categories. The cost of repairs has been preliminarily estimated to be $5.7 million and $11.1 million, respectively. Of this total $16.8 million, approximately $6.0 million of seismic damage exceeds the net book value of the related loans and REO. Accordingly, the Bank currently would not expect its losses due to the earthquake to exceed $10.8 million with respect to its commercial and multifamily loans and REO. The Bank expects the actual losses payable by the Bank to be lower because many repair costs may be borne by the borrowers, who in addition to their own funds, may have access to government assistance and/or earthquake insurance proceeds. As part of its normal internal asset review process, the Bank will adjust its reserves as its losses become quantifiable.

In addition to the multifamily and commercial assets referenced above, the Bank has identified 2,313 single family and multifamily (2 to 4 units) assets in the affected areas. 173 borrowers with unpaid principal balances totaling $29.4 million called in to report damages through February 8, 1994. The Bank has commenced inspection of these properties and continues to assess damages and potential earnings and loss impact with respect to these properties.

The earthquake will also have some adverse affect on loan originations and the sale of financial services in the retail branch network in the near term.

RETAIL FINANCIAL SERVICES GROUP

Fidelity operates 42 branches in Los Angeles, Orange, San Bernardino, Riverside and Ventura counties. In 1993, Fidelity reorganized internally to provide at each of its branch locations, either directly or through Gateway, a broad array of mortgage products, financial services and investment products to current and potential customers.

Fidelity's deposits are highly concentrated in Los Angeles and Orange counties. Each of Fidelity's branches generally has between $40 million and $100 million in deposits. Seventeen of the branches are in the $40 million to $59 million range.

Total deposits at Fidelity have decreased since December 1991. Management believes that depositors have reacted to current low interest rates by placing short-term fixed income investments into mutual funds and other uninsured product alternatives.

Management believes that, given the highly competitive nature of the Bank's historical business and the regulatory constraints it faces in competing with unregulated companies, the Bank must expand from its historical business focus and adopt a broader product line business strategy. Specifically, management believes that the Bank's existing customers provide a ready market for the sale of nontraditional financial services and investment products. This belief prompted the implementation of a new business strategy for the retail financial services group that integrated its traditional functions (mortgage origination, deposit services, checking, savings, etc.) with the sale of investment services and products by Gateway. Management's objective is to build a "relationship bank" that works with clients to determine their financial needs and offers a broad array of more customized products and services.

Through this new strategy of targeting retail and mortgage customers and offering a variety of new investment products and services, Fidelity and Gateway hope to attract more of the Bank customers' deposits, investment accounts and mortgage business. Management believes that this new strategy has been successful, as evidenced by the increase of 22% in total checking accounts at December 31, 1993 over the level a year earlier. As a result of this strategy, fee income should become a growing portion, and net interest income a declining portion, of the Company's total income.

Gateway currently sells a combination of investment products including mutual funds, annuities and unit investment trusts. Gateway offers mutual funds of a number of well-known sponsors. The fixed and variable annuities that are offered are issued by insurance companies all of which maintain a rating of A+ or better by A.M. Best. These product offerings are continually under review and change from time to time depending on market demand, management's judgment and product availability.

During 1993, Fidelity reorganized the personnel structure of its branches to further its strategy of integrating investment services with its traditional deposit activities. Most branches are now individual profit centers reporting to a branch business manager who has responsibility for determining the sales focus and resource allocation within the branch area. On average, branch staffing consists of eight individuals who are divided into administrative personnel and sales personnel, with a branch operations manager and a financial sales manager reporting to the business manager. The sales group merges the responsibilities of the broker/dealer specialists and the traditional deposit products personnel into the role of a "relationship banker", responsible for selling all deposit and nondeposit product offerings. Relationship bankers will eventually be located at each branch.

In connection with its strategy of integrating investment services with its traditional deposit activities, Fidelity conducts its activities in compliance with the February 1994 interagency guidance of the federal bank and thrift regulators on retail sales of uninsured, nondeposit investment products by federally insured financial institutions. In order to minimize customer confusion, Fidelity endeavors to ensure that customers are fully informed that such investment products are not insured, are not deposits of or guaranteed by the Bank and involve investment risk, including the potential loss of principal.

Also during 1993, Fidelity and Gateway retrained sales personnel as "relationship bankers." The training program lasted four to eight weeks and covered professional topics from accounting to sales management. The focus of this program was to educate the managers about product offerings, identification of customer needs and profitable operation of a business unit. Appropriate personnel are licensed to sell securities and insurance products. This retail strategy is being reinforced through revised incentive and performance measurements based in part on customer satisfaction levels. Such measurements were implemented during 1993.

To support this new marketing effort, Fidelity is upgrading its computer and reporting systems for tracking customer profiles and investment activities, for monitoring demographic data for marketing purposes, and for updating new financial products being offered. Fidelity is also employing customer surveys, focus groups and private interviews to determine actual and potential customer needs and desires and thereby to tailor its financial services and investment products.

Management also intends to offer a wider range of loan types than the Bank currently originates. While continuing to offer adjustable rate mortgages and to maintain an expertise in originating and servicing multifamily mortgages, the Bank plans to increase its mortgage banking capabilities and to originate mortgages that, while not appropriate for inclusion in the Bank's portfolio in significant quantities, are attractive to borrowers and to the secondary market.

MORTGAGE BANKING GROUP OPERATIONS

The Bank conducts its residential real estate lending activities through its Mortgage Banking Group. Operating as a Fidelity division, the Mortgage Banking Group is responsible for originating single family and multifamily residential real estate loans for retention in the Company's loan portfolio or sale to secondary market investors and conduits. After receiving completed loan applications, the Bank reviews applicant credit history, obtains verification of employment and other pertinent financial information, confirms property value through appraisal and completes a transaction evaluation and loan underwriting. Approved loans are then submitted to the Bank's loan funding staff. Payment processing, collection and related loan functions are performed by the Bank's servicing employees. The extent of Fidelity's direct responsibility for applicant information collection and verification may depend on whether business is sourced entirely through its own employees (retail origination) or third parties (as in wholesale or correspondent business).

The Mortgage Banking Group has adopted an operating strategy more similiar to that of a mortgage bank than a thrift or savings and loan institution. In the second quarter of 1993, the Bank adopted a requirement that substantially all loan originations meet secondary market standards, to enable the Bank to sell or securitize more loans and thereby enhance its financial liquidity and operating flexibility. The Bank also enhanced its single family loan program features and gave borrowers more competitive interest rate lock-in options for its fixed-rate loan product offerings. The associated increase in the Company's interest rate risk was addressed through modifications of its secondary market capabilities and operations.

From 1986 to mid-1992, the Bank had emphasized the origination and retention of loans secured by multifamily property (2 or more units). From mid-1992 to present, emphasis has been redirected toward originating single family residential loans. At December 31, 1993, 71% of Fidelity's loan portfolio was secured by residential properties containing two or more apartment units, 21% by single family residential properties and 8% by other properties. OTS capital regulations established generally lower risk-based capital requirements for loans secured by single family and multifamily properties with 36 or fewer units, than for commercial and consumer loans. See "Regulation and Supervision--FIRREA Capital Requirements."

In the first quarter of 1993, the Bank completed a reorganization of its real estate lending operations. The loan origination function was separated into two divisions: a Residential Production Division, focused on increasing the volume of single family mortgages and two to four unit loan products; and a Major Loan Production Division, responsible for the Bank's five or more unit residential lending. The Bank also consolidated all "retail" mortgage application processing and underwriting in one business unit located in its administration center. All single family loan production personnel were relocated from regional lending offices and assigned to key branch locations, furthering the integration of mortgage products into the Bank's retail financial services delivery system. These actions resulted in the closure of two of the Bank's four existing regional lending offices as well as the refocus of the remaining regional offices solely on five unit or over loan originations. The Bank also started a new business effort designed to increase single family and two to four unit origination from third party loan brokers. A number of staff additions were made in 1993 to implement this operational plan. Fidelity's overall goal is to reposition itself in the residential lending business as a secondary market, mortgage banking-oriented loan originator.

In retail loan origination, the Bank's employees have direct control over verification of necessary applicant income, deposit and credit information as well as other important elements of the application process. This is in contrast to third party mortgage origination or wholesale business, where approved loan brokers assemble key application material and verifications and submit these completed information packages to the Bank for underwriting, approval and funding. Wholesale mortgage origination offers the opportunity for increased loan funding volume at lower fixed operational expense than would be possible through retail mortgage origination. However, since a greater portion of the application processing and information verification is performed by the third-party loan brokers, wholesale business poses greater credit risk than retail loan originations. The Bank has addressed this potential credit quality issue through qualification standards for approval of new loan broker accounts as well as underwriting practices and quality control procedures.

In addition to the structural reorganization of its multifamily loan origination function discussed above, the Bank took severe measures in 1993 to reposition its multifamily lending business orientation and to revise its multifamily lending criteria. From January to April 1993, the Bank sharply curtailed new multifamily loan generation by limiting new transactions to purchase money funding or the refinancing of existing loans and reassigning key major loan production staff to internal multifamily loan due diligence and property inspection teams. Significantly reduced multifamily business origination and lower funding levels resulted from these actions.

Over the January to April interval, the Company reevaluated its multifamily loan approval guidelines and operational practices, resulting in new underwriting procedures and more conservative qualifying standards. When multifamily business origination was resumed in May, the Major Loan Production Division instituted a new multifamily property scoring system that establishes a numerical score and corresponding letter grade for each multifamily loan request. The score and grade then determine qualifying loan-to-value ratios and debt service coverage requirements, with higher-graded properties eligible for more favorable underwriting guidelines. Transaction review procedures were also modified so that multifamily transactions now require, at a minimum, two loan officer signatures for final loan approval. The Bank believes these operational enhancements and evaluation measures provide adequate business credit quality and are appropriate due to current adverse multifamily property operating economics and market values in the geographic areas where the Bank's loan portfolio is concentrated. While the Bank is aware that certain of its underwriting guidelines and standards may be more conservative than other local market competitors, and thus may decrease new business volume, the Bank believes that the multifamily origination effort remains competitive and increases the Bank's ability to securitize the multifamily loan product.

Until the third quarter of 1993, almost all loans funded were generated through employee loan personnel and outside loan agents. Outside loan agents are independent real estate brokers who are compensated on a commission basis upon funding of their loans. Beginning in the third quarter of 1993, however, Fidelity's single family origination volume increasingly came from third party loan brokers, reflecting the Bank's conscious decision to develop and expand this residential mortgage origination channel as discussed above. In July 1993, the Bank opened and staffed two loan origination offices devoted exclusively to processing single family and two to four unit residential loan applications from third party loan brokers or "wholesale" mortgage business. A third wholesale office became fully operational in October. The Bank plans to open additional wholesale operations in 1994, including one or more offices in Northern California.

Fidelity made significant enhancements in its internal computer systems and reporting capabilities in 1993. In October, the Bank converted its loan servicing operation to a new computer system which is expected to result in systems expense reduction in 1994. The Bank also installed a new automated loan application processing and tracking computer system which will further its mortgage banking and secondary marketing capabilities.

Multifamily Residential Loans

The Company offers adjustable rate mortgage ("ARM") loans secured by apartment buildings with 2 or more units with a maximum amortized loan term of 30 years, with some loans having balloon payments due in 15 years. A majority of Fidelity's ARM loans adjust with the FHLB Eleventh District Cost of Funds Index ("COFI"), with a monthly interest rate adjustment commencing after an initial introduction period of up to six months. Since the borrower's monthly payment amount adjusts only annually, if COFI increases, these loans can negatively amortize if the monthly payment is not sufficient to pay in full the additional interest accruing on the loan. Although multifamily loans in the Company's loan portfolio contain a due-on-sale clause, by their terms they are generally transferable to a purchaser of the property if the purchaser meets the Company's credit standards.

Multifamily real estate lending entails certain risks different from those posed by single family residential lending. Multifamily and commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by multifamily and commercial real estate is typically dependent on the successful operation of the related real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy in general than are loans secured by single family properties. Multifamily ARM loans may have greater vulnerability to default than fixed rate loans during times of increasing interest rates due to the potential for increase in the amount of a borrower's payment obligations, while the borrower's income from the property may not increase. See "ARM Loans."

The Company is concerned about the elevated delinquency rates and loan restructuring requests being experienced in certain parts of its multifamily portfolio. Among other things, with respect to its multifamily loan portfolio, the Company is also concerned about: (a) increasing vacancy rates which diminish the ability of the property to service the underlying loan; (b) decreasing apartment rental rates; (c) the potentially greater willingness of investors to abandon such properties or seek bankruptcy protection, particularly where such properties are experiencing negative cash flow and the loans are not cross-collateralized by other performing properties; (d) the substantial decreases in the market value of multifamily properties experienced in recent periods (resulting, in many cases, in appraised or resale values less than the outstanding loan balances) and the general illiquidity of such properties at the current time in Southern California; (e) the comparative illiquidity of multifamily residential mortgages, given the limited secondary market for such mortgages; and (f) potential losses resulting from the January 1994 Northridge Earthquake.

On March 18, 1994, the OTS published a final regulation effective on that date that permits a loan secured by multifamily residential property, regardless of the number of units, to be risk-weighted at 50% for purposes of the risk-based capital standards if the loan meets specified criteria relating to term of the loan, timely payments of interest and principal, loan-to-value ratio and ratio of net operating income to debt service requirements. Under the prior rule, loans secured by multifamily residential properties with more than 36 units were required to be risk-weighted at 100%.

As of December 31, 1993, Fidelity held $406.3 million in loans secured by multifamily residential properties with 37 or more units and therefore risk-weighted at 100%, some of which qualify for 50% risk-weighting under the criteria of the new regulation. Thus, Fidelity's risk-based capital ratio could increase. However, the additional criteria of the new rule could cause some of Fidelity's existing loans secured by 5 to 36 unit residential properties to increase in risk-weighting from 50% to 100%. See "Regulation and Supervision--FIRREA Capital Requirements." The ultimate impact on Fidelity of the new regulation has not been determined.

Single Family Residential Loans

The Bank offers single family residential mortgage loans with fixed interest rates having maximum amortization loan terms of up to 30 years. Some single family loan programs have maturities of only 15 years or balloon payments due in 5 or 7 years. Due to the interest rate risk presented by the holding of fixed rate loans combined with variable cost sources of funding, the Bank sells substantially all originations of fixed rate residential 1 to 4 unit loans to secondary market investors. While this reduces the interest rate exposure from a portfolio investor standpoint, there remains the risk associated with adverse movements in interest rates from the date of loan application to approval, investor settlement and final delivery. In the second quarter of 1993, Fidelity modified and augmented internal policies to provide for greater management control of loan pipeline interest rate risk exposure. During the same quarter, the Bank also entered into a consulting arrangement with a nationally recognized organization for daily pipeline valuation services, hedging strategies and trading execution. This agreement provided Fidelity with state-of-the-art computer-based valuation methodology for application tracking and securities commitments necessary for mortgage pipeline hedging management until these capabilities were developed internally. In October 1993, the Bank reduced the consulting arrangement to an advisory service, with hedging management being performed internally. The Bank will assess on a regular basis the continuation of this pipeline tracking and valuation advisory service arrangement over in-house alternatives. Management anticipates that secondary market practices and pipeline interest rate risk management techniques will continue to be enhanced in 1994 to provide higher quality data transmission and more efficient product pricing and delivery to secondary market investors.

The Bank also offers ARM loans secured by owner and non-owner occupied single family residences with a maximum amortized loan term of 30 years. ARM loans adjust with the one-year U.S. Treasury index or COFI with a monthly interest rate adjustment commencing after an initial introduction period of up to six months. Since the borrower's payment amount adjusts annually for the loans indexed to COFI, if COFI increases these loans can negatively amortize if the monthly payment is not sufficient to pay in full the additional interest accruing on the loan. Although single family ARM loans in the Bank's loan portfolio contain a due-on-sale clause, by their terms they are transferable to a purchaser of the property if the purchaser meets the Bank's credit standards. See "ARM Loans" for further discussion of the Bank's asset/liability strategy.

Home Equity Loans

The Bank offers home equity credit lines. The maximum term of the credit lines offered is 15 years. All of the credit lines provide for variable interest rates based on a prime rate. These loans are generally underwritten using a maximum loan-to-value ratio of between 70% and 75%. The total of undrawn credit lines plus outstanding balances at December 31, 1993, 1992 and 1991 was $108 million, $129 million and $138 million, respectively.

The decline in undrawn credit lines plus outstanding balances was due to a slowdown in new credit facility growth over the 1992 to 1993 period. New home equity credit lines originated during 1993, 1992 and 1991 totaled approximately $13.6 million, $26.9 million and $42.5 million, respectively. In 1993, new home equity credit line originations declined 49% from 1992 levels as a function, the Bank believes, of borrowers accessing equity in their homes through refinancings of their mortgage loans, as well as lower homeowner equity, as single family housing appraisals fell from higher values of prior years. In addition, in May 1993, management implemented a new $300 home equity application fee which also contributed to the home equity volume reduction from 1992 levels.

Portfolio statistics

All presentations of the Company's total loan portfolio include loans receivable and loans held for sale unless stated otherwise.

The following table sets forth the composition of the Company's total loans receivable by type of security at the dates indicated:

	DECEMBER 31,									
	1993		1992		1991		1990		1989	
LOANS BY TYPE OF SECURITY	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS
	(DOLLARS IN THOUSANDS)									
Residential loans:										
Single family.........	$ 792,054	20.80%	$ 857,631	21.08%	$1,083,652	23.46%	$1,671,332	32.53%	$1,705,569	38.00%
Multifamily:										
2 to 4 units........	505,219	13.26	526,826	12.96	566,452	12.27	583,474	11.36	462,972	10.32
5 to 36 units.......	1,795,374	47.14	1,880,589	46.23	1,991,089	43.11	1,847,215	35.96	1,317,346	29.35
37 units and over...	406,330	10.67	444,576	10.93	572,285	12.39	600,288	11.68	543,403	12.11
Total multifamily..	2,706,923	71.07	2,851,991	70.12	3,129,826	67.77	3,030,977	59.00	2,323,721	51.78
Total residential loans............	3,498,977	91.87	3,709,622	91.20	4,213,478	91.23	4,702,309	91.53	4,029,290	89.78
Other real estate loans:										
Commercial and industrial.........	295,761	7.76	343,270	8.44	385,960	8.36	417,299	8.12	440,951	9.83
Land and land improvements.......	4,828	0.13	6,445	0.16	10,926	0.24	9,123	0.18	7,210	0.16
Total other real estate loans.........	300,589	7.89	349,715	8.60	396,886	8.60	426,422	8.30	448,161	9.99
Gross mortgage loans...	3,799,566	99.76	4,059,337	99.80	4,610,364	99.83	5,128,731	99.83	4,477,451	99.77
Loans secured by savings accounts and other non-real estate loans................	8,998	0.24	8,278	0.20	7,815	0.17	8,748	0.17	10,343	0.23
Gross loans receivable.	3,808,564	100.00%	4,067,615	100.00%	4,618,179	100.00%	5,137,479	100.00%	4,487,794	100.00%
Less:										
Undisbursed loan funds................	--		301		2,706		24,992		38,073	
Unearned discounts....	210		104		120		101		1,280	
Deferred loan fees....	11,139		11,152		12,131		10,621		3,906	
Allowance for estimated losses.........	83,832		64,277		52,374		16,552		7,336	
	95,181		75,834		67,331		52,266		50,595	
Total loans receivable...........	$3,713,383		$3,991,781		$4,550,848		$5,085,213		$4,437,199	

The following table sets forth the composition of the Company's loans held for sale, which are included in the table above, by type of security at the dates indicated:

	DECEMBER 31,									
	1993		1992		1991		1990		1989	
LOANS BY TYPE OF SECURITY	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)									
Residential loans:										
Single family.........	$239,371	65.10%	$25,043	94.57%	$37,497	100.00%	$199,500	100.00%	--	--
Multifamily 2 to 4 units................	128,317	34.90	1,439	5.43	--	--	--	--	--	--
Total loans held for sale.........	$367,688	100.00%	$26,482	100.00%	$37,497	100.00%	$199,500	100.00%	--	--

The following table presents the Company's gross mortgage loans by type and location as of December 31, 1993:

		MULTIFAMILY				COMMERCIAL AND INDUSTRIAL		
	SINGLE FAMILY	2 TO 4 UNITS	5 TO 36 UNITS	37 UNITS AND OVER	HOME EQUITY(1)	HOTEL/ MOTEL	OTHER C & I	TOTAL
	(DOLLARS IN THOUSANDS)							
California:								
Southern California Counties:								
Los Angeles.........	$379,688	$178,016	$1,328,497	$281,714	$39,018	$20,740	$120,639	$2,348,312
Orange..............	137,398	199,942	185,262	50,657	12,893	26,742	58,309	671,203
San Diego...........	24,235	18,251	93,927	16,220	210	1,409	8,158	162,410
San Bernardino......	18,050	31,471	43,194	24,173	1,476	--	4,639	123,003
Riverside...........	24,590	17,287	29,187	10,832	978	--	18,793	101,667
Ventura.............	24,144	8,693	30,398	2,546	921	2,593	1,211	70,506
Other...............	25,668	12,949	25,508	7,573	87	2,655	5,297	79,737
	633,773	466,609	1,735,973	393,715	55,583	54,139	217,046	3,556,838
Northern California Counties:								
Santa Clara.........	56,769	25,506	39,612	147	530	--	2,252	124,816
Other...............	45,289	11,818	19,789	5,197	233	2,251	16,170	100,747
Total California..	735,831	503,933	1,795,374	399,059	56,346	56,390	235,468	3,782,401
Hawaii..................	255	--	--	--	--	--	--	255
Arizona.................	73	--	--	1,554	--	--	4,708	6,335
Washington..............	325	--	--	2,282	--	--	543	3,150
Oregon..................	--	--	--	3,435	--	--	254	3,689
Maryland................	--	--	--	--	--	2,713	--	2,713
Colorado................	21	--	--	--	--	513	--	534
Texas...................	410	--	--	--	--	--	--	410
New York................	59	--	--	--	--	--	--	59
Nevada..................	20	--	--	--	--	--	--	20
Total out-of-state	1,163	--	--	7,271	--	3,226	5,505	17,165
Gross mortgage loans....	$736,994	$503,933	$1,795,374	$406,330	$56,346	$59,616	$240,973	$3,799,566

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(1) Includes home equity loans of $55,060 and $1,286 on single family and multifamily (2 to 4 units) properties, respectively. Therefore, including the home equity loans, loans on single family and multifamily (2 to 4 units) properties total $792,054 and $505,219, respectively.

The following table sets forth the types of loans by repricing attribute, held by the Company at the dates indicated:

	DECEMBER 31,									
	1993		1992		1991		1990		1989	
	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS
	(DOLLARS IN THOUSANDS)									
Adjustable rate loans...	$3,649,714	95.83%	$3,924,093	96.47%	$4,447,838	96.31%	$4,551,857	88.60%	$4,069,508	90.68%
Fixed rate loans........	158,850	4.17	143,522	3.53	170,341	3.69	585,622	11.40	418,286	9.32
Gross loans receivable.	3,808,564	100.00%	4,067,615	100.00%	4,618,179	100.00%	5,137,479	100.00%	4,487,794	100.00%
Less:										
Undisbursed loan funds.	--		301		2,706		24,992		38,073	
Unearned discounts	210		104		120		101		1,280	
Deferred loan fees.....	11,139		11,152		12,131		10,621		3,906	
Allowance for estimated losses................	83,832		64,277		52,374		16,552		7,336	
	95,181		75,834		67,331		52,266		50,595	
Loans receivable, net..	$3,713,383		$3,991,781		$4,550,848		$5,085,213		$4,437,199	

The following table sets forth by contractual maturity and interest rate, the Company's fixed rate and adjustable rate real estate loan portfolio at December 31, 1993. The table does not consider the prepayment experience of the loan portfolio when scheduling the maturities of loans. See Item 7. "MD&A--Interest Rate Risk Management."

	DECEMBER 31, 1993								
				MATURES IN					
	TOTAL LOANS RECEIVABLE	MATURES IN 1994	SUBTOTAL MATURITIES GREATER THAN ONE YEAR	1995	1996	1997-1998	1999-2003	2004-2008	AFTER 2008
	(DOLLARS IN THOUSANDS)								
Adjustable rate loans:									
Under 5.00%................	$ 22,572	$ --	$ 22,572	$ --	$ --	$ --	$ 90	$ 560	$ 21,922
5.00%-- 6.99%................	3,086,684	--	3,086,684	1,404	486	11,585	187,424	505,770	2,380,015
7.00%-- 8.99%................	385,295	7,380	377,915	4,897	5,184	9,506	67,539	162,752	128,037
9.00%-- 10.99%................	146,214	21,333	124,881	3,435	186	300	82,744	22,870	15,346
11.00%-- 12.99%................	8,413	970	7,443	5,212	--	--	--	587	1,644
Over 13.00%................	536	--	536	--	--	--	536	--	--
Total adjustable rate loans....	3,649,714	29,683	3,620,031	14,948	5,856	21,391	338,333	692,539	2,546,964
Fixed rate loans:									
Under 5.00%................	$ 240	$ --	$ 240	$ 240	$ --	$ --	$ --	$ --	$ --
5.00%-- 6.99%................	32,844	7,989	24,855	96	203	5,549	791	5,500	12,716
7.00%-- 8.99%................	56,323	1	56,322	781	695	3,060	9,951	8,177	33,658
9.00%-- 10.99%................	52,881	39	52,842	249	1,006	2,767	2,641	27,901	18,278
11.00%-- 12.99%................	11,198	4,653	6,545	862	717	--	115	418	4,433
Over 13.00%................	5,364	3,016	2,348	--	--	502	33	120	1,693
Total fixed rate loans.........	$ 158,850	$ 15,698	$ 143,152	$ 2,228	$ 2,621	$ 11,878	$ 13,531	$ 42,116	$ 70,778
Less:									
Undisbursed loan funds..........	--								
Unearned discounts..............	210								
Deferred loan fees..............	11,139								
Allowance for estimated losses..	83,832								
	95,181								
Loans receivable, net..........	$ 3,713,383								

The following table details the activity in the Company's loan portfolio for the periods indicated:

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
Principal balance at beginning of period	$3,991,781	$4,550,848	$5,085,213	$4,437,199	$4,058,886
Real estate loans originated:					
Conventional:					
Single family	271,316	261,563	186,320	248,849	248,932
Multifamily:					
2 to 4 units	42,931	29,931	63,146	179,515	121,648
5 to 36 units	89,935	121,940	239,165	640,621	288,549
37 units and over	12,887	19,588	15,785	104,864	115,376
Total multifamily	145,753	171,459	318,096	925,000	525,573
Commercial and industrial	1,335	993	1,910	16,390	70,659
Construction	--	--	--	21,091	52,415
Total real estate loans originated(1)	418,404	434,015	506,326	1,211,330	897,579
Real estate loans purchased:					
Single family	--	--	--	195,157	555
Multifamily:					
2 to 4 units	--	--	--	--	--
5 to 36 units	3,741	241	--	500	--
37 units and over	--	1,434	1,080	473	--
Total multifamily	3,741	1,675	1,080	973	--
Commercial and industrial	210	--	1,859	62	--
Construction	--	--	--	--	--
Total real estate loans purchased	3,951	1,675	2,939	196,192	555
Total real estate loans funded	422,355	435,690	509,265	1,407,522	898,134
Payments and refinances	(575,348)	(674,261)	(517,880)	(507,942)	(484,738)
Increase (decrease) in non real estate loans	720	463	(928)	(465)	855
(Increase) decrease in reserves for loan losses	(19,555)	(11,903)	(35,822)	(9,216)	(4,791)
Other increases (decrease) in total loans, net	8,433	9,656	29,486	9,146	(19,114)
Loans sold or securitized:					
Whole loans(2)	(115,003)	(318,712)	(486,413)	(239,260)	(1,824)
Participations	--	--	(32,073)	(11,771)	(10,209)
Total loans sold or securitized	(115,003)	(318,712)	(518,486)	(251,031)	(12,033)
Net increase (decrease) in loans receivable	(278,398)	(559,067)	(534,365)	648,014	378,313
Principal balance at end of period	$3,713,383	$3,991,781	$4,550,848	$5,085,213	$4,437,199
Loans serviced for others	$ 888,362	$ 982,698	$ 925,368	$ 676,101	$ 505,297

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(1) Includes loans originated to finance sales of REO of $51.6 million, $11.2 million and $1.6 million, for the years ended December 31, 1993, 1992 and 1991, respectively. In 1990 and 1989 loans originated to finance sales of REO were insignificant.

(2) Net of repurchases.

Declines in total real estate loans originated in 1993 and 1992 were due primarily to the curtailment of multifamily origination during the reorganization of the Mortgage Banking Group and the imposition of more stringent multifamily loan underwriting criteria. Declines in loan originations in 1991 were due primarily to the Company's decision to reduce assets to strengthen its capital ratios.

Sale of Loans

Over the past several years, the Company has sold most of its current production of fixed rate single family residential loans in the secondary mortgage market and has retained its ARM production. Loan sales totaled approximately $138.4 million, $204.4 million and $282.7 million for the years ended December 31, 1993, 1992 and 1991, respectively. In addition, sales of mortgage-backed securities totaled $522.1 million, $0 and $273.1 million, respectively, in the three years. Fidelity is an approved originator and servicer for the Federal National Mortgage Association (the "FNMA"), the Federal Home Loan Mortgage Corporation (the "FHLMC"), the Federal Housing Administration (the "FHA") and the Veterans Administration (the "VA"). As Fidelity's single family lending volumes increase, sales of loans in the secondary mortgage market will increase.

In the beginning of 1993, Fidelity concentrated on selling all fixed rate loans it originated into the secondary market to maximize liquidity and reduce interest rate risk. During 1993, the Company approved a policy of more active management of its loans and investment portfolio with a view toward disposition of securities with unfavorable risk/return profiles and to allow more asset/liability management and asset size flexibility to facilitate further downsizing of the Bank. To this end, the Company designated $321 million of certain adjustable rate mortgage loans meeting specific criteria as held for sale as of December 31, 1993.

In connection with loan sales, Fidelity is required to make representations and warranties with respect to the loans and their underwriting criteria. These representations and warranties create a contingent liability to repurchase the loans to the extent they are subsequently found to be untrue.

ARM Loans

To assist in reducing the sensitivity of its earnings to interest rate fluctuations, Fidelity has emphasized the origination of ARMs for its portfolio. ARMs help to improve the matching of interest rate repricing between Fidelity's asset and liability portfolios. ARMs reduce the interest rate risk inherent in a portfolio of long-term mortgages by repricing each individual asset at regular intervals over the life of the asset. The initial period before the first adjustment varies between one month and five years. ARM loans represented 52% of all loans funded in 1993 and 96% of the total loan portfolio at December 31, 1993. Fidelity's ARMs generally bear an interest rate which periodically adjusts at a stated margin (the "contractual spread") above COFI, which is the index which most closely matches Fidelity's liability base. The risk of different asset and liability repricing can be reduced by diversifying the ARM portfolio. Other ARMs originated are generally indexed to U.S. Treasury indices, which more closely match the repricing speed of deposits, but are more volatile than a COFI index.

ARMs may have greater vulnerability to default than fixed rate loans during times of increasing interest rates due to the potential for substantial increase in the amount of a borrower's payments or, to the extent payments do not increase, erosion of a borrower's equity in the underlying property. Risks of default are reduced by caps on both the maximum interest that can be charged and the amount by which a borrower's payments can be periodically increased. However, during periods of significant interest rate increases, interest rate caps can adversely affect interest rate margins and payment caps can increase borrower exposure to negative amortization, unless the loan contains a prohibition on negative amortization. When the borrower's payment is not sufficient to cover the computed interest amount, negative amortization occurs and the difference then increases the principal balance of the loan. Fidelity uses a combination of interest rate caps and payment caps to reduce risk of default, and to date, negative amortization has not adversely affected

Fidelity's default ratios. At December 31, 1993, the total negative amortization included in the loan portfolio was $0.7 million compared to $3.7 million at December 31, 1992.

During periods of declining interest rates, ARMs with high interest rate caps relative to market are vulnerable to prepayment as borrowers refinance into ARMs with lower caps or into fixed rate loans. Fidelity has also attempted to minimize the risk of default associated with all ARMs by using the COFI (a relatively stable index) for adjustment, thereby limiting interest rate volatility over short periods, and utilizing loan-to-value ratios generally not in excess of 80% unless private mortgage insurance is obtained. During periods of declining interest rates, ARMs with negative amortization potential will experience accelerated amortization, thereby offsetting, in whole or in part, previously incurred negative amortization, if any, or reducing the principal balance ahead of the original schedule.

Most of Fidelity's ARMs provide for a lifetime interest rate cap (currently ranging from 1.875% to 6.250% above the initial rate). A limited number of Fidelity's ARMs also provide for an annual interest rate cap. In addition, for competitive reasons, ARMs are often offered at an initial reduced interest rate (the "introductory rate") for a period of time (one, three, or six months). Fidelity's ARMs are underwritten for credit purposes based on the pro forma payment which would be required at the fully-indexed rate or at the time of the first interest rate adjustment, depending on the type of property.

Fidelity currently offers primarily three types of ARMs. One type has a lifetime interest rate cap and payment cap on the amount by which monthly payments can increase from one annual or semiannual payment adjustment to the next; another type provides for a lifetime interest rate cap but includes payment adjustments concurrent with interest rate adjustments without a cap on the payment increase; and the last type provides for an initial five-year fixed rate of interest after which it reverts to the type of ARM first described above.

CREDIT ADMINISTRATION

Appraisal and Underwriting Standards

All properties taken as collateral are appraised utilizing either an outside appraiser or a Fidelity staff appraiser. Fidelity requires that loans secured by real estate be approved at various levels of management, depending upon the size of the loan. Until 1991, Fidelity had a low delinquency rate on all of its single family and multifamily loans as well as its commercial properties located in California. However, with worsening economic conditions and declines in the real estate values in Southern California, delinquency rates have been steadily increasing. Fidelity has reassessed its underwriting practices and, in light of current conditions, has taken steps to increase qualifying ratios including debt service coverage minimums and loan-to-value maximums.

During the underwriting process for single family loans, Fidelity obtains information regarding the applicant's income, financial condition, employment and credit history to determine the applicant's ability to service the debt obligations. Fidelity underwrites loans pursuant to internal underwriting criteria as well as to the requirements of the secondary market for such loans or special investor needs. Increasing third party generation of single family loans will require Fidelity to maintain strict underwriting and quality control standards.

Fidelity's underwriting standards for multifamily and commercial real estate lending require the underwriter to review an applicant's experience in owning and operating such type of income-producing property to determine if the applicant is qualified to manage such property. At the time of origination, Fidelity reviews the borrower's financial resources, credit history and income-producing capacity, verifies employment, reviews an appraisal of the security property, analyzes the anticipated occupancy, operating expenses and cash flow of income-producing properties, and performs other underwriting procedures. In accordance with its underwriting guidelines Fidelity generally requires a minimum debt coverage ratio (net operating income divided by debt service payment) of from 112% to 130%, depending on the rated quality of the property, whether the loan involves the arms-length market sale of the property or is a refinancing and if it is a refinancing whether there is "cash out" or "no cash out." The debt service coverage ratio is calculated on actual occupancy figures typically utilizing a 10% vacancy factor and using a payment which is the greater of a fully indexed rate, start rate or (typically higher) qualifying rate. The Bank also limits its loans to a maximum of 50% to 75% of the appraised value of the property, again depending on the rated quality of the property and other circumstances outlined above with respect to debt service coverage.

Loan Portfolio Risk Elements

Fidelity's loan portfolio risk elements and credit loss experience may be more clearly understood when the following sections are read in conjunction with Item 7. "MD&A--Asset Quality."

Fidelity originates loans with the expectation that borrowers will honor their repayment obligations. In an attempt to reduce credit risk, Fidelity maintained the underwriting criteria described above. As is the case with other lenders, however, some of Fidelity's borrowers have or will become unable or unwilling to pay interest or principal when due. The reasons for such defaults include, without limitation, (a) adverse conditions in the regional or national economy; (b) unemployment; (c) an oversupply of apartments for lease; (d) an increase in vacancies; (e) a decline in real estate values; (f) declines in rents; and (g) loss of equity. If the borrower is unable to meet his obligation but is willing to make an additional financial commitment to the property securing the loan, Fidelity may restructure the loan to more closely match the reduced cash flow and value of the collateral. In other circumstances, Fidelity commences proceedings to foreclose upon the property securing the loan. Such proceedings may be delayed by litigation or bankruptcy initiated by the borrower. Fidelity's risk of loss relates both to the frequency of such defaults and to the severity of loss, namely, the excess, if any, of the outstanding principal balance of the loan plus accrued interest over the amount realized upon ultimate disposition of the collateral. In rare instances, Fidelity may be able to recover all or some of the loss it incurs from other assets of the borrower. Fidelity also is exposed to loss if the value of the collateral declines between the time of foreclosure and the time of resale. Fidelity is also exposed to loss to the extent that it is required to invest significant funds to foreclose on and sell its collateral, which may include rehabilitating dilapidated or distressed collateral.

Loan Monitoring

Fidelity has established a monitoring system for its loan portfolio to attempt to identify potential problem loans. Loans that are currently performing but have met certain criteria requiring further scrutiny are placed on a "watch list". These criteria include, but are not limited to, a large outstanding balance, collateral performing in an inadequate manner, origination for the purpose of facilitating the sale of real estate owned by Fidelity, and other high risk characteristics identified through the internal asset review process that warrant further analysis. Fidelity's relationship management group actively gathers updated operating information on large multifamily loans.

The following table details Fidelity's net loans which are 30 to 89 days delinquent at the dates indicated:

	DECEMBER 31, 1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
Loans 60 to 89 days contractually delinquent:					
Single family	$ 2,497	$ 3,665	$ 3,370	$ 824	$ 1,532
Multifamily:					
2 to 4 units	1,707	1,180	1,841	--	1
5 to 36 units	12,770	9,241	7,811	--	--
37 units and over	5,035	1,223	--	--	--
Total multifamily	19,512	11,644	9,652	--	1
Commercial and industrial	1,723	--	7,869	3,612	719
Total	$23,732	$15,309	$20,891	$4,436	$ 2,252
Loans 30 to 59 days contractually delinquent:					
Single family	$ 7,480	$ 7,939	$ 6,627	$3,063	$ 2,556
Multifamily:					
2 to 4 units	3,599	1,432	416	94	190
5 to 36 units	16,948	15,927	6,515	1,587	415
37 units and over	4,114	5,623	19,453	--	2,783
Total multifamily	24,661	22,982	26,384	1,681	3,388
Commercial and industrial	2,048	1,807	3,040	139	4,409
Total	$34,189	$32,728	$36,051	$4,883	$10,353

The following table presents net delinquent loans at December 31, 1993, including those detailed above (30 to 89 days delinquent) as well as those 90 days or more delinquent:

		MULTIFAMILY			COMMERCIAL AND INDUSTRIAL		
	SINGLE FAMILY	2 TO 4 UNITS	5 TO 36 UNITS	37 UNITS AND OVER	CONSTRUCTION	OTHER	TOTAL
	(DOLLARS IN THOUSANDS)						
California:							
Southern California Counties:							
Los Angeles	$14,011	$ 5,224	$49,876	$11,442	$1,483	$ 6,079	$ 88,115
Orange	3,576	4,559	5,115	--	--	1,495	14,745
San Bernardino	419	8,301	2,335	--	--	--	11,055
Riverside	754	940	1,896	--	--	--	3,590
San Diego	814	1,248	3,114	3,473	--	--	8,649
Ventura	628	225	546	--	--	--	1,399
Other	717	238	--	--	--	682	1,637
	20,919	20,735	62,882	14,915	1,483	8,256	129,190
Northern California Counties:							
Santa Clara	807	224	1,309	--	--	651	2,991
Sacramento	--	--	--	--	--	4,416	4,416
Other	906	--	273	--	--	--	1,179
	1,713	224	1,582	--	--	5,067	8,586
Total California	22,632	20,959	64,464	14,915	1,483	13,323	137,776
Arizona	5	--	--	--	--	--	5
	$22,637	$20,959	$64,464	$14,915	$1,483	$13,323	$137,781

Nonaccrual Loans

The Bank generally places a loan on nonaccrual status whenever the payment of interest is 90 or more days delinquent, or earlier if a loan exhibits materially deficient characteristics. At December 31, 1993, $13.6 million of loans were less than 90 days delinquent but had been placed on nonaccrual status. Loans on nonaccrual status are resolved by the borrower bringing the loan current, by the Company and the borrower agreeing to modify the terms of the loan or by foreclosure upon the collateral securing the loan. See "Restructured Loans" and "Foreclosure Policies."

The following table presents Fidelity's net nonaccrual loans by type of collateral at the dates indicated:

	DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
PROPERTY TYPE					
Single family	$12,661	$ 14,064	$ 8,100	$ 3,631	$ 1,543
Multifamily:					
2 to 4 units	15,652	6,372	1,256	628	1,000
5 to 36 units	34,745	37,501	12,620	376	218
37 units and over	18,112	35,357	26,123	19,629	2,325
Total multifamily	68,509	79,230	39,999	20,633	3,543
Commercial and industrial	12,305	18,747	20,883	5,897	7,001
Total nonaccrual loans(1)	$93,475	$112,041	$68,982	$30,161	$12,087

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(1) Includes loans over 90 days contractually delinquent and other nonaccrual loans.

It is the Company's policy to reserve all earned but unpaid interest on loans placed on nonaccrual status. The reduction in income related to nonaccrual loans upon which interest was not paid was $8.7 million, $13.6 million, and $7.6 million in 1993, 1992 and 1991, respectively.

The following table presents net nonaccrual loans by property type and location at December 31, 1993:

		MULTIFAMILY			COMMERCIAL AND INDUSTRIAL		
	SINGLE FAMILY	2 TO 4 UNITS	5 TO 36 UNITS	37 UNITS AND OVER	CONSTRUCTION	OTHER	TOTAL
	(DOLLARS IN THOUSANDS)						
California:							
Southern California Counties:							
Los Angeles	$ 7,654	$ 3,780	$28,594	$18,112	$1,344	$ 4,909	$64,393
Orange	1,694	2,253	2,015	--	--	303	6,265
San Bernardino	83	7,766	1,284	--	--	--	9,133
Riverside	362	766	687	--	--	--	1,815
San Diego	606	638	1,346	--	--	--	2,590
Ventura	398	225	546	--	--	--	1,169
Other	706	--	--	--	--	682	1,388
	11,503	15,428	34,472	18,112	1,344	5,894	86,753
Northern California Counties:							
Santa Clara	807	224	--	--	--	651	1,682
Sacramento	--	--	--	--	--	4,416	4,416
Other	346	--	273	--	--	--	619
	1,153	224	273	--	--	5,067	6,717
Total California	12,656	15,652	34,745	18,112	1,344	10,961	93,470
Arizona	5	--	--	--	--	--	5
Total nonaccrual loans	$12,661	$15,652	$34,745	$18,112	$1,344	$10,961	$93,475

Restructured Loans

The Bank has modified the terms of a number of its loans. In some cases, the modifications have taken the form of "early recasts" in which the amortizing payments are revised (or recalculated) earlier than scheduled to reflect current lower interest rates. In other cases, the Bank has agreed to accept interest only payments for a limited time at current interest rates. In still other cases, the Bank has reduced the loan balance in exchange for a paydown of the loan or otherwise modified loans at terms that are less favorable to the Bank than the current market. These loans have interest rates that may be less than current market rates or may contain other concessions. Modified loans are categorized as TDRs by the Bank when the modification contains concessions to the borrower that the Bank would not otherwise consider except for the borrower's poor financial condition.

The following table presents TDRs by property type at December 31, 1993 and 1992:

PROPERTY TYPE	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Single family	$ 633	$ 3,160
Multifamily:		
2 to 4 units	3,171	4,065
5 to 36 units	13,648	20,404
37 units and over	11,090	54,108
Total multifamily	27,909	78,577
Commercial and industrial	--	5,567
Land	171	--
Total TDRs	$28,713	$87,304

Of the total $87.3 million of TDRs at December 31, 1992, during 1993, the terms of the modification expired on $39.8 million which are performing in accordance with their original terms (of which $19.6 million are classified as Substandard, $6.2 million are categorized as Special Mention and $14.0 million are Pass assets), $20.4 million became nonperforming loans, $9.8 million defaulted and were foreclosed, $3.5 million became ISF, $0.5 million was paid, and $13.3 million continued to be categorized as TDRs at December 31, 1993.

The following table presents TDRs at December 31, 1993, by property type and location:

	SINGLE FAMILY	MULTIFAMILY 2-4 UNITS	MULTIFAMILY 5-36 UNITS	MULTIFAMILY 37 UNITS AND OVER	LAND	TOTAL
	(DOLLARS IN THOUSANDS)					
California:						
Southern California Counties:						
Los Angeles	$633	$1,222	$ 7,122	$ 1,872	$ 95	$10,944
Orange	--	323	3,573	3,997	--	7,893
San Bernardino	--	177	2,337	1,786	76	4,376
Riverside	--	1,098	616	--	--	1,714
Other	--	351	--	--	--	351
Total California	633	3,171	13,648	7,655	171	25,278
Oregon	--	--	--	3,435	--	3,435
Total TDRs	$633	$3,171	$13,648	$11,090	$171	$28,713

The following table presents the loan balances of the TDRs at the dates indicated by the type of modification:

	DECEMBER 31,			
	1993		1992	
	AMOUNT	PERCENT OF RESTRUCTURINGS	AMOUNT	PERCENT OF RESTRUCTURINGs
	(DOLLARS IN MILLIONS)			
LOANS MODIFIED BY:				
Early recast of scheduled payments................	$12.0	41.9%	$29.3	33.6%
Interest only payments...	8.6	29.8	28.0	32.1
Deferral of one or more payments................	1.3	4.5	21.4	24.5
Fixed rate reduced to market..................	3.4	12.0	4.4	5.0
Extension of maturity date....................	0.1	0.3	3.8	4.4
Reduction in rate to below market............	--	--	0.4	0.4
Principal forgiveness(1).	3.3	11.5	--	--
Total TDRs.............	$28.7	100.0%	$87.3	100.0%

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(1) $1.0 million in actual principal forgiveness in 1993 on $3.3 million of outstanding loans.

During 1993, interest income of $8.3 million was recorded on TDRs, $0.1 million less than would have been recorded had the loans performed according to their original terms. In 1992, the amounts were $10.0 million and $0.3 million, respectively. During 1991, $0.7 million of interest income was recorded on TDRs, which consisted of one loan of $6.9 million at year-end 1991. The modification of this loan did not result in any reduction of interest income in 1991. The Bank did not have any TDRs at December 31, 1990 or 1989.

Please refer to Item 7. "MD&A--Asset Quality" for further information on nonperforming assets during 1993 and 1992.

Internal Asset Classifications

The OTS has promulgated a regulation and issued other regulatory guidance requiring savings institutions to utilize an internal asset classification system as a means of reporting problem and potential problem assets for regulatory supervision purposes. The Bank has incorporated the OTS' internal asset classifications as a part of its credit monitoring system. The Bank currently designates its assets as Pass, Special Mention, Substandard, Doubtful, or Loss. A brief description of these categories follows:

A Pass asset is considered of sufficient quality to preclude designation as Special Mention or an adverse classification. Pass assets generally are protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

An asset designated as Special Mention does not currently expose an institution to a sufficient degree of risk to warrant an adverse classification. However, it does possess credit deficiencies or potential weaknesses deserving management's close attention. If uncorrected, such weaknesses or deficiencies may expose an institution to an increased risk of loss in the future.

An asset classified as Substandard is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected.

Assets classified as Doubtful have all the weaknesses inherent in those classified as Substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable. The Bank views the Doubtful classification as a temporary category. The Bank will generally classify assets as Doubtful when inadequate data is available or when such uncertainty exists as to preclude a Substandard classification. Therefore, the Bank will normally tend to have a minimal amount of assets classified in this category.

Assets classified as Loss are considered uncollectible and of such little value that their continuance as assets without establishment of a specific reserve is not warranted. A Loss classification does not mean that an asset has absolutely no recovery or salvage value; rather it means that it is not practical or desirable to defer establishing a specific allowance for a basically worthless asset even though partial recovery may be effected in the future. The Bank will generally classify as Loss the portion of assets identified as exceeding the asset's fair market value and a specific reserve is established for such excess.

A "classified asset" is one that has been designated a Substandard, Doubtful or Loss. Classified assets do not include Special Mention or Pass assets. All of the foregoing standards require the application of considerable subjective judgments by the Bank.

The following table summarizes Fidelity's net classified assets at the dates indicated:

	DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
Nonperforming assets:					
Nonaccrual loans..........	$ 93,475	$ 112,041	$ 68,982	$ 30,161	$12,087
REO(1)....................	142,146	122,364	55,743	18,307	8,625
Total nonperforming assets....................	235,621	234,405	124,725	48,468	20,712
Performing loans with increased risk:					
Single family............	5,749	6,808	6,963	2,930	3,833
Multifamily:					
2 to 4 units............	7,616	3,648	3,390	--	--
5 to 36 units............	56,485	38,589	22,757	990	--
Over 37 units............	51,965	49,566	36,405	11,207	2,751
Total multifamily.......	116,066	91,803	62,552	12,197	2,751
Commercial and industrial.	3,905	9,831	19,584	16,773	6,640
Total performing loans with increased risk......	125,720	108,442	89,099	31,900	13,224
Other classified assets:					
Real estate held for investment, net............	11,161	10,891	14,516	14,367	14,911
Investment in subsidiaries......................	--	--	--	247	508
Other assets.............	--	--	63	91	660
Total classified assets..	$ 372,502	$ 353,738	$ 228,403	$ 95,073	$50,015
Nonperforming assets to total assets.............	5.37%	4.99%	2.43%	0.85%	0.42%
Classified assets to total assets....................	8.49%	7.53%	4.46%	1.67%	1.00%

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(1) For presentation purposes, NPAs include REO net of REO GVA.

The following tables present the quarterly data for 1993 and 1992 of Fidelity's net classified assets:

	MARCH 31, 1993	JUNE 30, 1993	SEPTEMBER 30, 1993	DECEMBER 31, 1993
	(DOLLARS IN THOUSANDS)			
Nonperforming assets:				
Nonaccruing loans......	$126,349	$ 96,419	$ 88,412	$ 93,475
REO....................	145,349	157,466	151,574	142,146
Total nonperforming assets...............	271,698	253,885	239,986	235,621
Performing loans with increased risk.........	117,478	95,975	103,769	125,720
Other classified assets:				
Real estate held for investment............	10,803	10,702	11,371	11,161
Other assets...........	--	--	--	--
Total classified assets...............	$399,979	$360,562	$355,126	$372,502
Nonperforming assets to total assets......	5.72%	5.61%	5.40%	5.37%
Classified assets to total assets.........	8.43%	7.97%	7.99%	8.49%

	MARCH 31, 1992	JUNE 30, 1992	SEPTEMBER 30, 1992	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)			
Nonperforming assets:				
Nonaccruing loans......	$116,774	$108,264	$118,832	$112,041
REO....................	60,814	81,547	117,421	122,364
Total nonperforming assets...............	177,588	189,811	236,253	234,405
Performing loans with increased risk.........	58,127	73,380	133,218	108,442
Other classified assets:				
Real estate held for investment............	12,428	12,341	12,253	10,891
Other assets...........	--	--	--	--
Total classified assets...............	$248,143	$275,532	$381,724	$353,738
Nonperforming assets to total assets......	3.53%	3.94%	4.93%	4.99%
Classified assets to total assets.........	4.93%	5.71%	7.96%	7.53%

Loans meeting certain criteria are accounted for as ISFs. These substantially foreclosed assets are recorded at the lower of the loan's book value or at the estimated fair value of the collateral at the date the loan was determined to be in-substance foreclosed. These assets are reported as "real estate owned" as if they were formally foreclosed real estate. The estimated fair value is based on the net amount that the Bank could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Inherent in the estimated fair value of these properties are assumptions about the length of time the Bank may have to hold the property before disposition. The holding costs through the expected date of sale and estimated disposition costs are considered in the valuations.

CREDIT LOSS EXPERIENCE

Credit losses are inherent in the business of originating and retaining real estate loans. As previously discussed, the Bank, in an effort to identify and mitigate the risk of credit losses in a timely manner, performs periodic reviews of any asset that has been identified as having potential excess credit risk. The Bank maintains specific departments with responsibility for resolving problem loans and selling real estate acquired through foreclosure to facilitate this process. Valuation allowances for estimated potential future losses are established on a specific and general basis for loans and real estate owned. Specific reserves for individual assets are determined by the excess of the recorded investment over the fair market value of the collateral or property when it is probable that the asset has been impaired. General valuation allowances are provided for losses inherent in the loan and real estate portfolios which have yet to be specifically identified. The GVA is based upon a number of factors, including historical loss experience, composition of the loan and real estate portfolios, loan delinquency experience patterns, loan classifications, prevailing and forecasted economic conditions and management's judgment. A more detailed discussion of the Bank's policies for determining valuation allowances is presented in Item 7. "MD&A--Asset Quality" and in Note 6 to the consolidated financial statements. See also "Real Estate Acquired in Settlement of Loans."

The following table sets forth Fidelity's GVA and specific reserves by loan or real estate portfolio as of December 31, 1993:

	LOANS	REO	TOTAL
	(DOLLARS IN THOUSANDS)		
GVA	$71,578	$ 8,442	$ 80,020
Specific reserves	12,254	9,273	21,527
	$83,832	$17,715	$101,547

The following summarizes Fidelity's GVA to total loans and real estate owned and GVA to NPAs for the period indicated:

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
GVA to total loans and REO (including ISFs)(1)	2.03%	1.82%	1.13%	0.32%	0.18%
GVA to NPAs (2)	32.79%	30.49%	41.99%	34.14%	38.38%

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(1) Loans and REO in this ratio are calculated prior to the reduction for loan and REO GVA, but are net of specific reserves.

(2) NPAs in this ratio are calculated prior to the reduction for REO GVA.

The following summarizes the activity in Fidelity's allowance for estimated loan losses for the periods indicated:

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
Balance at beginning of period	$ 64,277	$ 52,374	$ 16,552	$ 7,336	$ 2,545
Provision for estimated loan losses	65,100	51,180	49,843	11,039	8,359
Transfer to real estate GVA	--	(12,400)	--	--	--
Charge-offs	(50,504)	(27,350)	(17,005)	(1,841)	(3,680)
Recoveries and other	4,959	473	2,984	18	112
Balance at end of period	$ 83,832	$ 64,277	$ 52,374	$16,552	$ 7,336
Charge-offs to average loans outstanding	1.28%	0.61%	0.36%	0.04%	0.09%

The following table presents loan and REO charge-offs by property type and year of loan origination for the year ended December 31, 1993:

	YEAR OF ORIGINATION						
	TOTAL	1992	1991	1990	1989	1988	1979 TO 1987
	(DOLLARS IN MILLIONS)						
PROPERTY TYPE:							
Single family	$ 3.5	$ --	$0.3	$ 2.1	$ 0.8	$ 0.3	$ --
Multifamily:							
2 to 4 units	5.0	--	0.1	3.6	0.8	0.4	0.1
5 to 36 units	44.0	0.1	6.0	21.7	7.4	4.5	4.3
37 units and over	21.8	--	0.8	9.1	0.9	5.0	6.0
Total multifamily	70.8	0.1	6.9	34.4	9.1	9.9	10.4
Commercial and industrial	5.1	--	--	--	0.5	1.1	3.5
Total charge-offs	$79.4	$0.1	$7.2	$36.5	$10.4	$11.3	$13.9

The following table presents loan and REO charge-offs by property type and year of loan origination for the year ended December 31, 1992:

	YEAR OF ORIGINATION					
	TOTAL	1991	1990	1989	1988	1977 TO 1987
	(DOLLARS IN MILLIONS)					
PROPERTY TYPE:						
Single Family	$ 1.7	$0.2	$ 1.1	$0.3	$ --	$ 0.1
Multifamily:						
2 to 4 units	2.2	--	1.9	0.3	--	
5 to 36 units	12.4	0.2	7.7	2.1	0.3	2.1
37 units and over	13.2	0.7	1.6	3.5	4.0	3.4
Total multifamily	27.8	0.9	11.2	5.9	4.3	5.5
Commercial and industrial	11.7	--	0.7	--	0.7	10.3
Total charge-offs	$41.2	$1.1	$13.0	$6.2	$5.0	$15.9

The following table presents Fidelity's real estate loan portfolio (including loans held for sale) as of December 31, 1993 by year of origination and type of security:

	YEAR OF ORIGINATION							
	TOTAL	1993	1992	1991	1990	1989	1988	1987 AND PRIOR
	(DOLLARS IN THOUSANDS)							
Property type:								
Single family	$ 792,054	$118,802	$ 54,035	$ 40,417	$105,854	$ 73,466	$149,435	$ 250,045
Multifamily:								
2 to 4 units	505,219	36,822	23,892	50,069	139,430	77,837	100,182	76,987
5 to 36 units	1,795,374	92,798	118,176	205,279	479,998	216,091	273,376	409,656
37 units and over	406,330	12,861	15,753	8,049	59,566	75,111	62,990	172,000
Total multifamily	2,706,923	142,481	157,821	263,397	678,994	369,039	436,548	658,643
Commercial and industrial	300,589	1,332	815	1,821	11,532	53,936	65,239	165,914
Total mortgage loans receivable	$3,799,566	$262,615	$212,671	$305,635	$796,380	$496,441	$651,222	$1,074,602
Loans by year of origination to total	100.0%	6.9%	5.6%	8.0%	21.0%	13.1%	17.1%	28.3%

During the years 1990, 1989 and 1988, Fidelity originated loans at peak levels totaling $1,211.3 million, $897.6 million and $1,467.1 million, respectively. During 1993, the Bank reserved and/or charged off amounts corresponding to these peak origination years totaling $36.5 million, $10.4 million and $11.3 million, respectively. These losses were due primarily to the decline of the California economy and real estate market. Multifamily (5 or more units) and commercial loans accounted for a substantial percentage of such losses, and as a result, the Bank has reduced recent loan origination activities in these areas. However, continued downward pressure on the economy and real estate market could lead to additional losses in these portfolios.

The high level of provisions for loss and charge-offs during 1993, 1992 and 1991 is primarily due to a depressed market for real estate in Southern California. If recent economic trends do not abate, it is likely that additional charge-offs and reserves will be required and if future declines in the Southern California economy and real estate market are substantial, it is likely that the future corresponding charge-offs and reserves will also be significant.

FORECLOSURE POLICIES

The Bank typically initiates foreclosure proceedings between 30 and 90 days after a borrower defaults on a loan. The proceedings take at least four months before the collateral for the loan can be sold at "foreclosure" auction, and this period can be extended under certain circumstances, such as, if the borrower files bankruptcy or if the Bank enters into negotiations with the borrower to restructure the loan. In California, foreclosure proceedings almost always take the form of a nonjudicial foreclosure, upon the completion of which the lender is left without recourse against the borrower for any deficiency or shortfall from the difference between the value of the collateral and the amount of the loan, and in most cases the Bank ends up with title to the property. In some cases, while the foreclosure proceedings are under way, the borrower requests forbearance from collection efforts, more time to cure the default, or a restructuring of the loan. The Bank agrees to such a request if it determines that the loan, as modified, is likely to result in a greater ultimate recovery than taking title to the property. Among the factors the Bank considers in granting the borrower a concession is the extent to which the borrower pays down the loan, furnishes more collateral or makes a further investment in the property by way of repairs or refurbishment, and demonstrates an awareness and ability to manage the property according to a reasonable operating plan.

REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

Real estate acquired in settlement of loans results when property collateralizing a loan is foreclosed upon or otherwise acquired in satisfaction of the loan and the Bank takes title to the property. This property owned by the Bank is included in REO. The Bank experiences foreclosures as part of the normal process of conducting its primary business activity, real estate lending. Certain loans are also included in REO when they exhibit characteristics more closely associated with the risk of real estate ownership than with loans. These loans are designated in-substance foreclosures if they meet the following criteria: (a) the borrower currently has little or no equity at fair market value in the underlying collateral; (b) the only source of repayment is the property securing the loan; and (c) the borrower has abandoned the property or will not be able to rebuild equity in the foreseeable future. Collateral that has been categorized as ISF is reported in the same manner as property that is owned by the Bank. ISFs and property owned by the Bank differ in one key respect: the Bank can only sell or dispose of property it owns. As with any loan, it must complete foreclosure of an ISF before it can sell the underlying collateral.

As a result of the adoption of SFAS No. 114, beginning January 1, 1994, loans that meet the criteria for ISF designation will no longer be reported as REO, although they will continue to be valued based on the fair value of the collateral and will generally continue to be included in NPAs.

The following table presents Fidelity's net REO, including ISF, by property type at the dates indicated:

	December 31, 1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS)				
Property Type:					
Single family	$ 6,942	$ 7,014	$ 3,032	$ 1,202	$1,276
Multifamily:					
2 to 4 units	10,345	4,129	695	--	--
5 to 36 units	41,177	32,535	8,674	253	253
37 units and over	47,565	40,924	15,040	1,518	1,606
Total Multifamily	99,087	77,588	24,409	1,771	1,859
Commercial and industrial	44,559	51,381	28,302	15,334	5,490
REO GVA	(8,442)	(13,619)	--	--	--
Total REO(1)	$142,146	$122,364	$55,743	$18,307	$8,625
Total ISFs included above	$ 28,362	$ 47,324	$25,490	$ --	$ --

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(1) Foreclosed real estate is shown net of first trust deed loans to others, where applicable.

The following table presents the Bank's real estate acquired in settlement of loans (ISF is excluded) by location and property type at December 31, 1993:

	SINGLE FAMILY	MULTIFAMILY 2 TO 4 UNITS	MULTIFAMILY 5 TO 36 UNITS	MULTIFAMILY 37 UNITS AND OVER	COMMERCIAL AND INDUSTRIAL HOTEL/ MOTEL	COMMERCIAL AND INDUSTRIAL OFFICE BUILDING	CONSTRUCTION	OTHER	TOTAL
	(DOLLARS IN THOUSANDS)								
California:									
Southern California Counties:									
Los Angeles..........	$3,703	$ 5,895	$19,621	$21,638	$ 6,585	$1,603	$2,351	$2,200	$ 63,596
Orange...............	502	1,410	4,677	5,484	--	5,490	--	222	17,785
San Bernardino.......	--	1,228	2,308	13,837	--	--	--	600	17,973
Riverside............	326	1,069	2,794	--	--	--	--	826	5,015
San Diego............	830	211	250	1,249	1,885	--	--	--	4,425
Ventura..............	606	--	--	--	--	363	--	--	969
Other................	--	532	--	--	--	--	--	--	532
	5,967	10,345	29,650	42,208	8,470	7,456	2,351	3,848	110,295
Northern California Counties:									
Santa Clara..........	209	--	--	--	--	2,498	--	--	2,707
Other................	54	--	--	--	--	--	--	--	54
	263	--	--	--	--	2,498	--	--	2,761
Total California.......	6,230	10,345	29,650	42,208	8,470	9,954	2,351	3,848	113,056
Hawaii..................	712	--	--	--	--	--	--	--	712
Florida.................	--	--	--	--	7,823	--	--	--	7,823
Washington..............	--	--	--	--	--	--	--	635	635
Total out-of-state....	712	--	--	--	7,823	--	--	635	9,170
Total REO...............	$6,942	$10,345	$29,650	$42,208	$16,293	$9,954	$2,351	$4,483	$122,226

The following table presents the Bank's ISF by location and property type at December 31, 1993:

	SINGLE FAMILY	MULTIFAMILY 2 TO 4 UNITS	MULTIFAMILY 5 TO 36 UNITS	MULTIFAMILY 37 UNITS AND OVER	COMMERCIAL AND INDUSTRIAL HOTEL/ MOTEL	COMMERCIAL AND INDUSTRIAL OFFICE BUILDING	CONSTRUCTION	OTHER	TOTAL
	(DOLLARS IN THOUSANDS)								
California:									
Southern California Counties:									
Los Angeles..........	$ --	$ --	$ 9,078	$ 5,357	$ --	$ --	$ --	$ 133	$ 14,568
Orange...............	--	--	2,155	--	--	--	--	--	2,155
San Diego............	--	--	294	--	--	--	--	--	294
San Bernardino.......	--	--	--	--	--	--	--	509	509
Total California.......	--	--	11,527	5,357	--	--	--	642	17,526
Hawaii..................	--	--	--	--	10,388	--	--	--	10,388
Pennsylvania............	--	--	--	--	448	--	--	--	448
Total out-of-state....	--	--	--	--	10,836	--	--	--	10,836
Total ISFs.............	$ --	$ --	$11,527	$ 5,357	$10,836	$ --	$ --	$ 642	$ 28,362

In the current market, the Bank rarely sells REO for a price equal to or greater than the loan balance, and the losses suffered are impacted by the market factors discussed elsewhere in this report. REO is recorded at acquisition at the lower of the recorded investment in the subject loan or the fair market value of the assets received. The fair market value of the assets received is based upon a current appraisal adjusted for estimated carrying, rehabilitation and selling costs. Income-producing properties acquired by the Bank through foreclosure are managed by third party contract managers, under the supervision of Bank personnel. During 1993 and 1992, the Bank's policy has been generally to proceed promptly to market the properties acquired through foreclosure, and the Bank often makes financing terms available to buyers of such properties.

Generally, the Bank experiences higher losses on sale of REO properties for all cash, as opposed to financing the sale, although when it finances the sale, the Bank incurs the risk that the loan may not be repaid in full. During 1993, the Bank sold 210 REO properties for net sales proceeds of $83.5 million, with a gross book and net book value totaling $138.5 million and $89.8 million, respectively. This compares to 43 properties sold in 1992 for net sales proceeds of $25.6 million, with a gross book and net book value of $34.9 million and $27.6 million, respectively. The Bank made 107 loans in connection with the sale of REO for the year ended December 31, 1993 for a total of $51.6 million. Of these, $10.9 million contained terms favorable to the borrower that were not available for the purchase of non-REO property. The comparable data for 1992 were 15 loans for $11.2 million, of which $10.7 million were made with favorable terms.

The following table shows real estate sold by property type during the years indicated:

	1993		1992	
	NO. OF PROPERTIES	NET BOOK VALUE AT DATE OF SALE	NO. OF PROPERTIES	NET BOOK VALUE AT DATE OF SALE
	(DOLLARS IN THOUSANDS)			
Single family	61	$12,932	20	$ 3,546
Multifamily:				
2 to 4 units	21	4,248	6	529
5 to 36 units	109	53,496	9	6,386
37 units and over	14	17,919	4	11,773
Total multifamily	144	75,663	19	18,688
Commercial & industrial	5	1,227	4	5,401
	210	$89,822	43	$27,635

Direct costs of foreclosed real estate operations totaled $18.8 million, $3.6 million and $1.1 million for the years ended December 31, 1993, 1992 and 1991 respectively. The large increase in 1993 over 1992 is due primarily to an increase in the number of properties foreclosed in 1993 over 1992. During 1993, the Bank foreclosed on 282 properties with a gross book value of $204.7 million compared to 139 properties with a gross book value of $112.9 million, during 1992. The average number of REOs held during 1993 was 205 compared to 117 during 1992. Property tax expense on foreclosed property for the year ended 1993 was $5.1 million (at the time of foreclosure, a typical property was delinquent for three property tax payments). Due to the deterioration in the real estate market in Southern California, property tax assessments are generally higher than the appraised value of REO properties at the time of foreclosure. The Bank's policy is to appeal all property tax valuations on REO property at the time of acquisition.

INVESTMENT ACTIVITIES

As a matter of prudent business practice, Fidelity maintains assets that are easily liquidated or otherwise saleable to meet unexpected funding requirements.

Fidelity also is required by federal regulations to maintain a minimum level of liquid assets which may be invested in certain government and other specified securities. See "Regulation and Supervision--Required Liquidity." Investment decisions are made within guidelines approved by Fidelity's Board of Directors. Such investments are managed in an effort to produce a yield consistent with maintaining safety of principal and compliance with applicable regulations.

The Company's securities portfolio consisted of the following at the dates indicated:

	DECEMBER 31,					
	1993		1992		1991	
	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD
	(DOLLARS IN THOUSANDS)					
Federal funds sold.......	$ 60,000	3.00%	$ --	--%	$ --	--%
Investment securities:						
Held for sale:						
U.S. Government and agency obligations...	87,385	4.59	--	--	--	--
Other investments.....	4,874	5.07	--	--	--	--
	92,259	4.65	--	--	--	--
Held for investment:						
U.S. Government obligations..........	--	--	24,950	8.54	32,916	8.55
Commercial paper......	--	--	29,986	3.92	980	5.15
Other investments.....	--	--	12,401	4.65	--	--
	--	--	67,337	5.77	33,896	8.45
Total investment securities..........	92,259	4.65	67,337	5.77	33,896	8.45
Mortgage-backed securities:						
Held for sale:						
FHLMC.................	34,184	5.13	--	--	--	--
FNMA..................	14,853	4.67	--	--	--	--
Participation Certificates.........	38,223	5.87	--	--	--	--
CMO...................	3,848	4.39	--	--	--	--
	91,108	5.33	--	--	--	--
Held for investment:						
FHLMC.................	--	--	102,476	5.89	15,733	8.63
GNMA..................	--	--	14,466	8.24	16,941	8.17
FNMA..................	--	--	113,442	6.54	--	--
	--	--	230,384	6.36	32,674	8.39
Total mortgage-backed securities..........	91,108	5.33	230,384	6.36	32,674	8.39
FHLB and FRB stock.......	52,151	3.20	50,574	1.47	49,245	6.16
	$295,518	4.27%	$348,295	5.54%	$115,815	7.46%

The following table summarizes the maturity and weighted average yield of the Company's investment securities at December 31, 1993:

	TOTAL		MATURES IN 1994		1995 THROUGH 1998		1999 THROUGH 2003		2003 AND THEREAFTER	
	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD	AMOUNT	WEIGHTED YIELD
	(DOLLARS IN THOUSANDS)									
Federal funds sold......	$ 60,000	3.00%	$ 60,000	3.00%	$ --	--%	$ --	--%	$ --	--%
Investment securities held for sale:										
U.S. Government and agency obligations....	87,385	4.59	145	3.52	87,240	4.59	--	--	--	--
Other investments......	4,874	5.07	1,156	3.91	3,446	5.91	272	6.19	--	--
Total investment securities...........	92,259	4.65	1,301	3.87	90,686	4.65	272	6.19	--	--
Mortgage-backed securities held for sale...................	91,108	5.33	--	--	48,832	5.05	--	--	42,276	5.66
FHLB and FRB Stock......	52,151	3.20	52,151	3.20	--	--	--	--	--	--
	$295,518	4.27%	$113,452	3.10%	$139,518	4.79%	$272	6.19%	$42,276	5.66%

Interest income from the investment portfolio contributed 6.5%, 3.9% and 4.3% of the Company's total revenue not including the impact of real estate loss provisions and direct costs of real estate operations, for the years ended December 31, 1993, 1992 and 1991, respectively.

SOURCES OF FUNDS

The Company derives funds from deposits, FHLB Advances, securities sold under agreements to repurchase, and other short-term and long-term borrowings. In addition, funds are generated from loan payments and payoffs as well as from the sale of loans and investments.

Deposits

The largest source of funds for the Company is deposits. Customer deposits are insured by the FDIC up to $100,000 per account. The Company has several types of deposit accounts designed to attract both short-term and long-term deposits. The following table sets forth the weighted average interest rates paid by the Company and the amounts of deposits held by the Company at the dates indicated:

	WEIGHTED AVERAGE RATES AT DECEMBER 31,			DECEMBER 31,		
	1993	1992	1991	1993	1992	1991
				(DOLLARS IN THOUSANDS)		
Checking--no minimum term:						
NOW....................	1.0%	1.6%	3.0%	$ 263,192	$ 257,575	$ 204,454
Money market checking..	1.8	1.8	3.8	50,840	49,289	62,837
Noninterest bearing....	--	--	--	52,936	31,632	14,091
Savings--no minimum term:						
Passbook..............	2.0	2.5	4.0	82,168	74,738	58,817
Money market savings...	2.4	2.8	4.6	280,474	427,978	414,482
Certificate accounts:						
Original term:						
Less than 3 months....	2.8	3.0	5.1	118,697	108,399	99,525
3 months to 5 months..	3.4	3.2	5.3	601,419	230,396	282,741
6 months to 11 months.	3.3	3.4	6.1	740,741	1,009,970	1,691,551
12 months to 23 months..............	4.2	4.7	6.4	601,382	614,581	621,625
24 months to 59 months..............	5.3	6.6	7.2	228,194	325,764	287,752
60 months and over....	6.9	7.1	7.7	348,600	327,596	146,832
	3.6%	4.0%	5.9%	$3,368,643	$3,457,918	$3,884,707

The following table provides additional deposit information by remaining maturity at December 31, 1993:

	REMAINING MATURITY							
	INDETERMINATE MATURITY	3 MONTHS OR LESS	OVER 3 MONTHS BUT WITHIN 6 MONTHS	OVER 6 MONTHS BUT WITHIN 12 MONTHS	OVER 12 MONTHS BUT WITHIN 24 MONTHS	OVER 24 MONTHS BUT WITHIN 36 MONTHS	OVER 36 MONTHS	TOTAL
	(DOLLARS IN THOUSANDS)							
Passbook, 2.00% and 2.50% at December 31, 1993 and 1992..........	$ 82,168	$ --	$ --	$ --	$ --	$ --	$ --	$ 82,168
Checking and money market checking, 0.96% and 1.48% at December 31, 1993 and 1992......	366,968	--	--	--	--	--	--	366,968
Money market passbook, 2.37% and 2.79% at December 31, 1993 and 1992...................	280,474	--	--	--	--	--	--	280,474
Certificate Accounts:								
Under 3.00%............	--	290,813	127,298	121	65	8	21	418,326
3.01--4.00%............	--	623,389	556,413	123,412	23,050	185	--	1,326,449
4.01--5.00%............	--	87,639	74,716	48,148	171,365	10,049	3,212	395,129
5.01--6.00%............	--	53,840	36,897	4,833	9,870	232	32,038	137,710
6.01--7.00%............	--	739	8,518	11,587	1,103	34,955	168,133	225,035
7.01--8.00%............	--	1,018	4,900	21,764	3,979	45,709	12,910	90,280
Over 8.01%.............	--	4,549	8,053	8,827	11,359	473	12,843	46,104
Total deposits.......	$729,610	$1,061,987	$816,795	$218,692	$220,791	$91,611	$229,157	$3,368,643

Certificates of deposits of $100,000 or more accounted for $592.7 million and represented 17.6% of all deposits at December 31, 1993; $549.5 million or 15.9% of all deposits at December 31, 1992 and $628.5 million or 16.2% of all deposits at December 31, 1991. Fidelity intends to continue to use such certificates of deposit as a source of funds to manage its liquidity. However, a significant increase is not currently expected.

The following table summarizes certificates of deposit of $100,000 or more by remaining maturity and weighted average rate at December 31, 1993:

REMAINING TERM TO MATURITY (IN MONTHS)	AMOUNT	PERCENT OF TOTAL DEPOSITS	WEIGHTED AVERAGE RATE
	(DOLLARS IN THOUSANDS)		
Three or less.......................	$242,949	7.2%	3.56%
Over three to six...................	155,795	4.6	3.82
Over six to twelve..................	75,677	2.3	4.56
Over twelve.........................	118,307	3.5	5.92
	$592,728	17.6%	4.23%

The distribution of certificate accounts by date of maturity is an important indicator of the relative stability of a major source of lendable funds. Longer term certificate accounts generally provide greater stability as a source of lendable funds, but currently entail greater interest costs than passbook accounts. The following table summarizes certificate accounts by maturity, as a percentage of total deposits and weighted average rate at December 31, 1993:

CERTIFICATE ACCOUNTS MATURING IN QUARTER ENDING	AMOUNT	PERCENT OF TOTAL DEPOSITS	WEIGHTED AVERAGE RATE
	(DOLLARS IN THOUSANDS)		
March 31, 1994	$1,061,987	31.5%	3.55%
June 30, 1994	816,795	24.2	3.71
September 30, 1994	119,672	3.6	4.50
December 31, 1994	99,020	2.9	4.51
March 31, 1995	79,247	2.4	4.38
June 30, 1995	67,399	2.0	4.56
September 30, 1995	40,687	1.2	4.95
December 31, 1995	33,458	1.0	4.67
March 31, 1996	5,349	0.2	6.16
June 30, 1996	21,394	0.6	6.84
September 30, 1996	36,075	1.1	6.98
December 31, 1996	28,793	0.9	6.65
After December 31, 1996	229,157	6.8	6.60
	$2,639,033	78.4%	4.14%

The Bank also utilizes brokered deposits as a short-term means of funding. These deposits are obtained or placed by or through a deposit broker and are subject to certain regulatory limitations. Should the Bank become undercapitalized, it would be prohibited from accepting, renewing or rolling over deposits obtained through a deposit broker. See "Regulation and Supervision--FDICIA Prompt Corrective Action Requirements." The following table summarizes the Bank's outstanding balance of brokered deposits at the dates indicated:

DECEMBER 31,	AMOUNT	PERCENT OF TOTAL DEPOSITS
	(DOLLARS IN THOUSANDS)	
1993	$92,196	2.74%
1992	$12,850	0.37%
1991	--	--

Borrowings

The Company utilizes borrowings from the FHLB System ("FHLB Advances") as a source of funds for operations. The FHLB System functions as a source of credit to savings institutions which are members of a Federal Home Loan Bank. See "Regulation and Supervision--Federal Home Loan Bank System." Fidelity may apply for advances from the FHLB secured by the capital stock of the FHLB owned by Fidelity and certain of Fidelity's mortgages and other assets (principally obligations issued or guaranteed by the United States Government or agencies thereof). Advances can be requested for any business purpose in which Fidelity is authorized to engage, except that advances with a term greater than 5 years can be granted only for the purpose of providing funds for residential housing finance. In granting advances, the FHLB considers a member's creditworthiness and other relevant factors. FHLB Advances to Fidelity totaled $326.4 million, $581.4 million, and $325.0 million at December 31, 1993, 1992 and 1991, respectively. The decreased use of FHLB Advances in 1993 as a source of funds results primarily from the use of commercial paper, which is less costly, as an alternate source of funds. Fidelity's available FHLB line of credit is based primarily on a portion of Fidelity's residential loan portfolio pledged for such purpose, up to a maximum 25% of total assets.

At December 31, 1993, Fidelity's remaining available line of credit was $297.7 million, after deducting outstanding advances and a $304.0 million backup letter of credit for outstanding commercial paper, as described below.

The Company also utilizes the capital markets to obtain funds for its lending operations. This source has been used for long-term borrowings in the past and can be utilized in the future. Details on borrowings on the Company's books for all or part of 1993 are as follows:

- Mortgage-backed medium-term notes, Series A, with a fixed interest rate of 8 7/8%. These notes had a balance of $100 million, matured and were paid off on May 15, 1993.

- Commercial mortgage-backed bonds, with a fixed interest rate of 9 3/4%. These bonds had a balance of $62 million, matured and were paid off on September 15, 1993.

- 8 1/2% Mortgage-backed medium-term notes, Series A, due April 15, 1997 (the "1997 MTNs"). At December 31, 1993, the 1997 MTNs had a balance of $100 million. The 1997 MTNs are secured by mortgage loans and U.S. Treasury notes with a combined principal balance of $255.7 million at December 31, 1993.

During 1992, the Bank started issuing commercial paper, backed by a $400 million letter of credit from the FHLB of San Francisco to ensure a high quality investment grade rating. The letter of credit commitment varies with the level of commercial paper outstanding, and the FHLB line of credit for advances described above increases or decreases accordingly. Commercial paper outstanding totaled $304 million and $65 million at December 31, 1993 and 1992, respectively. All commercial paper outstanding at December 31, 1993 matures within 120 days with an average interest rate of 3.38%.

From time to time, Fidelity enters into reverse repurchase agreements by which it sells securities with an agreement to repurchase the same securities at a specific future date (overnight to 30 days). Fidelity deals only with dealers perceived by management to be financially strong and who are recognized as primary dealers in U.S. Treasury securities by the Federal Reserve Board. Reverse repurchase agreements outstanding totaled $3.8 million at December 31, 1993.

In May 1990, Fidelity issued the Notes which were approved by the OTS as additional regulatory risk-based capital. The Notes were issued to institutional investors in the amount of $60 million, with interest payable semiannually at 11.68% per annum and are repayable in five equal annual installments commencing May 15, 1996. See "Recent Developments--Internal Reorganization and Restructuring," Item 3. "Legal Proceedings and Item 7. "MD&A--Capital Resources and Liquidity" for a description of certain litigation relating to the Notes and certain circumstances that may result in the Notes and outstanding FHLB Advances being declared due and payable and/or the unavailability of funds under the Bank's commercial paper program and the FHLB credit line.

The following table sets forth certain information as to the Company's FHLB Advances, other borrowings and subordinated notes at the dates indicated:

	DECEMBER 31, 1993	1992	1991
	(DOLLARS IN THOUSANDS)		
FHLB Advances:			
Fixed rate advances........	$110,000	$ 40,000	$ 20,000
Floating rate advances.....	216,400	541,400	305,000
	326,400	581,400	325,000
Borrowings:			
Mortgage-backed notes/bonds:			
Fixed rate bonds..........	--	62,000	62,000
Fixed rate notes..........	100,000	200,000	200,000
Floating rate bonds.......	--	--	65,950
Floating rate notes.......	--	--	200,000
	100,000	262,000	527,950
Commercial paper...........	304,000	65,000	--
Securities sold under agreements to repurchase..	3,830	--	--
Other......................	--	--	3,200
	407,830	327,000	531,150
Related party loan.........	--	--	15,000
Subordinated notes.........	60,000	60,000	60,000
Total borrowings........	$794,230	$968,400	$931,150
Weighted average interest rate on all borrowings.....	5.12%	5.91%	7.47%

For more information on the Company's borrowings see Notes 9 and 10 to the consolidated financial statements.

Loan Repayments and Loan Sales

Another important source of funds for the Company is the repayment of loans it has made and sales of loans. Receipts from loan repayments (scheduled and unscheduled) and sales of loans, net of repurchases, were approximately $690 million, $878 million, and $926 million for the years ended December 31, 1993, 1992 and 1991, respectively. See "Mortgage Banking Group Operations."

INTEREST RATE RISK MANAGEMENT

Net interest income is the difference between interest earned on the Company's loans and investment securities and interest paid on its deposits and borrowings. Net interest income is affected by the interest rate spread, which is the difference between the rates earned on its interest-earning assets and rates paid on its interest-bearing liabilities, as well as the relative amounts of its interest-earning assets and interest-bearing liabilities. When interest-earning assets exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. The Company's average interest rate margin for the years ended December 31, 1993, 1992 and 1991 was 2.28%, 2.67% and 2.54%, respectively. Excluding the writedown of core deposit intangibles of $5.2 million, the average interest rate margin for the year ended December 31, 1993 would have been 2.39%. See Item 7. "MD&A" and Note 7 to the consolidated financial statements.

The objective of interest rate risk management is to manage interest rate risk in a prudent manner to maximize the net income of the Bank. Banks and savings institutions are subject to interest rate risk when assets and liabilities mature or reprice at different times (duration risk), against different indices (basis risk) or for different terms (yield curve risk). The decision to control or accept interest rate risk can only be made with an understanding of the probability of various scenarios occurring. Having liabilities that reprice more quickly than assets is beneficial when interest rates fall, but may be detrimental when interest rates rise.

Since 1985, the Company has shifted its portfolio toward adjustable rate mortgage loans that reprice more closely with its interest-bearing liabilities. ARM loans comprised 96% of the total loan portfolio at December 31, 1993, 1992 and 1991. The percentage of monthly adjustable ARMs to total loans was 74.7% at December 31, 1993 compared to 74.4% and 71.6% at December 31, 1992 and 1991, respectively. Interest sensitive assets provide the Company with a degree of long-term protection from rising interest rates. At December 31, 1993, approximately 96% of Fidelity's total loan portfolio consisted of loans which mature or reprice within one year, compared with approximately 95% at December 31, 1992 and approximately 97% at December 31, 1991. Fidelity has in recent periods benefited from the fact that decreases in the interest rates accruing on Fidelity's ARMs lagged the decreases in interest rates accruing on its deposits, primarily due to the lagging effects of the COFI, the index to which most of Fidelity's ARMs reprice. Fidelity benefited in 1992 and 1991 from the fact that decreases in its asset yield lagged decreases in its liability cost. During 1993, short and intermediate term rates to which most of Fidelity's liabilities reprice, remained essentially constant. As COFI continued to decline, the Company's interest rate spread narrowed. If market rates fall, the Company's spread will initially improve. If market rates increase, the Company's spread will deteriorate initially until a catch up in lag in the COFI index. See "ARM Loans."

The Company took steps in 1993 to reduce the impact of its declining spread. These steps include the decision not to replace expired interest rate cap agreements, and the decision to enter into interest rate swap contracts. The Company continues to monitor and control its interest rate risk exposure within approved guidelines and in such a way as to avoid the need to hold extra capital because of interest rate risk.

See Item 7. "MD&A--Interest Rate Risk Management" for a table of projected maturities and repricing details of major financial asset and liability categories of the Company as of December 31, 1993, for further information regarding the Company's off-balance sheet hedging activities and a discussion of interest rate risk capital requirements.

The following table presents, for the periods indicated, the Company's total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities and the resultant costs, expressed both in dollars and rates. The table also sets forth the net interest income and the net earnings balance for the periods indicated. Average balances are computed using an average of the daily balances during the year. Certain reclassifications have been made to prior periods to conform to the 1993 presentation.

	YEAR ENDED DECEMBER 31,								
	1993			1992			1991		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ RATE	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ RATE	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ RATE
	(DOLLARS IN THOUSANDS)								
Interest-earning assets:									
Loans and mortgage-backed securities(1)..	$4,136,044	$280,763	6.79%	$4,421,798	$361,191	8.17%	$5,034,392	$503,021	9.99%
Investment securities and cash equivalents..	170,504	7,189	4.22	197,873	8,791	4.44	221,117	14,032	6.35
Investment in FHLB stock.................	51,210	1,640	3.20	50,219	740	1.47	49,891	3,071	6.16
Total interest-earning assets................	4,357,758	289,592	6.65	4,669,890	370,722	7.94	5,305,400	520,124	9.80
Noninterest-earning assets.................	220,725			182,291			232,333		
Total assets...........	$4,578,483			$4,852,181			$5,537,733		
Interest-earning liabilities:									
Deposits:									
Demand deposits.......	$ 303,206	4,781	1.58	$ 282,572	6,959	2.46	$ 259,464	12,195	4.70
Savings deposits......	451,590	19,215	4.26	497,070	24,911	5.01	430,163	30,106	7.00
Time deposits.........	2,499,076	107,622	4.31	2,853,393	143,154	5.02	3,330,847	236,316	7.09
Total deposits.........	3,253,872	131,618	4.04	3,633,035	175,024	4.82	4,020,474	278,617	6.93
Borrowings.............	1,049,291	56,773	5.41	916,836	64,917	7.04	1,188,759	99,400	8.36
Total interest-bearing liabilities...........	4,303,163	188,391	4.37	4,549,871	239,941	5.27	5,209,233	378,017	7.26
Noninterest-bearing liabilities............	43,078			76,342			106,166		
Stockholders' equity....	232,242			225,968			222,334		
Total liabilities and stockholders' equity..	$4,578,483			$4,852,181			$5,537,733		
Net interest income; Interest rate spread...		$101,201	2.28%(4)		$130,781	2.67%		$142,107	2.54%
Net earning balance(2); Net yield on interest-earning assets(3)......	$ 54,595		2.33%(4)	$ 120,019		2.81%	$ 96,167		2.68%

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(1) Nonaccrual loans are included in the average balance column, however, only collected interest on such loans is included in the interest column.
(2) The "net earning balance" equals the difference between the average balance of interest-earning assets and the average balance of interest-bearing liabilities.
(3) The net yield on interest-earning assets during the period equals (a) the difference between the interest income on interest-earning assets and interest expense on interest-bearing liabilities, divided by (b) average interest-earning assets for the period.
(4) Excluding the writedown of core deposit intangibles of $5.2 million, the interest rate spread and the net yield on interest-earning assets for the year ended December 31, 1993, would have been 2.39% and 2.44%, respectively.

The following table presents the dollar amount of changes in interest income and expense for each major component of interest-earning assets and interest-bearing liabilities and the amount of change attributable to changes in average balances and average rates for the periods indicated. The net change attributable to changes in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate. Interest-bearing asset and liability balances in the calculations are computed using the average of the daily balances during the periods. Certain reclassifications have been made to prior periods to conform to the 1993 presentation.

	YEAR ENDED DECEMBER 31, 1993 COMPARED TO DECEMBER 31, 1992 FAVORABLE (UNFAVORABLE)			YEAR ENDED DECEMBER 31, 1992 COMPARED TO DECEMBER 31, 1991 FAVORABLE (UNFAVORABLE)		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(DOLLARS IN THOUSANDS)					
Interest income on loans and mortgage-backed securities	$ (22,256)	$ (58,172)	$ (80,428)	$(56,795)	$(85,035)	$(141,830)
Interest income on investment securities and cash equivalent	(1,180)	(422)	(1,602)	(1,357)	(3,884)	(5,241)
Investment in FHLB stock	15	885	900	20	(2,351)	(2,331)
Total interest income on interest-earning assets	(23,421)	(57,709)	(81,130)	(58,132)	(91,270)	(149,402)
Interest expense on deposits:						
Demand deposits	(442)	2,479	2,037	(469)	5,479	5,010
Savings deposits	1,983	3,716	5,699	(2,768)	8,064	5,296
Time deposits	15,477	20,193	35,670	28,142	65,145	93,287
Total interest expense on deposits	17,018	26,388	43,406	24,905	78,688	103,593
Interest expense on borrowings	(8,355)	16,499	8,144	20,401	14,082	34,483
Total interest on interest-bearing liabilities	8,663	42,887	51,550	45,306	92,770	138,076
Increase (decrease) in net interest income	$ (14,758)	$ (14,822)	$ (29,580)	$(12,826)	$ 1,500	$ (11,326)

COMPETITION

The Company believes that the traditional role of thrift institutions, such as Fidelity, as the nation's primary housing lenders has diminished, and that thrift institutions are subject to increasing competition from commercial banks, mortgage bankers and others for both depositor funds and lending opportunities. In addition, with assets of approximately $4.4 billion, the Company faces competition from a number of substantially larger institutions. The ability of thrift institutions, such as Fidelity, to compete by diversifying into lending activities other than real estate lending (and residential real estate lending in particular) and by offering investments other than deposit-like investments is limited by law and by these institutions' relative lack of experience in such other activities. However, the Company believes these nontraditional activities and the related fee income is vital for future success. See "Retail Financial Services Group."

The Company faces intense competition in attracting savings deposits and in making real estate loans as many of the nation's largest depository and other financial institutions are headquartered or have a significant number of branches in the areas where Fidelity conducts its business. Competition for depositors' funds comes principally from other savings institutions, commercial banks, money market mutual funds, credit unions, other thrift institutions, corporate and government debt securities, insurance companies, pension funds and money market mutual funds offered through investment banking firms. The principal basis of competition for deposits is the interest rate paid, the perceived credit risk and the quality and types of services offered. In addition to offering competitive rates and terms, the Company attracts deposits through advertising, readily accessible office locations and the quality of its customer service.

EMPLOYEES

At January 31, 1994, the Company had 1,007 active employees (this includes both full-time and part-time employees with full-time equivalents of 940), none of whom were represented by a collective bargaining group. Management believes that it maintains good relations with its employees. Employees are provided with retirement, 401(k) and other benefits, including life, medical, dental, vision insurance and short and long-term disability insurance. However, the Company is exploring various alternatives to the existing plans to reduce the total cost, which may include reducing future benefits accruing to employees.

Employees severely affected by the January 1994 Northridge Earthquake were provided with access to additional time off, salary advances, favorable short-term loans and alternate living arrangements. The total cost of these programs is not expected to be material.

TAXATION

The Company files a consolidated federal income tax return on a calendar year basis. For federal income tax purposes, the maximum rate of tax applicable to savings institutions is currently 35% for taxable income over $10 million.

Savings institutions are generally subject to federal taxation in the same manner as other types of corporations. However, under applicable provisions of the Internal Revenue Code, savings institutions that meet certain definitional and other tests ("qualifying institutions") can, unlike most other corporations, use the reserve (versus specific charge-off) method to compute their deduction for bad debt losses.

Under the reserve method, qualifying associations are generally allowed to use either of two alternative computations. Under the "percentage of taxable income method" computation, qualifying institutions can claim a bad debt deduction computed as a percentage of taxable income before such deduction. Alternatively, a qualifying association may elect to utilize its own bad debt loss experience to compute its annual addition to its bad debt reserves (the "experience method").

Prior to the enactment of the Tax Reform Act of 1986 ("1986 Act"), many qualifying institutions, including the Bank, used the percentage of taxable income method which generally resulted in a lower effective federal income tax rate than that applicable to other types of corporations. However, the 1986 Act reduced the maximum percent that could be deducted under the percentage of taxable income method from 40% to 8% for tax years beginning after December 31, 1986; thus many qualifying institutions, including the Bank, began to use the experience method beginning in 1987. The amount by which a qualifying institution's total bad debt reserves exceed the amount computed under the experience method ("excess tax bad debt reserves") may be subject to recapture tax as noted below.

On December 31, 1993, the bad debt reserves of the Bank for federal income tax purposes included $14.0 million representing excess tax bad debt reserves. If, in the future, amounts appropriated to these excess tax bad debt reserves are used for the payment of dividends or other distributions by the Bank (including distributions in dissolution, liquidation or redemption of stock), an amount equal to the distribution plus the tax attributable thereto, but not exceeding the aggregate amount of excess tax bad debt reserves, will generally be included in the Bank's taxable income and be subject to tax. In addition, if in the future the Bank fails to meet the definitional or other tests of a qualifying association, the entire tax bad debt reserves of $52.5 million will have to be recaptured and included in taxable income. It is not contemplated that the accumulated reserves will be used in a manner that will create such liabilities.

The Company's tax returns have been audited by the Internal Revenue Service through December 31, 1987 and by the California Franchise Tax Board through December 31, 1985. The tax returns filed for 1986, 1987 and 1988 are currently under audit by the California Franchise Tax Board. The tax returns for years ended 1988 and 1989 are currently in the appeals process with the Internal Revenue Service. In addition, the Internal Revenue Service is currently auditing the tax returns filed for 1990 and 1991. For additional information regarding the federal income and California franchise taxes payable by the Company, see Note 12 to the consolidated financial statements.

For California franchise tax purposes, savings institutions are taxed as "financial corporations" at a higher rate than that applicable to nonfinancial corporations because of exemptions from certain state and local taxes. The California franchise tax rate applicable to financial corporations is approximately 11%.

REGULATION AND SUPERVISION

General

Citadel is a savings and loan holding company subject to regulation by the OTS. Fidelity is a federally-chartered savings bank, a member of the Federal Home Loan Bank of San Francisco, and is subject to regulation by the OTS and the FDIC. Fidelity's deposits are insured by the FDIC through the Savings Association Insurance Fund ("SAIF"). As described in more detail below, statutes and regulations applicable to Citadel govern such matters as changes of control of Citadel and transactions between Fidelity and Citadel. Statutes and regulations applicable to Fidelity govern such matters as the amount of capital Fidelity must hold; dividends, mergers and changes of control; establishment and closing of branch offices; and the investments and activities in which Fidelity can engage.

Citadel and Fidelity are subject to the examination, supervision and reporting requirements of the OTS, their primary federal regulator, including a requirement for Fidelity of at least one full scope, on-site examination every year. The Director of the OTS is authorized to impose assessments on Fidelity to fund OTS operations, including the cost of examinations. Fidelity is also subject to examination and supervision by the FDIC, and the FDIC has "back-up" authority to take enforcement action against Fidelity if the OTS fails to take such action after a recommendation by the FDIC. The FDIC may impose assessments on Fidelity to cover the cost of FDIC examinations. In addition, Fidelity is subject to regulation by the Board of Governors of the Federal Reserve System ("FRB") with respect to certain aspects of its business.

FIRREA Capital Requirements

The OTS's capital regulations, as required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), include three separate minimum capital requirements for the savings institution industry--a "tangible capital requirement," a "leverage limit" and a "risk-based capital requirement." These capital standards must be no less stringent than the capital standards applicable to national banks. The OTS also has the authority, after giving the affected institution notice and an opportunity to respond, to establish individual minimum capital requirements ("IMCR") for a savings institution which are higher than the industry minimum requirements, upon a determination that an IMCR is necessary or appropriate in light of the institution's particular circumstances, such as if the institution is expected to have losses resulting in capital inadequacy, has a high degree of exposure to credit risk, or has a high amount of nonperforming loans. The OTS has proposed a regulation that would add to the list of circumstances in which an IMCR may be appropriate for a savings association the following: a high degree of exposure to concentration of credit risk or risks arising from nontraditional activities, or failure to adequately monitor and control the risks presented by concentration of credit and nontraditional activities.

The industry minimum capital requirements are as follows:

Tangible capital of at least 1.5% of adjusted total assets. Tangible capital is composed of (1) an institution's common stock, perpetual noncumulative preferred stock, and related earnings, and (2) the amount, if any, of equity investment by others in the institution's subsidiaries, after deducting (a) intangible assets other than purchased mortgage servicing rights, and (b) the institution's investments in and extensions of credit to subsidiaries engaged as principal in activities not permissible for national banks, net of any reserves established against such investments, subject to a phase-out ending July 1, 1996 rather than a deduction for the amount of investments made or committed to be made prior to April 12, 1989. In general, adjusted total assets equal the institution's consolidated total assets, minus any assets that are deducted in calculating capital.

Core capital of at least 3% of adjusted total assets (the "leverage limit"). Core capital consists of tangible capital plus (1) goodwill resulting from pre-April 12, 1989 acquisitions of troubled savings institutions, subject to a phase-out ending December 31, 1994; and (2) certain marketable intangible assets, such as core deposit premium (the premium paid for acquisition of deposits from other institutions). Deferred tax assets whose realization depends on the institution's future taxable income (exclusive of income attributable to reversing taxable temporary differences and carry forwards) or on the institution's tax-planning strategies must be deducted from core capital to the extent that such assets exceed the lesser of (1) 10% of core capital, or (2) the amount of such assets that can be realized within one year, unless such assets were reportable as of December 31, 1992, in which case no deduction is required.

The OTS has recently adopted a regulation effective March 4, 1994 with respect to the inclusion of intangible assets in regulatory capital. Under this regulation, purchased mortgage servicing rights will generally be includible in tangible and core capital, and purchase credit card relationships will generally be includible in core capital, as long as they do not exceed 50% of core capital in the aggregate, with a separate sublimit of 25% for purchased credit card relationships. All other intangible assets, including, core deposit premium, will generally have to be deducted. Core deposit intangible in existence on March 4, 1994, however, may continue to be included in core capital to the extent permitted by the OTS, as long as the premium is valued in accordance with GAAP, supported by credible assumptions, and its amortization is adjusted at least annually. At December 31, 1993, Fidelity included $2.1 million of core deposit premium in core capital. Fidelity anticipates that such $2.1 million in core deposit premium will continue to be includible in core capital after March 4, 1994.

Total capital of at least 8% of risk-weighted assets (the "risk-based capital requirement"). Total capital includes both core capital and "supplementary" capital items deemed less permanent than core capital, such as subordinated debt and general loan loss allowances (subject to certain limits), but equity investments (with the exception of investments in subsidiaries and investments permissible for national banks) and portions of certain high-risk land loans and nonresidential construction loans must be deducted from total capital, subject to a phase-out rather than a deduction until July 1, 1994. At least half of total capital must consist of core capital.

Risk-weighted assets are determined by multiplying each category of an institution's assets, including off balance sheet asset equivalents, by an assigned risk weight based on the credit risk associated with those assets, and adding the resulting sums. The four risk weight categories range from zero percent for cash and government securities to 100% for assets (including past-due loans and real estate owned) that do not qualify for preferential risk-weighting.

Effective September 30, 1994, institutions that are deemed to have above-normal exposure to interest-rate risk, based on their assets and liabilities as of the end of the third quarter prior to the measuring date, will be required to deduct from their total capital an amount equal to 50% of the excess risk. If this requirement had been in effect at December 31, 1993, based on its assets and liabilities as of March 31, 1993, Fidelity would not have been deemed to have above-normal exposure to interest-rate risk.

On March 18, 1994, the OTS published a final regulation effective on that date that permits a loan secured by multifamily residential property, regardless of the number of units, to be risk-weighted at 50% for purposes of the risk-based capital standards if the loan meets specified criteria relating to the term of the loan, timely payments of interest and principal, loan-to-value ratio and ratio of net operating income to debt service requirements. Under the prior regulation, only loans secured by multifamily residential properties consisting of 5 to 36 units were eligible for risk-weighting at 50%, and then only if such loans had a loan-to-value ratio at origination of not more than 80% and the collateral property had an average annual occupancy rate of at least 80% for a year or more. Based upon the results of Fidelity's annual survey, management believes that at December 31, 1993, at which time the prior rule was still in effect, approximately 85% of Fidelity's portfolio of loans secured by multifamily residences with 5 to 36 units qualified for 50% risk-weighting.

Any loans that qualified for risk-weighting under the prior regulation as of March 18, 1994 will be "grandfathered" and will continue to be risk-weighted at 50% as long as they continue to meet the criteria of the prior regulation. Thus occupancy rates, which recently have been decreasing generally, will continue to affect the risk-weighting of such grandfathered multifamily loans unless such loans qualify for 50% risk-weighting under the criteria of the new rule, which criteria do not include an occupancy requirement.

Under the prior rule, loans secured by multifamily residential properties with more than 36 units were required to be risk-weighted at 100% even if they met the loan-to-value and occupancy criteria applicable to loans secured by 5 to 36 unit properties. As of December 31, 1993, Fidelity held $406.3 million in loans secured by multifamily residential properties with 37 or more units, some of which qualify under the criteria of the new regulation for 50% risk-weighting. Therefore, Fidelity's risk-based capital ratio could increase. However, some of Fidelity's existing loans secured by 5 to 36 unit residential properties could increase in risk-weighting from 50% to 100% if they fail to qualify for grandfathering and if they do not meet the additional criteria of the new rule, which would have a negative effect on Fidelity's risk-based capital ratio. The ultimate impact on Fidelity of the new regulation has not been determined.

Fidelity exceeded all three of the industry minimum capital requirements at December 31, 1993, with a tangible capital ratio of 4.10%, a core capital ratio of 4.15%, and a risk-based capital ratio of 9.32%. A discussion of Fidelity's compliance with the industry minimum requirements appears in Item 7. "MD&A--Capital Resources and Liquidity." Savings institutions that do not meet the industry minimum capital requirements are subject to a number of sanctions similar to but less restrictive than the sanctions under the FDICIA Prompt Corrective Action system described below, and to a requirement that the OTS be notified of any changes in Fidelity's directors or senior executive officers.

FDICIA Prompt Corrective Action Requirements

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") required the OTS to implement a system requiring regulatory sanctions against institutions that are not adequately capitalized, with the sanctions growing more severe the lower the institution's capital. The OTS was required to and has established specific capital ratios for five separate capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized."

Under the OTS regulations implementing FDICIA, an institution is treated as well capitalized if its ratio of total capital to risk-weighted assets is at least 10.0%, its ratio of core capital to risk-weighted assets is at least 6.0%, its ratio of core capital to adjusted total assets is at least 5.0%, and it is not subject to any order or directive by the OTS to meet a specific capital level. An institution will be adequately capitalized if its ratio of total capital to risk-weighted assets is at least 8.0%, its ratio of core capital to risk-weighted assets is at least 4.0%, and its ratio of core capital to adjusted total assets (leverage ratio) is at least 4.0% (3.0% if the institution receives the highest rating on the MACRO financial institutions rating system). The OTS has stated that it intends to lower the leverage ratio requirement to 3.0% for all savings institutions after September 30, 1994, when the interest rate risk component of its capital regulations goes into effect. The OTS' reduction of the leverage ratio requirement may depend on obtaining agreement of the other federal banking agencies to such a reduction, and no assurances can be given that the reduction will occur.

An institution whose capital does not meet the amounts required in order to be adequately capitalized will be treated as undercapitalized. If an undercapitalized institution's capital ratios are less than 6.0%, 3.0%, or 3.0% respectively, it will be treated as significantly undercapitalized. Finally, an institution will be treated as critically undercapitalized if its ratio of "tangible equity" (core capital plus cumulative preferred stock minus intangible assets other than supervisory goodwill and purchased mortgage servicing rights) to adjusted total assets is equal to or less than 2.0%.

At December 31, 1993 and to date, the Bank was and is classified as adequately capitalized. However, Citadel supplemented the Bank's capital in 1993 with two capital infusions totaling $28 million, without which the Bank would have had to significantly reduce its assets or the Bank's core capital ratio at December 31, 1993 would have fallen below 4% and the Bank would have been classified as undercapitalized. Management anticipates that the Bank will incur losses in the first and second quarters of 1994. These losses will, in the absence of a new capital infusion or a further reduction in the Bank's total assets, reduce the Bank's core capital ratio to less than 4% at June 30, 1994 and thereby render it undercapitalized. See "Recent Developments--Capital and Liquidity." Fidelity's capital category under the prompt corrective action system may not be an accurate representation of Fidelity's overall financial condition or prospects. A discussion of Fidelity's compliance with the industry minimum capital requirements and the standards of the prompt corrective action capital categories appears in Item 7. "MD&A--Capital Resources and Liquidity."

An institution's capital category is based on its capital levels as of the most recent of the following dates: (1) the date the institution's most recent quarterly Thrift Financial Report ("TFR") was required to be filed with the OTS; (2) the date the institution received from the OTS its most recent final report of examination; or (3) the date the institution received written notice from the OTS of the institution's capital category. If subsequent to the most recent TFR or report of examination a material event has occurred that would cause the institution to be placed in a lower capital category, the institution must provide written notice to the OTS within 15 days, and the OTS shall determine whether to change the association's capital category.

Mandatory Sanctions Tied to Prompt Corrective Action Capital Categories

Capital Restoration Plan. An institution that is undercapitalized must submit a capital restoration plan to the OTS within 45 days after becoming undercapitalized. The capital restoration plan must specify the steps the institution will take to become adequately capitalized, the levels of capital the institution will attain while the plan is in effect, the types and levels of activities the institution will conduct, and such other information as the OTS may require. The OTS must act on the capital restoration plan expeditiously, and generally not later than 60 days after the plan is submitted.

The OTS may approve a capital restoration plan only if the OTS determines that the plan is likely to succeed in restoring the institution's capital and will not appreciably increase the risks to which the institution is exposed. In addition, the OTS may approve a capital restoration plan only if the institution's performance under the plan is guaranteed by every company that controls the institution, up to the lesser of (a) 5% of the institution's total assets at the time the institution became undercapitalized, or (b) the amount necessary to bring the institution into compliance with all capital standards as of the time the institution fails to comply with its capital restoration plan. Such guarantee must remain in effect until the institution has been adequately capitalized for four consecutive quarters, and the controlling company or companies must provide the OTS with appropriate assurances of their ability to perform the guarantee. If the controlling company guarantee is not acceptable, the OTS may treat the "undercapitalized" institution as "significantly undercapitalized." There are additional restrictions which are applicable to "significantly undercapitalized" institutions which are described below.

Limits on Expansion. An institution that is undercapitalized, even if its capital restoration plan has been approved, may not acquire an interest in any company, open a new branch office, or engage in a new line of business unless the OTS determines that such action would further the implementation of the institution's capital plan or the FDIC approves the action. An undercapitalized institution also may not increase its average total assets during any quarter except in accordance with an approved capital restoration plan.

Capital Distributions. With one exception, an undercapitalized savings institution generally may not pay any dividends or make other capital distributions. Under the exception, the OTS may permit, after consultation with the FDIC, repurchases or redemptions of the institution's shares that are made in connection with the issuance of additional shares to improve the institution's financial condition. Undercapitalized institutions also may not pay management fees to any company or individual that controls the institution. Similarly, an adequately capitalized institution may not make a capital distribution or pay a management fee to a controlling person if such payment would cause the institution to become undercapitalized.

Brokered Deposits and Benefit Plan Deposits. An undercapitalized savings institution cannot accept, renew, or rollover deposits obtained through a deposit broker, and may not solicit deposits by offering interest rates that are more than 75 basis points higher than market rates. Savings institutions that are adequately capitalized but not well capitalized must obtain a waiver from the FDIC in order to accept, renew, or rollover brokered deposits, and even if a waiver is granted may not solicit deposits, through a broker or otherwise, by offering interest rates that exceed market rates by more than 75 basis points.

Institutions that are ineligible to accept brokered deposits can only offer FDIC insurance coverage for employee benefit plan deposits up to $100,000 per plan, rather than $100,000 per plan participant, unless, at the time such deposits are accepted, the institution meets all applicable capital standards and certifies to the benefit plan depositor that its deposits are eligible for coverage on a per-participant basis.

Restrictions on Significantly and Critically Undercapitalized Institutions. In addition to the above mandatory restrictions which apply to all undercapitalized savings institutions, institutions that are significantly undercapitalized may not without the OTS's prior approval (a) pay a bonus to any senior executive officer, or (b) increase any senior executive officer's compensation over the average rate of compensation (excluding bonuses, options and profit-sharing) during the 12 months preceding the month in which the institution became undercapitalized. The same restriction applies to undercapitalized institutions that fail to submit or implement an acceptable capital restoration plan.

If a savings institution is critically undercapitalized, the institution is also prohibited from making payments of principal or interest on subordinated debt beginning sixty days after the institution becomes critically undercapitalized, unless the FDIC permits such payments or the subordinated debt was outstanding on July 15, 1991 and has not subsequently been extended or renegotiated. In addition, the institution cannot without prior FDIC approval enter into any material transaction outside the ordinary course of business. Critically undercapitalized savings institutions must be placed in receivership or conservatorship within 90 days of becoming critically undercapitalized unless the OTS, with the concurrence of the FDIC, determines that some other action would better resolve the problems of the institution at the least possible long-term loss to the insurance fund, and documents the reasons for its determination. A determination by the OTS not to place a critically undercapitalized institution in conservatorship or receivership must be reviewed every 90 days. If the institution remains critically undercapitalized on average during the calendar quarter beginning 270 days after it became critically undercapitalized, the findings which the OTS must make regarding the viability of the institution in order to avoid the appointment of a conservator or receiver become more stringent.

Discretionary Sanctions Tied to Prompt Corrective Action Capital Categories

Operating Restrictions. With respect to an undercapitalized institution, the OTS will, if it deems such actions necessary to resolve the institution's problems at the least possible loss to the insurance fund, have the explicit authority to: (a) order the institution to recapitalize by selling shares of capital stock or other securities; (b) order the institution to agree to be acquired by another depository institution holding company or combine with another depository institution; (c) restrict transactions with affiliates; (d) restrict the interest rates paid by the institution on new deposits to the prevailing rates of interest in the region where the institution is located; (e) require reduction of the institution's assets; (f) restrict any activities that the OTS determines pose excessive risk to the institution; (g) order a new election of directors; (h) order the institution to dismiss any director or senior executive officer who held office for more than 180 days before the institution became undercapitalized, subject to the director's or officer's right to obtain administrative review of the dismissal; (i) order the institution to employ qualified senior executive officers subject to the OTS's approval;

(j) prohibit the acceptance of deposits from correspondent depository institutions; (k) require the institution to divest any subsidiary or the institution's holding company to divest the institution or any other subsidiary; or (l) take any other action that the OTS determines will better resolve the institution's problems at the least possible loss to the deposit insurance fund.

If an institution is significantly undercapitalized, or if it is undercapitalized and its capital restoration plan is not approved or implemented within the required time periods, the OTS must take one or more of the above actions, and must take the actions described in clauses (a) or (b), (c) and (d) above unless it finds that such actions would not resolve the institution's problems at the least possible loss to the deposit insurance fund. The OTS also may prohibit the institution from making payments on any outstanding subordinated debt or entering into material transactions outside the ordinary course of business without the OTS's prior approval.

The OTS' determination to order one or more of the above discretionary actions will be evidenced by a written directive to the institution, and the OTS will generally issue a directive only after giving the institution prior notice and an opportunity to respond. The period for response shall be at least 14 days unless the OTS determines that a shorter period is appropriate based on the circumstances. The OTS, however, may issue a directive without providing any prior notice if the OTS determines that such action is necessary to resolve the institution's problems at the least possible loss to the deposit insurance fund. In such a case, the directive will be effective immediately, but the institution may appeal the directive to the OTS within 14 days.

Receivership or Conservatorship. In addition to the mandatory appointment of a conservator or receiver for critically undercapitalized institutions, described above, the OTS or FDIC may appoint a receiver or conservator for an institution if the institution is undercapitalized and (a) has no reasonable prospect of becoming adequately capitalized, (b) fails to submit a capital restoration plan within the required time period, or (c) materially fails to implement its capital restoration plan. FDICIA provides that directors of an FDIC-insured depository institution will have no liability to the institution's stockholders or creditors if they consent in good faith to the appointment of a conservator or receiver or to an FDIC-assisted sale of the institution.

Down-grading to Lower Capital Category. The OTS can apply to an institution in a particular capital category the sanctions that apply to the next lower capital category, if the OTS determines, after providing the institution notice and opportunity for a hearing, that (a) the institution is in an unsafe or unsound condition, or (b) the institution received, in its most recent report of examination, a less-than-satisfactory rating for asset quality, management, earnings or liquidity, and the deficiency has not been corrected. The OTS cannot, however, use this authority to require an adequately capitalized institution to file a capital restoration plan, or to subject a significantly undercapitalized institution to the sanctions applicable to critically undercapitalized institutions.

Expanded Regulatory Authority Under FDICIA

In addition to the prompt corrective action provisions discussed above based on an institution's regulatory capital ratios, FDICIA contains several measures intended to promote early identification of management problems at depository institutions and to ensure that regulators intervene promptly to require corrective action by institutions with inadequate operational and managerial standards.

Safety and Soundness Standards. FDICIA requires the OTS to prescribe minimum acceptable operational and managerial standards, and standards for asset quality, earnings, and valuation of publicly traded shares, for savings institutions and their holding companies. Such standards were to be effective no later than December 1, 1993, but have not yet been finalized. The operational standards must cover internal controls, loan documentation, credit underwriting, interest rate exposure, asset growth, and employee compensation. The asset quality and earnings standards must specify a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, and minimum ratio of market value to book value for publicly traded shares.

Any institution or holding company that fails to meet the standards must submit a plan for corrective action within 30 days. If a savings institution fails to submit or implement an acceptable plan, the OTS must order it to correct the safety and soundness deficiency, and may restrict its rate of asset growth, prohibit asset growth entirely, require the institution to increase its ratio of tangible equity to assets, restrict the interest rate paid on deposits to the prevailing rates of interest on deposits of comparable amounts and maturities, or require the institution to take any other action that the OTS determines will better carry out the purpose of prompt corrective action. Imposition of these sanctions is within the discretion of the OTS in most cases but is mandatory if the savings institution commenced operations or experienced a change in control during the 24 months preceding the institution's failure to meet the safety and soundness standards, or underwent extraordinary growth during the preceding 18 months.

The OTS and the other federal banking agencies have jointly published a proposed regulation prescribing the required safety and soundness standards. Among other things, the proposed regulation would set out asset quality standards which specify that the ratio of a depository institution's classified assets to the sum of(a) its total capital and (b) any allowances for loan losses not included in total capital should not exceed 100%. Minimum earnings standards would require that institutions be able to demonstrate pro forma compliance with capital requirements if net earnings or losses over the preceding four quarters continue over the next four quarters. If the proposed safety and soundness standards had been in effect at December 31, 1993, Fidelity would not have been in compliance with the minimum earnings standard or the maximum ratio of classified assets to capital standard and would have been required to submit a plan for corrective action.

Under the proposed regulation, the safety and soundness standards would apply primarily at the savings institution level, and savings and loan holding companies such as Citadel would only be required (a) to ensure that their transactions with a subsidiary savings institution are not detrimental to the institution, (b) to avoid creating a serious risk that the holding company's liabilities would be imposed on the institution, (c) not to take any action that would impede the institution's compliance with the safety and soundness standards, and (d) if the subsidiary institution is required to submit a plan for corrective action, to take any corporate actions necessary to enable the subsidiary to take the actions required by the plan.

Expanded Requirements Relating to Internal Controls. Each depository institution with assets above a specified threshold (which the FDIC has set at $500 million and which therefore includes Fidelity) must prepare an annual report, signed by the chief executive officer and chief financial officer, on the effectiveness of the institution's internal control structures and procedures for financial reporting, and on the institution's compliance with laws and regulations relating to safety and soundness. The institution's independent public accountant must attest to, and report separately on, management's assertions in the annual report. The report and the attestation, along with financial statements and such other disclosure requirements as the FDIC and the OTS may prescribe, must be submitted to the FDIC and OTS and will be available to the public.

Every institution with assets above the $500 million threshold must also have an audit committee of its Board of Directors made up entirely of directors who are independent of the management of the institution. Fidelity is in compliance with this requirement. Audit committees of "large" institutions (defined by the FDIC as an institution with more than $3 billion in assets, which includes Fidelity) must include members with banking or financial management expertise, may not include members who are large customers of the institution, and must have access to independent counsel.

Activities Restrictions Not Related to Capital Compliance

Qualified Thrift Lender Test. The qualified thrift lender ("QTL") test requires that, in at least nine out of every twelve months, at least 65% of a savings bank's "portfolio assets" must be invested in a limited list of qualified thrift investments, primarily investments related to housing loans. If Fidelity fails to satisfy the QTL test and does not requalify as a QTL within one year, Citadel must register and be regulated as a bank holding company, and Fidelity must either convert to a commercial bank charter or become subject to restrictions on branching, business activities and dividends as if it were a national bank.

Portfolio assets consist of tangible assets minus (a) assets used to satisfy liquidity requirements, and(b) property used by the institution to conduct its business. Assets that may be counted as qualified thrift investments without limit include residential mortgage and construction loans; home improvement and repair loans; mortgage-backed securities; home equity loans; Federal Savings and Loan Insurance Corporation ("FSLIC"), FDIC, Resolution Funding Corporation and Resolution Trust Corporation obligations; and FHLB stock.

Assets includable subject to an aggregate maximum of 20% of portfolio assets include Federal National Mortgage Association and Federal Home Loan Mortgage Corporation stock; investments in residential housing-oriented subsidiaries; consumer and education loans up to a maximum of 10% of portfolio assets; 200% of loans for development of low-income housing; 200% of certain community development loans; loans to construct, purchase or maintain churches, schools, nursing homes and hospitals; and 50% of any residential mortgage loans originated by the institution and sold during the month for which the QTL calculation is made, if such loans were sold within 90 days of origination. At December 31, 1993, 89.8% of Fidelity's portfolio assets constituted qualified thrift investments.

Investments and Loans. In general, federal savings institutions such as Fidelity may not invest directly in equity securities, noninvestment grade debt securities, or real estate, other than real estate used for the institution's offices and related facilities. Indirect equity investment in real estate through a subsidiary is permissible, but subject to limitations based on the amount of the institution's assets, and the institution's investment in such a subsidiary must be deducted from regulatory capital in full or (for certain subsidiaries owned by the institution prior to April 12, 1989) phased out of capital by no later than July 1, 1996.

Loans by a savings institution to a single borrower are generally limited to 15% of the institution's "unimpaired capital and unimpaired surplus," which is similar but not identical to total capital. At December 31, 1993, the largest Fidelity borrower had a total outstanding balance of $31.5 million or 10.1% of unimpaired capital and unimpaired surplus. Aggregate loans secured by nonresidential real property are generally limited to 400% of the institution's total capital. Commercial loans may not exceed 10% of Fidelity's total assets, and consumer loans may not exceed 35% of Fidelity's total assets. At December 31, 1993, Fidelity was in compliance with the above investment limits.

Activities of Subsidiaries. A savings institution seeking to establish a new subsidiary, acquire control of an existing company or conduct a new activity through an existing subsidiary must provide 30 days prior notice to the FDIC and OTS. A subsidiary of Fidelity may be able to engage in activities that are not permissible for Fidelity directly, if the OTS determines that such activities are reasonably related to Fidelity's business, but Fidelity may be required to deduct its investment in such a subsidiary from capital. The OTS has the power to require a savings institution to divest any subsidiary or terminate any activity conducted by a subsidiary that the OTS determines to be a serious threat to the financial safety, soundness or stability of such savings institution or to be otherwise inconsistent with sound banking practices.

Real Estate Lending Standards. The OTS and the other federal banking agencies have adopted regulations, effective March 19, 1993, which require institutions to adopt and at least annually review written real estate lending policies. The lending policies must include diversification standards, underwriting standards (including loan-to-value limits), loan administration procedures, and procedures for monitoring compliance with the policies. The policies must reflect consideration of guidelines adopted by the banking agencies. Among the guidelines adopted by the agencies are maximum loan-to-value ratios for land loans (65%); development loans (75%); construction loans (80%-85%); loans on owner-occupied 1 to 4 family property, including home equity loans (no limit, but loans at or above 90% require private mortgage insurance); and loans on other improved property (85%).

The guidelines permit institutions to make loans in excess of the supervisory loan-to-value limits if such loans are supported by other credit factors, but the aggregate of such nonconforming loans should not exceed the institution's risk-based capital, and the aggregate of nonconforming loans secured by real estate other than 1 to 4 family property should not exceed 30% of risk-based capital. Fidelity believes that its current lending policies and practices are consistent with the guidelines.

Additional Regulatory Restrictions. As a result of its findings in a recent examination of Fidelity, the OTS has taken action that will result in Fidelity's being subjected to higher examination assessments and subjects Fidelity to additional regulatory restrictions including, but not limited to (a) a requirement that Fidelity submit to the OTS for prior approval any changes in its board of directors or senior executive officers and any proposed employment contracts with a director or senior officer; (b) a prohibition, absent prior OTS approval, on increases in Fidelity's total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter; (c) a requirement that Fidelity submit to the OTS for prior review and approval any third party contracts outside the normal course of business; and (d) the OTS would have the ability, in its discretion, to require 30 days' prior notice of all transactions between Fidelity and its affiliates (including Citadel and Gateway). See "Recent Developments--OTS Examinations."

Deposit Insurance

General. Fidelity's deposits are insured by the FDIC to a maximum of $100,000 for each insured depositor. Under FIRREA, the FDIC administers two separate deposit insurance funds: the Bank Insurance Fund (the "BIF") which insures the deposits of institutions that were insured by the FDIC prior to FIRREA, and the SAIF which maintains a fund to insure the deposits of institutions, such as Fidelity, that were insured by the FSLIC prior to FIRREA.

Insurance Premium Assessments. The Federal Deposit Insurance Corporation Improvement Act of 1991 directed the FDIC to establish by January 1, 1994, a risk-based system for setting deposit insurance assessments. The FDIC has implemented such a system, under which an institution's insurance assessments will vary depending on the level of capital the institution holds and the degree to which it is the subject of supervisory concern to the FDIC. Under the FDIC's system, the assessment rate for both BIF deposits and SAIF deposits varies from 0.23% of covered deposits for well-capitalized institutions that are deemed to have no more than a few minor weaknesses, to 0.31% of covered deposits for less than adequately capitalized institutions that pose substantial supervisory concern. The FDIC in the future may determine to change the assessment rates, or the parity of BIF and SAIF rates, based on the condition of the BIF and the SAIF.

Under current law, the SAIF has three major obligations: beginning in 1995, to fund losses associated with the failure of institutions with SAIF-insured deposits; to increase its reserves to 1.25% of insured deposits over a reasonable period of time; and to make interest payments on debt incurred to provide funds to the former Federal Savings and Loan Insurance Corporation ("FICO debt"). The reserves of the SAIF are currently lower than the reserves of the BIF, and the BIF does not have an obligation to pay interest on FICO debt. Recent legislation authorizes the United States Treasury to provide up to $8 billion to the SAIF, but use of such funds would require additional Congressional action, and the funds could be used only to cover SAIF losses and only under limited circumstances. Therefore, in the future premiums assessed on deposits insured by the SAIF may be higher than premiums on deposits insured by the BIF. Such a premium structure could provide institutions whose deposits are exclusively or primarily BIF-insured (such as almost all commercial banks) certain competitive advantages over institutions whose deposits are SAIF-insured (such as Fidelity) in the pricing of loans and deposits and in lower operating costs. Such a competitive disadvantage could have an adverse effect on Fidelity's results of operations.

Termination of Deposit Insurance. The FDIC may initiate a proceeding to terminate an institution's deposit insurance if, among other things, the institution is in an unsafe or unsound condition to continue operations. It is the policy of the FDIC to deem an insured institution to be in an unsafe or unsound condition if its ratio of Tier 1 capital to total assets is less than 2%. Tier 1 capital is similar to core capital but includes certain investments in and extensions of credit to subsidiaries engaged in activities not permitted for national banks.

Conversion of Deposit Insurance. Generally, savings institutions may not convert from SAIF membership to BIF membership until SAIF has increased its reserves to 1.25% of insured deposits. However, a savings institution may convert to a bank charter, if the resulting bank remains a SAIF member, and may merge with a BIF member institution as long as deposits attributable to the savings institution remain subject to assessment by the SAIF. Institutions that convert from SAIF to BIF membership, either under an exception during the moratorium or after expiration of the moratorium, must pay exit fees to SAIF and entrance fees to BIF.

Savings and Loan Holding Company Regulation

Affiliate and Insider Transactions. The ability of Citadel and its non-depository subsidiaries to deal with Fidelity is limited by the affiliate transaction rules, including Sections 23A and 23B of the Federal Reserve Act which also govern BIF-insured banks. With very limited exceptions, these rules require that all transactions between Fidelity and an affiliate must be on arms' length terms. The term "affiliate" covers any company that controls or is under common control with Fidelity, but does not include individuals and generally does not include Fidelity's subsidiaries.

Under Section 23A and section 11 of the Home Owners' Loan Act, specific restrictions apply to transactions in which Fidelity provides funding to its affiliates: Fidelity may not purchase the securities of an affiliate, make a loan to any affiliate that is engaged in activities not permissible for a bank holding company, or acquire from an affiliate any asset that has been classified, a nonaccrual loan, a restructured loan, or a loan that is more than 30 days past due. As to affiliates engaged in bank holding company-permissible activities, the aggregate of (a) loans, guarantees, and letters of credit provided by the savings bank for the benefit of any one affiliate, and (b) purchases of assets by the savings bank from the affiliate, may not exceed 10% of the savings bank's capital stock and surplus (20% for the aggregate of permissible transactions with all affiliates). All loans to affiliates must be secured by collateral equal to at least 100% of the amount of the loan (130% if the collateral consists of equity securities, leases or real property).

In addition, OTS regulations on affiliate transactions require, among other things, that savings institutions retain records of their affiliate transactions that reflect such transactions in reasonable detail. If a savings institution has been the subject of a change of control application or notice within the preceding two-year period, does not meet its minimum capital requirements, has entered into a supervisory agreement, is subject to a formal enforcement proceeding, or is determined by the OTS to be the subject of supervisory concern, the institution may be required to provide the OTS with 30 days' prior notice of any affiliate transaction.

Loans by Fidelity to its directors, executive officers, and 10% stockholders of Fidelity, Citadel, or Citadel's subsidiaries (collectively, "insiders"), or to a corporation or partnership that is at least 10% owned by an insider (a "related interest") are subject to limits separate from the affiliate transaction rules. However, a company (such as Citadel) that controls a savings institution is excluded from the coverage of the insider lending rules even if it owns 10% or more of the stock of the institution, and is subject only to the affiliate transaction rules. All loans to insiders and their related interests must be underwritten and made on non-preferential terms; loans in excess of $500,000 must be approved in advance by Fidelity's Board of Directors; and Fidelity's total of such loans may not exceed 100% of Fidelity's capital. Loans by Fidelity to its executive officers are subject to additional limits which are even more stringent. Fidelity has adopted a policy which requires prior approval of its Board of Directors for any loans to insiders or their related interests.

Payment of Dividends and Other Capital Distributions. The payment of dividends, stock repurchases, and other capital distributions by Fidelity to Citadel is subject to regulation by the OTS. Currently, 30 days prior notice to the OTS of any capital distribution is required. The OTS has promulgated a regulation that measures a savings institution's ability to make a capital distribution according to the institution's capital position. The rule establishes "safe-harbor" amounts of capital distributions that institutions can make after providing notice to the OTS, but without needing prior approval. Institutions can distribute amounts in excess of the safe harbor only with the prior approval of the OTS.

For institutions ("Tier 1 institutions") that meet their fully phased-in capital requirements (the requirements that will apply when the phase-out of supervisory goodwill and investments in certain subsidiaries from capital is complete), the safe harbor amount is the greater of (a) 75% of net income for the prior four quarters, or (b) the sum of (1) the current year's net income and (2) the amount that would reduce the excess of the institution's total capital to risk-weighted assets ratio over 8% to one-half of such excess at the beginning of the year in which the dividend is paid. For institutions that meet their current minimum capital requirements but do not meet their fully phased-in requirements ("Tier 2 institutions"), the safe harbor distribution is 75% of net income for the prior four quarters. As a function of the prompt corrective action provisions discussed above and the OTS regulation regarding capital distributions, savings institutions that do not meet their current minimum capital requirements ("Tier 3 institutions") may not make any capital distributions, with the exception of repurchases or redemptions of the institution's shares permitted by the OTS, after consultation with the FDIC, that are made in connection with the issuance of additional shares and that will improve the institution's financial condition.

The OTS retains the authority to prohibit any capital distribution otherwise authorized under the regulation if the OTS determines that the distribution would constitute an unsafe or unsound practice. The OTS also may reclassify a Tier 1 institution as a Tier 2 or Tier 3 institution by notifying the institution that it is in need of more than normal supervision. While Fidelity was a Tier 1 institution at December 31, 1993, the OTS has taken action that could cause Fidelity to be reclassified as a Tier 2 or Tier 3 institution. Further, while Fidelity is currently classified as adequately capitalized for purposes of the prompt corrective action system, an adequately capitalized institution may not make a capital distribution if such payment would cause the institution to become undercapitalized. Because of Fidelity's current capital levels, dividends and distributions from Fidelity will not be available to Citadel for the foreseeable future.

On December 31, 1993, the bad debt reserves of the Bank for federal income tax purposes included $14.0 million representing excess tax bad debt reserves. If, in the future, amounts appropriated to these excess tax bad debt reserves are used for the payment of dividends or other distributions by the Bank (including distributions in dissolution, liquidation or redemption of stock), an amount equal to the distribution plus the tax attributable thereto, but not exceeding the aggregate amount of excess tax bad debt reserves, will generally be included in the Bank's taxable income and be subject to tax. In addition, if in the future the Bank fails to meet the definitional or other tests of a qualifying association, the entire tax bad debt reserves of $52.5 million will have to be recaptured and included in taxable income. It is not contemplated that the accumulated reserves will be used in a manner that will create such liabilities.

Enforcement. Whenever the OTS has reasonable cause to believe that the continuation by a savings and loan holding company of any activity or of ownership or control of any non FDIC-insured subsidiary constitutes a serious risk to the financial safety, soundness, or stability of a savings and loan holding company's subsidiary savings institution and is inconsistent with the sound operation of the savings institution, the OTS may order the holding company, after notice and opportunity for a hearing, to terminate such activities or to divest such noninsured subsidiary. FIRREA also empowers the OTS, in such a situation, to issue a directive without any notice or opportunity for a hearing, which directive may (a) limit the payment of dividends by the savings institution, (b) limit transactions between the savings institution and its holding company or its affiliates, and (c) limit any activity of the association that creates a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution.

In addition, FIRREA includes savings and loan holding companies within the category of person designated as "institution-affiliated parties." An institution-affiliated party may be subject to significant penalties and/or loss of voting rights in the event such party took any action for or toward causing, bringing about, participating in, counseling, or aiding and abetting a violation of law or unsafe or unsound practice by a savings institution.

Limits on Change of Control. Subject to certain limited exceptions, control of Fidelity or Citadel may only be obtained with the approval (or in the case of an acquisition of control by an individual, the nondisapproval) of the OTS, after a public comment and application review process. Under OTS regulations defining "control," a rebuttable presumption of control arises if an acquiring party acquires more than 10% of any class of voting stock of Fidelity or Citadel (or more than 25% of any class of stock, whether voting or non-voting) and is subject to any "control factors" as defined in the regulation. Control is conclusively deemed to exist if an acquirer holds more than 25% of any class of voting stock of Fidelity or Citadel, or has the power to control in any manner the election of a majority of directors.

Any company acquiring control of Fidelity or Citadel becomes a savings and loan holding company, must register and file periodic reports with the OTS, and is subject to OTS examination. With limited exceptions, a savings and loan holding company may not directly or indirectly acquire more than 5% of the voting stock of another savings and loan holding company or savings institution without prior OTS approval.

Notification of New Officers and Directors. A savings and loan holding company that has undergone a change in control in the preceding two years, is subject to a supervisory agreement with the OTS, or is deemed to be in "troubled condition" by the OTS, must give the OTS 30 days' notice of any change to its Board of Directors or its senior executive officers. The OTS must disapprove such change if the competence, experience or integrity of the affected individual indicates that it would not be in the best interests of the public to permit the appointment. The OTS has taken action as a result of which Fidelity is deemed to be in "troubled condition" for this purpose.

Classification of Assets

Savings institutions are required to classify their assets on a regular basis, to establish appropriate allowances for losses and report the results of such classification quarterly to the OTS. A savings institution is also required to set aside adequate valuation allowances to the extent that an affiliate possesses assets posing a risk to the institution, and to establish liabilities for off-balance sheet items, such as letters of credit, when loss becomes probable and estimable. The OTS has the authority to review the institution's classification of its assets and to determine whether and to what extent (a) additional assets must be classified, and (b) the institution's valuation allowances must be increased. See Item 7. "MD&A--Asset Quality."

Troubled assets are classified into one of three categories as follows:

SUBSTANDARD ASSETS. Prudent general valuation allowances are required to be established for such assets.

DOUBTFUL ASSETS. Prudent GVAs are required to be established for such assets.

LOSS ASSETS. 100% of the amount classified as loss must be charged off, or a specific allowance of 100% of the amount classified as loss must be established.

GVAs for loan and lease losses are included within regulatory capital for certain purposes and up to certain limits, while specific allowances and other general allowances are not included at all.

The OTS and the other federal banking agencies have adopted a statement of policy regarding the appropriate levels of GVA for loan and lease losses that institutions should maintain. Under the policy statement, examiners will generally accept management's evaluation of adequacy of GVAs for loans and lease losses if the institution has maintained effective systems and controls for identifying and addressing asset quality problems, analyzed in a reasonable manner all significant factors that affect the collectability of the portfolio, and established an acceptable process for evaluating the adequacy of GVAs. However, the policy statement also provides that OTS examiners will review management's analysis more closely if GVAs for loan and lease losses do not equal at least the sum of (a) 15% of assets classified as substandard, (b) 50% of assets classified as doubtful, and (c) for the portfolio of unclassified loans and leases, an estimate of credit losses over the upcoming twelve months based on the institution's average rate of net charge-offs over the previous two or three years on similar loans, adjusted for current trends and conditions. The GVA policy statement has had no material impact on Fidelity's results of operations or financial condition.

Community Reinvestment Act

The Community Reinvestment Act ("CRA") requires each savings institution, as well as other lenders, to identify the communities served by the institution's offices and to identify the types of credit the institution is prepared to extend within such communities. The CRA also requires the OTS to assess the performance of the institution in meeting the credit needs of its community and to take such assessment into consideration in reviewing applications for mergers, acquisitions, and other transactions. An unsatisfactory CRA rating may be the basis for denying such an application.

In connection with its assessment of CRA performance, the OTS assigns a rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance." Based on an examination conducted during 1993, Fidelity was rated satisfactory. The OTS and the other federal banking agencies have jointly proposed amendments to their CRA regulations that would replace the current assessment system, which is based on the adequacy of the processes an institution has established to comply with the CRA, with a new system based on the institution's performance in making loans and investments and maintaining branches in low- and moderate-income areas.

Federal Home Loan Bank System

The Federal Home Loan Banks provide a credit facility for member institutions. As a member of the FHLB of San Francisco, Fidelity is required to own capital stock in the FHLB of San Francisco in an amount at least equal to the greater of 1% of the aggregate principal amount of its unpaid home loans, home purchase contracts and similar obligations at the end of each calendar year, assuming for such purposes that at least 30% of its assets were home mortgage loans, or 5% of its advances from the FHLB of San Francisco. At December 31, 1993, Fidelity was in compliance with this requirement with an investment in the stock of the FHLB of San Francisco of $52.0 million. Long-term FHLB advances may be obtained only for the purpose of providing funds for residential housing finance and all FHLB advances must be secured by specific types of collateral.

Required Liquidity

OTS regulations require savings institutions to maintain, for each calendar month, an average daily balance of liquid assets (including cash, certain time deposits, bankers' acceptances, specified United States government, state and federal agency obligations, and balances maintained in satisfaction of the FRB reserve requirements described below) equal to at least 5% of the average daily balance of its net withdrawable accounts plus short-term borrowings during the preceding calendar month. The OTS may change this liquidity requirement from time to time to an amount within a range of 4% to 10% of such accounts and borrowings depending upon economic conditions and the deposit flows of member institutions, and may exclude from the definition of liquid assets any item other than cash and the balances maintained in satisfaction of FRB reserve requirements. Fidelity's average regulatory liquidity ratio for the month of December 1993 was 8.79%, and accordingly Fidelity was in compliance with the liquidity requirement. Monetary penalties may be imposed for failure to meet liquidity ratio requirements.

OTS regulations also require each member institution to maintain, for each calendar month, an average daily balance of short-term liquid assets (generally those having maturities of 12 months or less) equal to at least 1% of the average daily balance of its net withdrawable accounts plus short-term borrowings during the preceding calendar month. The average short-term liquidity ratio of Fidelity for the month of December 1993 was 5.70%.

Federal Reserve System

The FRB requires savings institutions to maintain noninterest-earning reserves against certain of their transaction accounts (primarily deposit accounts that may be accessed by writing unlimited checks) and non-personal time deposits. For the calculation period including December 31, 1993, Fidelity was required to maintain $28.6 million in noninterest-earning reserves and was in compliance with this requirement. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy Fidelity's liquidity requirements discussed above.

As a creditor and a financial institution, Fidelity is subject to certain regulations promulgated by the FRB, including, without limitation, Regulation B (Equal Credit Opportunity Act), Regulation D (Reserves), Regulation E (Electronic Funds Transfers Act), Regulation F (limits on exposure to any one correspondent depository institution), Regulation Z (Truth in Lending Act), Regulation CC (Expedited Funds Availability Act), and Regulation DD (Truth in Savings Act). As creditors of loans secured by real property and as owners of real property, financial institutions, including Fidelity, may be subject to potential liability under various statute and regulations applicable to property owners, generally including statutes and regulations relating to the environmental condition of the property.

Gateway

Gateway became an NASD-registered broker/dealer in October 1993 and offers securities products, such as mutual funds and variable annuities, to customers of the Bank. All securities transactions are executed and cleared by another broker/dealer. Gateway does not maintain security accounts for customers or perform custodial functions relating to customer securities.

The securities business is subject to regulation by the Securities and Exchange Commission ("SEC"), the NASD and other federal and state agencies. Regulatory violations can result in the revocation of broker/dealer licenses, the imposition of censures or fines and the suspension or expulsion from the securities business of a firm, its officers or employees. With the enactment of the Insider Trading and Securities Fraud Enforcement Act of 1988, the SEC and the securities exchanges have intensified their regulation of broker/dealers, emphasizing in particular the need for supervision and control by broker/dealers of their own employees.

As a broker/dealer registered with the NASD, Gateway is subject to the SEC's uniform net capital rules, designed to measure the general financial condition and liquidity of a broker/dealer. These rules require Gateway to maintain minimum net capital of $100,000 as of January 1, 1994 and do not permit Gateway's aggregate indebtedness to exceed eight times its net capital during its first twelve months of operations. At December 31, 1993, Gateway's net capital and required net capital were $579,929 and $52,000, respectively, and its ratio of aggregate indebtedness to net capital was .72 to 1. Under certain circumstances, these rules limit the ability of Citadel to make withdrawals of capital from Gateway. In addition, Gateway is required to file monthly reports with the NASD and quarterly and annual reports with the NASD and SEC containing detailed financial information with respect to its broker/dealer operations.

ITEM 2. PROPERTIES

The executive offices of Citadel and Fidelity are located at 600 N. Brand Boulevard, Glendale, California 91203. This facility contains approximately 90,000 square feet of office space including a branch banking facility of approximately 12,000 square feet. Fidelity also owns an approximately 130,000 square feet facility located at 4565 Colorado Boulevard, Los Angeles, California 90039, which houses most of the administrative operations of Citadel and Fidelity. Present local zoning entitlements will allow for the construction of an additional approximately 300,000 square feet of office space plus parking on this 7.75-acre parcel. The potential for increasing the amount of office space at this Los Angeles site would satisfy Fidelity's anticipated facilities requirements for future years.

The aggregate net book value of all owned administrative facilities was approximately $26.0 million as of December 31, 1993. On December 31, 1993, Fidelity owned 16 of its branch and/or loan office facilities having an aggregate net book value of approximately $9.4 million, and leased the remaining 26 of its branch and/or loan office facilities under leases with terms (including optional extension periods) expiring from 1994 through 2050. The aggregate annual rent under those leases as of December 31, 1993 was approximately$2.6 million and the aggregate net book value of Fidelity's leasehold improvements associated with those leased premises was approximately $1.9 million. At December 31, 1993, Fidelity owned furniture, fixtures and equipment, related to both owned and leased facilities, having a net book value of approximately$11.7 million.

As a result of the January 1994 Northridge Earthquake, physical damage was sustained at some of the Bank administrative and branch office facilities located in the Los Angeles area, however, only one Bank-owned building in the San Fernando Valley region of Los Angeles sustained major damage. It is estimated that necessary repairs to all affected facilities, net of anticipated insurance reimbursement, shall not exceed $0.5 million.

All owned office facilities are located in Southern California.

ITEM 3. LEGAL PROCEEDINGS

The Company has lawsuits pending against it in the ordinary course of business. As of December 31, 1993, the Company's management and its counsel believe that none of the pending lawsuits or claims taken separately or together will have a materially adverse impact on the financial condition or business of the Company.

On March 4, 1994, Chase, one of four lenders under Fidelity's $60 million Subordinated Loan Agreement, sued Fidelity, Citadel and Citadel's Chairman of the Board alleging, among other things, that the transfer of assets pursuant to the Restructuring would constitute a breach of the Subordinated Loan Agreement, and seeking to enjoin the Restructuring and to recover damages in unspecified amounts. In addition, the lawsuit alleges that past responses of Citadel and Fidelity to requests by Chase for information regarding the Restructuring violate certain provisions of the Subordinated Loan Agreement and that such alleged violations, with the passage of time, have become current defaults under the Subordinated Loan Agreement. While the other three lenders under the Subordinated Loan Agreement hold $25 million of the subordinated debt, none of them has joined Chase in this lawsuit. The Company is evaluating the lawsuit and, based on its current assessment, the Company does not believe that the allegations have merit. See Item 7. "MD&A"--Capital Resources and Liquidity" for additional considerations relating to the Subordinated Loan Agreement.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 1993.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The Company's common stock is listed and quoted on the American Stock Exchange ("AMEX"). The following table sets forth the high and low closing bid prices of the common stock of the Company as reported by AMEX for each of the following quarters:

	HIGH	LOW
1994:		
First quarter through March 15, 1994(1)	$12 1/4	$ 4 1/4
1993:		
Fourth quarter	19 1/2	9 3/8
Third quarter	18 5/8	14 1/4
Second quarter	21 7/8	12 5/8
First quarter(2)	23 7/8	16
1992:		
Fourth quarter	20 7/8	13 7/8
Third quarter	25 5/8	13
Second quarter	29 1/2	23 1/2
First quarter	32 7/8	14 5/8
1991:		
Fourth quarter	28	8 7/8
Third quarter	37 1/8	28 5/8
Second quarter	34 1/8	28 1/2
First quarter	34 1/4	17 1/4

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(1) The closing price of the Company's common stock on March 15, 1994 was $4.25 per share.

(2) The closing price of the Company's common stock on March 29, 1993 was $22.13 per share. This price reflects the sale of 3,297,812 newly issued shares of common stock on March 29, 1993 for $10 per share.

HOLDERS OF RECORD

The number of holders of record of the Company's common stock at February 28, 1994 was 259.

DIVIDENDS

While Citadel has never declared a dividend and has no current plan to declare a dividend, it is Citadel's policy to review this matter on an ongoing basis.

Regulatory restrictions applicable to Fidelity and certain provisions of the Company's Subordinated Loan Agreement currently limit the ability of the Company to declare or pay dividends. These limitations include: (a) a statutory prohibition on Fidelity making capital distributions that would cause it to become undercapitalized for purposes of the prompt corrective action system and other potentially applicable restrictions under OTS regulations; (b) limitations in the Subordinated Loan Agreement as to the aggregate amount declared and paid as a proportion of the Company's consolidated net earnings and (c) the absence of any default by the Company in its obligations as specified in the Subordinated Loan Agreement. See Item 1. "Business--Regulation and Supervision--Savings and Loan Holding Company Regulation--Payment of Dividends and Other Capital Distributions." See also Item 3. "Legal Proceedings" and Item 7. "MD&A--Capital Resources and Liquidity" for additional information regarding the Subordinated Loan Agreement.

At December 31, 1993, Fidelity had accumulated earnings and profits for federal income tax purposes. Any dividend paid by Fidelity in excess of current or accumulated earnings and profits for federal income tax purposes would be treated as made out of the tax bad debt reserve and will increase income for federal income tax purposes. Currently Fidelity's accumulated earnings and profits for federal income tax purposes is of such an amount that it would be highly unlikely that any dividend, if such dividend were payable by Fidelity, would be treated as made out of the tax bad debt reserve. See Item 1. "Business--Taxation."

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA

The tables below set forth certain historical financial data regarding the Company. This information is derived in part from, and should be read in conjunction with, the consolidated financial statements of the Company. None of the data in the tables have been adjusted for effects of the Citadel rights offering in March 1993.

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
INCOME STATEMENT SUMMARY:					
Interest income	$ 289,592	$ 370,722	$ 520,124	$ 525,906	$ 471,469
Interest expense	188,391	239,941	378,017	411,256	395,241
Net interest income	101,201	130,781	142,107	114,650	76,228
Provision for estimated loan losses	65,100	51,180	49,843	11,039	8,359
Net interest income after provision for estimated loan losses	36,101	79,601	92,264	103,611	67,869
Gains (losses) on sales of loans, net	194	1,117	2,118	(1,408)	1
Gains (losses) on sales of mortgage-backed securities, net	1,342	--	8,993	(165)	--
Gains (losses) on sales of investment securities	(54)	--	1	32	(234)
Other income (expense)	(35,870)	(6,602)	(5,616)	5,510	9,846
Operating expense	105,341	77,911	79,446	66,527	64,411
Earnings (loss) before income taxes	(103,628)	(3,795)	18,314	41,053	13,071
Income tax expense (benefit)	(36,467)	(5,841)	15,651	17,734	4,931
Net earnings (loss)	$ (67,161)	$ 2,046	$ 2,663	$ 23,319	$ 8,140
Net earnings (loss) per share	$ (11.56)	$ 0.62	$ 0.81	$ 7.07	$ 2.47
Average common and common equivalent shares outstanding(1)(2)	5,809,570	3,297,812	3,297,812	3,298,140	3,296,919
BALANCE SHEET DATA:					
Total assets	$4,389,519	$4,698,326	$5,126,525	$5,697,664	$4,980,593
Cash and investments	238,220	177,599	289,150	309,814	312,785
Total loans, net	3,713,383	3,991,781	4,550,848	5,085,213	4,437,199
Deposits	3,368,643	3,457,918	3,884,707	3,967,488	3,317,044
Borrowings	734,230	908,400	871,150	1,349,166	1,347,219
Subordinated notes	60,000	60,000	60,000	60,000	--
Stockholders' equity	187,403	223,186	221,140	218,477	195,084
Stockholders' equity per share	28.41	67.68	67.06	66.25	59.20
Common shares outstanding(1)(2)	6,595,624	3,297,812	3,297,812	3,297,812	3,295,562
OTHER DATA:					
Real estate loans funded	$ 422,355	$ 435,690	$ 509,265	$1,407,522	$ 898,134
Average interest rate on new loans	6.75%	7.77%	9.07%	9.31%	9.44%
Loans sold	$ 137,870	$ 204,435	$ 282,728	$ 158,691	$ 12,033
Nonperforming assets to total assets	5.37%	4.99%	2.43%	.85%	.42%
Number of deposit accounts	241,093	233,037	238,187	233,546	203,015
Interest rate margin at the end of the period	2.19%(3)	2.68%	3.20%	2.33%	2.16%
Interest rate margin for the period	2.28%(3)	2.67%	2.54%	2.11%	1.49%
Retail branch offices(4)	42	43	43	44	34

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(1) Net of treasury shares, where applicable.

(2) 1993 data includes 3,297,812 shares issued in March 1993 in connection with a stock rights offering, which produced net proceeds to the Company of $31.4 million.

(3) Excluding the writedown of core deposit intangibles of $5.2 million, interest rate margins at and for the year ended December 31, 1993, would have been 2.32% and 2.39%, respectively.

(4) All retail branch offices are located in Southern California.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NET EARNINGS

Citadel Holding Corporation ("Citadel") reported a net loss of $67.2 million, or $11.56 per share (average outstanding shares of 5,809,570) in 1993 compared to net earnings of $2.0 million, or $0.62 per share (average outstanding shares of 3,297,812) in 1992 and $2.7 million, or $0.81 per share (average outstanding shares of 3,297,812) in 1991. Unless otherwise indicated, references to the "Company" include Citadel, Fidelity Federal Bank, a Federal Savings Bank ("Fidelity" or the "Bank") and all subsidiaries of Fidelity and Citadel.

The following table summarizes these results:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Earnings (loss) before income taxes	$ (103,628)	$ (3,795)	$ 18,314
Net earnings (loss)	$ (67,161)	$ 2,046	$ 2,663
Net earnings (loss) per share	$ (11.56)	$ 0.62	$ 0.81
Average common and common equivalent shares outstanding(1)	5,809,570	3,297,812	3,297,812
Return on average equity	(28.92)%	0.91%	1.20%
Return on average assets	(1.47)%	0.04%	0.05%

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(1) 1993 data includes 3,297,812 shares issued in March 1993 in connection with a stock rights offering.

The components of the changes in earnings/loss before income taxes are shown below:

	FAVORABLE (UNFAVORABLE) VARIANCE	
	1993 VS 1992	1992 VS 1991
	(DOLLARS IN THOUSANDS)	
Net interest income	$(29,580)	$(11,326)
Provision for loan losses	(13,920)	(1,337)
Net interest income after loan loss provision	(43,500)	(12,663)
Fee income and other income	(3,609)	9,652
Provision for real estate losses	(12,380)	(9,258)
Direct costs of real estate operations, net	(14,202)	(2,381)
Gains on sales of securities	1,288	(8,994)
Noninterest income	(28,903)	(10,981)
Operating expense	(27,430)	1,535
Earnings/loss before income taxes	(99,833)	(22,109)
Income tax expense/benefit	30,626	21,492
Net earnings/loss	$(69,207)	$ (617)

The $99.8 million change in earnings/loss before income taxes between 1992 and 1993 is primarily due to (a) decreased net interest income of $29.6 million, (b) increased operating expense of $27.4 million, (c) a $26.3 million increase in the provision for loan and real estate losses, (d) a $14.2 million increase in direct costs related to real estate operations, and (e) decreased fee income and other income of $3.6 million. This was partially offset by a $1.3 million increase in gains on sales of securities. The $27.4 million increase in expenses from 1992 to 1993 was attributable in part to increased staffing levels required to manage rising problem assets, strengthen internal asset review, handle increased financial services offered at the retail branch network and expand originations and sales of residential mortgages in the mortgage banking network. The increase is also attributable to certain nonrecurring charges incurred in connection with the Company's valuation of its intangible assets and further development of the internal reorganization and restructuring plan discussed below, including the write-off $8.8 million of goodwill and $5.2 million in core deposit intangibles, and an increase of $5.6 million in professional fees, of which approximately $3.3 million was attributable to analysis and development of the Company's restructuring plan and related asset valuation process.

In 1993, Fidelity reassessed the valuation of its intangible assets. Based upon the results of a branch profitability analysis and an analysis of the recoverability of its core deposit intangible assets, Fidelity wrote down the carrying value of its core deposit intangible assets in the amount of $5.2 million (which writedown is included in interest expense). In addition, an analysis was performed of the recoverability of the goodwill related to the acquisition of Mariners Savings and Loan ("Mariners") in 1978. These analyses indicated that the net expected future earnings from the branches or assets acquired did not support the carrying value of the goodwill. As a result, Fidelity wrote down the remaining $8.8 million balance of goodwill related to the Mariners acquisition (which writedown is included in operating expense).

The $22.1 million change in earnings/loss before income taxes between 1991 and 1992 was mainly due to (a) an $11.3 million decrease in net interest income, (b) an increase in the provision for loan and real estate operations of $10.6 million, (c) a $9.0 million decrease in gains on sales of securities, and (d) a $2.4 million increase in direct costs related to real estate operations. These were partially offset by increased fee income and other income of $9.7 million and decreased operating expenses of $1.5 million.

The following table summarizes certain regulatory capital and asset quality information for Fidelity as of the dates indicated:

	DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Core Capital(1)	$182,100	$203,400	$205,300
Core Capital Ratio(1)	4.15%	4.35%	4.02%
NPAs to Total Assets	5.37%	4.99%	2.43%
Nonaccruing Loans to NPAs	39.67%	47.80%	55.31%
REO (including ISF) to NPAs	60.33%	52.20%	44.69%
GVA	$ 80,020	$ 75,621	$ 52,374
GVA to Loans and REO (including ISF)	2.03%	1.82%	1.13%
GVA to NPAs	32.79%	30.49%	41.99%

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(1) 1993 capital includes capital contributions from Citadel of $28.0 million. See "Capital Requirements."

See "Asset Quality" for more information.

NET INTEREST INCOME

Net interest income is the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. Stated differently, the level of net interest income is the sum of (a) the interest rate margin (the difference between the yield earned on the interest-earning assets and the rate paid on the interest-bearing liabilities) multiplied by the amount of interest-earning assets; plus (b) the excess balance of interest-earning assets over interest-bearing liabilities multiplied by the rate paid on interest-bearing liabilities. Therefore, the higher the yield on interest-earning assets relative to the rate paid on interest-bearing liabilities, the higher the net interest income. Conversely, the lower the yield on interest-earning assets relative to the rate paid on interest-bearing liabilities, the lower the net interest income. Similarly, the smaller the level of interest-earning assets relative to the level of interest-bearing liabilities, the smaller the net interest income. As a result, net interest income between two periods will decline if the interest rate margin declines, the excess of interest-earning assets over interest-bearing liabilities declines, interest-earning accounts decline and the rate paid on interest-bearing liabilities increases. The converse also holds true.

In a period of increased loan defaults, interest-earning assets tend to decline faster than interest-bearing liabilities, which in turn tends to depress net interest income. As a result, a higher interest rate margin would be needed to maintain a constant level of net interest income. In a period of declining interest rates, prepayments on mortgages tend to increase and as a result, the level of interest earning-assets will decline if the volume of new loan originations held in the portfolio does not increase to offset the increased level of prepayments. The decline in net interest income is partially offset by the decline in the rate paid on interest-bearing liabilities.

The change in net interest income is a result of: (a) the change in interest-earning assets multiplied by the current interest rate margin, plus (b) the change in the interest rate margin multiplied by prior interest-earning assets, plus (c) the change in the rate paid on interest-bearing liabilities multiplied by the current excess balance of interest-earning assets over interest-bearing liabilities, plus (d) the change in the excess balance of interest-earning assets over interest-bearing liabilities multiplied by the prior rate paid on interest-bearing liabilities.

In addition, net interest income is affected by the level of nonperforming loans. The Bank generally places loans on nonaccrual status whenever the payment of interest is 90 or more days delinquent or when the Bank believes they exhibit materially deficient characteristics. The reduction in income related to these nonaccruing loans was approximately $8.7 million in 1993 compared to $13.6 million in 1992 and $7.6 million in 1991.

As previously discussed, net interest income was also reduced by a $5.2 million writedown of core deposit intangibles ("CDI") in 1993. The remaining net unamortized balance of core deposit intangibles at December 31, 1993 was $2.1 million which is being amortized over the average remaining life of the deposits acquired, generally 1 to 3 years.

Net interest income for 1993 of $101.2 million decreased by $29.6 million or 22.6% from $130.8 million for 1992. This decrease resulted from the combined impacts of (a) a 6.7% decrease in average interest-earning assets, reducing net interest income by $14.7 million, and (b) a 48 basis point decrease in the effective yield on interest-earning assets, decreasing net interest income by $14.9 million, caused in part by the impact of the CDI write-off discussed above.

Net interest income for 1992 of $130.8 million decreased by $11.3 million or 8.0% from $142.1 million for 1991. This $11.3 million decrease resulted from the offsetting impacts of (a) a 12.0% decrease in average interest-earning assets, reducing net interest income by $12.8 million, and (b) a 13 basis point increase in the effective yield on interest-earning assets, increasing net interest income by $1.5 million.

The following table displays the components of the Company's interest rate margin at the end of, and for each period, as well as the effective yield for each period:

	AT OR FOR THE YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Rate at the end of the period:			
Weighted average yield on combined loans and investments	6.37%	7.21%	9.41%
Weighted average cost of funds	4.18	4.53	6.21
Interest rate margin at the end of the period	2.19%(1)	2.68%	3.20%
Rate for the period:			
Weighted average yield on combined loans and investments	6.65%	7.94%	9.80%
Weighted average cost of funds	4.37	5.27	7.26
Interest rate margin for the period	2.28%(1)	2.67%	2.54%
Effective yield for the period	2.33%(1)	2.81%	2.68%

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(1) Excluding the writedown of core deposit intangibles of $5.2 million, the interest rate margins at and for the year ended December 31, 1993 and the effective yield on interest-earning assets for the year ended December 31, 1993, would have been 2.32%, 2.39% and 2.44%, respectively.

The reduction in the interest rate margin in 1993 from 1992 can be attributed to the lagging relationship between the repricing of assets and liabilities as market interest rates stabilize. The average rate paid on interest-bearing liabilities adjusts to market rates faster than the average rate earned on interest-earning assets. This difference in the speed of adjustment to changes in market interest rates is primarily due to the nature of the Federal Home Loan Bank ("FHLB") of San Francisco Eleventh District Cost of Funds Index (the "COFI") to which most of the Bank's loans are tied, the contractual repricing terms of the loans held in the portfolio, the advance notification requirements to borrowers for any rate change, the time lag in the availability of the actual index, as well as the amount of the lifetime interest rate caps. As a result of these factors, changes in the yield on COFI-based loans lag changes in market interest rates.

The interest rate margin of the Company increases in a period of steady decline in interest rates, since the yield on interest-bearing assets drops more slowly than the rates paid on interest-bearing liabilities. Conversely, as market interest rates stabilize and then increase, the interest rate margin of the Company will shrink, other conditions being equal. This factor, together with the timing of asset repricing and the increase in nonperforming assets, resulted in a reduction of 132 basis points in the yield on loans in 1993 from 1992 average levels, while the decrease in market interest rates resulted in a reduction in the cost of funds of only 90 basis points for the comparable period. The Federal Reserve Board ("FRB") increased the federal funds rate by 0.25% in February 1994 and another 0.25% in March 1994, which may be indicative of future reductions to the Company's interest rate margin.

The increase in the Company's interest margin for 1992 compared to 1991 was primarily caused by the continued downward trend in market interest rates during 1992 which resulted in a decrease in the cost of funds of 199 basis points. The effect of the reduced cost of funds on the interest margin was partially offset by a decrease of 179 basis points in the yield on loans from 1991 due to declines in the COFI.

Since 1990, the Company has continued its strategy to more closely match the repricing periods of its interest-bearing liability and interest-earning asset portfolios by concentrating on the origination and retention of ARM loans. In 1993, 1992 and 1991, the Bank retained substantially all of the ARM loans it originated. The percentage of monthly adjustable ARMs outstanding to the total ARM portfolio was 78%, 77% and 74% at December 31, 1993, 1992 and 1991, respectively, while the percentage of semiannual adjustable ARMs was 19% at December 31, 1993 compared to 21% in 1992 and 24% in 1991. This trend of increasing the monthly adjustable ARM portfolio in relation to the decreasing semiannual adjustable ARM portfolio will reduce, but not eliminate, the risk created by the mismatch of the assets' repricing index and the liabilities' repricing indices. However, certain ARMs meeting specific criteria have been identified as held for sale and transferred to the held for sale portfolio as part of the asset/liability strategy and the possible need to increase regulatory capital in the future. See "Interest Rate Risk Management" for further discussion.

NONINTEREST INCOME

Noninterest income has three major components: (a) gains and losses on the sale of loans and fee income associated with other on-going operations, such as fees earned on the sale of securities and annuities, loan origination fees and service charges on deposit accounts, (b) income/expenses associated with owned real estate, which includes both the provision for real estate losses as well as income/expenses experienced by the Bank related to the operations of its owned real estate properties (e.g., maintenance expenses, capital expenditures and payment of current and delinquent property taxes), and (c) gains and losses on the sale of investment securities and mortgage-backed securities. The last two items can fluctuate widely, and could therefore mask the underlying fee generating performance of the Company on an ongoing basis. Noninterest income declined from a loss of $5.5 million in 1992 to a loss of $34.4 million in 1993.

The following table details the noninterest income/expense:

	YEAR ENDED DECEMBER 31,		
	1993	1992	VARIANCE
	(DOLLARS IN THOUSANDS)		
Loan and other fee income	$ 5,389	$ 7,885	$ (2,496)
Gains on sales of loans, net	194	1,117	(923)
Fee income from investment products	4,313	3,368	945
Fee income from deposits and other income	3,271	4,406	(1,135)
	13,167	16,776	(3,609)
Provision for estimated real estate losses	(30,200)	(17,820)	(12,380)
Direct costs of real estate operations, net	(18,643)	(4,441)	(14,202)
	(48,843)	(22,261)	(26,582)
Gains on sales of mortgage-backed securities, net	1,342	--	1,342
Gains (losses) on sales of investment securities, net	(54)	--	(54)
	1,288	--	1,288
	$ (34,388)	$ (5,485)	$(28,903)

Noninterest income from ongoing operations decreased by $3.6 million, to $13.2 million during 1993 from $16.8 million during 1992 partly due to the Company's retooling and refocusing efforts during 1993 (see "Operating Expense"). An increase in fee income from investment products of $0.9 million to $4.3 million was offset by decreases in loan and other fees, gains on sales of loans and fee income from deposits.

Foreclosure activities increased markedly from December 31, 1992 to December 31, 1993, resulting in an increase in real estate owned ("REO") both in terms of numbers of properties and total dollars. REO consists of real estate acquired in settlement of loans and in-substance foreclosures ("ISFs").

The following table summarizes certain components of Fidelity's real estate operations:

	1993 COMPARED TO 1992	1992 COMPARED TO 1991
	(DOLLARS IN THOUSANDS)	
Increase in:		
Provision for estimated real estate losses	$ 12,380	$ 9,258
Direct costs of real estate operations, net	14,202	2,381
	$ 26,582	$ 11,639

The following table provides detail on the net book value and number of properties owned at the given dates:

	(DOLLARS IN THOUSANDS)	
Owned real estate, net book value:		
December 31, 1993	$153,307	
December 31, 1992	133,255	$133,255
December 31, 1991		70,259
Increase	$ 20,052	$ 62,996
Number of real estate properties owned:		
December 31, 1993	240	
December 31, 1992	170	170
December 31, 1991		63
Increase	70	107

The Bank has a policy of providing general valuation allowances for both estimated loan and real estate losses, in addition to valuation allowances on specific loans and REO, in response to the continuing deterioration of the quality of the Bank's loan and REO portfolio. Provisions for real estate losses increased by $12.4 million in the year ended December 31, 1993 as compared to the same period in 1992, and provisions for loan losses increased by $13.9 million over the same period. See "Asset Quality" for further detail.

Noninterest income decreased by $11.7 million in 1992 compared to 1991. This decrease was due to the combined effects of (a) an increase in net expense from real estate operations of $11.6 million, inclusive of provisions for estimated real estate losses, (b) a decrease in gains on sales of mortgage-backed securities of $9.0 million as there were no such sales in 1992, and (c) a decrease in other expense of $7.0 million due to the accrual for contingent liabilities of $6.0 million in 1991 with a $1.0 million reduction in such accrual in 1992.

OPERATING EXPENSE

Operating expense increased to $105.3 million in 1993 from $77.9 million in 1992 and $79.4 million in 1991. The following table details the operating expenses for 1993 and 1992:

	YEAR ENDED DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1992	FAVORABLE (UNFAVORABLE) VARIANCE
	(DOLLARS IN THOUSANDS)		
Personnel and benefits	$ 48,822	$ 39,305	$ (9,517)
Occupancy	13,202	12,705	(497)
FDIC insurance	8,628	8,391	(237)
Professional services	11,970	6,119	(5,851)
Office-related expenses	6,785	5,031	(1,754)
Marketing	3,080	2,548	(532)
Amortization of intangibles	9,246	596	(8,650)
Other general and administrative	5,650	5,991	341
Total before capitalized costs	107,383	80,686	(26,697)
Capitalized costs	(2,042)	(2,775)	(733)
Total operating expenses	$ 105,341	$ 77,911	$(27,430)
Efficiency ratio(1)	77.55%	53.16%	
Ratio of operating expenses to average assets(2)	2.30%	1.61%	

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(1) The efficiency ratio is computed by dividing total operating expense by net interest income and noninterest income, excluding nonrecurring items, provisions for estimated loan and real estate losses, direct costs of real estate operations and gains/losses on the sale of securities.

(2) The operating expense ratio is computed by dividing total operating expense by average total assets.

A substantial portion of the increase from 1992 to 1993, as detailed below, was due to the re-engineering of certain functions of the Bank, including the related training and personnel costs. The associated improved operating results are expected to be realized in later years.

The increases in personnel and benefits are mainly due to increased staffing levels during 1993 (with average full-time equivalent employees ("FTEs") of 882) over 1992 (with average FTEs of 828). The increased staffing levels are due to (a) increased staffing required to manage the rising problem asset portfolio and to strengthen the internal asset review function, (b) increased staffing levels in the retail branch network to support the 1993 strategies of customer orientation and retail financial services focus, and (c) increased staffing levels in the mortgage banking network to expand the origination and sale of residential mortgages. These increases were partially offset by the reduction of data processing personnel in connection with the outsourcing of substantially all of the information systems functions in May 1993. The Bank has aggressively increased the staff of its real estate asset management department by 27 FTEs during 1993, which handles foreclosures, loan restructurings and REO sales. The Bank continues to increase the staff of its internal asset review department, which continuously monitors asset quality and adequacy of loss reserves.

The staffing level in the retail network increased due to improved ability to fill open positions and an increased emphasis on providing investment products to customers. The staffing level in the mortgage banking network also increased due to the increased emphasis on meeting a broader range of customer real estate borrowing requirements. The general rise in office-related expenses is due to the higher staffing levels.

In addition to staffing increases, the Bank incurred higher personnel and benefits costs related to (a) training costs associated with the data systems conversions and reorganization of the retail financial services group, (b) the adoption in 1993 of a new accounting pronouncement related to retiree health and life insurance benefits (as discussed below), (c) increased costs of employee insurance benefit and retirement plans, and (d) increased travel costs associated with data systems conversion training and the exploration of strategic alternatives and restructuring of the Company.

Effective January 1, 1993, the Bank adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its unfunded postretirement health care and life insurance program. This statement requires the cost of postretirement benefits to be accrued during the service lives of employees. The Bank's previous practice was to expense these costs on a cash basis. The net periodic postretirement benefit cost for 1993 totaled $0.6 million.

However, in an effort to reduce operating expense, the Bank is exploring various alternatives to all the existing benefit plans, which may include reducing future benefits accruing to employees.

The Bank's Federal Deposit Insurance Corporation ("FDIC") insurance premium is based upon three factors: (a) the volume of deposits, (b) the rate at which the FDIC assesses the deposits, and (c) any other adjustments or credits the FDIC may allow. The increase in the FDIC insurance expense in 1993, from the level of expense in 1992, was primarily due to an increase in the rate the FDIC assessed to deposits in 1993, which was partially offset by a credit received from the FDIC for the final distribution of the secondary reserve and from the reduced level of deposits.

Professional services increased in 1993 over 1992 primarily due to financial advisory fees associated with (a) costs of approximately $3.3 million incurred in reviewing the Company's strategic objectives and developing a restructuring plan and in the related asset valuation process and (b) higher outside data services costs of approximately $2.9 million relative to the outsourcing of the primary information systems functions in May 1993, which costs were partially offset by some savings in compensation expense of approximately $1.0 million.

As previously discussed, amortization of intangibles included an $8.8 million writedown of goodwill in 1993.

Operating expense decreased by $1.5 million in 1992 from the level in 1991. This decrease was caused principally due to (a) $0.3 million decrease in FDIC insurance expense due to average deposit shrinkage during the assessment period, (b) a $0.7 million decrease in professional services due to reduction in consulting expense, (c) a $0.4 million decrease in other operating expense due to reductions in marketing expense and level of amortization of intangible assets, and (d) a $0.6 million increase in capitalized costs due to an increase in the number of loan originations (although the total dollar amount of loan originations decreased in 1992 over 1991). These decreases were partially offset by a $0.9 million increase in personnel and benefits primarily due to increases in personnel, severance and pension costs.

The increase in operating expenses combined with the decrease in the total average asset size of the Company (from $5.5 billion at December 31, 1991 to $4.9 billion at December 31, 1992 and to $4.6 billion at December 31, 1993), resulted in an increase in the operating expense ratio from 1.43% in 1991 to 1.61% in 1992 and 2.30% in 1993. The operating expense ratio would have been 2.04% for 1993 without the nonrecurring expenses directly related to the Company's restructuring and the $8.8 million writedown of goodwill. Due to the sensitivity of the operating expense ratio to changes in the size of the balance sheet, management also looks at trends in the efficiency ratio to assess the changing relationship between operating expenses and income generated.

EFFICIENCY RATIO

The efficiency ratio measures the amount of cost expended by the Company to generate a given level of revenues in the normal course of business. It is computed by dividing total operating expense by net interest income and noninterest income, excluding nonrecurring items, provisions for estimated loan and real estate losses, costs of real estate operations on specific properties and gains/losses on the sale of securities. This computation reflects a change from the method of computation used in previous periods in that the impact of real estate operations on specific properties is now excluded from the computation. The lower the efficiency ratio, the lower the amount of resources being expended by the Company to generate a given level of revenues. As a result, an increase in the efficiency ratio indicates that the Company is expending more resources to generate revenues and the Company is thus becoming less efficient in the use of its resources. A decrease in the efficiency ratio indicates the opposite (i.e. an improvement). Changes in the efficiency ratio are due to three factors: (a) changes in net interest income, (b) changes in noninterest income, and (c) changes in operating expenses. A decline in net interest income and/or noninterest income and/or a rise in operating expenses will have an unfavorable impact on the ratio (i.e. will increase the ratio) and the converse holds true. The Company's efficiency ratio worsened by 24.39 percentage points between the year ended December 31, 1992 and 1993 due to unfavorable variances in all three components. Asset quality problems adversely affected two of the components of the efficiency ratio; reduced net interest income via an increase in nonperforming loans and mounting foreclosure activities, which resulted in a decrease in interest-bearing assets and lower asset yield; and higher operating expenses associated with the increased staffing level described above. Additionally, the increased staffing levels in the retail financial services network and mortgage banking network adversely impacted the efficiency ratio. These increases should result in increased expense in the short-term, but increased income in the long-term.

In spite of lower operating expenses in 1992 compared to 1991 levels, the Company's efficiency ratio worsened by approximately 1.98 percentage points from 51.18% in 1991 to 53.16% in 1992, as a result of lower interest income due to increases in nonperforming assets and a smaller balance sheet, partially offset by increased noninterest income.

An analysis of the change in the efficiency ratios during 1993 and 1992 is shown below:

	YEAR ENDED DECEMBER 31, 1993 COMPARED TO DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1992 COMPARED TO DECEMBER 31, 1991
Change in efficiency ratio caused by:		
Decreased net interest income.............	15.87%	3.89%
Decreased (increased) noninterest income...	1.25	(0.91)
Increased (decreased) operating expense....	7.27	(1.00)
Unfavorable variance......................	24.39%	1.98%

Continued deterioration in the asset quality of the Bank, and/or stable or higher short-term interest rates in the future (if they occur) would have an adverse effect on net interest income and noninterest income, which would in turn lead to an increase (or worsening) in the efficiency ratio, assuming expenses remain constant.

CAPITAL RESOURCES AND LIQUIDITY

Regulatory Capital Requirements

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and implementing capital regulations require Fidelity to maintain: (1) Tangible Capital of at least 1.5% of Adjusted Total Assets (as defined in the regulations); (2) Core Capital of at least 3% of Adjusted Total Assets (as defined in the regulations); and (3) Total Risk-based Capital equal to 8.0% of Total Risk-weighted Assets (as defined in the regulations). See Item 1. "Business--Regulation and Supervision--FIRREA Capital Requirements."

The following table summarizes the regulatory capital requirements for Fidelity at December 31, 1993, but does not reflect the required future phasing out of certain assets, including investments in, and loans to, subsidiaries which may presently be engaged in activities not permitted for national banks and, for risk-based capital, real estate held for investment (the impact of which the Bank believes to be immaterial). As indicated in the table, Fidelity's capital levels exceed all three of the currently applicable minimum capital requirements. Fidelity's capital as shown below includes $28.0 million of capital contributions from Citadel during 1993. Fidelity's capital levels also exceeded all of the then applicable minimum capital requirements at December 31, 1992 and 1991.

	DECEMBER 31, 1993					
	TANGIBLE CAPITAL		CORE CAPITAL		CURRENT RISK-BASED CAPITAL	
	BALANCE	%	BALANCE	%	BALANCE	%
	(DOLLARS IN THOUSANDS)					
Regulatory capital.........	$ 180,000	4.10%	$ 182,100	4.15%	$ 270,600	9.32%
Required minimum...........	65,800	1.50	131,700	3.00	232,300	8.00
Excess capital.............	$ 114,200	2.60%	$ 50,400	1.15%	$ 38,300	1.32%
Adjusted Assets(1).........	$4,386,300		$4,388,400		$2,903,600	

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(1) The term "adjusted assets" refers to the term "adjusted total assets" as defined in 12 C.F.R. section 567.1(a) for purposes of tangible and core capital requirements, and for purposes of risk-based capital requirements, refers to the term "risk-weighted assets" as defined in 12 C.F.R. section 567.1(bb).

At December 31, 1993, Fidelity met the fully phased-in capital requirements for all three measurements based upon regulations currently in effect. However, because of the regulatory advantages available to benefit well-capitalized institutions, the Bank continues to have as its objective to increase its core capital to at least 5%. At December 31, 1993, based on then current asset levels, Fidelity would have been required to increase its core capital by approximately $37.3 million to reach the 5% core capital level.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires the OTS and the federal bank regulatory agencies to revise their risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk, and risks of nontraditional activities. The OTS added an interest rate risk capital component to its risk-based capital requirement. This component is effective September 30, 1994, based on the December 31, 1993 balance sheet. This capital component will require institutions deemed to have above normal risk to hold additional capital equal to 50% of the excess risk. As of December 31, 1993, the Bank's internal risk measurement system showed a risk level less than half of the OTS limit. The most recently available OTS report (September 30, 1993) shows an even lower risk. Therefore, if the requirement had been in effect on December 31, 1993, using the year-end balance sheet, there would have been no interest rate risk component required to be added to Fidelity's risk-based capital requirement.

In addition, FDICIA required the OTS to implement a system requiring regulatory sanctions against institutions that are not adequately capitalized, with the sanctions growing more severe, the lower the institution's capital. Under FDICIA, the OTS issued regulations establishing specific capital ratios for five separate capital categories. The five categories of ratios are:

	CORE CAPITAL TO ADJUSTED TOTAL ASSETS (LEVERAGE) RATIO	CORE CAPITAL TO RISK-WEIGHTED ASSETS RATIO	TOTAL CAPITAL TO RISK-WEIGHTED ASSETS RATIO
Well Capitalized...........	5% or above	6% or above	10% or above
Adequately capitalized......	4% or above	4% or above	8% or above
Undercapitalized...........	Under 4%	Under 4%	Under 8%
Significantly undercapitalized...........	Under 3%	Under 3%	Under 6%
Critically undercapitalized.	Ratio of tangible equity to adjusted total assets of 2% or less		

The following table summarizes the capital ratios of the adequately capitalized category and Fidelity's regulatory capital at December 31, 1993 as compared to such ratios. As indicated in the table, Fidelity's capital levels exceeded the three minimum capital ratios of the adequately capitalized category.

	CORE CAPITAL TO ADJUSTED TOTAL ASSETS		CORE CAPITAL TO RISK-WEIGHTED ASSETS		TOTAL CAPITAL TO RISK-WEIGHTED ASSETS	
	BALANCE	%	BALANCE	%	BALANCE	%
	(DOLLARS IN THOUSANDS)					
Regulatory capital......	$ 182,100	4.15%	$ 182,100	6.27%	$ 270,600	9.32%
Adequately capitalized requirement............	175,500	4.00	116,100	4.00	232,300	8.00
Excess capital..........	$ 6,600	0.15%	$ 66,000	2.27%	$ 38,300	1.32%
Adjusted Assets(1)......	$4,388,400		$2,903,600		$2,903,600	

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(1) The term "adjusted assets" refers to the term "adjusted total assets" as defined in 12 C.F.R. section 567.1(a) for purposes of core capital requirements, and for purposes of risk-based capital requirements, refers to the term "risk-weighted assets" as defined in 12 C.F.R. section 567.1(bb).

Although the Bank was deemed adequately capitalized at December 31, 1993, at such date, absent the $28 million in capital contributed to the Bank by Citadel during the year, the Bank would have had to significantly reduce its assets or the Bank would not have met the 4% core capital to adjusted total assets requirement of the adequately capitalized category and thus would have been classified as undercapitalized for purposes of the OTS' prompt corrective action regulations.

Citadel, with only $2.3 million in liquid assets at December 31, 1993 and ongoing expenses in connection with the contemplated Restructuring of the Company defined below, is not in a position to make further capital contributions to the Bank, nor does Citadel have ready access to additional funds under current circumstances. Management anticipates that the Bank will incur losses in the first and second quarters of 1994 that will, in the absence of a new capital infusion or a reduction in the Bank's total assets, reduce the Bank's core capital ratio to less than 4%. In an effort to maintain the Bank's core capital ratio above 4% at March 31, 1994 by downsizing its balance sheet, the Bank has entered into an agreement to sell approximately $160 million of single family and multifamily (2 to 4 units) performing loans in the first quarter of 1994. Additionally, in order to maintain the Bank's capital above the regulatory minimums necessary to continue to be designated "adequately capitalized" while the Restructuring is pursued, management continues to explore possibilities for increasing the Bank's capital, either through the issuance of new equity or the sale of assets. Management may also consider further downsizings in the Bank's balance sheet through additional loan sales, although such dispositions of income-producing assets would reduce the Bank's future income.

If the Restructuring of the Company discussed below is not accomplished, the Bank will be required to take other actions to maintain its capital ratios, including further downsizing the Bank and raising of additional equity. If such actions are not successful, the Bank would likely become "undercapitalized" for purposes of the prompt corrective action regulations of the OTS. The consequences of becoming undercapitalized would include, but would not be limited to, (a) the obligation of Fidelity to file a capital restoration plan that is accompanied by an acceptable Citadel guarantee; (b) restrictions on asset growth, branch acquisitions and new activities; (c) a prohibition on dividends and capital distributions by Fidelity (subject to certain exceptions); and (d) increased monitoring by the OTS. An acceptable capital restoration plan guarantee would require Citadel to demonstrate appropriate assurances of its ability to perform on the guarantee. Given Citadel's current capital resources and liquidity position, no assurance can be given that such a Citadel guarantee would be found acceptable by the OTS. Failure to provide an acceptable capital restoration plan could result in additional OTS sanctions typically reserved for "significantly undercapitalized" institutions. These discretionary sanctions include, but are not limited to, (a) OTS authority to require the recapitalization, merger or sale of the Bank; (b) divestiture of subsidiaries of the Bank or a holding company divestiture of the Bank; (c) more stringent asset growth restrictions than applicable to "undercapitalized" institutions; and (d) management changes, including election of new directors, and dismissal of directors or senior officers who have held office for more than 180 days, among other things.

Economic trends in Southern California continue to adversely affect both the delinquencies being experienced by thrifts such as Fidelity and the ability of such institutions to recoup principal and accrued interest by realization upon underlying collateral. No assurances can be given that such trends will not continue in future periods creating increasing downward pressure on the capital and earnings of thrift institutions.

The OTS has the ability to fix specific capital-required levels for Fidelity higher than those set forth above. Fidelity is under continuing regulatory pressure to raise capital ratios.

The Company is actively pursuing a restructuring plan that would include both the transfer to a newly-formed Citadel subsidiary or division of certain problem assets of the Bank and a sale of the Bank and Gateway (the "Restructuring"; discussions of the sale of the Bank in the context of the Restructuring include the sale of Gateway). The Company is currently seeking a strategic buyer or a new core set of equity investors for the Bank. Any such sale of the Bank will be subject to the approval of Citadel's Board of Directors (the "Board") and stockholders, as well as the OTS. Following the proposed sale of the Bank, Citadel would become a real estate company and focus on the servicing and enhancement of its loan and real estate portfolio.

The Restructuring calls for the Bank's disposition of substantially all of its problem assets, together with a small amount of performing assets, so as to improve the attractiveness of the Bank to potential acquisition or investment candidates. Most of the Bank's problem assets would be transferred to the new Citadel real estate subsidiary or division using securitized debt financing. These assets would consist of commercial and large multifamily loans and real estate owned properties with a current net book value of approximately $401 million. The impact of the January 1994 Northridge Earthquake on the assets to be transferred is not expected to alter significantly the value of such assets. The Restructuring plan also calls for the Bank's disposition of a smaller group of problem assets, consisting primarily of smaller multifamily loans with a current net book value of approximately $81 million, in a bulk sale to a third-party purchaser or Citadel.

While the Board will fully explore the market values of this Restructuring before making any final decisions, the Board views this approach as having the greatest potential to maximize stockholder values in the foreseeable future. In formulating the proposed Restructuring, the Company believes that the value of Fidelity to a purchaser or investor would be heavily, and perhaps excessively, discounted due to its problem assets. Thus, it was determined that the Bank's attractiveness to an acquisition or investment candidate would be enhanced if the Bank disposed of these problem assets. However, management also believes that these assets, if managed outside the environment of a federally regulated institution, present the potential for Citadel stockholders to realize future value that would not be reflected in the bulk sale price of those assets to a third party today. Accordingly, the Restructuring was designed to retain in a Citadel subsidiary or division approximately $401 million of primarily problem assets after a sale of the Bank. Management believes that an asset disposition is critical to a successful major recapitalization program for Fidelity. Citadel has commenced efforts to raise the financing necessary to consummate its problem asset purchase from Fidelity.

Because of the significant conditions to and uncertainty in accomplishing a successful Restructuring, the Company expects that the losses associated with the Restructuring would only be incurred upon the sale of the Bank, at which time the effects of the losses on capital should be offset by either a new infusion of capital from investors, who would purchase ownership of the Bank, or a merger with another financial institution.

The following discussion focuses on certain financial consequences of the Restructuring and is not indicative of the loss content of the Bank's assets in the absence of the restructuring or other bulk asset dispositions.

To consummate the bulk transfers of assets to a Citadel subsidiary or division and obtain debt financing in the capital markets for the larger transfer, Fidelity would be required to write down these assets to their bulk sale values. These losses would be offset in part by the reduction in the Bank's GVA (reflecting the healthier remaining asset pool) and possible tax benefits. If the Restructuring were to be consummated in mid-1994, management's latest estimate is that the Bank's core capital, after giving effect to the writedowns on the asset transfers, tax benefits associated therewith, use of relevant reserves and extraordinary charges relating to the Restructuring, but before giving effect to any new capital infusion into the Bank by the acquiror or new investors, would be approximately $102 million. This estimate will be subject to ongoing adjustment in view of changing variables such as future earnings or losses, changes in the composition and size of the problem assets and other factors.

The Bank does not intend to implement the above-described bulk problem asset dispositions, or to incur the consequent losses, in the absence of an acquisition of the Bank by another financial institution or financial investors who are able to infuse additional core capital into the Bank. Any such acquisition will also require the approval of Citadel's Board and stockholders, as well as the OTS, which will condition its approval in part on the adequacy of the capital of the Bank after the Restructuring.

No assurances can be given that the proposed Restructuring can be successfully implemented.

Sources of Funds and Liquidity

The Bank's primary sources of operating funds are deposits, borrowings, loan payments and prepayments, loan sales and earnings.

Deposit activity is an important factor in Fidelity's cash flow position. At December 31, 1993, Fidelity had deposits of $3.4 billion, down from $3.5 billion at December 31, 1992 and $3.9 billion at December 31, 1991. This reduction has been, in part, the natural result of the Company's determination to reduce total assets and, in part, the result of the need on the part of its depositors to withdraw funds to meet current living expenses and/or increase yields through other investments.

As a part of its strategy of preserving and enhancing the value of its customer franchise, Fidelity has increasingly focused its efforts on attracting and retaining a greater number of profitable, low-cost transaction accounts, such as checking, passbook and money market accounts. In the year ended December 31, 1993, Fidelity increased the number of checking accounts to 94,100 from 77,400 at year-end 1992 and 65,400 at year-end 1991. Similarly, the number of passbook accounts increased from 19,700 at year-end 1991 to 24,300 at year-end 1992 and 28,100 at year-end 1993. The number of money market savings accounts declined from 21,600 at year-end 1991 to 18,800 at year-end 1992 and 15,200 at year-end 1993, primarily due to decreasing interest rates during those periods.

The Bank has also restructured its branch network with an emphasis on providing retail financial services to its customers. In order to capture the funds moving out of traditional bank products into higher yield investments, sales of investment products have been integrated into the retail network, and new positions and compensation systems have been developed and implemented. In 1993, the Company, through Gateway, sold investment and annuities products to customers of the Bank totaling $96.4 million, compared with total sales of $79.9 million in 1992 and $57.8 million in 1991.

During 1993, the total balance of certificates of deposit increased by $22.3 million to $2.6 billion, while the total balance of retail transaction accounts (checking, passbook and money market savings) and other lower-cost accounts decreased by $111.6 million to $729.6 million. These reductions in total balance have been influenced by lower rates of interest offered on retail accounts, causing depositors to seek increased yields through other investments. On December 31, 1993, certificates of deposit over $100,000 represented approximately 18% of total deposits compared to 16% at December 31, 1992 and 16% at December 31, 1991. Broker-originated deposits totaling $92.2 million, $12.9 million and $0 were included in certificates of deposit at the comparable periods.

FHLB Advances are another major source of funds. At December 31, 1993, 1992 and 1991, the outstanding balances were $326.4 million, $581.4 million and $325.0 million, respectively. The decreased use of FHLB Advances in 1993 as a source of funds results primarily from the use of commercial paper, which is less costly, as an alternative source of funds.

In an ongoing effort to diversify its funding source, the Bank started issuing commercial paper during the third quarter of 1992. The commercial paper is backed by a letter of credit from the FHLB to ensure a high quality investment grade rating. Fidelity's obligation to reimburse the FHLB for any amounts paid under the letter of credit is secured by a pledge of mortgage loans by Fidelity to the FHLB. At December 31, 1993, $239.0 million of net funds were provided by the issuance of commercial paper, compared to $65.0 million at December 31, 1992.

The Bank also enters into reverse repurchase agreements ("repos") whereby the Bank sells securities under agreements to repurchase the securities at a specific price and date. The Bank deals only with dealers judged by management to be financially strong or who are recognized as primary dealers in U.S. Treasury securities by the FRB. In 1993, $3.8 million of net funds were provided by repo activity.

Loan principal payments including prepayments, were a major source of funds in 1993, providing$290.0 million, compared to $469.0 million in 1992, and $408.0 million in 1991. It is anticipated that loan payments and prepayments will continue to be a major source of funds in the future.

Another source of operating funds is the proceeds from the sale of loans which totaled $138.4 million in 1993, compared to $204.4 million in 1992 and $282.7 million in 1991. Sales of loans are dependent upon various factors, including interest rate movements, investor demand for loan products, deposit flows, the availability and attractiveness of other sources of funds, loan demand by borrowers, desired asset size and evolving capital and liquidity requirements. In 1993, the Bank designated $321 million of adjustable rate mortgage loans as held for sale to enhance asset/liability management and liquidity. Due to the volatility and unpredictability of these factors, the volume of Fidelity's sales of loans has fluctuated significantly and therefore, an accurate estimate of future sales cannot be made at this time.

The sale of investment and mortgage-backed securities ("MBS") also provides operating funds to the Bank. During 1993, the Bank changed its investment strategy and as a result moved its entire portfolio of its investment and mortgage-backed securities securities from the investment portfolio to the held for sale portfolio. Sales of investment securities totaled $351.8 million for the year ended December 31, 1993, compared to no such sales in 1992 and $1.5 million in 1991. Sales of MBS totaled $522.1 million in 1993 compared to no such sales during 1992 and to $273.0 million in sales during 1991.

Sales of loans and securities from the held for investment portfolio would be caused by unusual events. The level of future sales, if any, is difficult to predict. During 1993, the Bank approved a policy of more active management of its investment portfolio with a view toward disposition of securities and loans with unfavorable risk/return profiles. This policy may result in loans being reclassified from held for investment to held for sale. Any subsequent sale of such loans would not generally be expected to result in any material gain or loss. The higher level of sales of loans and mortgage-backed securities in 1993 was from the Bank's held for sale portfolio and the result of efforts to reduce its asset size for capital planning purposes.

At December 31, 1993 and 1992, the Bank had $367.7 million and $26.5 million, respectively, of loans in its held for sale portfolio.

Fidelity's sources of cash are utilized in funding loans and investments, for payment of its debt obligations and in maintaining a liquidity ratio in compliance with regulatory requirements. Fidelity's total loans funded (excluding Fidelity's refinances) in the year ended December 31, 1993 were $383 million versus $386 million in the corresponding 1992 period. The Bank had commitments outstanding to originate $37.9 million in loans at market interest rates at December 31, 1993 compared to $37.5 million at December 31, 1992. In addition, the Bank had a total of $155.8 million at December 31, 1993 and $138.1 million at December 31, 1992 of unfunded loans in its pipeline.

The overall decline in the loan pipeline resulted from: (a) a decision by the Bank to limit multifamily loan originations in accordance with the Bank's more rigorous view of multifamily loans as, in fact, business loans which require considerably more scrutiny and continuous monitoring, (b) the restructuring associated with the development and implementation of the Bank's strategy in building a mortage banking division geared toward single family residential loan originations, (c) the development of independent originators for multifamily originations, and (d) a reduction in market demand for products Fidelity desired for its portfolio.

Fidelity also had $52.1 million in the unused balance of home equity credit lines at December 31, 1993, compared to $66.2 million at December 31, 1992 and $66.3 million at December 31, 1991. The decline in unused balances of home equity credit lines was due to a slowdown in new credit facility growth over the 1992 to 1993 period. New home equity credit lines totaled approximately $13.6 million, $26.9 million and $42.5 million for the years 1993, 1992 and 1991, respectively. The 49% decline in 1993 new home equity lines reflected significant levels of first trust deed refinancings as well as lower homeowner equity as single family housing appraisals fell from higher values of prior years. In May 1993, management implemented a new $300 home equity application fee which also contributed to a home equity volume reduction over the third and fourth quarters of 1992.

The OTS regulations require the maintenance of an average regulatory liquidity ratio of at least 5% of deposits and short-term borrowings. Fidelity's monthly average regulatory liquidity ratio was 8.8% and 5.3% for December 1993 and 1992, respectively. Fidelity's year-end liquidity ratios were 6.1% in 1993 and 5.7% in 1992. Both Fidelity's short-term and long-term cash flow forecasts indicate an adequate liquidity margin to meet foreseeable operational demands.

Fidelity maintains other sources of liquidity to draw upon if unforeseen circumstances should occur such as changes in regulatory liquidity, capital requirements, sudden deposit outflows or pending tax legislation. At December 31, 1993, these sources of liquidity included: (a) presently available line of credit from the FHLB of $201.7 million (assuming all of the $400 million capacity of commercial paper is used); (b) unused commercial paper facility of $96 million; (c) unpledged securities in the amount of $106.1 million available to be placed in reverse repurchase agreements or sold; and (d) unpledged loans of $1.4 billion, of which some portion would be available to collateralize additional FHLB or private borrowings or which may be securitized. In 1993, Fidelity received two capital contributions totaling $28.0 million from Citadel. See "Citadel" below for further discussion.

Citadel has limited cash assets and no material potential cash-producing operations or assets other than its investment in Fidelity and in Gateway Investment Services, Inc., its securities brokerage subsidiary ("Gateway"). In March 1993, Citadel issued 3,297,812 shares of common stock through a rights offering to stockholders and received net proceeds of approximately $31.4 million. Of this amount, Citadel contributed $18.0 million in March 1993 and $10.0 million in December 1993 to the capital of Fidelity and retained the balance for liquidity and working capital purposes. Gateway paid a dividend of $1.0 million to Citadel in December 1993. Citadel had $2.3 million in cash and cash equivalents at December 31, 1993. Because of Fidelity's current capital levels, dividends and distributions from Fidelity will not be available to Citadel for the foreseeable future. Thus, Citadel's current cash balances, together with future dividends from Gateway, are the only sources of cash to Citadel. Gateway's ability to pay dividends may be restricted by certain regulatory net capital rules. See Item 1. "Business--Regulation and Supervision--Gateway." Management believes that Citadel's cash resources will only be sufficient to meet Citadel expenditures through mid-1994. If the Restructuring is not completed at such time, Citadel will be required to raise additional cash to fund its expenditures, and no assurances can be given that Citadel will be able to raise any such funds.

The Bank entered into a Subordinated Loan Agreement dated as of May 15, 1990 (the "Subordinated Loan Agreement") pursuant to which $60 million in subordinated notes (the "Notes") are outstanding, which Notes are guaranteed by Citadel. The Subordinated Loan Agreement, among other covenants, contains a provision requiring Fidelity to maintain a consolidated tangible net worth at least equal to the greater of (a) $170 million plus 50% of consolidated net earnings since January 1, 1990, or (b) 3.25% of consolidated assets. As stated above, management anticipates that additional losses are likely to be incurred during 1994 and that, as a result, consolidated tangible net worth may be reduced to less than $170 million during the first quarter of 1994. However, management's projections for 1994 indicate that the Bank's consolidated tangible net worth will remain above the net worth requirement under the foregoing clause (a) through the first quarter of the year, assuming the formula in clause (a) permits a reduction of the $170 million test if a consolidated net loss has been sustained since January 1, 1990. Under this interpretation, the amount of consolidated tangible net worth necessary to meet the requirement of clause (a) would be $153.9 million at December 31, 1993 and would be further reduced by 50% of all losses during 1994. The amount of consolidated tangible net worth necessary to meet the requirement of clause (b) was less than $153.9 million at December 31, 1993. As of December 31, 1993, the Bank's consolidated tangible net worth amounted to $180.2 million. Management's projections for the balance of 1994 indicate that the Bank's consolidated tangible net worth will remain above the net worth requirement under the test of either clause (a) (assuming it is interpreted as described above) or clause (b) only if the Restructuring is accomplished or other capital-raising efforts are successful.

The holders of the Notes could take the position that the amount under clause (a) may not be reduced by losses to less than $170 million. Under that position, Fidelity would be in violation of the covenant as soon as consolidated tangible net worth were reduced to less than $170 million. Management believes that such position is not correct; however, there can be no assurance that such position would not prevail if the issue were ever tested in court. If the above covenant were violated, the holders of 66 2/3% in aggregate principal amount of the Notes would be entitled to declare the entire amount of the Notes immediately due and payable. However, if such acceleration would result in the Bank's failure to meet applicable regulatory capital requirements, the holders would be prohibited from accelerating the Notes without the prior approval of the OTS. If the Bank failed to make such payment, Citadel would be required to make such payment under its guarantee of the Notes. Management anticipates that Citadel's funds would be insufficient to make such payment, unless additional funds were raised.

The holders of the Notes have power of approval over certain matters, including certain asset sales, and may require a repurchase of the Notes upon a "Significant Event." Management believes that neither the approval of the holders nor a Significant Event repurchase offer would be required for consummation of the proposed Restructuring if an acquiror of the Bank has outstanding, immediately prior to the closing of the Restructuring, unsecured debt with a credit rating of BBB or better by Standard & Poor's Corporation or Baa2 or better by Moody's Investors Service, Inc. and various financial tests are satisfied after giving effect to the Restructuring. However, should the Restructuring be found to trigger the Significant Event repurchase requirement, Fidelity could be required to pay the principal balance of the Notes of $60 million plus accrued interest and a premium of approximately $12.8 million (calculated as of December 31, 1993). Also, if the consent of the holders should be required under any of the covenants of the Subordinated Loan Agreement but not be obtained, an event of default would occur under the Subordinated Loan Agreement (subject to grace or cure periods in the case of certain covenants) if the Restructuring is completed.

On March 4, 1994, Chase Manhattan Bank, N.A. ("Chase"), one of four lenders under the Subordinated Loan Agreement, sued Fidelity, Citadel and Citadel's Chairman of the Board, alleging, among other things, that the transfer of assets pursuant to the Restructuring would constitute a breach of the Subordinated Loan Agreement, including the tangible net worth and various other financial tests contained therein, and seeking to enjoin the Restructuring and to recover damages in unspecified amounts. In addition, the lawsuit alleges that past responses of Citadel and Fidelity to requests by Chase for information regarding the Restructuring violate certain provisions of the Subordinated Loan Agreement and that such alleged violations, with the passage of time, have become current defaults under the Subordinated Loan Agreement. While the other three lenders under the Subordinated Loan Agreement hold $25 million of the Notes, none of them has joined Chase in this lawsuit. The Company is evaluating the lawsuit and, based on its current assessment, the Company does not believe that the allegations have merit.

Any violation of the tangible net worth covenant or the occurrence of any other event of default under the Subordinated Loan Agreement would also result in a cross default under Fidelity's debt agreements with the FHLB (whether or not the Notes are accelerated) and entitle the FHLB to declare all amounts outstanding to become immediately due and payable. Also, the FHLB may elect not to make further Advances to the Bank and may prevent the Bank from issuing further commercial paper under its existing facility.

ASSET QUALITY

The Bank continues to be principally involved in the Southern California single family and multifamily (2 units or more) residential lending businesses. At December 31, 1993, 20.8% of Fidelity's total loan portfolio (including loans held for sale) consisted of California single family residences while another 71.2% consisted of California multifamily dwellings. At December 31, 1992, 21.1% of Fidelity's loan portfolio consisted of California single family residences and 70.2% consisted of California multifamily dwellings. Current Southern California economic conditions have adversely impacted the credit risk profile of the Bank's loan portfolio.

The Company's performance continues to be adversely affected by increased foreclosure activities of the Bank reflecting the continued weakness of the Southern California economy and a depressed real estate market. Nonperforming assets increased slightly to $235.6 million at December 31, 1993 from $234.4 million at December 31, 1992. Classified assets increased from $353.7 million in 1992 to $372.5 million at December 31, 1993. Troubled debt restructuring declined by $58.6 million in 1993 to $28.7 million as of December 31, 1993 compared to $87.3 million at December 31, 1992. Asset quality details of Fidelity are as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Nonperforming Assets ("NPAs"):		
Nonaccruing loans	$ 93,475	$112,041
ISF	28,362	47,324
Foreclosed real estate	122,226	88,659
REO GVA	(8,442)	(13,619)
Total NPAs	$235,621	$234,405
Nonaccruing loans to total assets	2.13%	2.38%
NPAs to total assets	5.37%	4.99%
NPAs and Troubled Debt Restructuring ("TDR"):		
NPAs	$235,621	$234,405
Classified TDRs	23,650	44,308
Nonclassified TDRs	5,062	42,996
Total NPAs and TDRs	$264,333	$321,709
TDRs to total assets	0.65%	1.86%
NPAs and TDRs to total assets	6.03%	6.85%
Classified Assets:		
NPAs	$235,621	$234,405
Performing loans with increased risk	125,720	108,442
Real estate held for investment	11,161	10,891
Total classified assets	372,502	353,738
Criticized assets (Special Mention assets)	199,826	146,411
Total classified and criticized assets	$572,328	$500,149
Classified assets to total assets	8.49%	7.53%
Classified and criticized assets to total assets	13.05%	10.65%
Nonperforming Asset Ratios:		
REO (including ISF) to NPAs	60.33%	52.20%
Foreclosed real estate to NPAs	48.29%	32.01%
Nonaccruing loans to NPAs	39.67%	47.80%
ISF to NPAs	12.04%	20.19%

There was a marked shift in the composition of NPAs in 1993. Foreclosed real estate increased from 32.0% of NPAs at December 31, 1992 to 48.3% at December 31, 1993 while nonaccruing loans and in-substance foreclosures declined from 68.0% to 51.7% in the same time period. This shift may be an indicator that the problem assets are working their way through the system toward eventual resolution. However, as stated previously, the Southern California economy remains weak and no assurance can be made that problem assets will not increase in the future.

Loans are categorized as ISF based upon meeting all of the following three criteria: (a) the borrower currently has little or no equity at fair market value in the underlying collateral, (b) the only source of repayment is the property securing the loan, and (c) the borrower has abandoned the property or will not be able to rebuild equity in the foreseeable future. The Bank generally places a loan on nonaccrual status whenever the payment of interest is 90 or more days delinquent, or earlier if a loan exhibits materially deficient characteristics.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan." This statement prescribes the recognition criteria for loan impairment and the measurement methods for certain impaired loans and loans whose terms are modified in TDRs. SFAS No. 114 defines a loan as impaired when it is probable that a creditor will be unable to collect all principal and interest amounts due according to the contracted terms of the loan agreement. This statement also clarified the existing accounting for ISFs by stating that a collateral dependent real estate loan would be reported as REO only if the lender had taken possession of the collateral.

Additionally, in June 1993, the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board and Office of Thrift Supervision issued a joint statement providing interagency guidance on the reporting of ISFs. This joint statement clarified that losses must be recognized on real estate loans that meet the existing ISF criteria based on fair value of the collateral, but such loans need not be reported as REO unless possession of the underlying collateral has been obtained. The Company intends to adopt SFAS No. 114 as of January 1, 1994. As the Bank already measures impairment based on the fair value of the collateral, the estimated impact of such application will consist of a reclassification of ISFs on the statement of financial condition from REO to loans. This reclassification will also result in an increase in nonaccrual loans. As NPAs consist of nonaccrual loans plus REO, this shift from ISF to nonaccrual loans will not affect the level of NPAs. At December 31, 1993 and 1992, the amount of ISFs totaled $28.4 million, and $47.3 million, respectively. This shift would not have had a material impact on the results of operations had this standard been in effect at December 31, 1993.

The Bank has modified the terms of certain loans that resulted in those loans being defined as TDRs according to SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings". TDRs represent loans that are current as to payment of principal and interest, but have had their terms renegotiated to a more favorable position for the borrower due to an inability to meet the original terms of the note. Troubled debt restructurings decreased by $58.6 million during 1993 as a number of borrowers were either able to return to the original payment terms at the expiration of the modification period or the loans migrated to nonperforming loans or REO. The average loan balance of loans being modified has also declined, further reducing TDRs.

Classified assets consist of NPAs and all other assets classified for internal and regulatory purposes, including other assets that are currently performing, but exhibit deficiencies that indicate the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected ("performing loans with increased risk"). Classified assets are assigned to one of the following three categories in the order of increasing credit risk: (a) Substandard - an asset with well-defined weaknesses characterized by a distinct possibility that some loss will be sustained if the weaknesses are not corrected, (b) Doubtful - an asset which has all the weaknesses of a Substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable, and (c) Loss - an asset, or portion thereof, considered uncollectible and of such little value that a loss classification is warranted; the amount identified as loss can be charged off or a specific reserve established for the amount considered uncollectible. As of December 31, 1993, classified assets were $372.5 million (8.49% of total assets), increasing from $353.7 million (7.53% of total assets) at December 31, 1992 and $228.4 million (4.46% of total assets) as of December 31, 1991. The increase in classified assets in 1993 consisted primarily of a sharp increase in performing loans with increased risk.

The increase in classified assets in 1992 primarily consisted of the increase in NPAs of $109.7 million and the increase of performing loans with increased risk of $19.3 million (primarily attributed to 25 multifamily residential loans in Southern California and two commercial and industrial complexes in Southern California).

In addition to classifying assets, the Bank also designates certain assets as Special Mention which are considered criticized assets but not classified as they do not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification. However, they do possess credit deficiencies or potential weaknesses deserving management's close attention. If uncorrected, such weaknesses or deficiencies may expose an institution to an increased risk of loss in the future.

Criticized assets consist of loans on 1 to 4 unit properties which are 60 to 89 days delinquent and on other multifamily properties (5 units and over) which are 30 to 89 days delinquent, assets in bankruptcy less than 60 days delinquent, and all other assets otherwise criticized for internal or regulatory purposes. Total criticized assets increased by $53.4 million during 1993 due to an increase in delinquent loans and loans having delinquent property taxes and as the result of increased internal review.

Total loan delinquencies decreased by $3.8 million during 1993. This decrease was due primarily to the migration of loans delinquent 90 days and over to REO.

The following table illustrates the trend of delinquencies of the respective loan portfolios:

NET LOAN DELINQUENCIES TO NET REAL ESTATE LOAN PORTFOLIO

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Delinquencies by number of days:		
30 to 59 days	0.92%	0.82%
60 to 89 days	0.64	0.39
90 days and over	2.15	2.36
Loan delinquencies to net loan portfolio	3.71%	3.57%
Delinquencies by property type:		
Single family:		
30 to 59 days	$ 7,480	$ 7,939
60 to 89 days	2,497	3,665
90 days and over	12,661	14,064
	22,638	25,668
Percent to respective loan portfolio	2.85%	3.00%
Multifamily (2 to 4 units):		
30 to 59 days	3,599	1,432
60 to 89 days	1,707	1,180
90 days and over	15,652	6,372
	20,958	8,984
Percent to respective loan portfolio	4.16%	1.70%
Multifamily (5 to 36 units):		
30 to 59 days	16,948	15,927
60 to 89 days	12,770	9,241
90 days and over	34,746	33,627
	64,464	58,795
Percent to respective loan portfolio	3.60%	3.13%
Multifamily (37 units and over):		
30 to 59 days	4,114	5,623
60 to 89 days	5,035	1,223
90 days and over	4,358	23,691
	13,507	30,537
Percent to respective loan portfolio	3.35%	6.89%
Commercial & Industrial:		
30 to 59 days	2,048	1,807
60 to 89 days	1,723	--
90 days and over	12,443	15,772
	16,214	17,579
Percent to respective loan portfolio	5.45%	5.05%
Total loan delinquencies, net	$137,781	$ 141,563

California has been hit particularly hard by the current recession and Southern California has experienced the brunt of the economic downturn in the state. While the rest of the nation is experiencing a modest economic recovery, the Southern California economy remains sluggish with higher unemployment than elsewhere in the country and real estate values that continue to deteriorate. There can be no assurances that these economic conditions will improve in the near future. Consequently, rents and real estate values may continue to decline which may affect future delinquency and foreclosure levels and may adversely impact the Bank's asset quality, earnings performance and capital.

The Bank recorded additions to its allowances for estimated loan losses and real estate losses totaling $95.3 million during 1993 compared to $69.0 million in 1992. The total allowances for such losses consist of the sum of the GVA for both loans and real estate and all specific loss reserves for assets classified as "Loss." These provisions have been made in response to continuing deterioration of the Bank's loan portfolio. In the opinion of the Bank, this deterioration is caused by the decline in apartment occupancy levels and of rents available to apartment owners in Southern California; downward revisions in projections as to inflation and rental income growth; the increased returns currently being required by purchasers of multifamily income-producing properties; announced cutbacks in public sector spending; the general illiquidity in the Southern California market for multifamily income-producing properties; and the continuing high level of unemployment in and migration of skilled and white collar labor from Southern California. The Bank's combined GVA for loan and real estate losses at December 31, 1993 was $80.0 million or 2.03% of total loans and real estate up from $75.6 million or 1.82% at December 31, 1992 and $52.4 million or 1.13% at December 31, 1991.

The following table summarizes Fidelity's reserves, writedowns and certain coverage ratios at the dates indicated:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Loans:		
GVA	$ 71,578	$ 60,802
Specific reserves	12,254	3,475
Total allowance for estimated losses	$ 83,832	$ 64,277
Writedowns(1)	$ 4,251	$ 5,574
Total allowance and loan writedowns to gross loans	2.32%	1.72%
Loan GVA to loans and ISF	1.88%	1.49%
Loan GVA to nonaccruing loans and ISF	58.75%	38.15%
Nonperforming loans to total loans	2.52%	2.83%
Owned Real Estate (including ISF and real estate held for investment):		
REO GVA	$ 8,442	$ 13,619
GVA on real estate held for investment	--	1,200
Specific reserves	9,273	1,631
Total allowance for estimated losses	$ 17,715	$ 16,450
Writedowns(1)	$ 90,901	$ 79,041
Total REO allowance and REO writedowns to gross REO	37.41%	34.97%
REO GVA to REO (excluding ISF)(2)	6.91%	15.36%
Total Loans and REO:		
GVA	$ 80,020	$ 75,621
Specific reserves	21,527	5,106
Total allowance for estimated losses	$ 101,547	$ 80,727
Writedowns(1)	$ 95,152	$ 84,615
Total allowance and writedowns to gross loans and REO (including ISF)	4.87%	3.88%
Total GVA to loans and REO (including ISF)(2)	2.03%	1.82%
Total GVA to NPAs(2)	32.79%	30.49%

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(1) Writedowns include cumulative charge-offs taken on outstanding loans and REO as of the date indicated.

(2) Loans, REO and NPAs in these ratios are calculated prior to the reduction for loan and REO GVA, but are net of specific reserves.

During current market conditions, the Bank rarely sells REO for a price equal to or greater than the loan balance, and the losses suffered are impacted by the market factors discussed elsewhere in this report. REO is recorded at acquisition at the lower of the recorded investment in the subject loan or the fair market value of the assets received. The fair market value of the assets received is based upon a current appraisal adjusted for estimated carrying, rehabilitation and selling costs. The Bank's policy has been generally to proceed promptly to market the properties acquired through foreclosure, and the Bank often makes financing terms available to buyers of such properties. Generally, the Bank experiences higher losses on sales of REO properties for all cash, as opposed to financing the sale. However, by financing the sale, the Bank incurs the risk that the loan may not be repaid. During 1993, the Bank sold 210 REO properties for net sales proceeds of $83.5 million, with a gross book and net book value totaling $138.5 million and $89.8 million, respectively. This compares to 43 properties sold in 1992 for net sales proceeds of $25.6 million, with a gross book and net book value of $34.9 million and $27.6 million, respectively. The loss on sale of REO (i.e., the shortfall between the net proceeds and net book value) is charged to the REO GVA upon sale.

The Company is pursuing its Restructuring plan, including the possible transfer of a significant portion of certain Fidelity assets (including substantially all of its problem assets). As a result of such plan the Bank is not currently marketing the assets expected to be transferred in the Restructuring transaction, and thus a slowdown from the rate at which REO properties were disposed in 1993 can be expected in the first half of 1994.

During 1993, 1992 and 1991, the Bank charged off a total of $79.4 million, $41.2 million and $25.6 million, respectively, on loans and on real estate owned. The following table indicates the charge-offs and recoveries by property type for the respective years:

	YEAR ENDED DECEMBER 31,					
	1993		1992		1991	
	NUMBER OF PROPERTIES	TOTAL	NUMBER OF PROPERTIES	TOTAL	NUMBER OF PROPERTIES	TOTAL
	(DOLLARS IN MILLIONS)					
Charge-offs:						
Properties in California:						
Multifamily (2 units and over)....................	311	$70.8	92	$27.8	12	$ 4.6
Commercial................	11	3.9	11	9.6	3	0.3
Single family residences..	64	3.5	36	1.7	4	0.1
Single family development projects.................	--	--	--	--	2	5.5
Hotels....................	1	0.9	--	--	3	2.9
Out-of-state properties:						
Commercial................	2	0.3	2	2.1	2	3.8
Hotels....................	--	--	--	--	2	7.4
Multifamily (2 units and over)....................	--	--	--	--	3	1.0
Total charge-offs..........	389	79.4	141	41.2	31	25.6
Recoveries..................	129	5.0	13	0.5	11	3.0
Net charge-offs...........		$74.4		$40.7		$22.6

The following table presents loan and REO charge-offs by property type and year of loan origination for the year ended December 31, 1993:

	YEAR OF ORIGINATION						
	TOTAL	1992	1991	1990	1989	1988	1979 TO 1987
	(DOLLARS IN MILLIONS)						
PROPERTY TYPE:							
Single Family..................	$ 3.5	$ --	$0.3	$ 2.1	$ 0.8	$ 0.3	$ --
Multifamily:							
2 to 4 units.................	5.0	--	0.1	3.6	0.8	0.4	0.1
5 to 36 units.................	44.0	0.1	6.0	21.7	7.4	4.5	4.3
37 units and over............	21.8	--	0.8	9.1	0.9	5.0	6.0
Total multifamily...........	70.8	0.1	6.9	34.4	9.1	9.9	10.4
Commercial and industrial......	5.1	--	--	--	0.5	1.1	3.5
Total charge-offs...........	$79.4	$0.1	$7.2	$36.5.	$10.4	$11.3	$13.9

The following table presents loan and REO charge-offs by property type and year of loan origination for the year ended December 31, 1992:

	YEAR OF ORIGINATION					
	TOTAL	1991	1990	1989	1988	1977 TO 1987
	(DOLLARS IN MILLIONS)					
PROPERTY TYPE:						
Single Family......................	$ 1.7	$0.2	$ 1.1	$0.3	$ --	$ 0.1
Multifamily:						
2 to 4 units......................	2.2	--	1.9	0.3	--	
5 to 36 units.....................	12.4	0.2	7.7	2.1	0.3	2.1
37 units and over.................	13.2	0.7	1.6	3.5	4.0	3.4
Total multifamily................	27.8	0.9	11.2	5.9	4.3	5.5
Commercial and industrial..........	11.7	--	0.7	--	0.7	10.3
Total charge-offs................	$41.2	$1.1	$13.0	$6.2	$5.0	$15.9

The following table presents Fidelity's real estate loan portfolio (including loans held for sale) as of December 31, 1993 by year of origination and type of security:

	YEAR OF ORIGINATION							
	TOTAL	1993	1992	1991	1990	1989	1988	1987 AND PRIOR
	(DOLLARS IN THOUSANDS)							
Property type:								
Single family..........	$ 792,054	$118,802	$ 54,035	$ 40,417	$105,854	$ 73,466	$149,435	$ 250,045
Multifamily:								
2 to 4 units.........	505,219	36,822	23,892	50,069	139,430	77,837	100,182	76,987
5 to 36 units........	1,795,374	92,798	118,176	205,279	479,998	216,091	273,376	409,656
37 units and over....	406,330	12,861	15,753	8,049	59,566	75,111	62,990	172,000
Total multifamily..	2,706,923	142,481	157,821	263,397	678,994	369,039	436,548	658,643
Commercial and industrial............	300,589	1,332	815	1,821	11,532	53,936	65,239	165,914
Total mortgage loans receivable..	$3,799,566	$262,615	$212,671	$305,635	$796,380	$496,441	$651,222	$1,074,602
Loans by year of origination to total...	100.0%	6.9%	5.6%	8.0%	21.0%	13.1%	17.1%	28.3%

During the years 1990, 1989 and 1988, Fidelity originated loans at peak levels totaling $1,211.3 million, $897.6 million and $1,467.1 million, respectively. During 1993, the Bank reserved and/or charged off amounts corresponding to these peak origination years totaling $36.5 million, $10.4 million and $11.3 million, respectively. These losses were due primarily to the decline of the California economy and real estate market. Multifamily (5 or more units) and commercial loans accounted for a substantial percentage of such losses, and as a result, the Bank has reduced recent loan origination activities in these areas. However, continued downward pressure on the economy and real estate market could lead to additional losses in these portfolios.

The ongoing uncertainty in the Southern California economy, the weak real estate market and the level of the Bank's nonperforming assets continue to be significant concerns to the Company. The Bank increased the staff of the Real Estate Asset Management ("REAM") Group in 1993 from 13 to 40 in order to handle the increased number of foreclosed properties and the increased volume of loan workout requests. In 1993, the REAM Group sold 210 properties, generating net sales proceeds of $83.5 million and restructured109 loans with an aggregate gross book value of $89.1 million. These increased loan workout activities are expected to continue in 1994, due primarily to the January 1994 Northridge Earthquake, property tax delinquencies and the continued soft real estate market. The REAM Group will shift its focus to bulk sales transactions in 1994 and concentrate its efforts on the "hands on" management of its real estate assets. All of these factors may require additional loss provisions, as the Bank performs its quarterly reviews of the adequacy of its allowance for estimated losses on loans and real estate, based upon the then current economic environment.

If economic conditions in Southern California do not improve and delinquent loans continue at current levels, it is likely that Fidelity will need to establish further reserves in 1994. If the trend continues, no assurances can be given that potentially significant additional reserves will not be needed in future periods.

As of December 31, 1993, Fidelity's 15 largest borrowers accounted for $226.7 million of gross loans. A number of these borrowing relationships also include Fidelity's largest loans. Details of these relationships follow:

BORROWER	NUMBER OF LOANS	TOTAL AMOUNT OF LOANS	LARGEST SINGLE LOAN
1	46(1)	$ 31,486(2)	$9,934
2	9	27,340(2)	11,122
3	3	23,880	15,081
4	3	20,714(2)	13,912
5	55	16,159	6,570
6	1	13,929	13,929
7	3	13,810	13,682
8	2	11,355	5,845
9	3	11,057	6,826
10	1	10,253	10,253
11	9	10,229(2)	3,484
12	1	10,056	10,056
13	1	9,276	9,276
14	3	8,765(2)	7,550
15	5	8,404	3,101
		$226,713	

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(1) Includes 9 loans totaling $8.0 million that were considered as ISF as of December 31, 1993.

(2) Amounts are shown net of participations.

Fidelity's 10 largest loans aggregated $114.8 million at December 31, 1993, of which $21.1 million was classified as Substandard and $37.9 million was listed as Special Mention. As of December 31, 1993, 3 of Fidelity's 5 largest borrowers and 4 of Fidelity's 15 largest borrowers had loans either considered nonperforming or performing with increased risk.

At December 31, 1993, Fidelity had approximately $31.5 million total loans outstanding (including 9 loans designated as ISF) to its largest borrower on 46 loans secured by multifamily apartment dwellings located in the San Gabriel Valley and eastern Los Angeles areas. Of the total loans, $24.1 million were classified as Substandard, including the 9 loans considered ISF. Fidelity began discussions with the borrower regarding modifications in mid-1993. In January 1994, Fidelity completed the restructure of $3.3 million of loans and is continuing the modification process with the remaining loans.

During 1992, Fidelity's second largest borrower was in default on eight of that borrower's nine loans. Six of the eight defaulted loans were restructured in 1992 allowing the borrower to make interest only payments through the end of 1992. The remaining two loans in default were modified in February 1993 to include interest only payments through June 1993. These two loans were classified as Substandard and identified as TDRs. As of December 31, 1993, seven of the loans totaling $24.6 million were 29 days delinquent and one totaling $2.1 million was 59 days delinquent. At December 31, 1993, 5 loans totaling $17.2 million were classified as Substandard. Fidelity has entered into a forebearance agreement with the borrower whereby Fidelity agreed not to instigate foreclosure proceedings against the borrower's eight properties securing the loans until February 28, 1994, in exchange for $150,000. Fidelity is currently pursuing a workout arrangement with the borrower. However, the January 1994 Northridge Earthquake has further complicated the situation, as several of the borrower's properties are located in the most severely damaged areas. In January 1994, an additional 3 loans totaling $9.5 million were moved to the Substandard classified loans, for a total of 8 loans and $26.7 million.

It is the Bank's practice to review the adequacy of its GVA on loans and real estate owned on a quarterly basis. The Bank uses two methodologies in determining the adequacy of its GVA. These are delinquency migration and classification methods. The delinquency migration method attempts to capture the potential future losses as of a particular date associated with a given portfolio of loans, based on the Bank's own historical experience over a given period of time, in a 4-step process: first, estimate the percentage of a given portfolio of performing loans which will become newly delinquent; second, evaluate the probability that new delinquent loans will become REO; third, calculate the historical loss ratio on REO and other problem loans; and fourth, derive the resulting potential losses for the portfolio of performing loans by multiplying the corresponding potential amount of REO with the reserve factor.

The likelihood that new delinquent loans will become REO is estimated historically by tracing the percentage of the balances of a given set of new delinquent loans that have migrated toward an increasingly worse credit status: i.e., the percentage of the balances of 30 to 59 days delinquent loans that have become 60 to 89 days delinquent; then the percentage of the balances of these loans that have become at least 90 days delinquent; and the percentage of the balances of these loans which have become REO. To ensure that the historically derived percentages are calculated on a consistent basis, only those loans that have become newly delinquent are traced through the different stages of delinquencies all the way to REO.

The total projected loss associated with a given portfolio of performing and nonperforming loans and REO is calculated by summing the losses corresponding to each credit status category at a given point in time. The result is sensitive to a number of factors, including the historical period over which the estimates are derived; the growth pattern of the portfolio, the composition of the portfolio and the stability of the underwriting criteria over the period covered.

The Bank has derived migration statistics over past periods and updates them quarterly to take into account the most recent trends. The Bank has applied the results of such methodology with respect to the December 31, 1993 financial statements and the Bank updates its analysis quarterly. The Bank has observed an increasing delinquency trend as a percentage of the net real estate loan portfolio and during 1993, as property values deteriorated, the resulting historical loss ratios increased. Continuation of these trends may increase the historical loss ratios in 1994.

The second methodology for determining the adequacy of GVA is the classification method. During 1993, the Bank utilized this approach to analyze classifications including Pass, Special Mention, Substandard, Doubtful and Loss. A reserve factor is applied to each aggregate classification level by asset collateral type in an effort to estimate the loss content in the portfolio. The Company's actual loss experience with Pass and Special Mention assets is 0.0% while the actual loss experience on Substandard assets is 23.5%. Again, the Company has observed an increase of classified loans at all levels which will inevitably lead to increased estimates of loss exposure under this method. See Item 1. "Business--Regulation and Supervision--Classification of Assets."

Each quarter, the Bank calculates a range of loss using both methodologies. Once a range is established, the Company applies judgment and a knowledge of particular credits, trends in the market, and other factors to estimate the GVA amount. As of December 31, 1993, the Bank's GVA was approximately $80.0 million.

Once a GVA is estimated, the Bank applies three separate stress tests to the portfolio to analyze the ability of the Bank to maintain adequate capital levels under different economic scenarios. This process is considered appropriate given the weak economy and the unstable market in which the Bank operates. The scenarios range from mild change (continuation of current rates of loss migration and expected percentage loss estimates) to severe change (the worst experience in the 1980s in Texas and Arizona). The Bank's peak loan balance was reached in late 1990 and early 1991. The stress tests assume the losses in the peak portfolio will be experienced for the most part over a five-year cycle and that three years of this cycle has lapsed. The peak portfolio performance is stressed with a variety of projected levels of NPA, REO, and loss on sale of REO. Projected losses are first absorbed by current levels of GVA, then by forecasted Company earnings over the remaining three years of the assumed cycle. Tangible capital ratios are then calculated for each of the economic scenarios. At December 31, 1993, these studies showed the Company could maintain capital in excess of the 1.5% minimum required level of tangible capital under the capital regulations and the 2.0% level of tangible equity to total assets required to avoid being "critically undercapitalized," as defined by the OTS regulations implementing the FDICIA prompt corrective action requirements. See "Capital Resources and Liquidity" and Item 1. "Business--Regulation and Supervision--FDICIA Prompt Corrective Action Requirements." The foregoing exercise is only a test, based on assumptions that can change at any time. There can be no assurance that the Bank would be allowed to operate independently if its tangible capital began to approach the minimum required levels.

If the OTS disagrees with management's assessment of the adequacy of such reserves, it can effectively require Fidelity to increase its reserves to levels satisfactory to the OTS. The Bank increased its GVA for losses on loans and real estate to approximately $80.0 million at year-end 1993 from its third quarter 1993 level of approximately $71.0 million in part to address OTS concerns regarding the Bank's asset quality. If the Restructuring is not successful and the Bank has no viable problem asset disposition alternative, the Bank anticipates that it may be required to increase its GVA to higher levels that cannot currently be determined.

Approximately 71.1% of Fidelity's loan portfolio consisted of loans secured by multifamily properties at December 31, 1993. Although, in the view of the Bank, this portfolio is less sensitive to the effects of the recession than those of institutions which have emphasized commercial and/or construction lending, it is likely to be more sensitive than the portfolios of institutions which have placed greater emphasis on single family residential lending.

IMPACT OF INFLATION

The Company's assets and liabilities are primarily monetary in nature and are affected most directly by changes in interest rates rather than other elements of the Consumer Price Index. As a result, increases in the prices of goods and services do not have a significant impact on the Company's results of operations.

INTEREST RATE RISK MANAGEMENT

Prevailing economic conditions, particularly changes in market interest rates, as well as governmental policies and regulations concerning, among other things, monetary and fiscal affairs, significantly affect interest rates and a savings institution's net interest income. Fidelity actively manages its assets and liabilities in an effort to mitigate its exposure to interest rate risk, but it cannot eliminate this exposure entirely without unduly affecting its profitability. As is the case with many thrift institutions, Fidelity's deposits historically have matured or repriced more rapidly than its loans and other investments, and consequently, increases in market interest rates have tended to reduce Fidelity's net interest income, while decreases in market interest rates have tended to increase its net interest income.

Fidelity's interest rate risk ("IRR") management plan is aimed at maximizing net interest income while controlling interest rate risk exposure in terms of market value of portfolio equity, consistent with the objectives and limits set by the Board of Directors and applicable regulations. Financial institutions, by their funds intermediation function, gather deposits which have a different duration than the loans that they originate, i.e., interest rate risk exposure is an inherent characteristic of the banking business. The IRR management plan is designed to maintain interest rate exposure within target limits. Elimination of interest rate risk is usually not cost effective; while excess exposure could result in additional capital requirements.

There are two ways by which Fidelity maintains its exposure profile within satisfactory limits: first, by explicitly changing the composition of its balance sheet; second, by the use of financial instruments, often in the form of off-balance sheet derivative products. The extent to which Fidelity elects to use either or both of these methods will depend on the observed preferences of its customers, time horizon of its objectives (short-term versus long-term objectives), conditions in the financial markets (especially volatility of interest rates and steepness of the yield curves), its operating characteristics and the associated cost/benefit tradeoffs.

In accordance with the Company's IRR management plan, the Company continues to monitor its interest rate risk position and to maintain its sensitivity to rate changes within desired limits. The balance sheet strategies consist of reducing basis risk by adding market index loans to the asset portfolio and decreasing liability sensitivity by encouraging growth of its transactions account base. The Bank provides products to meet its customers' needs. The Bank uses derivative products and changes its asset mix to maintain its desired risk profile in response to changing customers' preference.

The Company continues to naturally reduce its IRR exposure by originating ARM loans for its portfolio. Since 1985, the Company has consistently moved toward building a portfolio consisting predominantly of interest rate sensitive loans. ARM loans comprised 96% of the portfolio of total loans at December 31, 1993, 1992 and 1991. The percentage of monthly adjustable ARMs to total loans was 75% at December 31, 1993, 74% at December 31, 1992, and 72% at December 31, 1991. Interest sensitive assets provide the Company with long-term protection from rising interest rates.

The Bank is also emphasizing the growth of its transaction account base to reduce its overall cost of funds. The ratio of retail transaction accounts, money market savings and passbook accounts to total deposits decreased to 21.6% at December 31, 1993 from 24.3% at December 31, 1992 and increased from 19.4% at December 31, 1991.

At December 31, 1993, the Company had synthetic hedges with a total notional principal amount of $250 million. These were composed of interest rate swap contracts with an average receive rate of 4.84% and a current pay rate of 3.43%. These contracts support the Bank's total risk management by lengthening certain short-term assets and shortening certain long-term liabilities.

In 1993, the Bank had also sold options to enter into swap contracts with a notional principal amount of $200 million. These options give the buyers the right to cancel the swap agreements at a specified future date and if not cancelled, provide the Bank with additional synthetic hedges. During the life of the agreement, the Bank receives a fixed interest rate and pays a floating interest rate tied to LIBOR. At December 31, 1993, the average fixed receive rate was 5.00% and the average pay rate was 3.34%. The swap options were held as trading positions during the option period and were carried at market value with gains and losses recorded. In January 1994, the options to cancel were not exercised and the average fixed receive rate adjusted to 4.70%. The swaps have remaining maturities of less than four years.

In 1990, the Company purchased interest rate caps to protect against rising rates. In 1993, the final $400 million of interest rate caps matured and were not renewed. During 1992 and the first 6 months of 1993, the average maturity of the Company's liabilities lengthened, due primarily to customer preference for longer term CDs. To maintain its target risk position, the Company entered interest rate swap contracts to synthetically shorten the maturity of these liabilities.

The Company's maturity and repricing mismatch ("Gap") between interest rate sensitive assets and liabilities due within one year was a negative 3.38% and a positive 6.12% of total assets at December 31, 1993 and 1992, respectively. A positive gap indicates an excess of maturing or repricing assets over such liabilities while a negative gap indicates an excess of maturing or repricing liabilities over such assets. However, Gap is not a particularly helpful measure of IRR exposure, because of four major deficiencies: (a) Gap assumes that both assets and liabilities react immediately to market rate changes although loans usually reprice to an index that is approximately two months old and therefore cannot immediately react to current rates; (b) Gap assumes that all instruments react fully to market rates, whereas loans tied to COFI or other lagging indices can take many months to fully adjust to market rate changes; (c) Gap assumes that there will be no change in repricing behavior caused by a change in interest rates and, in reality, prepayment speed, amortization schedules and early withdrawal are all impacted by changes in rate; and (d) finally, Gap does not consider periodic rate caps and floors. Consequently, the Company does not use Gap as an IRR measurement and management tool. Instead, it uses a scenario-based approach which measures bankwide risk and a probabilistic approach for specific products. The Bank regularly analyzes scenarios that contemplate low, expected and high inflation. The Bank also complies with OTS requirements for interest rate shock scenarios (immediate permanent change in interest rates of various levels). For product and option valuation, the Bank employs a Monte Carlo simulation model (one that assumes random variation in interest rates) to measure and evaluate risk and return trade-offs.

The Company's IRR management plan is reviewed on a continuing basis. As previously discussed, the Bank's interest rate risk is less than half of the OTS limit. See "Capital Resources and Liquidity." Even at this lower risk level, due to the lag effect that COFI has on Fidelity's loan portfolio the decline in short-term rates from 1990 to early 1993 contributed significantly to the Company's net interest margin. Recent stable rates have eroded this margin, and an increase in rates could produce an initial reduction in net interest income. Management intends to continue to manage its IRR exposure through introducing products tied to indices that reprice without a timing lag and by using hedging techniques.

The following table of projected maturities and repricings details major financial asset and liability categories of the Company as of December 31, 1993. Projected maturities are based on contractual maturities as adjusted for estimates of prepayments and normal historical amortization. (Prepayment estimates are based on recent portfolio experience of approximately 15% Constant Prepayment Rate ("CPR") on all residential 1 to 4 unit loans and 10% on all other loans.) While the estimated prepayment rates utilized are based on the best information available to the Company, there can be no assurance that the projected rates used in developing this table will coincide with the actual results.

MATURITY AND RATE SENSITIVITY ANALYSIS

	AS OF DECEMBER 31, 1993 MATURITY OR REPRICING					
	0-3 MONTHS	4-12 MONTHS	1-5 YEARS	6-10 YEARS	OVER 10 YEARS	TOTAL
	(DOLLARS IN THOUSANDS)					
INTEREST-EARNING ASSETS:						
Cash and cash equivalents	$ 62,690	$ --	$ --	$ --	$ --	$ 62,690
Investment securities(1)(2)	--	54,587	97,094	1,143	--	152,824
Mortgage-backed securities(1)	39,669	8,885	42,059	--	--	90,613
Loans receivable:						
ARMs and other adjustables(3)	2,877,329	492,028	257,768	22,472	117	3,649,714
Fixed rate loans	54,701	348	8,219	4,616	81,968	149,852
Consumer and other loans	5,332	2,408	1,258	--	--	8,998
Gross loans receivable	2,937,362	494,784	267,245	27,088	82,085	3,808,564
Total	3,039,721	558,256	406,398	28,231	82,085	$4,114,691
INTEREST-BEARING LIABILITIES:						
Deposits:						
Checking and savings accounts	396,201	--	--	--	--	$ 396,201
Money market accounts	280,474	--	--	--	--	280,474
Fixed maturity deposits:						
Retail customers	961,634	964,895	530,056	330	--	2,456,915
Wholesale customers	100,353	70,592	11,173	--	--	182,118
	1,738,662	1,035,487	541,229	330	--	3,315,708
Borrowings:						
FHLB Advances(3)	216,400	--	90,000	20,000	--	326,400
Other	307,830	--	100,000	60,000	--	467,830
	524,230	--	190,000	80,000	--	794,230
Total	2,262,892	1,035,487	731,229	80,330	--	$4,109,938
IMPACT OF HEDGING(5)	(400,000)	(50,000)	450,000	--	--	
MATURITY GAP	$ 376,829	$ (527,231)	$125,169	$(52,099)	$82,085	
GAP TO TOTAL ASSETS	8.46%	(11.84)%	2.81%	(1.17)%	1.84%	
CUMULATIVE GAP TO TOTAL ASSETS	8.46%	(3.38)%	(0.57)%	(1.74)%	0.10%	

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(1) Maturities shown are based on the contractual maturity of the instrument.

(2) Includes investments in FHLB and FRB stock and cash equivalents.

(3) ARMs and variable rate FHLB Advances are in the "within 0-3 months" categories as they are subject to interest rate adjustments.

(4) These liabilities are subject to daily adjustments and are therefore included in the "within one year" category.

(5) Fidelity had synthetic hedges with a total notional principal amount of $450 million at December 31, 1993. These off-balance sheet instruments support the Bank's total risk management by enhancing yield and altering its exposure to interest rate risk.

OTHER FACTORS AFFECTING EARNINGS

Growing Emphasis on Fee Income Generation

Management believes that, given the highly competitive nature of the Bank's historical business and the regulatory constraints it faces in competing with unregulated companies, the Bank must expand from its historical business focus and adopt a broader product line business strategy. Specifically, management believes that the Bank's existing customers provide a ready market for the sale of nontraditional financial services and investment products. This belief prompted the implementation of a new business strategy for the retail financial services group that integrated its traditional functions (mortgage origination, deposit services, checking, savings, etc.) with the sale of investment services and products by Gateway. Management's objective is to build a "relationship bank" that works with clients to determine their financial needs and offers a broad array of more customized products and services.

Through this new strategy of targeting retail and mortgage customers and offering a variety of new investment products and services, Fidelity and Gateway hope to attract more of the Bank customers' deposits, investment accounts and mortgage business. Management believes that this new strategy has been successful, as evidenced by the increase of 22% in total checking accounts at December 31, 1993 over the level a year earlier. As a result of this strategy, fee income should become a growing portion, and net interest income a declining portion, of the Company's total income.

Management also intends to offer a wider range of loan types than the Bank currently originates. While continuing to offer adjustable rate mortgages and to maintain an expertise in originating and servicing multifamily mortgages, the Bank plans to increase its mortgage banking capabilities and to originate mortgages that, while not appropriate for inclusion in the Bank's portfolio in significant quantities, are attractive to borrowers and to the secondary market.

Northridge Earthquake

The Northridge Earthquake of January 17, 1994, and subsequent aftershocks will adversely affect the Bank's loan and real estate portfolios. The Bank's portfolio includes loans and REO with a net book value of approximately $937 million secured by or comprised of 1,414 multifamily (5 units or more), 15 commercial, and 2,313 single family and multifamily (2 to 4 units) collateral properties in the primary earthquake areas. After the earthquake, the Bank's appraisers surveyed all the multifamily (5 units or more) and commercial properties located in these areas which secured the Bank's loans or constitute REO of the Bank. The Bank also made selected inspections at more remote locations where damage has been reported. In total, approximately 1,450 properties have been inspected. Of such inspected properties, 231 properties, representing loans and REO with a net book value of $140 million, have been identified as having sustained more than "cosmetic" damage. Of such 231 properties, 204 properties related to the Bank's loans and REO with a net book value of $124 million were identified as having "possible serious damage" and an additional 27 properties with a net book value of $16 million were identified as "actually or potentially condemned". The Bank commissioned structural and building engineers or building inspectors to estimate the cost of repairs to properties in these two categories. The cost of repairs has been preliminarily estimated to be $5.7 million and $11.1 million, respectively. Of this total $16.8 million, approximately $6.0 million of seismic damage exceeds the net book value of the related loans and REO. Accordingly, the Bank currently would not expect its losses due to the earthquake to exceed $10.8 million with respect to its commercial and multifamily loans and REO. The Bank expects the actual losses payable by the Bank to be lower because many repair costs may be borne by the borrowers, who in addition to their own funds, may have access to government assistance and/or earthquake insurance proceeds. As part of its normal internal asset review process, the Bank will adjust its reserves as its losses become quantifiable.

In addition to the multifamily and commercial assets referenced above, the Bank has identified 2,313 single family and multifamily (2 to 4 units) assets in the affected areas. 173 borrowers with unpaid principal balances totaling $29.4 million called in to report damages through February 8, 1994. The Bank has commenced inspection of these properties and continues to assess damages and potential earnings and loss impact with respect to these properties.

The earthquake will also have some adverse affect on loan originations and the sale of financial services in the retail branch network in the near term.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Citadel Holding Corporation
Glendale, California

We have audited the accompanying consolidated statements of financial condition of Citadel Holding Corporation and subsidiaries (the "Company") as of December 31, 1993 and 1992, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principle used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Citadel Holding Corporation and subsidiaries at December 31, 1993 and 1992 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 17 to the consolidated financial statements, on March 4, 1994, one of four lenders to Fidelity Federal Bank, F.S.B. (the "Bank") under its $60 million Subordinated Loan Agreement of 1990 filed a lawsuit against the Bank and Citadel Holding Corporation ("Citadel") alleging a breach of the loan agreement and other allegations, and is seeking to enjoin a restructuring plan (described in footnote 14) and to recover damages in unspecified amounts. The impact of this lawsuit on the capital position of the Bank, cross default provisions under the Bank's other debt agreements and the guarantee by Citadel is uncertain. Accordingly, no adjustments that may result from the ultimate resolution of this uncertainty have been made in the accompanying financial statements.

As discussed in Notes 14 and 16 to the financial statements, the Bank, the primary subsidiary of Citadel, is subject to numerous regulatory requirements, including, among others: (i) minimum capital to be considered "adequately capitalized" under the Prompt Corrective Action provisions of the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") as implemented by the Office of Thrift Supervision ("OTS"), and (ii) minimum capital requirements of the OTS. Although the Bank met these capital requirements at December 31, 1993, the Bank's ability to meet the prescribed capital requirements in the future is uncertain. Failure on the part of the Bank to meet these capital requirements may subject the Bank to significant regulatory sanctions. Management's immediate plans to address these capital requirements are described in Note 14. The financial statement impact, if any, that might result from the failure of the Bank to comply with the capital requirements prescribed by the OTS cannot presently be determined. Accordingly, no adjustments that may result from the ultimate resolution of the uncertainty have been made in the accompanying financial statements.

Deloitte & Touche

February 4, 1994, except for Note 17,
as to which the date is March 4, 1994
Los Angeles, California

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1993	DECEMBER 31, 1992
ASSETS:		
Cash, federal funds sold and other cash equivalents (Note 2)	$ 145,961	$ 110,262
Investment securities held for sale (market value of $92,512) (Notes 2 and 10)	92,259	--
Investment securities, at amortized cost (market value of $69,041) (Notes 2 and 10)	--	67,337
Mortgage-backed securities held for sale (market value of $91,298) (Note 3)	91,108	--
Mortgage-backed securities, at amortized cost (market value of $230,561) (Notes 3 and 10)	--	230,384
Loans held for sale, at lower of cost or market (Note 4)	367,688	26,482
Loans receivable, net of allowances of $83,832 and $64,277 at December 31, 1993 and 1992, respectively (Notes 4, 6, 8, 9 and 10)	3,345,695	3,965,299
Interest receivable (Notes 2, 3 and 4)	23,052	27,132
Investment in FHLB and FRB stock (Note 9)	52,151	50,574
Owned real estate (Notes 5 and 6)	153,607	133,255
Premises and equipment, net	49,247	46,585
Intangible assets, net (Note 7)	2,098	20,556
Deferred tax assets (Note 12)	1,247	3,182
Other assets (Note 12)	65,406	17,278
	$4,389,519	$4,698,326
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Deposits (Note 8)	$3,368,643	$3,457,918
FHLB Advances (Note 9)	326,400	581,400
Commercial paper (Note 10)	304,000	65,000
Mortgage-backed notes and bonds (Note 10)	100,000	262,000
Other borrowings (Note 10)	3,830	--
Deferred tax liabilities (Note 12)	14,564	2,008
Other liabilities (Notes 11 and 12)	24,679	46,814
Subordinated notes (Note 10)	60,000	60,000
	4,202,116	4,475,140
Commitments and contingencies (Note 13)		
Stockholders' equity (Note 14):		
Serial preferred stock, par value $.01 per share; authorized, 5,000,000 shares; no shares outstanding	--	--
Common stock, par value of $.01 per share; authorized 10,000,000 shares; issued and outstanding, 6,595,624 shares and 3,297,812 shares at December 31, 1993 and 1992, respectively	66	33
Paid-in capital	60,052	28,707
Retained earnings (Note 12)	127,285	194,446
	187,403	223,186
	$4,389,519	$4,698,326

See notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Interest Income:			
Loans	$ 269,712	$ 355,560	$ 497,005
Mortgage-backed securities	11,051	5,631	6,016
Investment securities and other	8,829	9,531	17,103
Total interest income	289,592	370,722	520,124
Interest Expense:			
Deposits	131,618	175,024	278,617
FHLB Advances	17,077	20,877	43,024
Other borrowings	32,323	36,667	49,003
Subordinated notes	7,373	7,373	7,373
Total interest expense	188,391	239,941	378,017
Net Interest Income	101,201	130,781	142,107
Provision for estimated loan losses (Notes 4 and 6)	65,100	51,180	49,843
Net Interest Income after Provision for Estimated Loan Losses	36,101	79,601	92,264
Noninterest Income (Expense):			
Loan and other fee income	5,389	7,885	5,869
Gains on sales of loans, net	194	1,117	2,118
Fee income from investment products	4,313	3,368	2,487
Fee income on deposits and other income (expense)	3,271	4,406	(3,350)
	13,167	16,776	7,124
Provision for estimated real estate losses (Notes 5 and 6)	(30,200)	(17,820)	(8,562)
Direct costs of real estate operations, net (Note 5)	(18,643)	(4,441)	(2,060)
	(48,843)	(22,261)	(10,622)
Gains on sales of mortgage-backed securities, net (Note 3)	1,342	--	8,993
Gains (losses) on sales of investment securities, net (Note 2)	(54)	--	1
	1,288	--	8,994
Total noninterest income (expense)	(34,388)	(5,485)	5,496
Operating Expense:			
Personnel and benefits	46,873	36,656	36,293
Occupancy	13,202	12,705	12,692
FDIC insurance	8,628	8,391	8,680
Professional services	11,970	6,119	6,786
Office-related expenses	6,785	5,031	5,565
Marketing	3,080	2,548	3,130
Amortization of intangibles (Note 7)	9,246	596	840
Other general and administrative	5,557	5,865	5,460
Total operating expense	105,341	77,911	79,446
Earnings (Loss) before Income Taxes	(103,628)	(3,795)	18,314
Income tax expense (benefit) (Note 12)	(36,467)	(5,841)	15,651
Net Earnings (Loss)	$ (67,161)	$ 2,046	$ 2,663
Net Earnings (Loss) Per Share	$ (11.56)	$ 0.62	$ 0.81
Weighted Average Common and Common Equivalent Shares Outstanding	5,809,570	3,297,812	3,297,812

See notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS)

	THREE YEARS ENDED DECEMBER 31, 1993					
	COMMON STOCK					
	NUMBER OF SHARES	PAR VALUE	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Balance, January 1, 1991	3,477,512	$35	$34,784	$189,737	$(6,079)	$218,477
Net earnings for 1991	--	--	--	2,663	--	2,663
Balance, December 31, 1991	3,477,512	35	34,784	192,400	(6,079)	221,140
Retirement of treasury stock	(179,700)	(2)	(6,077)	--	6,079	--
Net earnings for 1992	--	--	--	2,046	--	2,046
Balance, December 31, 1992	3,297,812	33	28,707	194,446	--	223,186
Proceeds of rights offering	3,297,812	33	31,345	--	--	31,378
Net loss for 1993	--	--	--	(67,161)	--	(67,161)
Balance, December 31, 1993	6,595,624	$66	$60,052	$127,285	$ --	$187,403

See notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
CASH FLOWS--OPERATING ACTIVITIES:			
Net earnings (loss)	$ (67,161)	$ 2,046	$ 2,663
Reconciliation of net earnings (loss) to net operating cash flows:			
Provisions for estimated losses	95,300	69,079	58,597
Gains on sales of loans and securities	(1,482)	(1,117)	(11,112)
Capitalized loan origination costs	(2,187)	(3,001)	(2,450)
Amortization of deferred loan items, net.	(1,163)	(604)	(1,057)
Purchases of investment securities held for trading	(248,272)	--	--
Proceeds from sales of investment securities held for trading	248,248	--	--
Purchases of investment securities held for sale	(420,956)	--	--
Maturities of investment securities held for sale	260,838	--	--
Proceeds from sales of investment securities held for sale	76,687	--	--
Investment securities held for sale lower of cost or market writedown	2,074	--	--
Purchases of mortgage-backed securities ("MBS") held for trading	(51,248)	--	--
Proceeds from sales of MBS held for trading	51,277	--	--
Purchases of MBS held for sale	(395,561)	--	--
Principal repayment of MBS held for sale.	58,865	--	--
Proceeds from sales of MBS held for sale.	463,704	--	--
Originations of loans held for sale	(162,868)	(176,220)	(354,365)
Proceeds from sales of loans held for sale	138,399	204,435	282,728
FHLB stock dividend	(1,640)	(790)	(3,070)
Depreciation and amortization	23,092	9,344	10,079
Interest receivable net decrease	4,080	9,974	7,849
Other assets (increase) decrease	(49,414)	3,934	11,770
Deferred income tax expense (benefit)	14,491	(19,966)	(13,276)
Interest payable increase (decrease)	(5,103)	(5,954)	(2,431)
Other liabilities and deferred income, net increase (decrease)	(16,350)	(19,283)	4,366
Other, net	72	257	(3,426)
Operating cash flows, net	13,722	72,134	(13,135)
CASH FLOWS--INVESTING ACTIVITIES:			
Purchases of investment securities	(200,055)	(170,539)	(187,592)
Maturities of investment securities	226,617	137,237	280,165
Proceeds from sales of investment securities	26,908	--	1,547
Purchases of MBS held for investment	--	(92,502)	--
Principal repayments of MBS held for investment	9,565	8,588	9,724
Proceeds from sales of MBS held for investment	7,114	--	273,098
Purchases of loans	(3,951)	(1,675)	(2,939)
Loans receivable, net decrease	149,909	274,181	286,120
Real estate investment dispositions, net.	3,050	--	--
Proceeds from sales of real estate	41,608	24,329	6,237
Premises and equipment additions, net	(6,946)	(2,460)	(5,318)
Other, net	225	(4,746)	(107)
Investing cash flows, net	254,044	172,413	660,935

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
CASH FLOWS--FINANCING ACTIVITIES:			
Demand deposits and passbook savings, net increase (decrease)	(111,601)	86,531	370,014
Certificate accounts, net increase (decrease)	22,326	(513,320)	(452,795)
Proceeds from FHLB Advances	250,000	1,273,400	860,000
Repayments of FHLB Advances	(505,000)	(1,017,000)	(1,290,000)
Proceeds from (repayments of) related party loan	--	(15,000)	15,000
Short-term borrowings, net increase (decrease)	242,830	61,800	(27,390)
Repayments of long-term borrowings	(162,000)	(265,950)	(35,626)
Proceeds from stock rights offering	31,378	--	--
Financing cash flows, net	(232,067)	(389,539)	(560,797)
Net increase (decrease) in cash and cash equivalents	35,699	(144,992)	87,003
Cash and cash equivalents at beginning of period	110,262	255,254	168,251
Cash and cash equivalents at end of period	$ 145,961	$ 110,262	$ 255,254
CASH FLOWS--SUPPLEMENTAL INFORMATION:			
Cash paid (received) during the period for:			
Interest on deposits, advances and other borrowings	$ 180,861	$ 236,953	$ 369,366
Income taxes	(679)	21,697	30,105
Noncash transactions:			
Additions to real estate acquired through foreclosure	193,641	121,192	49,951
Loans originated to finance sale of real estate acquired through foreclosure	51,607	11,243	1,604
Transfers from loan and investment portfolio to held for sale:			
Loans receivable	325,222	--	--
Investment securities	14,264	--	--
Mortgage-backed securities	214,310	--	--
Mortgage loans exchanged for mortgage-backed securities	--	114,277	235,758
Retirement of treasury stock	--	6,079	--

See notes to consolidated financial statements.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Citadel Holding Corporation ("Citadel") and subsidiaries. Citadel is the holding company of Fidelity Federal Bank, a Federal Savings Bank ("Fidelity" or the "Bank") and Gateway Investment Services, Inc. ("Gateway"). Unless otherwise indicated, references to the "Company" include Citadel, Fidelity, Gateway, and all subsidiaries of Fidelity and Citadel. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior years' consolidated financial statements to conform to the 1993 presentation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Fidelity is required by the Federal Reserve System to maintain noninterest-earning cash reserves against certain of its transaction accounts. At December 31, 1993, the required reserves totaled $28.6 million including vault cash.

Investment Securities and Mortgage-backed Securities

U.S. Government and agency obligations, commercial paper, mortgage-backed securities and other corporate debt securities identified as held for investment are recorded at cost, with any discount or premium recognized over the life of the related security by using a methodology which approximates the interest method. The Bank's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities and those purchased. Securities held for investment are those securities which the Company has the intent and ability to hold until maturity, and are carried on an amortized cost basis. Securities to be held for indefinite periods of time, including securities that management intends to use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors, are classified as held for sale and are carried at the lower of cost or market value. Any gains or losses incurred on sales of securities are calculated based upon the specific identification method. Any investment securities held for trading are carried at market value.

Loans

Interest on loans is credited to income as earned and is accrued only if deemed collectible. Accrued interest is fully reserved on loans over 90 days contractually delinquent and on other loans which have developed inherent problems prior to being 90 days delinquent. Discounts and premiums on loans are included with loans receivable and are credited or charged to operations over the estimated life of the related loans using the interest method. The Bank charges fees for originating loans. Loan origination fees, net of direct costs of originating the loan are recognized as an adjustment of the loan yield over the life of the loan by the interest method, which results in a constant rate of return. When a loan is sold, net loan, origination fees and direct costs are recognized in operations. Other loan fees and charges representing service costs for the prepayment of loans, for delinquent payments or for miscellaneous loan services are recognized when collected. Loan commitment fees received are deferred to the extent they exceed direct underwriting costs.

The Bank has designated certain of its loans receivable as being held for sale. In determining the level of loans held for sale, the Bank considers whether loans (a) would be sold as part of its asset/liability strategy, or (b) may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors. Such loans are classified as held for sale and are carried at the lower of cost or market value.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

The Bank's current policy is to designate substantially all originations of fixed rate residential 1 to 4 unit loans as being held for sale as part of the asset/liability strategy. In further compliance with the Bank's policy, $321 million of adjustable FHLB Eleventh District Cost of Funds Index ("COFI") loans were transferred from held for investment to held for sale in December 1993 as part of the Bank's asset/liability strategy and the possible need to increase regulatory capital in the future. Loans held for sale are valued at the lower of aggregate cost or market value as determined by outstanding commitments from investors or, in the absence of such commitments, the current investor yield requirements calculated on an aggregate loan basis. The market value calculation includes consideration of commitments and related fees. Adjustments to the lower of cost or market are charged to current operations and are included in net gains/losses on loan sales in the statement of operations.

Fidelity has sold loans which have generated gains on sale, a stream of loan servicing revenue and cash for lending or liquidity. Sales of loans are dependent upon various factors, including interest rate movements, investor demand for loan products, deposit flows, the availability and attractiveness of other sources of funds, loan demand by borrowers and liquidity and capital requirements. Due to the volatility and unpredictability of these factors, the volume of Fidelity's sales of loans has fluctuated. All loans sold during 1993 and 1992 were from the held for sale portfolio. Fidelity has the intent and ability to hold all of its loans, other than those designated as held for sale, until maturity.

Owned Real Estate

Real estate held for sale acquired in settlement of loans generally results when property collateralizing a loan is foreclosed upon or otherwise acquired by the Bank in satisfaction of the loan. Real estate acquired through foreclosure is recorded at the lower of fair value or the recorded investment in the loan satisfied at the date of foreclosure. Fair value is based on the amount that the Company could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Inherent in the computation of estimated fair value are assumptions about the length of time the Company may have to hold the property before disposition. The holding costs through the expected date of sale and estimated disposition costs are included in the valuations. Real estate held for investment or development is carried at the lower of cost or fair value. Adjustments to the carrying value of the assets are made through valuation allowances and charge-offs, through a charge to operations. Net cash receipts on real estate owned or on those loans designated as in-substance foreclosures and net cash payments are recorded in real estate operations on specific properties.

Loans meeting certain criteria are accounted for as "in-substance foreclosures." These substantially foreclosed assets are recorded at the lower of the loan's carrying amount or at the estimated fair value of the collateral at the date the loan was determined to be in-substance foreclosed. These assets are reported as "real estate owned" in addition to formally foreclosed real estate.

Statement of Position ("SOP") 92-3, "Accounting for Foreclosed Assets," was issued by the Accounting Standards Division of the American Institute of Certified Public Accountants in April 1992 and became effective for the Company's December 31, 1992 financial statements. SOP 92-3 presumes that foreclosed assets are held for sale and not for the production of income. It requires the Company to carry foreclosed assets held for sale, after foreclosure, at the lower of (a) fair value minus estimated costs to sell or (b) cost. The impact of implementing SOP 92-3 was immaterial to the Company's financial position, due to the Company's policy of carrying foreclosed assets at fair value, net of disposition costs.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

Allowances for Estimated Losses on Loans and Real Estate

The Company has established valuation allowances for estimated losses on specific loans and real estate ("specific reserves") and for the inherent risk in the loan and real estate portfolios which has yet to be specifically identified ("general valuation allowances" or "GVA"). The internal asset review department reviews the quality and recoverability of the Company's assets on a quarterly basis in order to establish adequate specific reserves and general valuation allowances. The Bank utilizes the delinquency migration and the classification methods in determining the adequacy of its GVA. The delinquency migration method attempts to capture the potential future losses as of a particular date associated with a given portfolio of loans, based on the Bank's own historical migration experience over a given period of time. Under the classification method, a reserve factor is applied to each aggregate classification level by asset collateral type in an effort to estimate the loss content in the portfolio. The Bank calculates a range of loss by applying both methodologies and then applies judgment and knowledge of particular credits, economic trends, industry experience and other relevant factors to estimate the GVA amount. Additions to the allowances, in the form of provisions, are reflected in current operations. Charge-offs to the allowances are made when the loss is determined to be significant and permanent.

Depreciation and Amortization

Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lives of the respective leases or the useful lives of the improvements, whichever is shorter.

Earnings per Share

Earnings per share are based on weighted average common shares outstanding, net of treasury stock in 1992 and 1991, of 5,809,570 in 1993 and 3,297,812 in 1992 and 1991.

Intangible Assets

In 1993, the Company reassessed the valuation of its intangible assets which resulted in a writedown of $14.0 million. See Note 7 for further information.

Until 1993, the excess of cost over the fair value of net assets acquired (goodwill) in connection with the acquisition of Mariners Savings and Loan in 1978, was included in intangible assets in the statements of financial condition and was being amortized to operations over forty years.

The cost of core deposits purchased from various financial institutions is amortized over the average life of the deposits acquired, generally five to ten years.

Income Taxes

The Company files a consolidated federal income tax return with its subsidiaries and a combined California franchise tax return.

Beginning in 1991, income taxes have been determined pursuant to Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Prior to 1991, income taxes were determined pursuant to SFAS No. 96. The impact of adopting SFAS No. 109 was not material in relation to SFAS No. 96.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

Financial Instruments

In the normal course of business, the Company enters into off-balance sheet instruments to enhance yields and to alter its exposure to interest rate risk. These financial instruments include interest rate swaps and swap option agreements and puts and calls. The differences to be paid or received on swaps are included in interest expense as payments are made or received. The swap options are held as trading positions during the option period and are carried at market value and gains and losses are reflected in operations.

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. Financial instruments are defined as cash, evidence of an ownership in an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument.

Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Bank's financial instruments, active markets do not exist. Therefore, considerable judgment was required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1993, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments which are contained in the notes to the consolidated financial statements that describe each financial instrument.

Cash and cash equivalents: The book value amounts reported in the statement of financial condition for cash and cash equivalents approximate the fair value of such assets, because of the short maturity of such investments.

Investment securities and mortgage-backed securities: Estimated fair values for investment and mortgage-backed securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans: The estimated fair values of real estate loans held for sale are based on quoted market prices. The estimated fair values of loans receivable are based on quoted market prices, when available, or an option adjusted cash flow valuation ("OACFV"). The OACFV includes forward interest rate simulations and the credit quality of performing and nonperforming loans. Such valuations may not be indicative of the value derived upon a sale of all or part of the portfolio. The book value of accrued interest approximates its fair value.

Investment in FHLB stock: The book value reported in the statement of financial condition for the investment in FHLB stock approximates fair value as the stock may be sold back to the Federal Home Loan Bank at face value to the extent that it exceeds the amount of FHLB stock which Fidelity is required to hold.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

Deposits: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand. The fair value of fixed rate certificates of deposits is estimated by using an OACFV analysis.

Borrowings (including FHLB Advances, other borrowings and subordinated notes): The estimated fair value is based on an OACFV model.

Off-balance sheet instruments: The estimated fair value for the Bank's off-balance sheet instruments are based on quoted market prices, when available, or an OACFV analysis.

Recent Accounting Pronouncements

In May 1993, the Financial Accounting Standards Board ("FASB") issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This statement prescribes the recognition criteria for loan impairment and the measurement methods for certain impaired loans and loans whose terms are modified in troubled debt restructurings ("TDRs"). SFAS No. 114 states that a loan is impaired when it is probable that a creditor will be unable to collect all principal and interest amounts due according to the contracted terms of the loan agreement. A creditor is required to measure impairment by discounting expected future cash flows at the loan's effective interest rate, or by reference to an observable market price, or by determining the fair value of the collateral for a collateral dependent asset. The statement also clarified the existing accounting for in-substance foreclosures ("ISFs") by stating that a collateral dependent real estate loan would be reported as real estate owned ("REO") only if the lender had taken possession of the collateral. The statement is effective for financial statements issued for fiscal years beginning after December 15, 1994. Earlier application is encouraged.

Additionally, in June 1993, the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board and Office of Thrift Supervision issued a Joint Statement providing interagency guidance on the reporting of ISFs. This Joint Statement lent support to SFAS No. 114, further clarifying that losses must be recognized on real estate loans that meet the existing ISF criteria based on fair value of the collateral, but such loans need not be reported as REO unless possession of the underlying collateral has been obtained.

Management will implement SFAS No. 114 beginning in 1994. The Company already measures impairment based on the fair value of the collateral, therefore, the estimated impact of application will consist of a reclassification of ISFs on the statement of financial condition from REO to loans. At December 31, 1993, the amount of ISFs totaled $28.4 million.

In May 1993, the FASB also issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are to be classified in three categories and accounted for as follows: (a) debt securities for which the enterprise has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost; (b) debt and equity securities that are bought and held principally for the purpose of selling in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and (c) debt and equity securities not classified as either held to maturity securities or trading securities are classified as available for sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax effect, in a separate component of stockholders'

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

equity. SFAS No. 115 does not apply to unsecuritized loans. However, after mortgage loans are converted to mortgage-backed securities, they are subject to its provisions.

SFAS No. 115 is effective for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of a company's fiscal year and cannot be applied retroactively to prior years' financial statements. However, a company may elect to initially apply this statement as of the end of 1993. The Company has not elected to apply this statement in 1993. However, the impact of the adoption of SFAS No. 115 as of December 31, 1993, would not have had a material effect on stockholders' equity.

NOTE 2--CASH EQUIVALENTS AND INVESTMENT SECURITIES

Federal funds sold are included in cash and cash equivalents. The Company had $60.0 million of federal funds sold at December 31,1993 and no outstanding federal funds sold at December 31, 1992.

Investment securities held for trading

Investment securities held for trading during 1993 consisted of U.S.Treasury securities purchased with the intent to be subsequently sold to provide net securities gains. Proceeds from sales of investment securities held for trading during 1993 were $248.3 million. Gross gains of $332,000 and gross losses of $345,000 were realized from those sales and are reported in the statement of operations as a component of gains/losses on sales of investment securities.

There were no investment securities held for trading activities during 1992 and 1991 and the Company had no outstanding investment securities held for trading at year-end 1993 or 1992.

Investment securities held for sale

The following table summarizes the investment securities held for sale at December 31, 1993:

	BOOK VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(DOLLARS IN THOUSANDS)			
U.S. Government and agency obligations	$87,385	$ 256	$ (3)	$ 87,638
Other investments	4,874	--	--	4,874
	$92,259	$ 256	$ (3)	$ 92,512
Weighted average yield	4.65%			

Other investments represent U.S. Treasury securities, carried at the lower of cost or market value, which have been pledged and placed in trust to provide a credit enhancement to a FNMA securitization of loans in September 1992 of $114.3 million.

The Company had no outstanding investment securities held for sale at December 31, 1992 or 1991.

During the year ended December 31, 1993, the Company had gross gains of $110,000 and gross losses of $23,000 on the sale of investment securities held for sale. The Company also recorded a loss of $2.1 million at December 31, 1993 to adjust the book value of investment securities held for sale to the lower of cost or market. During the years ended December 31, 1992 and 1991, the Company had no gross gains or losses on the sale of investment securities held for sale.

NOTE 2--CASH EQUIVALENTS AND INVESTMENT SECURITIES--(CONTINUED)

The following maturity table shows the book value and market value of investment securities held for sale at December 31, 1993:

YEAR OF MATURITY	BOOK VALUE	MARKET VALUE
	(DOLLARS IN THOUSANDS)	
1994	$ 1,301	$ 1,301
1995 through 1998	90,686	90,939
1999 through 2003	272	272
	$92,259	$92,512

Investment securities held for investment

Proceeds from sales of securities held for investment during 1993, 1992 and 1991 were $26.9 million, $0 and $1.5 million, respectively. The following gross gains and gross losses were realized from those sales and are reported in the statements of operations for the indicated periods, as a component of gains/losses on sales of investment securities, net:

	GROSS		
YEAR ENDED DECEMBER 31,	SALES	GAINS	(LOSSES)
	(DOLLARS IN THOUSANDS)		
1993	$26,908	$1,946	--
1992	--	--	--
1991	1,547	1	--

During 1993, the Company changed its investment strategy and as a result, moved its entire portfolio of investment securities from the investment portfolio to the held for sale portfolio. The Company had no outstanding investment securities held for investment at December 31, 1993.

The following table summarizes the investment securities held for investment at December 31, 1992:

	BOOK VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
		(DOLLARS IN THOUSANDS)		
U.S. Government obligations	$24,950	$1,908	$ --	$26,858
Commercial paper	29,986	14	--	30,000
Other investments	12,401	--	(218)	12,183
	$67,337	$1,922	$(218)	$69,041
Weighted average yield	5.77%			

Other investments represents U.S. Treasury securities which have been pledged and placed in trust to provide a credit enhancement to a FNMA securitization of loans in September 1992 of $114.3 million.

At December 31, 1993 and 1992, the Company had accrued interest receivable of $0.7 million and $0.8 million, respectively, on investment securities held for sale and investment, which is included in interest receivable in the accompanying statements of financial condition.

NOTE 3--MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held for trading

The Company had no outstanding mortgage-backed securities held for trading at December 31, 1993 and 1992. Proceeds from sales of mortgage-backed securities held for trading during 1993 totaled $51.3 million. Gross gains of $54,000 were realized from those sales and are reported in the statement of operations as a component of gains/losses on sales of mortgage-backed securities, net. There were no comparable activities for mortgage-backed securities held for trading during 1992 and 1991.

Mortgage-backed securities held for sale

Summarized below are mortgage-backed securities held for sale at December 31, 1993:

	BOOK VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(DOLLARS IN THOUSANDS)			
FHLMC	$34,184	$ 3	$(217)	$33,970
FNMA	14,853	--	(33)	14,820
Participation Certificates	38,223	454	--	38,677
CMO	3,848	--	(17)	3,831
	$91,108	$457	$(267)	$91,298
Weighted average yield	5.33%			

The Company had no outstanding mortgage-backed securities held for sale at December 31, 1992.

During the year ended December 31, 1993, the Company had gross gains of $4.9 million and gross losses of $5.1 million on the sale of mortgage-backed securities held for sale compared to no gross gains or losses for the years ended December 31, 1992 and 1991.

Mortgage-backed securities held for investment

During 1993, the Company changed its investment strategy and as a result, moved its entire portfolio of mortgage-backed securities from the investment portfolio to the held for sale portfolio. The Company had no outstanding mortgage-backed securities held for investment at December 31, 1993.

During the year ended December 31, 1993, the Company had gross gains of $1.5 million and gross losses of $1,000 on the sale of mortgage-backed securities held for investment compared to no gross gains or losses for the year ended December 31, 1992 and gross gains of $9.3 million and gross losses of $.3 million for the year ended December 31, 1991.

Summarized below are mortgage-backed securities held for investment at December 31, 1992:

	BOOK VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(DOLLARS IN THOUSANDS)			
FHLMC	$102,476	$ 410	$(1,397)	$101,489
GNMA	14,466	889	--	15,355
FNMA	113,442	275	--	113,717
	$230,384	$1,574	$(1,397)	$230,561
Weighted average yield	6.36%			

NOTE 3--MORTGAGE-BACKED SECURITIES--(CONTINUED)

At December 31, 1993 and 1992, the Company had accrued interest receivable on mortgage-backed securities held for sale and investment of $0.5 million and $1.5 million, respectively, which is included in interest receivable in the accompanying statements of financial condition.

NOTE 4--LOANS RECEIVABLE AND LOANS HELD FOR SALE

Total loans include loans receivable and loans held for sale and are summarized as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Real Estate loans:		
Single family	$ 792,054	$ 857,631
Multifamily:		
2 to 4 units	505,219	526,826
5 to 36 units	1,795,374	1,880,589
37 units and over	406,330	444,576
Commercial and industrial	295,761	343,270
Land	4,828	6,445
Total real estate loans	3,799,566	4,059,337
Other	8,998	8,278
	3,808,564	4,067,615
Less:		
Undisbursed loan funds	--	301
Unearned discounts	210	104
Deferred loan fees	11,139	11,152
Allowance for estimated losses (Note 6)	83,832	64,277
	95,181	75,834
	$ 3,713,383	$ 3,991,781

Included above are $56.3 million and $63.3 million of amounts drawn under home equity lines of credit at December 31, 1993 and 1992, respectively. The remaining, unused balance of approved home equity credit lines was $52.1 million and $66.2 million at the respective dates.

Also included above are loans held for sale, consisting of the following at the dates indicated:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Residential loans:		
Single family	$ 239,371	$ 25,043
Multifamily 2 to 4 units	128,317	1,439
Total loans held for sale	$ 367,688	$ 26,482

Fidelity's portfolio of mortgage loans serviced for others amounted to $888.4 million at December 31, 1993 and $982.7 million at December 31, 1992.

NOTE 4--LOANS RECEIVABLE AND LOANS HELD FOR SALE--(CONTINUED)

Fidelity's loan portfolio includes multifamily, commercial and industrial loans of $2.9 billion which depend on operating income to provide debt service coverage. Therefore, these loans generally have a greater risk of default than single family residential loans and, accordingly, earn a higher rate of interest to compensate in part for the risk. Approximately 99% of these loans are secured by property within the state of California. The continued weakening in the California real estate market does not make the market compare as favorably to other sections of the country as it has in the past.

The Company has modified a number of its loans. In some cases, the modifications have taken the form of "early recasts" in which the amortizing payments are revised (or recalculated) earlier than scheduled to reflect current lower interest rates. In other cases, the Company has agreed to accept interest only payments for a limited time at current interest rates. In still other cases, the Company has modified loans at terms that are less favorable to the Company than the current market. These loans have interest rates that may be less than current market rates or may contain other concessions. Due to the fact that these modifications resulted from formal requests from borrowers claiming economic distress and due to increased risk of borrower inability to perform according to contractual terms, these modified loans have been categorized by the Company as "TDRs". At December 31, 1993 and 1992, outstanding TDRs totaled $28.7 million and $87.3 million, respectively.

For the year ended December 31, 1993, interest income of $8.3 million was recorded on TDRs, $0.1 million less than would have been recorded had the loans performed according to their original terms. During 1992, $10.0 million of interest income was recorded on TDRs, $0.3 million less than would have been recorded had the loans performed according to their original terms.

It is the Company's policy to reserve all earned but unpaid interest on loans over 90 days contractually delinquent and other loans the Company believes exhibit materially deficient characteristics. The total of these loans was $93.5 million, $112.0 million, and $69.0 million at December 31, 1993, 1992 and 1991, respectively. The reduction in income related to these loans upon which interest was not paid was $8.7 million,$13.6 million and $7.6 million for the corresponding periods.

The estimated fair value of loans receivable (not including loans held for sale) as of December 31, 1993, was $3.4 billion, which includes $93.5 million of nonperforming loans (See Note 1 discussion of SFAS No. 107).

At December 31, 1993, loans held for sale consisted of $321 million of adjustable rate loans and $47 million of fixed rate loans on 1 to 4 unit properties. The estimated fair value of loans held for sale as of December 31, 1993, was $368.8 million (see Note 1 discussion of SFAS No. 107).

NOTE 5--OWNED REAL ESTATE

Owned real estate consists of the following:

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
Real estate held for investment or development	$ 11,161	$ 15,411
Real estate acquired through foreclosure	131,799	90,290
In-substance foreclosed real estate	28,362	44,004
Allowance for estimated losses	(17,715)	(16,450)
	$153,607	$133,255

NOTE 5--OWNED REAL ESTATE--(CONTINUED)

The following summarizes the results of real estate operations:

	DECEMBER 31, 1993	DECEMBER 31, 1992	DECEMBER 31, 1991
	(DOLLARS IN THOUSANDS)		
Income (loss) from:			
Real estate acquired for investment or development	$ 110	$ (841)	$ (934)
Real estate acquired through foreclosure	(18,753)	(3,600)	(1,126)
Provision for estimated losses	(30,200)	(17,820)	(8,562)
	$(48,843)	$(22,261)	$(10,622)

NOTE 6--ALLOWANCE FOR ESTIMATED LOAN AND REAL ESTATE LOSSES

The following summarizes the activity in the Company's allowance for estimated loan and real estate losses:

	LOANS	OWNED REAL ESTATE	TOTAL
	(DOLLARS IN THOUSANDS)		
Balance at January 1, 1991	$ 16,552	$ --	$ 16,552
Provision for losses	49,843	8,562	58,405
Charge-offs	(17,005)	(8,562)	(25,567)
Recoveries	2,984	--	2,984
Balance at December 31, 1991	52,374	--	52,374
Provision for losses	51,180	17,820	69,000
Transfer of general valuation allowance	(12,400)	12,400	--
Charge-offs	(27,350)	(13,826)	(41,176)
Recoveries	473	56	529
Balance at December 31, 1992	64,277	16,450	80,727
Provision for losses	65,100	30,200	95,300
Charge-offs	(50,504)	(28,940)	(79,444)
Recoveries	4,959	5	4,964
Balance at December 31, 1993	$ 83,832	$ 17,715	$101,547

Current Southern California economic conditions have adversely affected the credit risk profile and performance of the Company's loan portfolio. In light of the concentration of the Company's loan portfolio in loans secured by Southern California multifamily residential properties, there is particular concern about the potential for further declines in the Southern California economy, increasing vacancy rates, declining rents, declining debt coverage ratios, declining market values for multifamily residential properties, and the possibility that investors may abandon properties or seek bankruptcy protection with respect to properties experiencing negative cash flow, particularly where such properties are not cross-collateralized by other performing assets.

Fidelity's percentage of nonperforming assets to total assets increased to 5.37% at December 31, 1993 from 4.99% at December 1992 and 2.43% at December 31, 1991.

NOTE 7--INTANGIBLE ASSETS

In 1993, Fidelity reassessed the valuation of its intangible assets. Based upon the results of a branch profitability analysis and an analysis of the recoverability of its core deposit intangible assets, Fidelity wrote

NOTE 7--INTANGIBLE ASSETS--(CONTINUED)

down the carrying value of its core deposit intangible assets in an amount of $5.2 million (which writedown is included in interest expense). The net unamortized balance of core deposit intangibles was $2.1 million at December 31, 1993 and is being amortized over the remaining average life of the deposits acquired, generally one to three years.

In addition, an analysis was performed of the recoverability of the goodwill related to the acquisition of Mariners Savings and Loan ("Mariners") in 1978. This analysis indicated that the expected future net earnings from the branches or assets acquired did not support the carrying value of the goodwill. As a result, Fidelity wrote down the remaining $8.8 million balance of goodwill related to the Mariners acquisition (which writedown is included in operating expense).

The amortization and writedown of core deposit intangibles, resulting from purchases of deposits, and goodwill acquired in the acquisitions of other financial institutions for each of the three years in the period ended December 31, 1993, are summarized as follows:

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Amortization of core deposit intangibles	$ 4,020	$4,199	$4,296
Writedown of core deposit intangibles	5,192	--	--
Amortization of goodwill	470	596	840
Writedown of goodwill	8,776	--	--
Net decrease in income before income taxes	$18,458	$4,795	$5,136

NOTE 8--DEPOSITS

Deposits consist of the following:

TYPE OF ACCOUNT, WEIGHTED AVERAGE INTEREST RATE	DECEMBER 31, 1993 AMOUNT	%	1992 AMOUNT	%
	(DOLLARS IN THOUSANDS)			
Passbook, 2.00% at December 31, 1993 and 2.50% at December 31, 1992	$ 82,168	2.4%	$ 74,738	2.2%
Checking and money market checking, 0.96% at December 31, 1993 and 1.48% at December 31, 1992	366,968	10.9	338,496	9.7
Money market passbook, 2.37% at December 31, 1993 and 2.79% at December 31, 1992	280,474	8.3	427,978	12.4
	729,610	21.6	841,212	24.3
Certificates with rates of:				
Under 3.00%	418,326	12.4	290,646	8.4
3.01-4.00%	1,326,449	39.4	1,127,109	32.7
4.01-5.00%	395,129	11.7	375,034	10.8
5.01-6.00%	137,710	4.1	236,627	6.8
6.01-7.00%	225,035	6.7	381,334	11.0
7.01-8.00%	90,280	2.7	147,037	4.3
Over 8.00%	46,104	1.4	58,919	1.7
	2,639,033	78.4	2,616,706	75.7
	$3,368,643	100.0%	$3,457,918	100.0%
Weighted average interest rate	3.59%		4.00%	

Fidelity had noninterest-bearing checking accounts of $52.9 million and $31.6 million at December 31, 1993 and 1992, respectively.

At December 31, 1993, certificate accounts were scheduled to mature as follows:

YEAR OF MATURITY	AMOUNT (DOLLARS IN THOUSANDS)
1994	$2,097,475
1995	220,791
1996	91,610
1997	203,317
1998	25,488
After 1999	352
	$2,639,033

At December 31, 1993, loans totaling $98.3 million were pledged as collateral for $5.9 million of public funds on deposit with the Bank and potential future deposits.

NOTE 8--DEPOSITS--(CONTINUED)

Certificates of deposits of $100,000 or more accounted for $593 million and represented 18% of all deposits at December 31, 1993, $550 million or 16% of all deposits at December 31, 1992 and $629 million or 16% of all deposits at December 31, 1991.

The Bank also utilizes brokered deposits as a short-term means of funding. These deposits are obtained or placed by or through a deposit broker and are subject to certain regulatory limitations. The following table summarizes the Bank's outstanding balance of brokered deposits at the dates indicated:

DECEMBER 31,	AMOUNT	PERCENT OF TOTAL DEPOSITS
	(DOLLARS IN THOUSANDS)	
1993	$92,196	2.74%
1992	$12,850	0.37%

The carrying amounts and the estimated fair values of deposits consisted of the following at December 31, 1993 (see Note 1 discussion of SFAS No. 107):

	BOOK VALUE	FAIR VALUE
	(DOLLARS IN THOUSANDS)	
Passbook, checking and money market accounts	$ 729,610	$ 729,600
Certificates of deposit	2,639,033	2,684,100
Total deposits	$3,368,643	$3,413,700

SFAS No. 107 defines the fair value of demand deposits as the stated amount of passbook, checking and certain money market accounts. Although SFAS No. 107 specifically prohibits including a deposit-based intangible element as part of the fair value disclosure for deposit liabilities, it does allow supplemental disclosure, which is unaudited. The core deposit intangible is the excess of the fair value of demand deposits over recorded amounts and represents the benefit of retaining these deposits for an expected period of time. Fair value is based on a discounted cash flow analysis using the Bank's alternative funding costs for similar maturities and assumed retention rates for each type of deposit. The core deposit intangible is estimated to be $63.0 million at December 31, 1993, and is not included in the above fair values or recorded as an asset in the statement of financial condition.

NOTE 9--FEDERAL HOME LOAN BANK ADVANCES

FHLB Advances are summarized as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Balance at year-end	$326,400	$ 581,400
Average amount outstanding during the year	$394,591	$ 393,344
Maximum amount outstanding at any month-end	$496,400	$ 581,400
Weighted average interest rate during the year	4.33%	5.27%
Weighted average interest rate at year-end	4.52%	4.25%
Secured by:		
FHLB Stock	$ 51,951	$ 50,559
Loans receivable (1)	900,776	1,661,950
	$952,727	$ 1,712,509

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(1) Includes pledged loans available for use under the letter of credit securing commercial paper (available unused balance was $96 million at December 31, 1993). See Note 10.

The maturities and weighted average interest rates on FHLB Advances are summarized as follows:

	DECEMBER 31, 1993		DECEMBER 31, 1992	
YEAR OF MATURITY	AMOUNT	WEIGHTED AVERAGE INTEREST RATE	AMOUNT	WEIGHTED AVERAGE INTEREST RATE
	(DOLLARS IN THOUSANDS)			
1993	$ --	--%	$325,000	3.64%
1994	3,700	3.32	3,700	4.10
1996	60,000	4.88	--	--
1997	232,700	4.02	232,700	4.73
1998	10,000	6.30	--	--
2000	20,000	8.61	20,000	8.61
	$326,400	4.52%	$581,400	4.25%

The estimated fair value of FHLB Advances at December 31, 1993, was $328 million (see Note 1 discussion of SFAS No. 107).

NOTE 10--OTHER BORROWINGS AND SUBORDINATED NOTES

Other borrowings consist of the following:

	YEAR OF MATURITY	DECEMBER 31, 1993	DECEMBER 31, 1992
		(DOLLARS IN THOUSANDS)	
Short-term borrowings:			
8 7/8% Mortgage-backed medium term notes ("1993 MTNs")	1993	$ --	$100,000
9 3/4% Commercial mortgage-backed bonds ("CMBBs")	1993	--	62,000
Commercial paper	1993	--	65,000
Commercial paper	1994	304,000	--
Securities sold under agreement to repurchase	1994	3,830	--
		307,830	227,000
Long-term borrowings:			
8 1/2% Mortgage-backed medium-term notes ("1997 MTNs")	1997	100,000	100,000
		$407,830	$327,000

The mortgage-backed bonds and notes are summarized as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Mortgage-backed medium term notes:		
1993 MTNs, matured May 15, 1993:		
Balance at year-end	--	$100,000
Interest rate at year-end	--	8.88%
1997 MTNs, due April 15, 1997:		
Balance at year-end	$100,000	$100,000
Interest rate at year-end	8.50%	8.50%
1993 and 1997 MTNs are secured by:		
Joint pool of mortgage loans and mortgage-backed securities, at cost	--	$414,573
Joint pool of mortgage loans and U.S. Treasury notes, at cost	$255,720	--
CMBBs, matured September 15, 1993:		
Balance at year-end	--	$ 62,000
Secured by mortgage loans and U.S. Treasury notes, at cost	--	$208,923
Interest rate at year-end	--	9.32%

NOTE 10--OTHER BORROWINGS AND SUBORDINATED NOTES--(CONTINUED)

Borrowings other than the mortgage-backed bonds and notes are summarized as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Commercial paper:		
Balance at year-end	$304,000	$ 65,000
Average amount outstanding during the year	$274,620	$ 21,165
Maximum amount outstanding at any month-end	$342,090	$ 94,400
Weighted average interest rate during the year	3.44%	4.05%
Weighted average interest rate at year-end	3.38%	3.57%
Secured by Letter of Credit from FHLB	$400,000	$400,000
Securities sold under agreement to repurchase:		
Balance at year-end	$ 3,830	--
Average amount outstanding during the year	$138,701	$ 19,542
Maximum amount outstanding at any month-end	$289,885	$111,633
Weighted average interest rate during the year	3.23%	3.32%
Weighted average interest rate at year-end	3.40%	--
Secured by mortgage-backed securities, at cost	$ 4,000	--
Other borrowings:		
Balance at year-end	--	--
Average amount outstanding during the year	--	$ 1,085
Maximum amount outstanding at any month-end	--	$ 3,193
Weighted average interest rate during the year	--	9.54%
Weighted average interest rate at year-end	--	--

The Bank entered into a Subordinated Loan Agreement dated as of May 15, 1990 (the "Subordinated Loan Agreement") pursuant to which $60 million in subordinated notes (the "Notes") are outstanding, which Notes are guaranteed by Citadel. The Notes were approved by the OTS as additional regulatory capital. The Notes were issued to institutional investors in the amount of $60.0 million, interest payable semiannually at 11.68% per annum, and are repayable in five equal annual installments commencing May 15, 1996.

The Subordinated Loan Agreement, among other covenants, contains a provision requiring Fidelity to maintain a consolidated tangible net worth at least equal to the greater of (a) $170 million plus 50% of consolidated net earnings since January 1, 1990, or (b) 3.25% of consolidated assets. Management anticipates that additional losses are likely to be incurred during 1994 and that, as a result, consolidated tangible net worth may be reduced to less than $170 million sometime during the first quarter of 1994. However, management's projections for 1994 indicate that the Bank's consolidated tangible net worth will remain above the net worth requirement under the foregoing clause (a) through the end of the year, assuming the formula in clause (a) permits a reduction of the $170 million test if a consolidated net loss has been sustained since January 1, 1990. Under this interpretation, the required consolidated tangible net worth under clause (a) would be $153.9 million at December 31, 1993 and would be further reduced by 50% of all losses during 1994. As of December 31, 1993, the Bank's consolidated tangible net worth amounted to $180.2 million.

NOTE 10--OTHER BORROWINGS AND SUBORDINATED NOTES--(CONTINUED)

On the other hand, the holders of the Notes could take the position that the amount under clause (a) may not be reduced by losses to less than $170 million. Under that position, Fidelity would be in violation of the covenant as soon as consolidated tangible net worth were reduced to less than $170 million. Management believes that such position is not correct; however, there can be no assurance that such position would not prevail if the issue were ever tested in court. If the above covenant were violated, the holders of 66 2/3% in aggregate principal amount of the Notes would be entitled to declare the entire amount of the Notes immediately due and payable. However, if such acceleration would result in the Bank's failure to meet applicable regulatory capital requirements, the holders would be prohibited from accelerating the Notes without the prior approval of the OTS. If the Bank failed to make such payment, Citadel would be required to make such payment under its guarantee of the Notes. Management anticipates that Citadel's funds would be insufficient to make such payment, unless additional funds were raised.

The holders of the Notes have power of approval over certain matters, including certain asset sales, and may require a repurchase of the Notes upon a "Significant Event." Management believes that neither the approval of the holders nor a Significant Event repurchase offer would be required for consummation of the proposed Restructuring (See Note 14.) if an acquiror of the Bank has outstanding, immediately prior to the closing of the Restructuring, unsecured debt with a credit rating of BBB or better by Standard & Poor's Corporation or Baa2 or better by Moody's Investors Service, Inc. and various financial tests are satisfied after giving effect to the Restructuring. However, should the Restructuring be found to trigger the Significant Event repurchase requirement, Fidelity could be required to pay the principal balance of the Notes of $60 million plus accrued interest and a premium of approximately $12.8 million (calculated as of December 31, 1993). Also, if the consent of the holders should be required under any of the covenants of the Subordinated Loan Agreement but not be obtained, an event of default would occur under the Subordinated Loan Agreement (subject to grace or cure periods in the case of certain covenants) if the Restructuring is completed.

On March 4, 1994, The Chase Manhattan Bank, N.A. ("Chase"), one of four lenders under the Subordinated Loan Agreement, sued Fidelity, Citadel and Citadel's Chairman of the Board, alleging, among other things, that the transfer of assets pursuant to the Restructuring would constitute a breach of the Subordinated Loan Agreement, including the tangible net worth and other various financial tests contained therein, and seeking to enjoin the Restructuring and to recover damages in unspecified amounts. In addition, the lawsuit alleges that past responses of Citadel and Fidelity to requests by Chase for information regarding the Restructuring violate certain provisions of the Subordinated Loan Agreement and that such alleged violations, with the passage of time, have become current defaults under the Subordinated Loan Agreement. While the other three lenders under the Subordinated Loan Agreement hold $25 million of the Notes, none of them has joined Chase in this lawsuit. The Company is evaluating the lawsuit and, based on its current assessment, the Company does not believe that the allegations have merit.

Any violation of the tangible net worth covenant or the occurrence of any other event of default under the Subordinated Loan Agreement would also result in a cross default under Fidelity's debt agreements with the FHLB (whether or not the Notes are accelerated) and entitle the FHLB to declare all amounts outstanding to become immediately due and payable. Also, the FHLB may elect not to make further Advances to the Bank and may prevent the Bank from issuing further commercial paper under its existing facility.

During 1992 and 1991, the Company paid $0.4 million and $0.7 million, respectively, in interest to Craig Corporation (an 8.9% stockholder of the Company and thus a related party) on a $15 million borrowing from that entity. The loan was paid off in June 1992.

The weighted average interest rate on other borrowings and subordinated notes was 5.54% and 8.39% at December 31, 1993 and 1992, respectively.

NOTE 10--OTHER BORROWINGS AND SUBORDINATED NOTES--(CONTINUED)

The carrying and estimated fair values of other borrowings and subordinated notes consisted of the following at December 31, 1993 (see Note 1 discussion of SFAS No. 107):

	BOOK VALUE	FAIR VALUE
	(DOLLARS IN THOUSANDS)	
Commercial paper	$304,000	$304,000
1997 MTNs	100,000	110,600
Subordinated notes	60,000	60,300
Securities sold under agreement to repurchase	3,830	3,800
	$467,830	$478,700

NOTE 11--EMPLOYEE BENEFIT PLANS

Postretirement Benefits

The Company provides certain health and life insurance postretirement benefits for all eligible retired employees. Eligibility for the plan is met when the participant reaches age 55 and has 10 years of continuous service.

Effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its unfunded postretirement health care and life insurance program. This statement requires the cost of postretirement benefits to be accrued during the service lives of employees. The Company's previous practice was to expense these costs on a cash basis.

As of December 31, 1992, the Company's accumulated postretirement benefit obligation ("APBO") was approximately $3.1 million. Upon adoption of the statement, the Company could make the election to immediately recognize the liability or to amortize the amount to expense over 20 years. The Company has elected to amortize this transition obligation over 20 years. Net periodic postretirement benefit costs for 1993 included the following components:

	AMOUNT
	(DOLLARS IN THOUSANDS)
Service cost (benefits attributed to service during the period)	$187.1
Interest cost on accumulated postretirement benefit obligation	250.2
Amortization of transition obligation	156.4
Net periodic postretirement benefit cost	$593.7

NOTE 11--EMPLOYEE BENEFIT PLANS--(CONTINUED)

The following table sets forth the postretirement benefit liability at December 31, 1993:

Accumulated postretirement benefit obligation:

	AMOUNT (DOLLARS IN THOUSANDS)
Retirees	$1,616.7
Employees presently eligible to retire	1,115.9
Employees not yet eligible to retire	974.7
Total APBO	3,707.3
Unrecognized transition obligation	(2,971.2)
Unrecognized cumulative loss	(237.4)
Net postretirement benefit liability recognized in the statement of financial condition	$ 498.7

The APBO as of December 31, 1993, was determined using a 7.25% weighted average discount rate. The health care cost trend rates were assumed to be 9.5% at December 31, 1993, gradually declining to 5.25% after ten years and remaining at that level thereafter. The health care cost trend rate assumption has a significant effect on the amount reported. For example, a 1% increase in the health care trend rate in each year, would increase the accumulated postretirement benefit obligation by $0.6 million (or 17.2%) at December 31, 1993 and the net periodic cost by $0.1 million (or 14.6%) for the year.

Retirement Income Plan

The Company has a retirement income plan covering substantially all employees. The defined benefit plan provides for payment of retirement benefits commencing normally at age 65 in a monthly annuity, however, the option of a single cash payment is available. An employee becomes vested upon five years of service. Benefits payable under the plan are generally determined on the basis of the employee's length of service and average earnings. Annual contributions to the plans are sufficient to satisfy legal funding requirements.

401(k) Plan

The Company has a 401(k) defined contribution plan available to all employees who have been with the Company for one year and have reached the age of 21. Employees may generally contribute up to 15% of their salary each year, and the Company matches 50% up to the first 6% contributed by the employee.

NOTE 12--INCOME TAXES

Income tax expense/benefit was comprised of the following:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Current income tax expense (benefit):			
Federal	$(51,033)	$ 12,429	$ 21,562
State	75	1,696	7,365
	(50,958)	14,125	28,927
Deferred income tax expense (benefit):			
Federal	17,746	(15,503)	(8,383)
State	(3,255)	(4,463)	(4,893)
	14,491	(19,966)	(13,276)
	$(36,467)	$ (5,841)	$ 15,651

Income tax liability/receivable was comprised of the following:

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
Current income tax liability (receivable):		
Federal	$ (43,603)	$ 6,242
State	(1,767)	(1,332)
	(45,370)	4,910
Deferred income tax liability (receivable):		
Federal	14,564	(3,182)
State	(8,555)	2,008
Valuation Allowance--State	7,308	--
	13,317	(1,174)
	$ (32,053)	$ 3,736

NOTE 12--INCOME TAXES--(CONTINUED)

The components of the net deferred tax liability/asset are as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
FEDERAL:		
Deferred tax liabilities:		
Loan fees and interest	$ 12,995	$13,906
FHLB stock dividends	12,066	11,515
California franchise tax	2,691	--
Other	7,480	5,229
Gross deferred tax liabilities	35,232	30,650
Deferred tax assets:		
California franchise tax	--	1,633
Bad debt and loan loss deduction	11,369	25,997
REO operating income	2,926	--
Other	6,373	6,202
Gross deferred tax assets	20,668	33,832
Valuation allowance	--	--
Deferred tax assets, net of allowance	20,668	33,832
Net deferred tax liability (asset)	$ 14,564	$(3,182)
STATE:		
Deferred tax liabilities:		
Loan fees and interest	$ 4,245	$ 4,502
FHLB stock dividends	3,942	3,728
Other	2,514	1,371
Gross deferred tax liabilities	10,701	9,601
Deferred tax assets:		
Bad debt and loan loss deduction	16,187	5,391
Other	3,069	2,202
Gross deferred tax assets	19,256	7,593
Valuation allowance	(7,308)	--
Deferred tax assets, net of allowance	11,948	7,593
Net deferred tax liability (asset)	$ (1,247)	$ 2,008

No valuation allowance under SFAS No. 109 was required for federal purposes. Federal deferred tax assets would be fully realized as an offset against reversing temporary differences which create net future tax liabilities, and/or through loss carrybacks. Therefore, even if no future income was expected, federal deferred tax assets would still be fully realized. However, a valuation allowance under SFAS No. 109 was required for state purposes, as certain state deferred tax assets would not be realized as an offset against reversing temporary differences which create net future state tax liabilities.

NOTE 12--INCOME TAXES--(CONTINUED)

A reconciliation from the statutory income tax expense/benefit to the consolidated effective income tax expense/benefit follows:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Expected federal income tax expense (benefit)...	$(35,234)	$(1,290)	$ 6,227
Increases (reductions) in taxes resulting from:			
Franchise tax expense (benefit), net of federal income tax...........................	(4,398)	(234)	1,631
Bad debt and loan loss deduction..............	--	--	3,300
Goodwill......................................	3,108	124	124
Redetermination of tax.........................	--	(4,130)	4,373
Other, net....................................	57	(311)	(4)
Income tax expense (benefit)...................	$(36,467)	$(5,841)	$15,651

The Company's tax returns have been audited by the Internal Revenue Service through December 31, 1987 and by the California Franchise Tax Board through December 31, 1985. The tax returns filed for 1986, 1987 and 1988 are currently under audit by the California Franchise Tax Board. The tax returns filed for 1988 and 1989 are currently in the appeals process with the Internal Revenue Service. In addition, the Internal Revenue Service is currently auditing the tax returns filed for 1990 and 1991. Although the Company's management believes its federal income tax returns properly reflect the Company's tax liability, the Internal Revenue Service might assess additional taxes related to, among other things, certain disputed industry issues affecting the industry as a whole. If additional taxes are assessed, the Company intends to utilize all statutorily allowable remedies to achieve a favorable outcome for years under examination.

Savings institutions are allowed a bad debt deduction for federal income tax purposes based on either 8% of taxable income or the savings institution's actual loss experience. Fidelity's bad debt deductions for the years presented were based on actual loss experience.

Under the provisions of SFAS No. 109 (paragraphs 31 and 32), a deferred tax liability has not been provided for tax bad debt and loan loss reserves which arose in tax years prior to December 31, 1987. The Company had $52.5 million of such reserves at December 31, 1993, for which $18.4 million of taxes have not been provided. If these reserves are used for any purpose other than to absorb bad debt losses, federal taxes would have to be provided at the then current income tax rate. It is not contemplated that the accumulated reserves will be used in a manner that will create such liabilities.

NOTE 13--COMMITMENTS AND CONTINGENCIES

The Company and certain of its subsidiaries had a number of lawsuits and claims pending at December 31, 1993. The Company's management and its counsel believe that none of the lawsuits or claims pending will have a materially adverse impact on the financial condition or business of the Company.

See Note 17--Subsequent Events.

NOTE 13--COMMITMENTS AND CONTINGENCIES--(CONTINUED)

Fidelity enters into agreements to extend credit to customers on an ongoing basis. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Most commitments are expected to be drawn upon, and therefore the total commitment amounts generally represent future cash requirements. At December 31, 1993, the Bank had commitments to fund loans of $37.9 million at market interest rates on the dates such commitments are to be funded.

At December 31, 1993, the Bank was a party to interest rate swap agreements in which the Bank receives a fixed interest rate and pays a floating interest rate on a total notional principal amount of $250 million. These agreements have remaining maturities of less than four years and an estimated fair value of $2.0 million (See Note 1 discussion of SFAS No. 107).

As of December 31, 1993, the Bank had sold several interest rate swap option agreements with a total notional amount of $200 million. The agreements give the right to the buyer to cancel the swap agreement at a specified future date. The Bank receives a fixed interest rate and pays a floating interest rate tied to LIBOR over the life of the agreement for the option and swap. At December 31, 1993, the average fixed receive rate was 5.00% and the average pay rate was 3.34%. The swap options are held as trading positions during the option period and are carried at market value and gains and losses are recorded in operations. The estimated fair value of these positions at December 31, 1993 was a loss of approximately $1.7 million. In January 1994, the options to cancel were not exercised and the average fixed receive rate adjusted to 4.70%. The swaps have remaining maturities of less than four years.

As of December 31, 1993, the Bank had several open put and call positions for mortgage loans expiring in January 1994. These positions were minor and no losses were incurred.

As of December 31, 1993, the Bank had certain loans with a gross principal balance of $127.3 million, of which $106.3 million had been sold in the form of mortgage pass-through certificates, over various periods of time, to four investor financial institutions leaving a balance of $21.0 million retained by the Bank. These mortgage pass-through certificates provide a credit enhancement to the investor financial institutions in the form of the Bank's subordination of its retained percentage interest to that of the investor financial institutions. In this regard, the aggregate of $106.3 million held by the investor financial institutions are deemed Senior Mortgage Pass-Through Certificates and the $21.0 million held by the Bank are subordinated to the Senior Mortgage Pass-Through Certificates in the event of borrower default. Full recovery of the $21.0 million is subject to this contingent liability due to its subordination. In 1993, the Bank repurchased one of the Senior Mortgage Pass-Through Certificates with a face value of $38.3 million, from one of the investor institutions. It is included in the mortgage-backed securities held for sale portfolio at December 31, 1993. The other Senior Mortgage Pass-Through Certificates totaling $68.0 million are owned by other investor institutions.

During 1992, the Bank effected the securitization by FNMA of $114.3 million of multifamily mortgages wherein $114.3 million in whole loans were swapped for Triple A rated mortgage-backed securities through FNMA's Alternative Credit Enhancement Structure ("ACES") program. These mortgage-backed securities were sold in December 1993 and the current outstanding balance as of December 31, 1993 of $102.0 million is serviced by the Bank.

As part of a credit enhancement to absorb losses relating to the ACES transaction, the Bank has pledged and placed in a trust account, as of December 31, 1993, $13.3 million, comprised of (a) $2.7 million in cash and (b) $10.6 million in book value U.S. Treasury securities. The Bank shall absorb losses, if any, which may

NOTE 13--COMMITMENTS AND CONTINGENCIES--(CONTINUED)

be incurred on the securitized multifamily loans and FNMA is responsible for losses, if any, in excess of the $13.3 million. The securities have been included in other investments held for sale and in response to this classification, an adjustment has been recorded for lower of cost or market in addition to any credit losses. Total reserves equal $8.4 million as of December 31, 1993.

The Company conducts portions of its operations from leased facilities. All of the Company's leases are operating leases. At December 31, 1993, aggregate minimum rental commitments on operating leases with noncancelable terms in excess of one year were as follows:

YEAR OF MATURITY	AMOUNT (DOLLARS IN THOUSANDS)
1994	$ 3,218
1995	2,751
1996	2,759
1997	2,830
1998	2,709
Thereafter	10,842
	$25,109

Operating expense includes rent expense of $3.0 million in 1993, $2.8 million in 1992, and $2.7 million in 1991.

NOTE 14--STOCKHOLDERS' EQUITY

Fidelity's Regulatory Capital

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") required the OTS to implement a system requiring regulatory sanctions action against institutions that are not adequately capitalized, with the sanctions growing more severe, the lower the institution's capital. Under FDICIA, the OTS issued regulations establishing specific capital ratios for five separate capital categories. The five categories of ratios are:

	CORE CAPITAL TO ADJUSTED TOTAL ASSETS (LEVERAGE) RATIO	CORE CAPITAL TO RISK-WEIGHTED ASSETS RATIO	TOTAL CAPITAL TO RISK-WEIGHTED ASSETS RATIO
Well capitalized	5% or above	6% or above	10% or above
Adequately capitalized	4% or above	4% or above	8% or above
Undercapitalized	Under 4%	Under 4%	Under 8%
Significantly undercapitalized	Under 3%	Under 3%	Under 6%
Critically undercapitalized	Ratio of tangible equity to adjusted total assets of 2% or less		

NOTE 14--STOCKHOLDERS' EQUITY--(CONTINUED)

The following table summarizes the capital ratios of the adequately capitalized category and Fidelity's regulatory capital at December 31, 1993 as compared to such ratios. As indicated in the table, Fidelity's capital levels exceeded the three minimum capital ratios of the adequately capitalized category.

	CORE CAPITAL TO ADJUSTED TOTAL ASSETS		CORE CAPITAL TO RISK-WEIGHTED ASSETS		TOTAL CAPITAL TO RISK-WEIGHTED ASSETS	
	BALANCE	%	BALANCE	%	BALANCE	%
	(DOLLARS IN THOUSANDS)					
Regulatory capital........	$ 182,100	4.15%	$ 182,100	6.27%	$ 270,600	9.32%
Adequately capitalized requirement.............	175,500	4.00	116,100	4.00	232,300	8.00
Excess capital............	$ 6,600	0.15%	$ 66,000	2.27%	$ 38,300	1.32%
Adjusted Assets(1)........	$4,388,400		$2,903,600		$2,903,600	

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(1) The term "adjusted assets" refers to the term "adjusted total assets" as defined in 12 C.F.R. section 567.1(a) for purposes of core capital requirements, and for purposes of risk-based capital requirements, refers to the term "risk-weighted assets" as defined in 12 C.F.R. section 567.1(bb).

Although the Bank was deemed adequately capitalized at December 31, 1993, at such date, absent the $28 million in capital contributed to the Bank by Citadel during the year (see "Other Equity Transactions" below), the Bank would not have met the 4% core capital to adjusted total assets requirement of the adequately capitalized category and thus would have been classified as undercapitalized for purposes of the OTS' prompt corrective action regulations.

The OTS' capital regulations, as required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), include three separate minimum capital requirements for the savings institution industry--a "tangible capital requirement," a "leverage limit" and a "risk-based capital requirement." These capital standards must be no less stringent than the capital standards applicable to national banks. The OTS also has the authority, after giving the affected institution notice and an opportunity to respond, to establish individual minimum capital requirements ("IMCR") for a savings institution which are higher than the industry minimum requirements, upon a determination that an IMCR is necessary or appropriate in light of the institution's particular circumstances, such as if the institution is expected to have losses resulting in capital inadequacy, has a high degree of exposure to credit risk, or has a high amount of nonperforming loans. The OTS has proposed a regulation that would add to the list of circumstances in which an IMCR may be appropriate for a savings association the following: a high degree of exposure to concentration of credit risk or risks arising from nontraditional activities, or failure to adequately monitor and control the risks presented by concentration of credit and nontraditional activities.

NOTE 14--STOCKHOLDERS' EQUITY--(CONTINUED)

The following table summarizes the regulatory capital requirements for Fidelity under FIRREA at December 31, 1993, but does not reflect the required future phasing out of certain assets, including investments in, and loans to, subsidiaries which may presently be engaged in activities not permitted for national banks and, for risk-based capital, real estate held for investment (the impact of which the Bank believes to be immaterial), nor does the table reflect the impact of certain proposed regulations. As indicated in the table, Fidelity's capital levels exceed all three of the currently applicable minimum capital requirements.

	DECEMBER 31, 1993					
	TANGIBLE CAPITAL		CORE CAPITAL		CURRENT RISK-BASED CAPITAL	
	BALANCE	%	BALANCE	%	BALANCE	%
	(DOLLARS IN THOUSANDS)					
Stockholder's Equity(1)	$ 182,300		$ 182,300		$ 182,300	
Adjustments:						
Intangible assets	(2,100)		--		--	
Nonincludable subsidiaries	(200)		(200)		(200)	
General valuation allowances	--		--		36,700	
Qualifying subordinated notes	--		--		59,200	
Equity investments	--		--		(7,400)	
Regulatory capital(2)	180,000	4.10%	182,100	4.15%	270,600	9.32%
Required minimum	65,800	1.50	131,700	3.00	232,300	8.00
Excess capital	$ 114,200	2.60%	$ 50,400	1.15%	$ 38,300	1.32%
Adjusted assets(3)	$4,386,300		$4,388,400		$2,903,600	

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(1) Fidelity's total stockholder's equity, calculated in accordance with generally accepted accounting principles, was 4.16% of its total assets at December 31, 1993.
(2) At periodic intervals, both the OTS and the FDIC routinely examine the bank as part of their legally prescribed oversight of the industry. Based on their examinations, the regulators can direct that the Bank's financial statements be adjusted in accordance with their findings.
(3) The term "adjusted assets" refers to the term "adjusted total assets" as defined in 12 C.F.R. section 567.1(a) for purposes of tangible and core capital requirements, and for purposes of risk-based capital requirements, refers to the term "risk-weighted assets" as defined in 12 C.F.R. section 567.1(bb).

The Company is actively pursuing a restructuring plan that would include both the transfer to a newly-formed Citadel subsidiary or division of certain problem assets of the Bank and a sale of the Bank and Gateway (the "Restructuring"; discussions of the sale of the Bank in the context of the Restructuring include the sale of Gateway). The Company is currently seeking a strategic buyer or a new core set of equity investors for the Bank. Any such sale of the Bank will be subject to the approval of Citadel's Board of Directors (the "Board") and stockholders as well as the OTS. Following the proposed sale of the Bank, Citadel would become a real estate company and focus on the servicing and enhancement of its loan and real estate portfolio. The Restructuring calls for the Bank's disposition of substantially all of its problem assets, together with a small amount of its performing assets, so as to improve the attractiveness of the Bank to potential acquisition or investment candidates. Most the Bank's problem assets would be transferred to the new Citadel real estate subsidiary or division using securitized debt financing.

NOTE 14--STOCKHOLDERS' EQUITY--(CONTINUED)

The Bank does not intend to implement the above-described bulk problem asset dispositions in the absence of an acquisition of the Bank by another financial institution or financial investors who are able to infuse additional core capital into the Bank. Any such acquisition will also require the approval of Citadel's Board and stockholders, as well as the OTS, which will condition its approval in part on the adequacy of the capital of the Bank after the Restructuring.

OTS Examinations

In January 1994, Citadel and the Bank received reports of the various regular examinations conducted by the OTS in 1993. As a result of the findings of the OTS in its safety and soundness examination of the Bank, Fidelity will be subject to higher examination assessments and is subject to additional regulatory restrictions including, but not limited to, (a) a prohibition, absent prior OTS approval, on increases in total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter; (b) a requirement that the Bank submit to the OTS for prior review and approval the names of proposed new directors and executive officers and proposed employment contracts with any director or senior officer; (c) a requirement that the Bank submit to the OTS for prior review and approval any third-party contract outside the normal course of business; and (d) the OTS would have the ability, in its discretion, to require 30 days' prior notice of all transactions between Fidelity and its affiliates (including Citadel and Gateway).

The OTS also expressed concern in a number of specific areas principally relating to asset quality and the resulting negative impact on capital levels and earnings, as well as management effectiveness in certain areas. Management believes that the proposed Restructuring of the Company discussed above, if accomplished, will be responsive to most of the OTS' concerns.

Other Equity Transactions

In March 1993, the Company completed a rights offering in which approximately $31.4 million of capital, net of expenses, was raised. Of that amount, $18.0 million was contributed to the capital of Fidelity in the first quarter of 1993 and an additional $10.0 million was contributed in the fourth quarter of 1993. Also, in the fourth quarter of 1993, Gateway paid a $1.0 million dividend to Citadel.

In the third quarter of 1992, the Company retired its treasury stock of 179,700 shares. The carrying value of the stock of $6.1 million reduced the common stock and paid-in capital accounts as reflected in the statement of financial condition. The retirement of treasury stock did not affect the Bank's regulatory capital.

The Bank paid a cash dividend of $1.0 million in the third quarter of 1992 to Citadel and during the fourth quarter of 1992, Fidelity paid a dividend in kind to Citadel consisting of its equity ownership of its securities brokerage subsidiary, Gateway. These dividends reduced Fidelity's capital by $2.1 million and had an immaterial effect on the Bank's tangible, core and risk-based capital.

Stock Option Plans

Citadel has two qualified stock option plans under which options to purchase shares of Citadel's common stock may be granted. Under the Key Employee Stock Option Program (the "1982 Stock Option Plan"), all options available for grant have been granted. Under the 1987 Stock Option and Stock Appreciation Rights Plan (the "1987 Stock Option Plan"), options to purchase up to 175,000 shares may be granted through April 22, 1997 and at December 31, 1993, there were 140,450 shares still available to grant. Options granted under both plans may not have an exercise price less than the fair market value of the common stock on the date of the grant, are exercisable in whole or in part, and expire no later than the tenth anniversary of the date of grant.

NOTE 14--STOCKHOLDERS' EQUITY--(CONTINUED)

A summary of the 1982 Stock Option Plan and the 1987 Stock Option Plan activity follows:

	1982 STOCK OPTION PLAN		1987 STOCK OPTION PLAN	
	NUMBER OF OPTIONS	AVERAGE OPTION PRICE	NUMBER OF OPTIONS	AVERAGE OPTION PRICE
Balance, January 1, 1991	4,825	$58.00	30,100	$40.66
Expired	--	--	(3,800)	32.78
Balance, December 31, 1991	4,825	58.00	26,300	41.80
Expired	(4,825)	58.00	(20,750)	44.21
Balance, December 31, 1992	--	--	5,550	32.78
Granted	--	--	20,000	21.90
Balance, December 31, 1993	--	--	25,550	$24.26

At December 31, 1993, all of the options outstanding under the 1987 Stock Option Plan were fully exercisable.

NOTE 15--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
1993:					
Interest income	$ 78,187	$73,679	$69,187	$68,539	$289,592
Interest expense	49,397	46,748	43,767	48,479	188,391
Provision for estimated loan losses	7,500	14,500	19,500	23,600	65,100
Provision for estimated real estate losses	1,000	16,000	4,000	9,200	30,200
Gains (losses) on sales of loans, net	395	225	(34)	(392)	194
Gains (losses) on sales of mortgage-backed securities, net	--	1,543	917	(1,118)	1,342
Gains (losses) on sales of investment securities, net	--	1,946	17	(2,017)	(54)
Net earnings (loss)	135	(15,245)	(14,725)	(37,326)	(67,161)
Net earnings (loss) per share	.04	(2.31)	(2.23)	(5.66)	(11.56)
Market prices of common stock:					
High	23 7/8	21 7/8	18 5/8	19 1/2	23 7/8
Low	16	12 5/8	14 1/4	9 3/8	9 3/8
1992:					
Interest income	$104,918	$96,838	$86,743	$82,223	$370,722
Interest expense	69,757	61,203	56,337	52,644	239,941
Provision for estimated loan losses	6,970	7,656	32,660	3,894	51,180
Provision for estimated real estate losses	2,030	2,344	6,340	7,106	17,820
Gains on sales of loans, net	353	284	403	77	1,117
Net earnings (loss)	6,055	4,472	(14,870)	6,389	2,046
Net earnings (loss) per share	1.84	1.35	(4.51)	1.94	.62
Market prices of common stock:					
High	32 7/8	29 1/2	25 5/8	20 7/8	32 7/8
Low	14 5/8	23 1/2	13	13 7/8	13

NOTE 15--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)--(CONTINUED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
1991:(1)					
Interest income	$136,808	$133,934	$128,080	$121,302	$520,124
Interest expense	105,268	98,494	89,865	84,390	378,017
Provision for estimated loan losses	3,924	5,417	36,502	4,000	49,843
Provision for estimated real estate losses	2,076	583	3,903	2,000	8,562
Gains on sales of loans, net	--	114	256	1,748	2,118
Gains on sales of mortgage-backed securities, net	--	1,008	--	7,985	8,993
Gains on sales of investment securities, net	--	1	--	--	1
Net earnings (loss)	4,421	7,093	(21,129)	12,278	2,663
Net earnings (loss) per share	1.34	2.15	(6.41)	3.73	.81
Market prices of common stock:					
High	34 1/4	34 1/8	37 1/8	28	37 1/8
Low	17 1/4	28 1/2	28 5/8	8 7/8	8 7/8

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(1) The 1991 third quarter earnings originally reported had been reduced by $11,593,000 due to the temporary Staff Accounting Bulletin ("SAB") No. 91 limitation of tax benefits on loan loss reserves. The restated third quarter amounts reflect earnings which were increased by $11,593,000 in tax benefits which were allowable under SFAS No. 109 and SFAS No. 96. No other amounts were required to be restated. See Notes 1 and 12 to the consolidated financial statements. The effect of the change on the third quarter of 1991 is as follows:

	QUARTER ENDED SEPTEMBER 30, 1991 NET LOSS	NET LOSS PER SHARE
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT)	
As originally reported with SAB No. 91 limitation	$ (32,722)	$ (9.92)
Effect of reversal of SAB No. 91 limitation	11,593	3.51
As restated	$ (21,129)	$ (6.41)

NOTE 16--PARENT COMPANY CONDENSED FINANCIAL INFORMATION

This information should be read in conjunction with the other notes to the consolidated financial statements.

CITADEL HOLDING CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
ASSETS:		
Cash	$ 2,284	$ 710
Investment in subsidiaries	182,966	221,427
Other assets	2,767	2,931
	$188,017	$225,068
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Income tax liability	$ 15	$ 590
Other liabilities	599	1,292
	614	1,882
Total stockholders' equity	187,403	223,186
	$188,017	$225,068

NOTE 16--PARENT COMPANY CONDENSED FINANCIAL INFORMATION--(CONTINUED)

CITADEL HOLDING CORPORATION
STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
INCOME:			
Dividends from subsidiaries	$ 1,000	$2,075	$ --
Subordinated notes interest income	--	538	1,800
Other income	324	55	230
	1,324	2,668	2,030
EXPENSES:			
Interest expense	--	--	752
Related party loan interest expense	--	408	709
Provision for estimated real estate losses	--	--	1,025
Other expense	2,986	2,402	3,630
	2,986	2,810	6,116
Earnings (loss) before income tax benefit	(1,662)	(142)	(4,086)
Income tax benefit	(961)	(845)	(1,595)
Net earnings (loss) before equity in undistributed net earnings of subsidiaries	(701)	703	(2,491)
Equity in undistributed net earnings (loss) of subsidiaries	(66,460)	1,343	5,154
Net earnings (loss)	$(67,161)	$2,046	$ 2,663

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

THREE YEARS ENDED DECEMBER 31, 1993

NOTE 16--PARENT COMPANY CONDENSED FINANCIAL INFORMATION--(CONTINUED)

CITADEL HOLDING CORPORATION
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
CASH FLOWS--OPERATING ACTIVITIES:			
Net earnings (loss)	$(67,161)	$ 2,046	$ 2,663
Reconciliation of net earnings (loss) to net operating cash flows:			
Provision for estimated losses	--	33	1,025
Losses on sales of securities	16	--	--
Purchases of investment securities held for sale	(35,001)	--	--
Maturities of investment securities held for sale	21,844	--	--
Sale of investment securities held for sale	13,239	--	--
Interest receivable decrease	--	471	7
Other assets increase (decrease)	164	(1,032)	(204)
Equity in net (earnings) loss of subsidiaries	65,460	(3,418)	(5,154)
Deferred income taxes increase (decrease)	36	(816)	312
Interest payable (decrease)	--	--	(4)
Other liabilities and deferred income increase (decrease)	(1,303)	116	1,514
Other, net	(98)	--	(445)
Operating cash flows, net	(2,804)	(2,600)	(286)
CASH FLOWS--INVESTING ACTIVITIES:			
Retirement of subordinated notes	--	15,000	--
Other, net	--	1,059	(1,891)
Investing cash flows, net	--	16,059	(1,891)
CASH FLOWS--FINANCING ACTIVITIES:			
Short-term borrowings decrease	--	--	(15,000)
Proceeds from (repayment of) related party loan	--	(15,000)	15,000
Proceeds from stock rights offering	31,378	--	--
Capital contributions to Fidelity	(28,000)	--	--
Dividends from subsidiaries	1,000	1,000	--
Financing cash flows, net	4,378	(14,000)	--
Net increase (decrease) in cash and cash equivalents	1,574	(541)	(2,177)
Cash and cash equivalents at beginning of period	710	1,251	3,428
Cash and cash equivalent at end of period	$ 2,284	$ 710	$ 1,251
CASH FLOWS--SUPPLEMENTAL INFORMATION:			
Cash paid during the period for:			
Interest expense on borrowings	$ --	$ 408	$ 1,465
Income taxes	75	96	52
Dividend of Gateway from Fidelity	--	1,075	--

NOTE 16--PARENT COMPANY CONDENSED FINANCIAL INFORMATION--(CONTINUED)

Citadel's Liquidity

Citadel has limited cash assets and no material cash producing operations or assets other than its investment in Fidelity and in Gateway.

Because of Fidelity's current capital levels, dividends and distributions from Fidelity will not be available to Citadel for the foreseeable future. Thus, Citadel's current cash balances, together with potential future dividends from Gateway, are the only sources of cash to Citadel. Management believes that these cash resources will only be sufficient to meet Citadel expenditures through mid-1994. Unless the Restructuring (see Note 14) is consummated at that time, Citadel will be required to obtain additional cash to fund its expenditures, and no assurances can be given that Citadel will be able to obtain such funds.

NOTE 17--SUBSEQUENT EVENTS

Northridge Earthquake

In January 1994, the greater Los Angeles area was seriously affected by a major earthquake and attendant aftershocks, centered in the San Fernando Valley. Because the Bank's main operations are located near the most seriously affected areas, and a substantial number of its customers are located in the most seriously affected areas, management has initiated, but not completed, efforts to evaluate the effect of the earthquake on the Bank's operations and customers.

The Bank's portfolio includes loans and REO with a net book value of approximately $937 million secured by or comprised of 1,414 multifamily (5 units or more), 15 commercial, and 2,313 single family and multifamily (2 to 4 units) collateral properties in the primary earthquake areas. After the earthquake, the Bank's appraisers surveyed all of Fidelity's multifamily and commercial properties located in these areas and identified 231 properties, representing loans and REO with a net book value of $140 million, with more than "cosmetic" damage. Of such 231 properties, 204 properties related to the Bank's loans and REO with a net book value of $124 million were identified as having "possible serious damage" and an additional 27 properties with a net book value of $16 million were identified as "actually or potentially condemned". The Bank commissioned structural and building engineers or building inspectors to estimate the cost of repairs to properties in these two categories. The cost of repairs has been preliminarily estimated to be $5.7 million and $11.1 million, respectively. Of this total $16.8 million, approximately $6.0 million of seismic damage exceeds the principal balance on the collateral properties' respective loans. Accordingly, the Bank currently would not expect its losses due to the earthquake to exceed $10.8 million with respect to its commercial and multifamily properties. The Bank expects the actual losses payable by the Bank to be lower because many repair costs may be borne by the borrowers, who in addition to their own funds, may have access to government assistance and/or earthquake insurance proceeds. As part of its normal internal asset review process, the Bank will adjust its reserves as its losses become quantifiable.

In addition to the multifamily and commercial assets referenced above, the Bank has identified 2,313 single family and multifamily (2 to 4 units) assets in the affected areas. 173 borrowers with unpaid principal balances totaling $29.4 million called in to report damages through February 8, 1994. The Bank has commenced inspection of these properties and continues to assess damages and potential earnings and loss impact with respect to these properties.

The earthquake will also have some adverse affect on loan originations and the sale of financial services in the retail branch network in the near term. In addition, physical damage was sustained at some of

NOTE 17--SUBSEQUENT EVENTS--(CONTINUED)

the Bank administrative and branch office facilities located in the Los Angeles area, however, only one Bank-owned building in the San Fernando Valley region of Los Angeles sustained major damage. It is estimated that necessary repairs to all affected facilities, net of anticipated insurance reimbursement, shall not exceed $0.5 million. Other potential financial impacts of the earthquake include additional personnel costs, property inspection costs, and others. Based upon the information gathered to date, the total estimated cost to the Company for these items is not expected to be material.

Pending Litigation

On March 4, 1994, The Chase Manhattan Bank, N.A. ("Chase"), one of four lenders under Fidelity's $60 million subordinated loan agreement of 1990 (the "Subordinated Loan Agreement"), sued Fidelity, Citadel and Citadel's Chairman of the Board, alleging, among other things, that the transfer of assets pursuant to the Restructuring would constitute a breach of the Subordinated Loan Agreement, and seeking to enjoin the Restructuring and to recover damages in unspecified amounts. In addition, the lawsuit alleges that past responses of Citadel and Fidelity to requests by Chase for information regarding the Restructuring violate certain provisions of the Subordinated Loan Agreement and that such alleged violations, with the passage of time, have become current defaults under the Subordinated Loan Agreement. While the other three lenders under the Subordinated Loan Agreement hold $25 million of the subordinated notes (the "Notes"), none of them has joined Chase in this lawsuit. The Company is evaluating the lawsuit and, based on its current assessment, the Company does not believe that the allegations have merit. The impact of this lawsuit on the capital position of the Bank, cross default provisions under the Bank's other debt agreements and the guarantee by Citadel is uncertain. See Notes 10 and 14.

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by this reference is the information set forth in the sections entitled "ELECTION OF DIRECTORS" and "MANAGEMENT" contained in the Company's Proxy Statement for its 1994 Annual Meeting of Stockholders (the "1994 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by this reference is the information set forth in the section entitled "EXECUTIVE COMPENSATION" contained in the 1994 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by this reference is the information set forth in the sections entitled "ELECTION OF DIRECTORS" and '"PRINCIPAL HOLDERS OF CITADEL COMMON STOCK" contained in the 1994 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by this reference is the information set forth in the section entitled "RELATED PARTY TRANSACTIONS" contained in the 1994 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A)(1) FINANCIAL STATEMENTS

(A)(2) FINANCIAL STATEMENT SCHEDULES

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(B) REPORTS ON FORM 8-K

The Company filed a Report on Form 8-K on January 11, 1994 reporting on Item 5. "Other Events."

(C) EXHIBITS

3.1 Certificate of Amendment of Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(a) to the Company's Form 10-K for the year ended December 31, 1988, and incorporated herein by reference).

3.2 Restated By-laws of the Company (filed as Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1988, and incorporated herein by reference).

4.1 Indenture dated as of March 1, 1985, between Fidelity and First Interstate Bank of California, as trustee (filed as Exhibit 4 to the Company's Form 10-K for the year ended December 31, 1984, and incorporated herein by reference).

4.2 The Company agrees to provide the Securities and Exchange Commission, upon request, copies of instruments defining the rights of holders of long-term debt of the Company and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Commission.

10.1 Fidelity Federal Savings and Loan Association Key Employee Stock Option Program (filed as Exhibit A to the Company's Registration Statement on Form S-8 (No. 2-96207) filed on March 4, 1985, and incorporated herein by reference).

10.2 Loan Agreement between Fidelity and Royal Shore Associates Limited Partnership, dated February 17, 1984 (filed as Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 1984, and incorporated herein by reference).

10.3 Agreement, dated August 2, 1984, between Fidelity and Marine Midland Bank, N.A. (filed as Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 1984, and incorporated herein by reference).

10.4 Indemnity Agreement, dated August 13, 1987, between the Company and the Directors and Officers of the Company (filed as Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 1987, and incorporated herein by reference).

10.5 Indemnity Agreement dated August 26, 1987 between Fidelity and the Directors and Officers of Fidelity (filed as Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1987, and incorporated herein by reference).

10.6 Citadel Holding Corporation 1987 Stock Option and Stock Appreciation Rights Plan (filed as Exhibit A to the Company's definitive Proxy Statement dated May 29, 1987, and incorporated herein by reference).

10.7 Form of Incentive Stock Option Agreement (filed as Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 1987, and incorporated herein by reference).

10.8 Form of Indemnity agreement approved June 27, 1990, between Citadel and directors and certain officers of Citadel terminating and replacing that certain Indemnity Agreement dated August 22, 1987 (filed as Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 1987, and incorporated herein by reference).

10.9 Form of Indemnity Agreement approved June 27, 1990, between Fidelity and directors and certain officers of Fidelity terminating and replacing that certain Indemnity Agreement dated August 22, 1987 (filed as Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1987, and incorporated herein by reference.

10.10 Loan agreement dated as of May 15, 1990, between Fidelity, the Company and certain lenders as defined in said Loan Agreement regarding the issuance by Fidelity of $60 million of Fidelity's 11.68% subordinated notes (filed as Exhibit 10.24 to the Company's Form 10-K for the year ended December 31, 1990, and incorporated herein by reference).

10.11 Letter agreement dated May 1, 1991 summarizing the terms and conditions of employment between Philip R. Sherringham and Fidelity (filed as Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 1991, and incorporated herein by reference).

10.12 Letter agreement dated as of June 29, 1992 with Walter H. Morris, Jr. with respect to employment (filed as Exhibit 10.12 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.13 Consulting Agreement with Scott A. Braly dated as of August 3, 1992, and amendments thereto dated as of August 26, 1992 and November 30, 1992 (filed as Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.14 Form of Severance Agreement and related Guaranty Agreement to be entered into with Kirk S. Sellman, Walter H. Morris, Jr., Godfrey B. Evans, and other company executives (filed as Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.15 Executive Employment Agreement dated as of June 2, 1992 between Richard M. Greenwood and Fidelity and Amendment No. 1 thereto dated March 24, 1993 (filed as Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.16 Letter agreement of employment and guaranty dated as of June 2, 1992 between Richard M. Greenwood and Citadel Holding Corporation and Amendment No. 1 thereto dated January 24, 1993 (filed as Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.17 Dealer agreement, Letter of Credit Reimbursement Agreement and Depository Agreement dated as of July 31, 1992 relating to the commercial paper of Fidelity (filed as Exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.18 Data Processing Agreement by and between Systematics Financial Services, Inc. and Fidelity dated May 1, 1993, with exhibits and First Amendment thereto (filed herewith).

10.19 Letter agreement dated January 4, 1994 summarizing the terms and conditions of employment between James E. Stutz and Fidelity (filed herewith).

10.20 Letter agreement dated December 14, 1993 summarizing the terms and conditions of employment between Steve Wesson and Citadel (filed herewith).

22 Subsidiaries of the Company (filed herewith).

27 Financial Data Schedule (filed herewith).

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Citadel Holding Corporation

By /s/ James J. Cotter

James J. Cotter
Chairman of the Board

Date: March 30, 1994

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ James J. Cotter James J. Cotter	Director, Chairman of the Board, Citadel Holding Corporation	March 30, 1994
/s/ Richard M. Greenwood Richard M. Greenwood	President and Chief Executive Officer, Citadel Holding Corporation; Chairman of the Board, President and Chief Executive Officer, Fidelity Federal Bank	March 30, 1994
/s/ Donald R. Boulanger Donald R. Boulanger	Director	March 30, 1994
/s/ Peter W. Geiger Peter W. Geiger	Director	March 30, 1994
/s/ Mel Goldsmith Mel Goldsmith	Director	March 30, 1994
/s/ Zelbie Trogden Zelbie Trogden	Director	March 30, 1994
/s/ S. Craig Tompkins S. Craig Tompkins	Director	March 30, 1994
/s/ Alfred Villasenor, Jr. Alfred Villasenor, Jr.	Director	March 30, 1994
/s/ Andre S.W. Shih Andre S.W. Shih	Treasurer, Senior Vice President--Acting Chief Financial Officer (Principal Financial Officer)	March 30, 1994
/s/ Heidi Wulfe Heidi Wulfe	Senior Vice President--Controller and Chief Accounting Officer (Principal Accounting Officer)	March 30, 1994

DATA PROCESSING AGREEMENT

by and between

SYSTEMATICS FINANCIAL SERVICES, INC.

and

FIDELITY FEDERAL BANK,
A FEDERAL SAVINGS BANK
600 NORTH BRAND BOULEVARD
GLENDALE, CALIFORNIA 91209-1631

May 1, 1993

Note: This Agreement contains confidential material which has been omitted from this filing. All confidential material so omitted is identified herein as "[CM]."

Exhibit 10.18

TABLE OF CONTENTS

EXHIBITS

DATA PROCESSING AGREEMENT

This is an Agreement, dated as of the 1st day of May, 1993 (the "Effective Date"), by and between SYSTEMATICS FINANCIAL SERVICES, INC., an Arkansas corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212-2496 (hereinafter "Systematics") and

Fidelity Federal Bank, a Federal Savings Bank

600 North Brand Boulevard

Glendale, California 91209-1631

("Fidelity", use of the term Fidelity shall also include Fidelity's Affiliates as that term is defined herein).

In consideration of the payments to be made and services to be performed hereunder, the parties agree as follows:

CERTAIN DEFINITIONS

As used herein and in the Exhibits and Schedules attached hereto, the following terms shall have the meanings indicated below:

"AAA Rules" shall have that meaning set forth in Section 20.1.

"Account Managers" shall have that meaning set forth in Section 12.

"Accounts" means open accounts on Fidelity's master file with respect to the applications listed in Section 2.1 of Exhibit C.

"Additional Volume Charges" means the variable monthly charges determined according to the methodology described in Exhibit C of this Agreement which shall be paid by Fidelity to Systematics in exchange for Systematics' provision of Services for that number of Accounts that exceed the Base Account Volume in any month, as specified in Section 2.2 of Exhibit C.

"Affiliate" means, with respect to any Person, (i) any Person controlling, controlled by or under common control with any such Person or (ii) any director or executive officer of any such Person or of any Person referred to in clause (i) above. For purposes hereof, "control" and its derivatives mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or voting interests, by contract or otherwise.

"Agreement" means this Data Processing Agreement by and between Systematics and Fidelity dated as of May 1, 1993.

"Alternative Technology" shall have that meaning set forth in Section 1.2.

"Amended Charter Software License Agreement" shall have that meaning set forth in Section 6.

"Application System" means a System used for a business application, such as General Ledger.

"Arbitration" shall have that meaning set forth in Section 20.

"Base Account Volume" means [CM].

"Best Efforts" shall have that meaning set forth in Section 11.1.

"Code" means the Internal Revenue Code.

"Confidential Information" shall have that meaning set forth in Section 5.16.

"Conversion" means the provision of sufficient products and services such that a new System is successfully implemented so that a given System is available for use by Fidelity and/or Systematics in a production environment at a performance level which meets the Performance Criteria and permits Fidelity to engage its normal business operations without material disruption or degradation including, without limitation, the installation, modification and enhancement of the new System and the modification and transformation of the existing data.

"Conversion Date" means the date on which the Conversion is completed for all Systems described in Exhibit A such that the Conversion Plan has been successfully implemented at the Data Center including, without limitation, the integration of the individual Systems so that Systematics can perform the Services at a performance level which meets the Performance Criteria and permits Fidelity to engage in its normal business operations without material disruption or degradation.

"Conversion Plan" means the process, procedures and responsibilities of the parties with respect to Conversion as described in Exhibit A and as otherwise mutually agreed upon by the parties.

"Conversion Services" shall have that meaning set forth in Section 1.1.

"Core Accounts" means [CM].

"CPI Index" shall have that meaning set forth in Section 7 of Exhibit C.

"Data Center" means that portion of the first floor of 4565 Colorado Blvd., Los Angeles, California, 90039, which is being used by Fidelity as a data processing as of the Effective Date and described herein in Section 5.

"Data Center Assets" means the improvements, owned equipment and other property including office equipment, furniture and telephone equipment as set forth on Exhibit E to this Agreement.

"Data Center Staff" shall have that meaning set forth in Section 4.1.

"Disaster Recovery Facility" is the Computer Equipment described in Exhibit H and located at Systematics' corporate headquarters.

"Disaster Test" shall have that meaning set forth in Section 13.3.

"Documentation" means information as defined in Section 3 of the Charter Software License Agreement between the parties dated as of October 31, 1991 necessary for the operation, modification, enhancement or use of a System, as herein defined.

"DP Employees" shall have that meaning set forth in Section 8.3.

"Effective Date" means May 1, 1993.

"Equipment" shall have that meaning set forth in Section 5.8.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Existing System" means any System that is being operated by or on behalf of Fidelity immediately before the Effective Date.

"Expiration Date" shall have that meaning set forth in Section 2.

"ERISA Affiliate" shall mean any company which, as of the relevant measuring date under ERISA, is a member of a group described in Sections 414(b), (c), (m) or (o) of the Internal Revenue Code of which Systematics is a member, provided however, ERISA

Affiliate shall not include Fidelity or any Company which is a member of such a group with Systematics solely because of the transactions contemplated by this Agreement.

"Fidelity Information" shall have that meaning set forth in Section 4.1 (l).

"Fidelity Plans" shall have the meaning set forth in Section 8.4(a).

"Fidelity System Management Committee" shall have that meaning set forth in Section 12.2.

"Fidelity Telecommunications Network" means and consists of all equipment (including multiplexors, modems and digital service units), software, circuits and cabling which are used to connect and transmit data between the Data Center, any remote Fidelity data processing locations and end-user locations.

"Governmental Entity" means any federal agency and entities created by the foregoing.

"Hazardous Materials" means any substance (i) the presence of which requires investigation or remediation under any federal, state or local statute, regulation, ordinance, order, action or policy; (ii) which is or becomes defined as a "hazardous waste" or "hazardous substance" under any federal, state or local statute, regulation, ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601 et seq.) and or the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq.); (iii) which is toxic, explosive, corrosive flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, the State of California or any political subdivision thereof; (iv) the presence of which in, on or around the Data Center causes or threatens to cause a nuisance in, on or around the Data Center or to adjacent properties or poses or threatens to pose a hazard to the Data Center or to the health or safety of persons on or about the Data Center; (v) without limitation which contains gasoline, diesel fuel or other petroleum hydrocarbons; or (vi) without limitation which contains polychlorinated bipheynols (PCBs), asbestos or urea formaldehyde foam insulation.

"Insolvency Event" means, with respect to any party hereto, the occurrence of any of the following events: (i) an assignment by such party for the benefit of creditors; (ii) such party's dissolution or loss of charter by forfeiture; (iii) such party having been adjudged bankrupt or insolvent by a United States court of competent jurisdiction; (iv) a trustee or receiver having been appointed for such party or its assets or any substantial part thereof; (v) such party having filed a voluntary petition under any bankruptcy or other similar law providing for its reorganization, dissolution or liquidation; or (vi) such party having consented to the appointment of a receiver or a trustee for itself or its assets or of any substantial part thereof.

"Losses" means, with respect to any party hereto, direct damages actually incurred and shall not include incidental, consequential, punitive or special damages nor any claim or demand made by a third party provided, however, that Systematics shall reimburse Fidelity for direct damages paid to third parties that result from the Services provided herein.

"Maintain" or "Maintenance" means either of the following as may be applicable; (i) as to Systems; any correction or modification of a System to correct bugs or errors which does not materially improve or add substantial functionality or features to the System, or (ii) as to Equipment or Data Center Assets; any actions (including modification, adjustment, repair or replacement) necessary to make the Equipment or Data Center Asset perform in good working order in accordance with any applicable specifications.

"MIS Steering Committee" shall have that meaning set forth in Section 12.3.

"Monthly Base Charge" means the fixed monthly charges as specified in Section 1 of Schedule C of this Agreement to be paid to Systematics by Fidelity in exchange for Systematics' provision of the Services as set forth herein.

"Multiple Disaster" means disasters experienced by two or more Subscribing Clients at times when such Subscribing Clients would be entitled to use the Disaster Recovery Facility at the same time.

"OTS" shall mean the Office of Thrift Supervision as set forth in Section 17.3.

"Performance Criteria" means the performance criteria set forth in Exhibit D attached hereto to which Systematics shall adhere in connection with performing or providing the Services hereunder.

"Performance Incentive" shall have that meaning set forth in Section 18.

"Person" means an association, firm, individual, partnership (general or limited), corporation, trust, financial institution, unincorporated organization, or other entity or any Governmental Entity.

"Planned Conversion Completion Date" means the date upon which the parties contemplate that the Conversion Date is to occur as specified in Exhibit A.

"Purchased Equipment" shall have that meaning set forth in Section 5.8.

"Regulatory Minimum" shall have that meaning set forth in Section 5.7.

"Required Consent" means any consent required to be obtained by either party for the transfer of the right to use applicable space, equipment, software and third party services and the assumption of the obligations related to such resources.

"Resident Staff" shall have that meaning set forth in Section 8.1.

"Service Assets" shall have that meaning set forth in Section 11.2 (b).

"Services" shall have that meaning set forth in Section 1.1.

"Shell Facility" means preconditioned space suitable for the installation of Fidelity's computer equipment, located at 409 Shall Street, Little Rock, Arkansas.

"Special Service" means any service requested by Fidelity outside the scope of the Services and not covered by the Monthly Base Charge or the Additional Volume Charges and as further defined in Section 3.3.

"Special Service Price Proposal" shall have that meaning set forth in Section 3.3(a).

"Subscribing Client" means any person, firm or corporation which has entered into a Disaster Recovery Agreement with Systematics for use of the Disaster Recovery Facility.

"System" means a computer program or a series of computer programs, the tangible media on which it is recorded and the related Documentation.

"Systematics' Similarly Situated Customers" Systematics' customers which are comparable to Fidelity in terms of services provided, asset size, number of branches, numbers of accounts and transactions or other factors which affect Systematics pricing for services similar to those being provided to Fidelity.

"Systematics Systems" means all Systems and System revisions, releases, customization, improvements, modifications and enhancements to the functions and features of the Systems along with any new systems or major subsystems which are; (i) now or hereafter owned and developed by Systematics, and (ii) now or hereafter used in connection with providing or performing Services hereunder or are offered for use to Fidelity at any point in time during the Term of this Agreement.

"Term" shall have that meaning set forth in Section 2.

"Termination Date" shall have that meaning set forth in Section 10.2.

"Third Party System" means any System which (i) is not a Systematics System and (ii) is acquired from a third party for operation by Systematics under this Agreement on behalf of Fidelity, as set forth on Exhibit E hereto, as amended from time to time by mutual agreement.

"Training Agreement" shall have that meaning set forth in Section 7.

"Truth in Savings Project" means all modifications, enhancement, testing and error correction of the IMPACS Systems necessary to be in substantial compliance with the Truth in Savings Act and Regulation DD promulgated thereunder.

"Truth in Savings Project Deadline" means June 21, 1993, the date on which the Truth in Savings Project is to be functional in a production environment available for use by Fidelity.

Other capitalized terms used in this Agreement are defined in the context in which they are used and shall have the meanings indicated by such use.

1. SERVICES.

1.1 GENERAL SCOPE OF SERVICES. In exchange for the Monthly Base Charge and any applicable Additional Volume Charges and upon the terms and conditions set forth in this Agreement, Systematics shall provide to Fidelity the data processing services and products described in this Agreement and its schedules and exhibits including, without limitation, the following: (i) overall management and operation of Fidelity's data processing operations subject to Fidelity's reasonable approval including, without limitation, responsibility for Conversion to the Systematics Systems and Third Party Systems, including, without limitation, on-line transaction processing, batch processing and report creation and distribution ("Conversion Services"), (ii) installation (including related Conversion), support, operation, maintenance and enhancement of Systematics Systems and Third Party Systems including, without limitation, on-line transaction processing, batch processing of all Systems and report creation and distribution, installation, support and maintenance of operating system software and system environment and telecommunication software, (iii) forms management for the Data Center, (iv) providing competent staff necessary to provide the Services, (v) furnishing, maintaining and operating computer equipment as described herein, (vi) services related to the Fidelity Telecommunications Network as set forth in Exhibit D, (vii) providing information to Fidelity in various media forms and on such schedule as provided herein including, without limitation, providing information in such forms as may be necessary to interface with any other System, (viii) disaster recovery services from the date of termination or expiration of the current disaster recovery agreement as more fully discussed in Section 13 hereof, through the expiration or termination of this Agreement, (ix) offering employment to the Fidelity data processing employees designated by Fidelity and (x) the grant to Fidelity of a license to use Systematics Systems (all the preceding products and services along with other products and services as more fully described herein, in the attached Exhibits and Schedules and elsewhere herein shall be referred to herein as the "Services"). Systematics shall perform the Services in a good and workmanlike manner and in accordance with all applicable laws and regulations of any Governmental Entities, the terms and conditions hereof (including, without limitation, the Performance Criteria), and such standard of care as is generally accepted in the data processing services and software industries.

1.2 ALTERNATIVE TECHNOLOGY. If at any time during the Term of this Agreement, Systematics has available or offers to any of its current or prospective customers any delivery methods for services similar to the Services or any portion thereof including, without limitation, delivery of the Services from a remote Systematics' technology center or by use of an alternative technology platform or architecture (the "Alternative Technology"), [CM]. Systematics shall submit a proposal to Fidelity regarding the implementation of such Alternative Technology which shall include information reasonably requested by Fidelity including, without limitation, information regarding conversion, operation and logistical details of implementing such Alternative Technology along with a price for providing such Alternative Technology. If Fidelity, in its sole and absolute discretion, decides to obtain the Alternative Technology from Systematics then this Agreement shall be deemed amended, to incorporate the terms, conditions and pricing related to the Alternative Technology. [CM]

2. TERM.

The term of this Agreement is [CM], beginning on the Effective Date reflected above. The end of such term shall be the "Expiration Date". At least two hundred and seventy (270) days prior to the Expiration Date, Systematics will submit to Fidelity a written proposal for renewal of this Agreement. Fidelity will respond to such proposal within one hundred twenty (120) days following receipt thereof.

3. BILLING AND PAYMENT TERMS; SPECIAL SERVICE PRICING.

3.1 BILLING AND PAYMENT. Subject to Fidelity's ability to audit and dispute amounts charged by Systematics as set forth elsewhere herein, Fidelity agrees to pay Systematics for the Services performed hereunder in accordance with the fees set forth in Exhibit C to this Agreement, pursuant to invoices prepared and delivered to Fidelity provided, however, that Fidelity's payment of fees pursuant to such invoices shall not waive Fidelity's right, as set forth herein, to audit or dispute any amounts paid or due hereunder. The Monthly Base Charge shall be payable on the first day of each month for Services to be rendered during that month. Additional Volume Charges shall be reflected in the first monthly invoice after the relevant usage data is available and shall be payable by Fidelity promptly following receipt of such invoice.

3.2 ADDITIONAL SERVICES CHARGES. [CM]

3.3 SPECIAL SERVICES.

(a) SPECIAL SERVICE PROPOSALS. If Fidelity requests Systematics to perform activities outside the scope of the Services ("Special Services"), Fidelity shall notify Systematics in writing of such request. [CM] Such notice by Fidelity shall contain the general requirements of such Special Services, a desired schedule, any estimated increase in number of transactions to be processed and the extent of commitment of Fidelity resources to the accomplishment of the Special Services. Systematics shall, within a reasonable time after such request, provide Fidelity with a proposal ("Special Service Price Proposal") to perform the requested Special Services. Systematics shall advise Fidelity of any development, implementation and operational changes necessary to implement the requested Special Service, if any, and provide Fidelity a project plan for the implementation of the Special Service including, without limitation, a description of the work to be performed by each party, the parties' responsibilities with respect to that work, a schedule for implementation and Systematics' proposed charges (as determined below pursuant to Section 3.3(d)) for the Special Service. Systematics shall cooperate with Fidelity in an effort to determine the lowest cost implementation of such Special Service including, without limitation, proposing alternative delivery schedules and alternative deliverables or services. All proposals by Systematics shall be subject to approval by Fidelity, in its sole and absolute discretion.

(b) SPECIAL SERVICE PRICE. [CM]

(c) SPECIAL SERVICE CHARGE THRESHOLD. Notwithstanding any other provision of this Agreement, Systematics shall charge an additional fee for a Special Service only if [CM]

(d) SPECIAL SERVICE PRICE PROPOSAL COMPONENTS. The Special Service Price Proposal shall be calculated based upon the following components: [CM]

(e) SPECIAL SERVICE APPROVAL. Upon receiving written authorization to proceed from Fidelity, Systematics shall perform the Special Services for the price and in the manner agreed.

(f) THIRD PARTY SERVICE. If the parties are unable to agree upon the terms and conditions of doing the Special Services, Fidelity shall have the option, subject to the terms and conditions set out herein, to have a third party perform such Special Services.

3.4 [CM]

[CM]

4. RESPONSIBILITIES OF THE PARTIES.

4.1 SYSTEMATICS' RESPONSIBILITIES. In addition to other responsibilities and obligations of Systematics as set forth elsewhere in this Agreement, Systematics, by its personnel located at the Data Center ("Data Center Staff"), shall:

(a) Perform the Services set out in this Agreement and the Exhibits and Schedules attached hereto.

(b) Process and produce all current reports and Systematics reports as described in Exhibit B at the times and frequencies set forth in Exhibit B and additional reports as described in Exhibit B as may reasonably be scheduled or requested from time to time by Fidelity.

(c) Install (including required Conversions) all Systematics Systems and Third Party Systems listed on the implementation schedule in Exhibit A and operate such Systems for Fidelity after their implementation, accepting input and delivering output at the Data Center.

(d) Provide planning and services associated with the transition from the current data processing operations being performed at Fidelity's Data Center to a Systematics' operation in accordance with the detailed Conversion Plan.

(e) Provide Maintenance by the Resident Staff on the Systems operated by Systematics for Fidelity under this Agreement.

(f) Make modifications (other than Maintenance) by the Resident Staff or perform development or conversions by the Resident Staff of Existing Systems, Third Party Systems (when allowed by the third party license) or Systematics Systems when authorized by Fidelity in writing in accordance with the provisions of this Agreement.

(g) Prepare system requirements and specifications, acceptance test plans and acceptance criteria as mutually agreed by the parties.

(h) Process and update Fidelity's data in accordance with the schedule set forth in Exhibit D.

(i) Perform reruns promptly as required by processing errors without additional charge to Fidelity.

(j) Provide services related to the Fidelity Telecommunications Network as set forth on Exhibit D and advise the appropriate vendor if a problem is detected. Systematics will provide the terminals and personal computers used by its personnel.

(k) Provide sufficient numbers of qualified personnel to perform the Services and Special Services: (i) in a timely manner to the professional standards applicable in the industry by qualified personnel familiar with the subject matter and with the proper skill, training and background, (ii) following the operational and management methodologies and requirements set forth in this Agreement as modified from time to time by mutual agreement and (iii) in accordance with the Performance Criteria.

(l) Hold all information obtained from Fidelity (the "Fidelity Information") in confidence and not disclose such information to any person or entity without the express written authorization of Fidelity in accordance with Section 5.16. Fidelity Information is and shall always remain the exclusive property of Fidelity and all such Fidelity Information shall be available for reasonable examination by Fidelity or Fidelity's designees at any time during regular business hours, without notice.

(m) Subsequent to the transfer of any Fidelity Information to Systematics, Systematics shall store and safeguard all such Fidelity Information (under the retention schedule agreed upon by the parties) regardless of the form in which such Fidelity Information is transferred to Systematics including, without limitation, documents, tapes, electronic impulses, or magnetic storage media containing the Fidelity Information. Such storage and safeguard by Systematics shall be in accordance with the safeguards specified in Section 13.1 of this Agreement, including, without limitation, taking all steps necessary to ensure that the magnetic tapes furnished by Fidelity to Systematics remain in machine readable condition. If any regulatory body requires a longer retention schedule for such storage media or the data they contain, or Fidelity requests a longer retention schedule, Systematics shall comply with such requirements or request and price such service as a Special Service pursuant to Section 3.3. After Systematics has provided to Fidelity copies of all Fidelity information, Systematics shall not be obligated to store or retain any Fidelity Information after the termination of this Agreement for any reason.

(n) Maintain, modify, enhance and update all Documentation related to the Systems used to perform the Services, for as long as Systematics operates such Systems for Fidelity under this Agreement, as follows:

(i) For any Third Party Systems, Systematics Systems and any new Systems developed or installed by Systematics under this Agreement, Systematics shall maintain and update the Documentation in accordance with mutually agreed documentation standards at the Effective Date.

(ii) Systematics' obligation to maintain and update user manuals shall be limited to providing Fidelity with a master copy of any applicable user manual or any change to such manuals (with instructions for updating the manuals). Fidelity shall be responsible for reproducing and distributing such manual and changes to the appropriate Fidelity employees.

(o) Provide training and education as specified in Section 7 hereof.

(p) Provide all magnetic tapes, tape cartridges and impact printer ribbons required to perform the Services under this Agreement over and above those that are currently in inventory at the Data Center. Systematics shall manage and monitor the inventory of all consumable goods associated with the performance of Services hereunder and ensure that same are available as needed and shall provide reports of such inventory levels to Fidelity on a monthly basis. Systematics shall notify Fidelity of the need to order any input forms, output forms, balance control forms or stock paper which Fidelity is to provide hereunder in sufficient time to permit the normal ordering and delivery of such supplies prior to the exhaustion of the existing inventory.

(q) Provide a help desk to provide customer support to Fidelity employees during all System operational hours.

(r) Supply all CPUs, communications controllers, DASD equipment, tape/cartridge equipment, printers and related peripheral equipment which may be required for its operation of the Data Center and the provision of Services hereunder, except for that equipment listed in Schedule E and which shall be provided by Fidelity on a temporary basis until such time as the current terms of the agreements for the lease of such equipment and acquisition of such services expire without any obligation on the part of Fidelity to renew such agreements for additional terms.

(s) Perform the services, duties and obligations assigned to Systematics as set forth in Exhibit A.

(t) Cooperate with any third party in connection with services being performed by such third party under contract with Fidelity and manage and administer such third party contracts as requested by Fidelity from time to time. Systematics will provide such third party with reasonable cooperation and assistance requested by Fidelity in connection with such services.

(u) [CM]

(v) Not perform changes to programs used to process Fidelity's data affecting the input, output, control, audit or accounting procedures of Fidelity without first obtaining Fidelity's prior written approval.

(w) Provide to Fidelity all enhancements, modifications and improvements to the Services, applications, reports, functions and features of the Services which Systematics makes available generally to its client base without additional charge to Fidelity.

(x) Complete the Truth in Savings Project at a time mutually agreed upon by the parties.

(y) Provide to Fidelity reports, in a format reasonably acceptable to Fidelity, including any and all operational and management information necessary for Fidelity to administer and monitor progress under this Agreement, including, a monthly report of Systematics service performance as measured by Fidelity procedures and policies, a monthly conversion management status report, a monthly project status report and such other information and reports as Fidelity may reasonably request from time to time.

(z) Provide all resources necessary to make the following on-line systems available to Fidelity with the capabilities and on the schedule as established and modified by the parties from time to time: (i) training system, (ii) user test system, (iii) production system and (iv) development system.

(aa) Comply and ensure compliance by any ERISA Affiliate of Systematics with the continuation coverage requirements of Sections 601 et seq. of ERISA provided however, that a breach of
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this Section 4.(aa) shall give rise for a claim for indemnification by Fidelity but shall not constitute a default of the Agreement giving rise to a termination for cause under Section 10.1(b).

4.2 FIDELITY'S RESPONSIBILITIES. In addition to other responsibilities and obligations of Fidelity as set forth elsewhere in the Agreement, Fidelity shall:

(a) Cooperate with Systematics in establishing appropriate testing criteria and procedures for and in the testing of new Systems.

(b) Establish data processing priorities for Fidelity on an on-going basis, including providing the business plan objectives and requirements of Fidelity to Systematics.

(c) Supply to Systematics for processing, source data in machine readable condition, accompanied by control totals and, if applicable, encoded batch tickets and proof tapes with totals, in the form agreed upon by the parties. Fidelity assumes all risk of loss and expenses of reconstruction as to that data supplied by Fidelity, except for loss caused by Systematics.

(d) Review all reports prepared by Systematics, balance to the appropriate control totals, and reject all incorrect or incomplete reports and notify Systematics of any erroneous processing within a reasonable time after any error or out of balance control totals should be detectable.

(e) Create and Maintain Fidelity end user procedures manuals.

(f) Provide the necessary transportation for the physical delivery of data and other input to, and for distribution of reports and other output from, the Data Center.

(g) Prepare and input test data for and conduct acceptance testing according to the acceptance test plan as mutually agreed upon by the parties.

(h) Pay the rent for that computer equipment identified on Exhibit E as being supplied by Fidelity, until such time as the leases expire on such equipment, without any obligation to renew or extend the leases thereon. For the period during which Fidelity is obligated to provide such equipment as set forth on Exhibit E hereto, Fidelity shall pay all other expenses, if any, except for maintenance on the equipment which Systematics will pay associated with Systematics' use of the equipment identified on Exhibit E as being supplied by Fidelity.

(i) Pay all costs of installing and utilizing communication or telephone lines, data sets, modems, ATMs, terminals and terminal control units, as required for Fidelity's on-line operations, testing and training and provide all personal computers used by Fidelity personnel.

(j) Approve as it deems appropriate, in its sole and absolute discretion, any changes to programs used to process Fidelity's data affecting the input, output, control, audit or accounting procedures of Fidelity.

(k) Furnish to Systematics Fidelity's current inventory of magnetic tapes, tape cartridges and impact printer ribbons for use in processing Fidelity's data. Provide all input and output forms, balance control forms, stock paper and any forms necessary for Systematics to meet the processing requirements of Fidelity, as well as adequate storage therefor.

(l) Promptly analyze all changes proposed by Systematics to programs used to process Fidelity's data affecting the input, output, control, audit or accounting procedures of Fidelity in order to inform Systematics promptly of Fidelity's approval or disapproval thereof.

(m) Fidelity shall be responsible for normal user department activities such as understanding all input, output system features, accounting and balance control, and personalization and subsequent maintenance of the basic user manuals provided by Systematics.

5. DATA PROCESSING PREMISES AND SECURITY, AUDIT.

5.1 DATA CENTER ACCESS. Fidelity shall provide Systematics access to and use of the Data Center and the Data Center Assets for Systematics to perform its responsibilities under this Agreement. Systematics shall not permit the removal of any Data Center Assets from the Data Center without first obtaining the express written consent of Fidelity. Systematics shall use the Data Center and the Data Center Assets in a careful and proper manner and, upon termination or expiration of this Agreement, Systematics shall return possession of the Data Center and the Data Center Assets to Fidelity in good condition and repair, ordinary wear and tear excepted. In addition, Systematics shall take reasonable steps to prevent damage to the Data Center Assets or the Data Center by any act or omission by Systematics employees or any other parties to which Systematics permits access to the Data Center.

5.2 DATA CENTER SERVICES. Fidelity shall supply water, sewer services, heat, lights, air conditioning, electricity (including, if desired by Fidelity, an uninterruptable power system, battery backup and backup generator capacity) and daily janitorial services for the Data Center to the same extent as are supplied at the Data Center as of the Effective Date. In addition, Fidelity shall provide parking spaces for Systematics employees under the same conditions as provided to them as employees of Fidelity immediately prior to the Effective Date.

5.3 TELEPHONE SERVICE. Fidelity will provide telephone instruments and telephone service at such levels as Fidelity determines are reasonably necessary for Systematics to communicate with the employees of Fidelity as required for Systematics to perform its responsibilities under this Agreement; provided, however, that Systematics shall pay to Fidelity, all costs and charges associated with any long distance calls made from telephones located in the Data Center not associated with the provision of Services hereunder.

5.4 POLICIES RELATING TO SYSTEMATICS OCCUPANCY. At all times during the period Systematics uses space and related utilities and services in the Data Center or any other Fidelity facilities, Systematics shall comply with the customary and reasonable policies governing access to and use of the facilities in effect from time to time, as long as such policies do not inhibit Systematics' ability to perform under this Agreement.

5.5 DISPOSITION OF PROPERTY. In the case of disposition by sale, lease, transfer or otherwise, including condemnation, of existing Fidelity property which is occupied by Systematics, Fidelity may provide written notice to Systematics to vacate the affected Fidelity property. Systematics will cooperate with Fidelity in vacating such premises as promptly as practical, but in no event will Systematics be required to vacate the premises on less than thirty (30) days notice from Fidelity. In the event that Systematics is required to vacate such premises, Fidelity will provide replacement premises in accord with this Agreement and will pay reasonable costs associated with such move.

5.6 GENERAL COOPERATION. The parties will cooperate with each other and will act reasonably and in good faith in coordinating the ongoing use of the Data Center by the parties.

5.7 SECURITY STANDARDS. Systematics shall adhere to any and all security standards with respect to Fidelity's data as may be required by any and all laws, regulations, orders or other requirements of any Governmental Entity (the "Regulatory Minimum"), Fidelity policies and procedures, and other standards and procedures as may be requested by Fidelity from time to time including, without limitation, investigative procedures prior to hiring any personnel and in connection with the termination of Data Center personnel. Any modifications or additions to the Data Center or actual increases in Systematics' costs of operation which are required in order to implement additional security measures requested by Fidelity which are not otherwise required to meet the Regulatory Minimum will be provided by Systematics as a Special Service pursuant to Section 3.3. Systematics personnel shall comply with all rules established by Fidelity with respect to access to the Data Center, Fidelity offices, the Fidelity data and data files.

5.8 USE OF EQUIPMENT. During the Term of this Agreement, Fidelity shall provide Systematics access to and use of the equipment, documentation and other property enumerated and described in Exhibit E attached hereto (the "Equipment"). Systematics shall have the right to use the Equipment during the Term of this Agreement at the Data Center; provided, however, that as to any Equipment which is under lease to Fidelity, Fidelity shall not be obligated to provide access to or use of such Equipment subsequent to the expiration of the current lease term as to each piece of Equipment, as set forth in Exhibit E. Systematics shall use the Equipment in a careful and proper manner and shall comply with all laws and regulations applicable to the possession or use of the Equipment. At the expiration or termination of this Agreement, Systematics shall return the Equipment (not including the Purchased Equipment as defined below) to Fidelity in the same condition as such Equipment is provided to Systematics, ordinary wear and tear excepted and with the same warranties as provided by Fidelity hereunder. If at any time during the Term of this Agreement, Fidelity supplies Systematics with labels, plates or other markings stating that the Equipment is owned by Fidelity, Systematics shall affix and keep the same in a prominent place on the Equipment. In addition, Systematics agrees to purchase from Fidelity and Fidelity agrees to sell to Systematics that equipment, documentation and other property enumerated in Exhibit E attached hereto (the "Purchased Equipment") as of the Effective Date.

5.9 MAINTENANCE OF THE EQUIPMENT. In the event that, subsequent to the Effective Date, the Equipment (except that which is then under lease to

Fidelity) is no longer in good working order or does not perform in accordance with the applicable equipment specifications, Systematics shall, at its own expense, take all actions (including modification, adjustment, repair or replacement of the Equipment) necessary to make the Equipment perform in good working order in accordance with the applicable equipment specifications.

5.10 RISK OF LOSS AND DAMAGE. Following the Effective Date, Systematics assumes and shall bear the risk of loss and/or damage to the Equipment resulting from action or inaction of Systematics or Systematics' agents. In the event of such loss or damage of any kind to any item of Equipment, Systematics shall either: (i) take all actions (including modification, adjustment, repair or replacement of the Equipment) necessary to make the Equipment perform in good working order or (ii) at Fidelity's option pay Fidelity the fair market value of the equipment.

5.11 EQUIPMENT WARRANTY LIMITATIONS. THE EQUIPMENT AND THE PURCHASED EQUIPMENT IS PROVIDED TO SYSTEMATICS AS-IS, WITHOUT ANY WARRANTIES OF ANY KIND OR NATURE, WHETHER EXPRESS OR IMPLIED INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WHETHER OR NOT FIDELITY KNOWS OR HAS REASON TO KNOW OF ANY SUCH PURPOSE AND WHETHER ARISING BY LAW OR BY REASON OF CUSTOM OR USAGE IN THE TRADE.

5.12 NO CONSEQUENTIAL DAMAGES. IN NO EVENT SHALL FIDELITY BE LIABLE TO SYSTEMATICS IN CONNECTION WITH THE PROVISION OR USE OF THE EQUIPMENT OR PURCHASED EQUIPMENT FOR INDIRECT, INCIDENTAL, CONSEQUENTIAL OR RELIANCE DAMAGES INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOST PROFITS OR ECONOMIC DAMAGE OR INJURY TO PROPERTY REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, INDEMNITY, WARRANTY, STRICT LIABILITY OR TORT AND REGARDLESS OF WHETHER FIDELITY HAS REASON TO KNOW OR IN FACT KNOWS OF THE POSSIBILITY THEREOF.

5.13 AUDIT CONFERENCE. Systematics will cooperate fully with Fidelity or its designee in connection with Fidelity's audit functions or with regard to examinations by regulatory authorities. Fidelity acknowledges that Systematics is not responsible for providing audit services or for auditing Fidelity's records or data. Following any audit or examination, Fidelity will conduct (in the case of an internal audit), or instruct its external auditors or examiners to conduct an exit conference with Systematics and, at such time, and as soon as available thereafter, to provide Systematics with a copy of the applicable portions of each report regarding Systematics or Systematics' services (whether draft or final) prepared as a result of such audit or examination. Fidelity also agrees to provide and to instruct its external auditors to provide Systematics, a copy of the portions of each written report containing comments concerning Systematics or the services performed by Systematics pursuant to this Agreement.

5.14 AUDIT AND ACCESS RIGHTS. Fidelity shall also have audit and access rights with respect to Systematics to enable its internal or outside auditors to perform their respective functions including, without limitation, audit and access rights to any and all of: (i) Fidelity's Confidential Information (as such term is defined in Section 5.16 hereof) in the possession of Systematics, (ii) such other information and data as Fidelity may reasonably request from time to time to the extent necessary to implement the provisions hereof. To the extent any such audit results in the identification of legitimate deficiencies, Systematics shall correct such deficiencies at its expense as soon as is practicable.

5.15 AUDIT OF OPERATIONAL PROCEDURES. Fidelity shall also have all audit and access rights sufficient to enable its internal auditors and other designated employees, as well as independent outside consultants, as reasonably requested by Fidelity, the systems architecture, operations, development methodologies and data security of the Systematics Systems and to verify that Systematics is exercising reasonable operational procedures in accordance with generally accepted standards in its performance of the Services and to confirm Systematics' performance and observance of its obligations hereunder including, without limitation, the Performance Criteria. To the extent such audit results in the identification of a legitimate technical deficiency from then-current industry standards, Systematics shall use industry standard commercial efforts to resolve such technical deficiency at its cost.

5.16 SPECIFIC OBLIGATIONS REGARDING THIRD PARTIES. The parties agree that information submitted by either of them in connection with the negotiation of this Agreement and to assist either party in meeting its obligations hereunder (including all information relating to Fidelity's and Systematics' organizational structure and future business plans), all data generated as a result of Services or Conversion Services rendered hereunder and any and all documents, cards, tapes, discs and other media upon which such data or information is contained (herein collectively referred to as the "Confidential Information") constitute valuable proprietary products or contain trade secrets and confidential information concerning the business of Fidelity or Systematics. The Confidential Information is and shall remain the sole property of the party submitting the same and each party agrees to observe reasonable confidentiality standards with respect to the Confidential Information of the other party and, upon request, to return such Confidential Information to its owner upon any termination or expiration of this Agreement regardless of the existence of or status of any dispute between the parties. Without limiting the generality of the foregoing, and except as otherwise authorized elsewhere by this Agreement, each party specifically agrees: (i) to take reasonable precautions not to disclose or otherwise permit to any other Person access to, in any manner, the Confidential Information or any part thereof of the other party except as such access shall be required by an employee with a need to know in the course of his or her employment; (ii) to take reasonable precautions to assure that third parties are advised of the confidential nature of the Confidential Information and to require by agreement that they are prohibited from copying or revealing the Confidential Information or any part thereof without prior written consent of the party owning the Confidential Information; (iii) to notify the other party promptly and in writing of the circumstances known to such party surrounding any possession, use or knowledge of the Confidential Information by any Person other than those authorized by this Section 5.16; (iv) immediately upon receipt by such party of any legal process (whether initiated by private parties or Governmental Entities) requesting access to Confidential Information under such party's control (except as otherwise provided herein), to transmit such request to the other party, and not to divulge such Confidential Information in response to such legal process without the other party's written consent, except for criminal actions involving non-monetary sanctions and penalties, which consent shall be conclusively deemed granted if no response is made to such request for consent by the time set by the legal process for the provision of the Confidential Information (it being understood that the party in possession of such Confidential Information (the "Possessing Party") shall undertake the burden of opposing such process if the other party should deem it necessary and agree to indemnify in writing the Possessing Party for any costs or penalties incurred by the Possessing Party in connection with its refusal to comply with such process); (v) to take reasonable precautions not to use, provide, make available or permit the use of the Confidential Information or any part thereof in any form whatsoever, whether gratuitously or for valuable consideration, to or for the benefit of any other Person; (vi) to take at such party's expense to the extent it was at fault in permitting access to the Confidential Information, any legal action reasonably necessary to prevent unauthorized use of such Confidential Information by any third Person who or which has gained access to the Confidential Information due to the fault of such party; and (vii) to take any and all other reasonable actions deemed necessary or appropriate by the other party, at the other party's expense and subject to the other party's control, to assure the continued confidentiality and protection of the other party's Confidential Information and to prevent access to the other party's Confidential Information by any Person not authorized under this Section 5.16.

6. SOFTWARE.

Fidelity and Systematics entered into a Charter Software License Agreement dated the 31st day of October, 1991. The Charter Software License Agreement was amended of even date herewith and is referred to herein as the "Amended Charter Software License Agreement." The Charter Software License Agreement, as amended, is attached hereto as Exhibit G. During the term of this Agreement, Fidelity agrees not to process, operate or otherwise use the Software licensed to Fidelity pursuant to the Charter Software License Agreement simultaneously on another processor at another data center installation site. At the termination of this Agreement, Fidelity may, at its option renegotiate new ESR Service (as defined in Section 7 of the Charter Software License Agreement) for the software provided pursuant to the Charter Software License Agreement at Systematics' then current rate for such services. In the event that Fidelity exercises its option to obtain ESR Services within ninety (90) days after the expiration of the Agreement according to its terms, Fidelity shall not be required to pay a recertification fee to obtain such ESR Services.

6.1 ADDITIONAL LICENSED PROGRAMS. The license contemplated by this Section 6 shall also apply to all Systematics' owned and developed program modifications, enhancements, new systems or major subsystems installed for Fidelity's benefit pursuant to this Agreement. Systematics will furnish Fidelity, upon request, a current list of all Software systems and subsystems developed or made available by Systematics. Systematics will give Fidelity ninety (90) days notice prior to eliminating updates for a particular system version of any Systematics-developed program.

6.2 SOFTWARE WARRANTY. Each of the warranties set forth in Exhibit G, as well as the patent and trademark indemnity provisions of Exhibit G, shall apply to the Software, and all enhancements, modifications or changes thereto, furnished or used pursuant to this Agreement.

6.3 USER MANUALS. Prior to the installation of each Software system, Systematics will deliver to Fidelity two copies of the applicable User Manuals, and thereafter, two copies of standard updates thereto. Fidelity is responsible for the initial personalization and for the maintenance, reproduction and distribution of User Manuals. Systematics hereby consents to the reproduction of User Manuals by Fidelity solely for the internal use of Fidelity in accordance with this Agreement.

6.4 THIRD PARTY SOFTWARE. Systematics will use all computer programs acquired by Fidelity from third parties listed on Schedule C attached hereto as amended from time to time by the parties or developed by Fidelity without the assistance of Systematics to the extent such use is permitted by Fidelity's license agreement with the third party vendor for each such Third Party

System, if any, and provided that the Required Consent has been obtained prior to such use, exclusively to process Fidelity's data. Additional use of such programs by Systematics shall require the written approval of Fidelity. Systematics reserves the right to review and/or test such programs, in advance of processing, to assure compatibility with Systematics equipment and systems software. In the event that any Required Consent is not obtained with respect to any of the Third Party Systems then, unless and until such Required Consent is obtained, Systematics shall refrain from using such Third Party Systems. Except for the Third Party Systems Fidelity has currently licensed from vendors Dunn & Bradstreet (McCormack & Dodge), Fi Tech, and Tower Systems Group, Systematics shall be responsible for obtaining any Required Consents from third parties necessary for Systematics to operate any Third Party Systems as contemplated by this Agreement and shall bear all costs associated therewith including, without limitation those listed on Exhibit E attached hereto. The Resident Staff will provide support and maintenance services with respect to such Third Party Systems. Fidelity may purchase maintenance contracts for such programs in its discretion.

6.5 INSTALLATION OF NEW SYSTEMS AND SUBSYSTEMS. Systematics will install regulatory changes, updates, new systems and subsystems using the Resident Staff. Systematics will present to Fidelity the features of and estimated hours required to install such systems or subsystems. Fidelity, at its option, may elect to install the new system or subsystem or to continue use of the then installed Systematics-developed system.

6.6 MODIFICATIONS REQUESTED BY FIDELITY. If requested by Fidelity, Systematics agrees to use personnel other than the Resident Staff to modify the Systematics-developed programs installed for Fidelity by Systematics. Implementation of such Fidelity-authorized modifications will be performed by the Resident Staff. Fidelity understands that modifications may require an increase in the time of performance for the Resident Staff to subsequently install Systematics-developed updates, new systems or subsystems.

6.7 REGULATORY REPORTING REQUIREMENTS. During the term of this Agreement, Systematics agrees to modify those Systematics-developed programs installed for Fidelity so that such programs will comply with the mandatory data processing output requirements specified by federal regulatory authorities applicable to Fidelity. Program modifications necessary to meet state and local regulatory requirements will be provided at Fidelity's request by the Resident Staff. To the extent agreed upon by the affected customers, costs of making modifications to comply with state or other regulatory requirements shall be shared among such customers. Fidelity agrees to make Systematics aware of any local or state regulatory requirements not included in the requirements established by federal regulatory authorities.

6.8 SYSTEMATICS SOFTWARE FUNCTIONALITY STATUS. All Systematics Systems shall be enhanced and Maintained by Systematics during the Term at no additional cost or expense to Fidelity to meet all applicable regulatory requirements of any Governmental Entity and Systematics shall continue to update and enhance the Systematics Systems.

7. EDUCATION.

Fidelity and Systematics acknowledge that they entered into an agreement on the 14th day of August, 1992 ("Training Agreement") which provided Fidelity the right to acquire certain training services from Systematics. That agreement is not modified or amended by the terms of this Agreement.

In addition to the services described in that agreement, Systematics will make available to Fidelity personnel, its standard application software training courses, which are generally held in Little Rock, Arkansas, in accordance with Systematics' Education and Training Department schedule, a current copy of which will be provided to Fidelity upon request. Fidelity personnel may attend such courses, and any other standard courses generally offered by Systematics to its other customers, upon payment of Systematics' then current published course fee, subject to normal space availability requirements and compliance with Systematics' standard registration and enrollment deadlines and procedures.

8. STAFFING; COMPUTER USE.

8.1 RESIDENT TECHNICAL STAFF. Systematics will provide, the staffing level of technical and analyst personnel set forth in Section 5 of Exhibit C (the "Resident Staff"). Subject to a reasonable time for replacements in the event of resignations or terminations, Systematics will maintain such staffing levels throughout the term of this Agreement. Provided, however, that if the actual number of Resident Staff is decreased by the equivalent of two or more below the then agreed upon level for more than one month, (e.g., one person for two months, two persons for one month) Systematics will supply comparable temporary resources equivalent to the deficiency at no additional fee to Fidelity, until the permanent Resident Staff is restored to the agreed upon level. Duties of the Resident Staff shall include, but are not limited to, installing the systems reflected in Exhibit A, installing program updates, installing new systems and subsystems, programming resulting from regulatory changes, user interface, communication and customer service, systems programming, attending education classes, Fidelity meetings and research meetings, as well as Fidelity-requested program modifications and general programming duties.

(a) Project Control - The Resident Staff will use a project management system for Fidelity projects, and Systematics will provide Fidelity with output from such system as frequently as weekly.

(b) Priorities - Fidelity shall have the right to establish all programming and project priorities. Changes in priorities, however, which require reassignment of Systematics Resident Staff to other responsibilities may result in an enlargement of Systematics' time to complete certain tasks hereunder.

(c) Resource Change Procedure - At Fidelity's written request, Systematics will increase or decrease the Resident Staff, as long as the staffing level is not less than the minimum number set forth in Exhibit C. Systematics will promptly respond to Fidelity's request with a proposed fee schedule adjustment which shall be an amount equal to 1.8 times the salary of the additional resource(s). Quotations for increases or decreases in the Resident Staff will be in minimum increments of one person for a minimum term of one year. Systematics will have up to sixty (60) days to implement agreed changes in the Resident Staff.

(d) Temporary Non-Resident Personnel - If Fidelity does not wish to re-order priorities to permit the Resident Staff to perform additional services, or to direct Systematics to increase the Resident Staff, Fidelity may request Systematics to provide additional non-resident personnel on temporary basis and Systematics will provide such non-resident personnel on an as-available basis. Systematics will promptly respond with a quotation for such non-resident personnel in accordance with Section 6 of Exhibit C. If Fidelity wishes to utilize the Systematics personnel services quoted, Fidelity will notify Systematics in writing, authorizing Systematics to provide such services.

8.2 SPECIAL COMPUTER USE. Fidelity may use any Systematics computer time which is available in the Data Center, without additional charge, for the purpose of the performance of services necessary for Fidelity's normal business activities requested by Fidelity or for use with regard to audit functions. In the event that Systematics determines that such usage exceeds the level for normal business activities, Systematics will notify Fidelity and demonstrate such excess to Fidelity's reasonable satisfaction whereupon the parties will cooperate in scheduling such computer use to accomplish the goals of each party. In conjunction with such computer usage, Systematics will provide a computer operator and Fidelity will pay Systematics for related overtime, if any, incurred by such computer operator.

8.3 [CM]

8.4 EMPLOYEE BENEFITS PLANS

(a) Data Exchange. Fidelity and Systematics acknowledge that the DP Employees shall not be eligible for distribution of their benefits under either Fidelity Federal Bank 401(k) Savings and Investment Plan or the Fidelity Federal Bank Retirement Income Plan (collectively, the "Fidelity Plans") solely because of their termination of employment with Fidelity. Systematics shall cooperate with Fidelity by notifying Fidelity whenever a DP Employee has terminated employment with Systematics, entitling the DP Employee to a distribution of his benefits under the Fidelity Plans.

(b) Waiting Periods and Pre-existing Conditions. Systematics agrees that the DP Employees and their eligible dependents shall be eligible to participate in Systematics' medical and dental plans as of the Effective Date and any and all waiting periods and pre-existing condition clauses shall be waived under such plans with respect to the DP Employees and their eligible dependents.

(c) Employee Reporting. Systematics shall report monthly to Fidelity on a timely basis the names of those Systematics employees who provide services to Fidelity and any other information (including hours of service) that Fidelity may need for the proper administration of its employee benefits plans (including any additional information reasonably requested by Fidelity for the determination by Fidelity of which if any such employees are subject to Section 4.14(u) of the Code).

8.5 THIRD PARTY BENEFICIARY CONTRACT. The provisions of this Section 8 shall not be construed or applied as a third party beneficiary contract.

9. TIME OF PERFORMANCE.

The parties agree that timely and accurate submission of input and output is essential to satisfactory performance under this Agreement. Systematics' time of performance shall be enlarged, if and to the extent reasonably necessary, in the event that: (a) Fidelity fails to submit input data in the prescribed form or in accordance with the schedules set forth in Exhibit D, (b) an act of God, malfunction of any equipment provided that Systematics Maintains such equipment or other cause beyond the control of Systematics prevents timely data processing hereunder, (c) special requests by Fidelity or any governmental agency authorized to regulate or supervise Fidelity impact Systematics' normal processing schedule; or (d) if Fidelity fails to provide any equipment, software, premises or performance called for by this Agreement, and the same is necessary for Systematics' performance hereunder. The time for Systematics to perform hereunder shall be extended one day for each day by which Fidelity fails to meet any of Fidelity's deadlines unless Systematics notifies Fidelity in writing prior to the time for Systematics' commencement of performance, that Fidelity's failure to meet such deadline shall result in delays by Systematics of a longer duration.

10. TERMINATION.

10.1 TERMINATION FOR CAUSE. In addition to any other rights which either party may have in law or equity, either Systematics or Fidelity may terminate this Agreement prior to the Expiration Date, as follows:

(a) By Systematics, on written notice thereof by Systematics to Fidelity, at any time if Fidelity fails to pay when due any amount payable by Fidelity pursuant hereto and such failure remains uncured for a period of forty-five (45) days after Fidelity is given notice of such breach as provided herein. Notwithstanding anything to the contrary herein, this Agreement may not be terminated pursuant to this Section until seventy-two (72) hours after each member of the MIS Steering Committee has been notified of the intent of Systematics to terminate. Notwithstanding anything to the contrary herein, Systematics may not terminate this Agreement pursuant to this Section for Fidelity's failure to pay to Systematics any amount that is due by Fidelity if:

(i) Fidelity notifies Systematics of any good faith disputed amount at the time such amount is due and specifies the reasons that amount is disputed;

(ii) Such notice is signed by an officer of Fidelity at the level of Senior Vice President or above; and

(iii) Fidelity is diligently pursuing the dispute resolution procedures specified in Section 12 hereof.

(b) By Systematics or Fidelity, if there has been a material breach of any representation or warranty made by the other herein, or if there has been any failure by the other to perform in all material respects any obligation or to comply with any covenant on its part to be performed or complied with hereunder, and such failure or breach remains uncured for a period of thirty (30) days (unless otherwise specified) after written notice thereof, except with respect to any such failure or breach that is not reasonably susceptible of cure within such thirty (30) day period if the other promptly commences to cure such failure or breach within such thirty (30) day period and diligently prosecutes such cure to completion as soon as is reasonably practicable (but in no event later than sixty (60) days after written notice of such failure or breach);

(c) By either party, at any time on written notice thereof, upon the occurrence of an Insolvency Event with respect to the non-terminating party;

(d) By Fidelity, pursuant to its right to early termination of this Agreement as provided in Section 10.3 below;

(e) By Fidelity at any time if Systematics fails to meet the same Performance Criteria in each of four (4) months during any six (6) month period; provided, however, that any such right shall be deemed waived if not exercised by Fidelity within ninety (90) days after the end of such fourth (4th) month;

(f) By Fidelity at any time if Systematics fails to meet the same Performance Criteria in each of six (6) months during any twelve (12) month period; provided, however, that any such right shall be deemed waived if not exercised by Fidelity within ninety (90) days after the end of such sixth (6th) month;

(g) By Fidelity, if any delay or failure caused by Systematics causes the normal operation of the Data Center (or the alternative facility utilized for disaster recovery purposes during the Term) to be interrupted for more than four (4) consecutive days;

(h) [CM]

(i) By Fidelity, if any Systematics' act or omission in providing Services hereunder, is primarily the cause for an enforcement action, civil money penalty, cease and desist order or other order of a Government Entity which gives rise to a finding that such act or omission is unsafe and unsound.

(j) By Fidelity, if the Conversion is delayed more than six (6) months, pursuant to Section 18.2.

10.2 METHOD OF TERMINATION. Exercise of the right to terminate under this Section shall be accomplished by providing a written notice of termination to the defaulting party specifying in such written notice to the defaulting party, the nature and extent of such default and fixing a date one hundred eighty (180) days following the date of receipt of such notice, for cessation of Services hereunder (the "Termination Date").

10.3 EARLY TERMINATION BY FIDELITY UPON MERGER OR CONSOLIDATION. Fidelity may terminate this Agreement without cause, effective at the end of any month on or after the eighteenth (18th) month after the Effective Date upon satisfaction of the following conditions ("Termination Upon Merger"): (a) Fidelity shall have notified Systematics in writing of its intention to terminate, and such notice shall provide for a termination date at least one-hundred eighty (180) days after the date of receipt of such notice, (b) Fidelity shall have merged or consolidated with an unaffiliated third party or sold more than fifty percent (50%) of its assets to an unaffiliated third party in an arms length, bona fide transaction, no substantial purpose of which is related to a termination of this Agreement, and (c) Fidelity shall pay Systematics a fee as set forth in Section 10.4 below payable in six (6) equal installments due each thirty (30) days subsequent to the notice described in (a) above with the first payment due with such notice.

10.4 EARLY TERMINATION UPON MERGER OR CONSOLIDATION FEE SCHEDULE. In order to effect an early Termination Upon Merger pursuant to Section 10.3, Fidelity must pay an early termination fee as indicated in the table below:

DATE	FEE
[CM]	

10.5 EARLY TERMINATION BY FIDELITY FOR ANY REASON. Fidelity may terminate this Agreement without cause, effective at the end of any month after the Effective Date upon satisfaction of each of the following conditions ("Termination for Any Reason"): (a) Fidelity shall have notified Systematics in writing of its intention to terminate, and such notice shall provide for a termination date at least one hundred eighty (180) days after the date of receipt of such notice, and (b) Fidelity shall pay Systematics a fee as set forth in Section 10.6 below payable in six (6) equal installments due each thirty (30) days subsequent to the notice described in (a) above. with the first payment due with this notice.

10.6 EARLY TERMINATION FOR ANY REASON FEE SCHEDULE. In order to effect a Termination For Any Reason pursuant to Section 10.5 above, Fidelity must pay an early termination fee as indicated in the table below.

DATE	FEE
[CM]	

Fees for termination on dates other than listed in the tables in Sections 10.4 and 10.6 above shall be prorated accordingly.

In exchange for Fidelity's payment of the early termination fee set forth in Sections 10.4 and 10.6 above, Systematics shall provide Fidelity all deconversion services as requested by Fidelity and more fully described in Section 11 below.

10.7 EFFECT OF TERMINATION FOR CAUSE. If Fidelity terminates this Agreement pursuant to a breach by Systematics, then in addition to any other right Fidelity may have at law or in equity, Fidelity shall be relieved of any further obligations under this Agreement including, without limitation, any early termination fee obligation and Fidelity may pursue any rights or remedies it may have in law or equity.

10.8 TERMINATION FEES MUTUALLY EXCLUSIVE. Fidelity and Systematics acknowledge that only one termination fee may apply to any Termination Upon Merger or Termination for Any Reason by Fidelity therefore, under no circumstances shall Fidelity be obligated to pay early termination fees pursuant to both Sections 10.4 and 10.6.

11. TRANSITIONAL COOPERATION.

11.1 COOPERATION. Systematics agrees that upon the expiration or termination of this Agreement for any reason, for no additional charge to Fidelity beyond the early termination fee, if any, Systematics shall exercise its Best Efforts (as defined below) to effect an orderly and efficient transition to a successor provider of services. Systematics shall provide full disclosure to Fidelity of the resources being utilized to perform the Services for Fidelity including, without limitation, the equipment, software and third party vendor services, and shall exercise its Best Efforts to effect a transfer of license or assignment of agreement(s) for any software or any third party services utilized to provide the services to Fidelity. For purposes of this Section, "Best Efforts" means that Systematics will, and Systematics will cause its employees, agents or any other party or entity providing some or all of the services or products hereunder, apply its resources to the extent reasonably practical to effect an orderly and efficient transition to a successor provider of Services for Fidelity.

11.2 TERMINATION ASSISTANCE. Commencing upon any notice of termination by either party or six (6) months prior to the expiration of the Term of this Agreement, Systematics will provide to Fidelity or its designee, at no additional charge beyond the early termination fee, if any, any and all assistance reasonably requested by Fidelity to allow the Services to continue without interruption or adverse effect and to facilitate the orderly transfer of responsibility for the services to Fidelity or its designee and to aid in an orderly and efficient transition to whatever method of computer processing Fidelity may select. Such assistance shall be provided by the Data Center Staff provided that Fidelity relieves the Data Center Staff of sufficient obligations hereunder as are necessary to permit the Data Center Staff to provide such assistance. Termination assistance to be provided to Fidelity by Systematics shall include, without limitation, the following:

(a) developing, with the assistance of Fidelity, a plan for the transition of operations from Systematics to Fidelity or its designee;

(b) making available to Fidelity or its designee any assets used to provide the Services to Fidelity including, without limitation, any equipment owned or leased by Systematics that is then required in the performance of the Services (the "Service Assets"). Fidelity or its designee, in its sole and absolute discretion, may purchase all or any portion of the Service Assets which are owned by Systematics at the greater of: Systematics' then current net book value or the fair market value. Systematics shall offer such Service Assets to Fidelity at least one-hundred and twenty (120) days prior to the Termination Date and Fidelity shall accept or reject such option no later than thirty (30) days prior to the Termination Date. Fidelity or its designee, in its sole and absolute discretion, may either: (i) assume Systematics' rights and obligations with respect to any such Service Assets leased by Systematics, (ii) negotiate directly with any of the owners of leased Service Assets to establish its direct contractual relationship for the leased Service Assets or (iii) sublease such equipment from Systematics at the exact terms, conditions and costs of the lease then in effect (if and to the extent permitted by the underlying lease);

(c) making available to Fidelity or its designee, pursuant to mutually acceptable terms and conditions, any third party services then being utilized by Systematics in the performance of the Services;

(d) providing to Fidelity all Services upon the same terms and conditions hereof including, without limitation, in accordance with the Performance Criteria until the expiration or termination of this Agreement;

(e) cooperating and furnishing services necessary to affect the transfer of Fidelity's data to Fidelity or its designee; and

(f) providing up to ninety (90) days of additional technical support from Systematics subsequent to the Termination Date. Fidelity will pay for such additional technical support at Systematics' then current hourly rates.

11.3 OFFER OF EMPLOYMENT. Fidelity may offer employment to any Systematics Data Center employees except the Account Manager.

11.4 RETURN OF DATA. Upon expiration or termination of this Agreement for any reason, Systematics shall provide to Fidelity all of Fidelity's data files, records and programs on magnetic media in a format reasonably acceptable to Fidelity and then, if requested by Fidelity, Systematics shall destroy all copies of such data and notify such destruction to Fidelity in writing from an officer of Systematics.

11.5 RETURN OF THIRD PARTY SOFTWARE. Upon any expiration or termination of this Agreement, Systematics shall reassign, retransfer and deliver to Fidelity all Third Party Systems then in its possession, subject to receipt of all necessary consents by the licensors thereof of any portion thereof. The cost of obtaining such consents shall be borne by Fidelity.

11.6 SURVIVAL. The rights and obligations of the parties under this Section 11 shall survive any expiration or termination hereof.

12. ACCOUNT MANAGERS, INFORMAL DISPUTE RESOLUTION.

12.1 ACCOUNT MANAGERS.

(a) Appointment and Duties. Systematics and Fidelity shall each appoint an individual with, among other duties, overall responsibility for monitoring performance and addressing any performance deficiencies under this Agreement (the "Account Managers"). Subject to and in accordance with the terms and requirements of this Agreement, the Account Managers shall meet as often as either party may reasonably request, but at least weekly, to:

(i) evaluate whether the Performance Criteria are met and, in the event of deficiencies not resolved by the personnel directly involved in the preparation and execution of the task, develop and implement problem recovery plans and solutions;

(ii) review the performance of the parties, coordinate the provision of Services to Fidelity and discuss future Fidelity requirements;

(iii) serve as the principal interface between Fidelity and Systematics with respect to all issues relating to the Services;

(iv) discuss rate and pricing issues not specifically covered by this Agreement;

(v) discuss and effect any other program management matter that may arise from time to time; and

(vi) attempt to resolve any disputes hereunder.

(b) Referral to Fidelity System Management Committee. In the event any issue or dispute is not resolved for whatever reason within fifteen (15) days from the commencement of such issue or dispute, either Account Manager may refer the issue or dispute to the Fidelity System Management Committee.

(c) Account Manager. Systematics agrees that if, at any time during the Term of this Agreement, Fidelity determines that the current Systematics Account Manager is undesirable, Fidelity shall notify Systematics of such fact and Systematics shall consult with Fidelity in regard to such Account Manager. In the event of the replacement of the Systematics Account Manager for whatever reason, Fidelity may, upon request, interview candidates selected by Systematics and consult with Systematics prior to the placement of a new Account Manager.

12.2 FIDELITY SYSTEM MANAGEMENT COMMITTEE.

(a) Appointment of Fidelity System Management Committee. Systematics shall appoint three (3) members and Fidelity shall appoint three (3) members to a board (the "Fidelity System Management Committee"). The Systematics members to the Fidelity System Management Committee shall include the Systematics Account Manager, and two (2) other members selected by Systematics at its discretion. The Fidelity members to the Fidelity System Management Committee shall include the Fidelity Account Manager and two (2) other members selected by Fidelity at its discretion.

(b) Fidelity System Management Committee Objectives. The Fidelity System Management Committee will meet as often as either party may reasonably request to resolve any continuing dispute between the parties that has not been resolved after reasonable attempts by the Account Managers pursuant to Section 12.1.

(c) Dispute Resolution Meetings of the Fidelity System Management Committee. The Fidelity System Management Committee shall meet as often as either party reasonably deems necessary in order to gather and furnish to the other party all information with respect to the matter at issue which the parties believe to be appropriate in connection with its resolution. Such representatives shall discuss the problem and negotiate in good faith in an effort to resolve the dispute without the necessity of any action by the MIS Steering Committee or any formal proceeding relating thereto. During the course of such negotiation, all reasonable requests made by one party to the other for information will be honored in order that each of the parties may be fully advised as to the details of the dispute. The specific format for such discussions will be left to the discretion of the Fidelity System Management Committee. In the event any issue or dispute is not resolved for whatever reason within ten (10) days after the initial request to negotiate such dispute or issue is given, either party may submit the controversy to arbitration in accordance with Section 20 or both parties may, by agreement, submit the controversy to the MIS Steering Committee.

12.3 MIS STEERING COMMITTEE.

(a) Appointment of MIS Steering Committee Members. Systematics shall appoint two (2) representatives to serve as advisory members to provide consultation and recommendation about MIS strategic direction and Fidelity shall appoint certain representatives determined by Fidelity to serve on a committee (the "MIS Steering Committee").

(b) Notice and Appeal for Dispute Resolution. In the event that a controversy is submitted to the MIS Steering Committee pursuant to Section 12.2(c) and the MIS Steering Committee is unable to resolve a dispute within fifteen (15) days after the initial request to resolve such dispute is received by the MIS Steering Committee, then either party may submit the matter for resolution by formal arbitration as provided under Section 20.

12.4 GOOD FAITH EFFORTS. Should there be any dispute between the parties as to the rates, charges, adjustments or pricing, the parties shall make a good faith effort to negotiate a resolution to such dispute pursuant to this Agreement in a timely manner. Until a resolution to such dispute is reached, billing and payments will continue at the most recent prior billing rates. Once an agreement has been reached as to the proper billing rate such agreement shall be retroactive to the date when the dispute began. In the event Fidelity has a good faith dispute as to any amount payable hereunder, Fidelity may withhold payment of such amounts under the following conditions:

(i) Fidelity has notified Systematics in writing prior to the time such payment is due;

(ii) such notice states with specificity and in detail the basis for such dispute;

(iii) such notice is signed by an individual with the title of Senior Vice President or a more senior title of Fidelity; and

(iv) the dispute has been submitted for resolution pursuant to this Section 12.

12.5 CONTINUED PERFORMANCE. Each party agrees to continue performing its obligations under this Agreement while any dispute is being addressed in accordance with this Section 12 as long as the other party also continues to perform.

13. BACKUP, STORAGE, FILES AND PROGRAMS.

13.1 FILES AND PROGRAMS. Systematics agrees to provide and maintain adequate backup files for retention in storage on magnetic media of Fidelity data and all programs utilized to process Fidelity's data.

13.2 STORAGE. Fidelity agrees to provide off-site storage for backup data files and programs. Fidelity agrees to pick up the backup data files and programs from the Data Center, deliver them to its off-site storage location, store them, and return them to the Data Center pursuant to mutually agreed upon procedures and schedules. If requested by Fidelity, Systematics shall provide Fidelity with a quarterly listing of the names of data files and programs for verification of the items in storage. Fidelity is solely responsible for the physical security of such files and programs while not in Systematics' possession.

13.3 DISASTER RECOVERY. From and after the date of the expiration or termination of that certain disaster recovery service agreement between Sungard and Fidelity dated as of October 30, 1991, Systematics shall provide to Fidelity through the remaining Term hereof at no additional fee except as otherwise set out hereunder those disaster recovery services as described in Exhibit H attached hereto. Such arrangements are designed to deal with circumstances which are expected to cause any substantial portion of the capabilities of the data center to be unavailable for a consecutive period exceeding 72 hours. Emergency backup, as referred to below, is designed only for difficulties of a shorter duration. Fidelity and Systematics acknowledge that Fidelity currently has a disaster recovery procedural plan to interface with the current disaster recovery vendor, SunGard. Systematics Resident Staff will continue to update the procedural plan until the SunGard service is replaced by Systematics Disaster Recovery Service, which will include a comparable plan. Systematics agrees to conduct appropriate tests ("Disaster Test") of disaster recovery arrangements annually and Fidelity agrees to pay for all travel, personnel and equipment expenses incurred in connection with such testing. There shall be no additional personnel charge, however, for participation in the testing of such backup arrangements by members of the Resident Staff.

13.4 EMERGENCY BACKUP SERVICES. Systematics will work diligently with Fidelity in an emergency to restore on-line communications including, without limitation, facilitating communication with vendor and supplier contacts and identifying alternate sites in which emergency computing equipment could be installed. Systematics shall define in writing from time to time the procedures it proposes to follow with respect to the use of emergency backup, which shall be subject to the approval of Fidelity. Fidelity shall have the right, to be exercised in its discretion, to direct Systematics to utilize such backup capability, at Fidelity's expense, provided that Fidelity's processing is behind schedule. Upon written notice from Fidelity, Systematics shall conduct all tests of the emergency backup arrangements as requested by Fidelity. There shall be no additional personnel charge, however, for participation in the testing of such emergency backup arrangements by members of the Resident Staff.

13.5 RESPONSIVENESS. Systematics shall use its good faith efforts to re-establish Services within twenty-four (24) hours following any disaster.

14. SYSTEMATICS' SERVICE BUREAU CUSTOMERS.

Systematics may not process data for any third parties at the Data Center.

15. MAINTENANCE OF RECORDS; EXAMINATION BY AND REPORTING TO REGULATORS.

15.1 MAINTENANCE OF RECORDS. Each party shall at all times establish and maintain such books, records and accounting practices as may be required by applicable laws and regulations of any Governmental Entity or Fidelity's policies and procedures. By entering into this Agreement, Systematics agrees that the Office of Thrift Supervision (the "OTS") shall have the authority and responsibility provided to the other regulatory agencies pursuant to the Bank Service Corporation Act., 12 U.S.C. 1867(C), relating to Services performed or provided by contract or otherwise. The records maintained and produced for Fidelity pursuant to this Agreement shall be subject to examination by such Governmental Entity's regulatory agencies as may have jurisdiction over Fidelity's business to the same extent as such records would be subject if they were maintained and produced by Fidelity on their own premises; provided, however, that Systematics shall only permit examinations by regulatory agencies or release any reports, summaries and information contained in, or derived from the data in the possession of Systematics relating to Fidelity to regulatory agencies in accordance herewith and with all applicable laws and regulations. Each of the parties shall notify the other party in the event that, (i) any information is requested from such party relating to this Agreement or the Services being provided hereunder by any regulatory agency, (ii) any regulatory agency requests access to any such information or any facility involved in providing any Services or (iii) such party believes it is obligated to provide any such information to any regulatory agency. Such notice shall be delivered to the other party a reasonable period of time prior to disclosure of any such information or the granting of such access to the extent feasible or concurrently with or immediately following any such disclosure or access where prior notice is not feasible. Fidelity reserves the right to intervene before anything is delivered to any regulatory agency to prevent its release by lawful means but nothing herein shall be construed as requiring Systematics to delay release of information to such regulatory agency to allow time for such intervention if Systematics reasonably believes that such immediate release is mandated by law and such agency demands immediate access or disclosure.

15.2 EXAMINATION, REPORTING TO REGULATORS, DATA SECURITY. The parties shall comply with and shall be responsible for complying with all applicable regulatory and legal requirements of any Governmental Entity to which the parties are subject, including without limitation:

(a) submitting a copy of this Agreement to the appropriate regulatory agencies prior to the date on which Services shall commence;

(b) providing adequate notice to the appropriate regulatory agencies of the termination of this Agreement or any material changes in Services;

(c) retaining such records of its accounts as required by its regulatory authorities;

(d) obtaining and maintaining, at its own expense, any fidelity bond required by any regulatory or governmental agency;

(e) maintaining, at its own expense, such casualty and business interruption insurance coverage for loss of records from fire, disaster or other causes, and taking such precautions regarding the same, as may be required by regulatory authorities, or which it shall deem advisable; and

(f) meeting all data security requirements with respect to all data and Systems related to the Services as provided herein including, without limitation the performance of periodic test, audit and any other procedures as may be required.

16. NO WAIVER OF DEFAULT.

The failure of either party to exercise any right of termination hereunder shall not constitute a waiver of the rights granted herein with respect to any subsequent default.

17. REPRESENTATIONS AND WARRANTIES.

17.1 REPRESENTATIONS AND WARRANTIES OF SYSTEMATICS. Systematics represents and warrants to Fidelity, as of the Effective Date, as follows:

(a) Systematics is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Arkansas and is qualified to do business in the State of California and in other jurisdictions where failure to do to would have a materially adverse impact on its ability to do business.

(b) Systematics has all requisite corporate power and authority to own its assets and properties, to carry on its business as now conducted and to enter into and perform this Agreement;

(c) The execution, delivery and performance of this Agreement by Systematics has been duly authorized by all requisite corporate action;

(d) This Agreement constitutes the valid and binding obligation of Systematics enforceable against Systematics in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and except that the remedies of specific performance, injunction and other forms of equitable relief are subject to certain tests of equitable jurisdiction, equitable defenses and the discretion of the court before which any proceeding therefor may be brought;

(e) The entering into and performance by Systematics of this Agreement will not breach or violate any provision of the articles of incorporation or bylaws of Systematics or any provision of any indenture, mortgage, lien, lease, agreement, order, judgment or decree to which Systematics is a party or by which its assets or properties are bound;

(f) Systematics has obtained all licenses, permits and other authorizations and has taken all actions required by applicable laws or governmental regulations in connection with its business as now conducted;

(g) Systematics is not in default with respect to any order of any court, governmental authority or arbitration board or tribunal to which Systematics is a party or is subject;

(h) Systematics is not in violation of any laws, ordinances, or governmental rules or regulations to which it is subject, which would have a material adverse effect on the financial condition of Systematics;

(i) All products and Services delivered by Systematics hereunder shall be of good and workmanlike quality, provided on a timely basis and shall meet or exceed the Performance Criteria; and

(j) All information provided by Systematics to Fidelity in connection with this Agreement regarding Systematics shall be true and correct in all material respects.

17.2 REPRESENTATIONS AND WARRANTIES OF FIDELITY. Fidelity represents and warrants to Systematics, as of the Effective Date, as follows:

(a) Fidelity is a federal savings bank duly organized, validly existing and in good standing under the laws of the United States of America;

(b) Fidelity has all requisite corporate power and authority to own its assets and properties, to carry on its business as now conducted and to enter into and perform this Agreement;

(c) The execution, delivery and performance of this Agreement by Fidelity has been duly authorized by all requisite corporate action;

(d) This Agreement constitutes the valid and binding obligation of Fidelity enforceable against Fidelity in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and except that the remedies of specific performance, injunction and other forms of equitable relief are subject to certain tests of equitable jurisdiction, equitable defenses and the discretion of the court before which any proceeding therefor may be brought;

(e) The entering into and performance by Fidelity of this Agreement will not breach or violate any provision of the articles of incorporation or bylaws of Fidelity or any provision of any indenture, mortgage, lien, lease, agreement, order, judgment or decree to which Fidelity is a party or by which its assets or properties are bound except for those agreements licensing the applications listed on Exhibit E for which consents are required but have not been obtained as of the Effective Date.

(f) Fidelity has obtained all licenses, permits and other authorizations and has taken all actions required by applicable laws or governmental regulations in connection with its business as now conducted or this Agreement except for such license, permits, authorizations or actions, the absence of which does not have a material adverse effect on its ability to do business;

(g) Fidelity is not in default with respect to any order of any court, governmental authority or arbitration board or tribunal to which Fidelity is a party or is subject which would have a material effect on the financial condition of Fidelity; and

(h) Fidelity is not in violation of any laws, ordinances, or governmental rules or regulations to which it is subject, which would have material adverse effect on the financial condition of Fidelity.

(i) All information regarding Fidelity provided by Fidelity to Systematics in connection with this Agreement shall be true and correct in all material respects.

17.3 SYSTEMATICS' FINANCIAL WARRANTIES. Systematics hereby represents and warrants to Fidelity: (i) that the financial statements of Systematics previously provided to Fidelity are in accordance with the books and records of Systematics, set forth fairly the financial condition and results of operations of Systematics as, at and for the periods therein specified, are prepared in accordance with generally accepted accounting principles (or with regulatory accounting principles if so specified) applied on a consistent basis and (ii) that there have been no material adverse changes in the financial condition, assets, liabilities or business of Systematics since the date of such financial statements. During the Term, Systematics shall provide to Fidelity and upon request shall provide to the District Director of the Office of Thrift Supervision (OTS) District in which the Data Center is located quarterly and annual audited consolidated financial statements covering Systematics as soon as such financial statements are publicly released to any Person, other than officers or directors of Systematics.

17.4 FIDELITY'S FINANCIAL WARRANTIES. Fidelity hereby represents and warrants to Systematics: (i) that the financial statements of Fidelity contemporaneously or previously provided to Systematics are in accordance with the books and records of Fidelity, set forth fairly the financial condition and results of operations of Fidelity as, at and for the periods therein specified, are prepared in accordance with generally accepted accounting principles (or with regulatory accounting principles if so specified) applied on a consistent basis and (ii) that there have been no material adverse changes in the financial condition, assets, liabilities or business of Fidelity since the date of such financial statements.

17.5 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties by either party contained herein shall survive the date of execution hereof, the execution hereof an any termination or expiration hereof.

18. PERFORMANCE INCENTIVES. The performance incentives outlined in this section shall not preclude other remedies that may be available to Fidelity under this Agreement, at law or in equity.

[CM]

19. INDEMNIFICATION.

19.1 MUTUAL INDEMNIFICATIONS. Systematics and Fidelity shall indemnify, defend and hold harmless each other and each other's respective officers, directors, employees, agents, successors and assigns, against all Losses arising from or in connection with the following:

(a) The injury or death of any person, or loss of or damage to tangible real or tangible personal property, to the extent that such liability, loss, damage or expense was proximately caused by the indemnifying party's negligent act or omission, or willful act or omission, or those of its agents, employees or subcontractors. The indemnifying party shall be notified as soon as practicable of any such claim and shall have the right to control the defense of all such claims, related lawsuits or proceedings, with counsel reasonably satisfactory to the indemnified party, and the indemnified party shall have the right to participate in such proceedings. In no event shall the indemnified party settle any such claim, lawsuit or proceeding without the indemnifying party's prior approval.

(b) The material breach of any covenant, representation, or warranty made to the other party.

19.2 INDEMNITY BY SYSTEMATICS. Systematics shall indemnify, defend and hold harmless Fidelity and its officers, directors, employees, agents, successors and assigns, from any and all Losses arising from or in connection with the following:

(a) any infringement or violation, or allegation thereof, of any patent, copyright, trade secret or other proprietary or property rights caused by Systematics or arising in any manner out of or from Fidelity's use of Systematics Systems, the Services or other transactions contemplated by this Agreement;

(b) any claim, action or liability by or to any third Person dealing solely with Systematics or under any contract with Systematics to which Fidelity is not a party;

(c) any negligent act or omission by Systematics with respect to its use of the Equipment or use of the Data Center;

(d) any Hazardous Materials placed in, on under or above the Data Center by Systematics; the violation or alleged violation of or any liability under any law, regulation, or ordinance or order, pertaining to any Hazardous Material; any step taken by any person or entity, including Systematics, to clean up, remedy or remove the Hazardous Materials released or disposed of subsequent to the Effective Date; the off-site disposal, treatment or storage of Hazardous Materials generated by Systematics' operation of Data Center subsequent to the Effective Date, or the violation or alleged violation by Systematics after the Effective Date of any federal, state or local laws relating to environmental matters, including air pollution, water pollution, Hazardous Materials, or any other activities or conditions which impact or relate to the environment or nature. This liability includes, but is not limited to, costs of enforcement, costs of investigation and/or remedial action.

(e) any consent by the software vendors listed in Exhibit E except Dunn & Bradstreet (McCormack & Dodge), Fi Tech and Tower Systems Group for Systematics to use the products listed therein to perform under this Agreement.

19.3 SUBROGATION. In the event that an indemnifying party shall be obliged to indemnify an indemnified party pursuant to this Section 19, the indemnifying party shall, upon payment of such indemnity in full, be subrogated to all rights of the indemnified party with respect to the claims to which such indemnification relates.

20. ARBITRATION.

20.1 SCOPE OF APPLICABILITY; ARBITRATION RULES. Any claim or controversy arising out of or relating to this Agreement, or the breach thereof, including an anticipated breach or disagreement as to interpretation of this Agreement, which is not resolved pursuant to Section 12 hereof, shall be settled by binding arbitration as follows:

(a) Except as provided below and to the extent the parties may otherwise agree in writing, any arbitration under this Section (the "Arbitration") shall be conducted in accordance with the rules of the American Arbitration Association (the "AAA Rules") by one (1) arbitrator who is experienced in data processing matters, who shall not be an officer, director, or employee of any party hereto or its Affiliates, selected by the President of the American Arbitration Association in Los Angeles, California; provided, however, that in the event that the selection of the arbitrator does not occur within ten (10) days after the commencement of arbitration, Fidelity and Systematics shall each choose one (1) arbitrator within five (5) days. Such arbitrators shall in turn choose the arbitrator to conduct the hearing within five (5) days.

(b) The Arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. (S)1 et seq., and judgment upon the award rendered by the arbitrators may be entered by any court of competent jurisdiction.

(c) The Arbitration shall take place in Los Angeles County, California. The arbitrator may hold individual hearings at any location he deems appropriate.

(d) The arbitrator shall hold a pre-hearing conference as promptly as possible after the selection of the arbitrator and shall hold the first hearing within twenty (20) days after the selection of the arbitrator. If additional hearings are needed they shall be held as promptly as possible thereafter, so that all hearing that may be required are concluded within sixty (60) days after the selection of the arbitrator. The arbitrator shall render their award within fifteen (15) days after the last hearing.

(e) The parties may by written notice to each other and the arbitrator freely specify further controversies or claims to be arbitrated up until the date of the pre-hearing conference. Thereafter, additional controversies or claims may be added only with the consent of the arbitrator.

(f) After arbitration has been initiated, each party shall be entitled to: (i) request and receive from the other any and all non-privileged documents or records relevant to the subject matter of the arbitration and (ii) select and take the deposition of no more than three (3) officers, directors or employees of the other party. All officers, directors and employees of each party shall cooperate fully in producing documents subject to discovery and shall make themselves available for deposition if selected hereunder. Said discovery shall be conducted pursuant to the procedures of the California Code of Civil Procedure as if the subject matter of the arbitration were pending in a civil action before a California Superior court, and the provisions of California code of Civil Procedure Section 1283.05 are incorporated into this Agreement for that purpose, except that the parties are deemed to have leave to take the depositions referred to above pursuant to Section 1283.05(e).

(g) The arbitrator may make interim awards and may award equitable and declaratory relief.

(h) The costs and expenses of the Arbitration (including reasonable attorneys' fees shall be allocated by the arbitrator between the parties as the arbitrator sees fit.

(i) The arbitrators shall not consider, nor shall any award include amounts for incidental, consequential, punitive or exemplary damages.

(j) Notwithstanding any other provision of this Section, either party may seek from any court of competent jurisdiction interim relief, including but not limited to temporary restraining order, preliminary injunctions and other interim equitable relief as the same may vary from jurisdiction to jurisdiction, in aid of arbitration or to protect the rights of either party pending the establishment of the arbitral tribunal and rendering the arbitration decision.

20.2 CONTINUITY OF SERVICE. Notwithstanding anything to the contrary contained herein, and irrespective of the existence of any dispute between the parties, the parties will continue to perform in accordance with this Agreement during the pendency of any such dispute.

21. PROCESSING PRIORITIES.

If any emergency requires a change in the processing schedule set forth in Exhibit D, Systematics and Fidelity agree to negotiate in good faith to adjust the processing schedule and related priorities in light of then prevailing circumstances.

22. MERGERS AND ACQUISITIONS.

Upon written request by Fidelity, Systematics will process additional data resulting from any merger or acquisition involving Fidelity; subject to Fidelity's payment of additional volume fees reflected in Section 2 of Exhibit C, and subject to agreement on the fees, if any, applicable to related conversion and testing services which fees shall be determined pursuant to Section 3.3 hereof. Fidelity will notify Systematics of any such proposed merger or acquisition as soon as reasonably practicable.

23. ENTIRE AGREEMENT.

This Agreement and the exhibits hereto contain the entire agreement of the parties and supersedes all prior agreements whether written or oral with respect to the subject matter hereof. Expiration or termination of any part of this Agreement shall terminate the entire Agreement except for any portion hereof which expressly remains in force and in effect notwithstanding such termination or expiration. Modification or amendment of this Agreement or any part thereof may be made only by written instrument executed by both parties.

24. ASSIGNMENT.

Neither party hereto shall assign, subcontract, or otherwise convey or delegate its rights or duties hereunder to any other party without the prior written consent of the other party to this Agreement, which consent shall provide that it is subject to all the terms and conditions of this Agreement. Subject to the provisions of Exhibit G, no such consent shall be required in the event of a merger, consolidation, sale of substantially all of the assets, or any other change of control of either party hereto, in which event, this Agreement shall apply to, inure to the benefit of, and be binding upon the parties hereto and upon their respective successors in interest.

25. CONFIDENTIAL AGREEMENT.

This Agreement is a confidential agreement between Systematics and Fidelity. In no event may this Agreement be reproduced or copies shown to any third parties by either Fidelity or Systematics without the prior written consent of the other party, except as may be necessary by reason of legal, accounting or regulatory requirements beyond the reasonable control of Systematics or Fidelity, as the case may be, in which event Systematics and Fidelity agree to exercise diligence in limiting such disclosure to the minimum necessary under the particular circumstances.

26. TAXES.

In addition to all other amounts payable by Fidelity hereunder, Fidelity shall pay to Systematics, or reimburse Systematics for, all taxes that are applicable to the Services; provided, however, that this provision does not include Systematics' franchise taxes, personal property taxes, payroll taxes, or taxes based on Systematics' net income. Fidelity shall have the right to contest any such liability, and Systematics shall cooperate with Fidelity in any such dispute subject to Fidelity's payment of such taxes under protest or Fidelity's agreement to indemnify Systematics for liability or penalties incurred as a result thereof.

27. INDEPENDENT CONTRACTOR.

It is agreed that Systematics is an independent contractor and that:

27.1 FIDELITY SUPERVISORY POWERS. Fidelity has no power to supervise, give directions or otherwise regulate Systematics' operations or its employees, except as herein provided for security of Fidelity's data and detection of errors in processing.

27.2 SYSTEMATICS' EMPLOYEES. Persons who process Fidelity's data are employees of Systematics and Systematics shall be solely responsible for payment of compensation to such personnel and for any injury to them in the course of their employment. Systematics shall assume full responsibility for payment of all federal, state and local taxes or contributions imposed or required under unemployment insurance, social security and income tax laws with respect to such persons.

27.3 SYSTEMATICS AS AN AGENT. Systematics is not an agent of Fidelity and has no authority to represent Fidelity as to any matters, except as authorized herein.

28. FIDELITY AND SYSTEMATICS EMPLOYEES.

Except as specifically set forth in Section 11.3, above, both Fidelity and Systematics agree not to offer employment to any employee of the other without the prior written consent of the other.

29. PREVIOUS LIABILITIES.

The parties hereto agree to indemnify the other and hold the other harmless against any losses (including attorney's fees and expenses) arising out of any claims or lawsuits filed or subsequently filed as a result of the acts of the other party which occurred prior to the Effective Date of this Agreement except those losses arising out of or in connection with the business dealings between the parties, including, without limitation, negotiation, execution, implementation and operation under that certain Software License Agreement dated as of October 31, 1991 and that certain Consulting Agreement dated as of February 1, 1993 as amended from time to time.

30. NOTICES.

All notices, requests, demands and other communications required or permitted hereunder, other than routine operational communications under this Agreement, shall be in writing and shall be deemed to have been duly given, made and received only when personally delivered or delivered by Federal Express or other nationally recognized courier service, or two (2) days after having been deposited in the United States mail, certified mail, postage prepaid, return receipt requested (except when such notice is a termination notice, in which event any two (2) of the delivery methods described above must be used), addressed as set forth below:

If to Fidelity: Fidelity Federal Bank, FSB
600 North Brand
Glendale, California 91209-1631
Attention: Chief Information Officer

With a copy to: Fidelity Federal Bank, FSB
600 North Brand
Glendale, California 91209-1631
Attention: General Counsel

With a copy to: Gibson, Dunn & Crutcher
4 Park Plaza
Irvine, California 92714-8557
Attention: Robert E. Dean, Esq.
David L. Hayes, Esq.

If to Systematics: Systematics Financial Services, Inc.
4001 Rodney Parham Road
Little Rock, Arkansas 72212-2496
Attention: President

With a copy to: Systematics Financial Services, Inc.
4001 Rodney Parham Road
Little Rock, Arkansas 72212-2496
Attention: General Counsel

Any party may change the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section for the giving of notice.

31. COVENANT OF GOOD FAITH.

Systematics and Fidelity agree that, in their respective dealings arising out of or related to this Agreement, they shall act fairly and in good faith.

32. LIMITATION OF LIABILITY.

If either party shall breach any covenant, agreement or undertaking required of it by this Agreement, the liability of such party shall be limited to direct damages, actually incurred. Neither party shall be liable to the other for any special or consequential damage or for any claim or demand made by any third party provided, however, that Systematics shall reimburse Fidelity for direct damages paid to third parties as a result of the Services provided herein.

33. INSURANCE.

A schedule of Systematics' current insurance coverage is attached hereto as Exhibit F. During the Term of this Agreement, Systematics shall either maintain comparable insurance with comparable insurance companies as set forth on Exhibit F or Systematics in its reasonable discretion in exercising reasonable business judgement shall self-insure against the risks covered by the insurance coverage indicated on Exhibit F. Systematics shall, at Fidelity's request from time to time during the Term, furnish to Fidelity certificates of insurance, signed by authorized representatives of the surety or insurers of all bonds and insurance relating to the provision of the Services and the amount of such coverage.

34. SECTION TITLES.

Section titles as to the subject matter of particular sections herein are for convenience only and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular sections to which they refer.

35. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

36. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of California. The sole jurisdiction and venue for any litigation arising out of this Agreement shall be an appropriate federal or state court in Los Angeles County, California.

37. TIME OF THE ESSENCE.

Time is of the essence as to each and every provision of this Agreement.

38. SECURITY, HEALTH AND SAFETY.

Each party covenants that it will cause its employees, while such employees are on premises owned or leased by the other party, to comply with such other party's reasonable requirements regarding security, health and safety and other such matters as the other party may deem appropriate.

39. COOPERATION.

Each party shall cooperate fully with the other party and shall execute such further instructions, documents, and agreements and shall provide such further written assurances, as reasonably may be requested by the other party, to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes hereof.

40. ATTORNEYS' FEES.

The prevailing party in any dispute between the parties arising out of the interpretation, application or enforcement of any provision hereof shall be entitled to recover all of its reasonable attorneys' fees and costs whether suit be filed or not, including without limitation costs and attorneys' fees related to or arising out of any arbitration proceeding, trial, appellate or collection proceedings.

41. SEVERABILITY.

If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

42. SURVIVAL.

All obligations contemplated to be performed, whether as a whole or in part, after termination of this Agreement, shall in fact survive after termination of this Agreement regardless of the basis for such termination.

43. EXHIBITS AND SCHEDULES.

All Exhibits and Schedules attached hereto are by this reference incorporated herein and made a part hereof for all purposes as if fully set forth herein.

44. THRIFT BULLETIN 46 PROVISIONS.

By entering into this Agreement, Systematics agrees that the Office of Thrift Supervision will have the authority and responsibility provided to the other regulatory agencies pursuant to the Bank Service Corporation Act, 12 U.S.C. 1867(C) relating to services performed by contract or otherwise. Systematics shall provide, upon request, the OTS District Director of the district in which the data processing center is located with a copy of the current third party review report when a review has been performed. Systematics shall provide the OTS District Director of the district in which the data processing center is located with a copy of Systematics' current audited financial statements, which may be on a consolidated basis with Systematics' affiliates. Systematics agrees to release the information necessary to allow Fidelity to develop a disaster contingency plan which will work in concert with Systematics' plan.

45. RIGHTS AND REMEDIES. Except as otherwise expressly provided herein, the rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies any party could have or at law or in equity or otherwise.

46. COMPLIANCE WITH LAWS. Systematics shall at all times during the Term perform its duties and obligations hereunder in compliance with all requirements of applicable laws, statutes, ordinances, rules, regulations, orders and decrees of any Governmental Entities the failure to comply with which would have a material adverse impact on Fidelity ("Compliance with Laws"). Provided, however, that such Compliance with Laws shall not be interpreted to obligate Systematics to identify changes required to Systematics Systems that are required by state and local banking laws or regulations.

IN WITNESS WHEREOF, this Agreement has been executed by the undersigned officers, thereunto duly authorized, on the 17th day of May, 1993.

SYSTEMATICS FINANCIAL SERVICES, INC.		FIDELITY FEDERAL BANK, a Federal Savings Bank	
By:	/s/ MICHAEL MONTGOMERY	By:	/s/ RICHARD M. GREENWOOD
Name:	Michael Montgomery	Name:	Richard M. Greenwood
Title:	Executive Vice President	Title:	President and Chief Executive Officer
Date:		Date:	

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT A

SYSTEMS INSTALLATION SCHEDULE

1. CONVERSION SERVICES.

1.1 SYSTEMATICS' RESPONSIBILITIES.

(a) Systematics shall provide, at no additional charge beyond the Monthly Base Charge, necessary Resident Staff resources to install the Systems listed in Section 2 of this Exhibit A such that they are functional and available for use by Fidelity in its normal operations, which resources shall include, without limitation, the following: (i) programming, testing and error correction and related computer time required for loading, testing and configuring the Systems to run in a manner required to meet the Performance Criteria and schedules listed in Exhibit D, as well as converting Fidelity's master file and transaction data currently on magnetic storage media to the necessary System record formats (the "Installation Services"); and (ii) programming modifications (including testing and error correction) as requested by Fidelity, up to the number of hours listed under the heading "Customization Allowance" for each System set forth in Section 2 of this Exhibit A below (the "Customization Services") (Customization Services and Installation Services shall be referred to herein as the "Conversion Services"). It is agreed by the parties that the number of programming hours that are to be counted against the Customization Allowance shall not include any hours spent by the Resident Staff or Systematics in completing the Installation Services. In addition to the foregoing, the Resident Staff shall provide, at no additional charge beyond the Monthly Base Charge, Conversion Services including, without limitation, installation planning and consulting, and assistance in the selection and installation of the Systematics standard BCR systems options and standard Systematics user routines as more fully described in Systematics' Documentation. At no additional charge to Fidelity over and above the Monthly Base Charge, Systematics shall convert each system listed in Section 2 of this Exhibit A on or before the Installation Date for each such System and further that the Conversion of all such Systems occurs on or prior to the Planned Conversion Date. Any delays caused by or requested by Fidelity will affect the Conversion Date as detailed in Section 9 of this Agreement.

(b) Systematics represents and warrants that no modification, enhancement or customization of any Systematics System listed in Section 2 of this Exhibit A is required in order for each of such Systematics Systems to interface with all other Systematics Systems and be operational with the features and functions selected by Fidelity which meet or exceed the Performance Criteria set forth herein. Consequently, the Systematics Systems listed below shall be installed without modification, except for the Customization Allowance for each System provided, however, that Systematics shall provide services necessary so that each System interfaces with all Systematics Systems so that such Systems are operational and meet or exceed the Performance Criteria; without additional charge and without such services being counted against the Customization Allowance.

(c) If Fidelity requests additional programming modifications beyond the Customization Allowance which cannot be completed by the Resident Staff by the Installation Date specified for such System ("Installation Deadline"), Systematics shall provide Fidelity with a written estimate of the effect on costs or schedules likely to result therefrom. Fidelity shall then direct Systematics, in Fidelity's sole and absolute discretion, to either: (i) extend the Installation Deadline for the Systems involved in the requested programming modifications such that the schedule change permits the necessary programming services to be completed by the Resident Staff whereupon the requested programming changes shall be provided at no additional charge, or (ii) direct Systematics to keep the original Installation Deadline with the additional services to be provided and priced as Special Services pursuant to Section 3.3 hereof.

1.2 FIDELITY RESPONSIBILITIES. Fidelity shall provide the teller terminal and platform equipment and controller-based software if any such equipment and software is required in conjunction with Systematics Systems set forth in Section 2 of this Exhibit A. Fidelity shall provide Systematics information regarding such equipment and software to which it has access and sufficient access to terminals, controllers and software. Systematics shall evaluate such equipment and software to determine whether: (i) such controller-based software processes data in a manner consistent with the "model transaction set" specified for use with Systematics Systems; (ii) all preinstallation modifications of such controller-based software are completed and properly tested in accordance with the detailed installation time schedule requirements provided by Systematics. In addition, Systematics' representatives shall be included in all appropriate installation planning meetings.

2. SYSTEM INSTALLATION DATES.

Installation Date	Software System	Customization Allowance (hours)
June 21, 1993	Modifications to IMPACS (Truth in Savings Project)	0
October 30, 1993	Atchley - Large Currency Transactions	0
July 30, 1993	FiTech	To be determined
	FiTech Interfaces to:	
July 30, 1993	. Computer Power, Inc. System	To be determined
To be determined	. Commercial Loans System	To be determined
To be determined	. Secondary Marketing System	To be determined
October 30, 1993	Savings Time	250
October 30, 1993	Customer Service	0
October 30, 1993	Commercial Loans System	100
October 30, 1993	TS Delivery	250
October 30, 1993	InterSystem Transfer (IT)	0
May 30, 1993	Item Reconciliation (IR)	0
To be determined	ATM Interfaces to ATM Processor (positive balance file)	To be determined
To be determined	IMPACS Interface to Item Processing Provider	To be determined
October 30, 1993	ATM Interfaces to ATM Processor (on-line authorizations)	To be determined
December 31, 1993	Tax (TX)	0
December 31, 1993	TIN Certification (HX)	0
To be determined	CIF	50
To be determined	Profitability Analysis	50
Installed	SIMS	N/A
Installed	IMPACS	N/A
To be determined	CRF (if required)	To be determined

To be determined	Contract Collections (System to be determined)	To be determined
To be determined	Combined Statements	50
To be determined	On-Line Collections	N/A
October 30, 1993	Safe Deposit Box (SSI)	0

* Installation and customization for May - June, 1993.

For any designation of "To be determined" in the table above, the applicable entry shall be determined by mutual agreement and documented in writing within sixty (60) days after the Effective Date.

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT B

REPORTS

1. REPORTS.

During the Term of this Agreement, at no additional charge beyond the Monthly Base Charge and in accordance with the performance criteria and delivery schedules set forth in Exhibit D hereof, Systematics shall process and produce the following reports:

1.1 THIRD PARTY REPORTS. Any and all reports currently produced from Fidelity's present Systems including, without limitation, Third Party Systems until such Systems are replaced in accordance with the terms of this Agreement or at the request of Fidelity whereupon Systematics shall process any and all reports or output from those replacement Systems.

1.2 SYSTEMATICS REPORTS. Any and all reports set forth in the standard Systematics user documentation for each of the Systematics Systems listed in Section 2 of Exhibit A. In addition, Systematics shall provide to Fidelity reports, in a format reasonably acceptable to Fidelity, including any and all operational and management information necessary for Fidelity to administer and monitor progress under this Agreement including, a monthly report of Systematics' service performance as measured by Fidelity procedures and policies, a monthly conversion management status report, a monthly project status report and such other information and reports as Fidelity may reasonably request from time to time.

2. REPORT MODIFICATION.

At no additional charge beyond the Monthly Base Charge, Systematics shall make such additions, deletions and modifications to the types of reports produced and the report production schedule as Fidelity may request from time to time including, without limitation, adding to or deleting from the reports produced from any Systematics Systems or Third Party Systems and changing the frequency and delivery times for the preparation of such reports ("Report Schedule Modifications"). If the additional services necessitated by the cumulative effect of the Report Schedule Modifications exceeds the level for normal business activities, Systematics will notify

Fidelity and demonstrate such excess to Fidelity's reasonable satisfaction whereupon the parties will cooperate in scheduling and determining such Report Schedule Modifications to accomplish the goals of each party. Fidelity shall not be charged any amounts over the Monthly Base Charge for any Report Schedule Modifications required by any law, ordinance, regulation or practice of any Governmental Entity. Upon receipt of authorization from Fidelity in writing, Systematics shall, within a reasonable time of such authorization, acquire such additional personnel and/or equipment as are necessary and shall deliver the reports pursuant to the Report Schedule Modification.

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT C

FEES

1. FEES AND CREDITS.

1.1 FEE SCHEDULE. As consideration for the Services, Fidelity shall make certain monthly payments to Systematics in the amounts set forth in the following table:

Applicable Period	Amount of Monthly Payment
Months 1 - 18	
Months 19 - 24	[CM]
Months 25 - 60	
Months 61 - 84	[CM]

2. ADDITIONAL VOLUME CHARGES.

Fidelity shall pay those fees set forth in Section 1 of this Exhibit C in exchange for Systematics' provision of the Services for the Base Account Volumes. In addition to such fees, Fidelity shall pay Systematics additional fees in accordance with this Section 2 for Services related to Accounts above the Base Account Volumes. Increased work volume may result from internal growth, mergers or acquisitions or a combination thereof.

2.1 CORE ACCOUNTS. As used herein, the term "Core Accounts" means [CM]

Account Type	Account Volume
Demand Deposit Accounts	
Statement Savings	
Passbook Savings	
Certificates of Deposit	
IRS's and KEOGH Plans	[CM]
Home Equity (ALS)	
Contract Collections	
General Ledger Accounts	
Total Core Accounts	

2.2 BASE VOLUMES AND ADDITIONAL VOLUME CHARGES.

Actual volumes of Accounts shall be measured on the last day of each month.
[CM]

[CM]

3. ADDITIONAL RESPONSIBILITIES OF THE PARTIES.

3.1 FIDELITY RESPONSIBILITIES. In addition to its responsibilities as set forth in the Agreement, Fidelity is responsible for the following: (i) operations at all of its data processing facilities other than the Data Center; (ii) input processing at the Data Center; (iii) check signing; (iv) providing and maintaining all personal computer software, no portion of which operates on the mainframe ("Non-mainframe Software"); (v) modifications to the Non-mainframe Software necessary to interface with Systematics Systems; provided, however, that Systematics shall be responsible for any such modifications of the FiTech Systems and the Loan Production System (ALS); (vi) payment of any laser or page printer vendor usage fees and (vii) payment of all costs associated with obtaining the following services or products; maintenance of bursting equipment, maintenance of de-collation equipment, maintenance of check signing equipment, microfiche service, microfiche supplies, microfiche separation by branch, laser or page printer supplies and chemicals, maintenance of network diagnostic equipment, license fees related to all Non-mainframe Software, and maintenance fees related to all Non-mainframe Software.

3.2 SYSTEMATICS RESPONSIBILITIES. In addition to its responsibilities as set forth in the Agreement, Systematics is responsible for the following: (i) bursting; (ii) de-collation; (iii) reports separation by branch or department; (iv) delivery to courier; (v) laser or page printer operations; (vi) tracking inventories of paper stock and forms; (viii) tape library management; (ix) downloading of data; (x) interfacing with other systems, (xi) telecommunications network control including: network monitoring, initial assessment of problem coordination with vendors, reporting problems to appropriate vendors, reporting problems to end users and operating diagnostic equipment; (xii) modifications of the FiTech System and Loan Productions System (ALS) Non-mainframe Software necessary to interface with Systematics Systems; (xiii) installation of maintenance and enhancement of mainframe systems necessary to interface with Non-mainframe Software, and (xiv) processing and maintaining the Systems in the following table until replaced pursuant to Exhibit E:

- All Systems listed on Exhibit A
- Broadview Total Banking System
- Dunn & Bradstreet Financial Systems
  - General Ledger
  - Fixed Assets
  - Accounts Payable
  - Millinium & PC Link
- PEP (Paperless Entry Processing) ACH
- Extended ALS - Loan Origination
- Top Secret Security Software System
- INFOPAC - Online Report Distribution System
- DataCom DB - Dataquery & IDEAL
- Pan Audit & Easytrieve Software Systems (Audit Confirmations)

4. DASD CAPACITY.

If Fidelity increases the length of its customer data records by a material amount which results in a need for additional DASD capacity which would not otherwise be necessary to accommodate the planned Account volumes, then Systematics shall provide a written quotation of the cost to Fidelity for Systematics' acquisition of the additional DASD capacity by Systematics at the quoted price or modify its request for expansion of the customer data records. Systematics shall integrate the newly acquired DASD capacity into the Data Center operation as soon as practicable at no additional charge.

5. RESIDENT STAFF.

Systematics agrees to provide the following Resident Staff on a full time basis during the Term of this Agreement:

	'93 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	'94 Jan	Feb	Mar	Apr	1994 thru 2000 5/94 thru 4/2000
Resident Staff Members	23	23	23	21	21	21	18	18	18	18	18	18	13
Minimum Resident Staff	23	23	23	21	21	21	18	18	18	18	18	18	13

The Resident Staff shall not be reduced to less than twenty (20) members prior to the completion of the Conversion as set forth in Exhibit A.

6. SYSTEMATICS HOURLY RATES.

The following hourly rates are currently in effect which apply to the services provided pursuant to Section 8.1(d) by staff other than Resident Staff. The Systematics hourly rates may be changed by Systematics upon written notice to Fidelity not more often than once during each twelve month period following the Effective Date. Systematics' Hourly Rates for programming include all related computer time required for program testing. Overtime rates are only applicable, if and to the extent, Systematics will incur overtime expense. Systematics fees are computed by multiplying the actual personnel hours expended on Fidelity's project(s) including any travel time to and from Fidelity's location(s). In addition, Fidelity agrees to reimburse Systematics for the actual expense of reasonable travel and lodging expense, if any, related to hourly rate based services requested by Fidelity. Systematics will inform Fidelity, in advance, if overtime or travel and lodging expense is anticipated to be incurred.

	Regular Hourly Rate Per Person	Overtime Hourly Rate Per Person
Programmer	[CM]	[CM]
Computer Operators	[CM]	[CM]

In addition, Fidelity will pay all reasonable travel and subsistence costs incurred by Systematics' employees in performance of any such additional services.

7. PRICE ADJUSTMENT.

The fees and charges reflected in this Agreement will be increased or decreased, based upon changes in certain indices as set out below. The index to be used in computing such increase, if any, shall be either of the following:

[CM]

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT D

REPORTING SCHEDULE AND PERFORMANCE CRITERIA

If requested by Fidelity, Systematics agrees to process and update Fidelity's data more frequently than set forth in this Exhibit or to extend such on-line service hours as a Special Service pursuant to Section 3.4 of the Agreement. All references to time herein are in Pacific Time.

1. FIDELITY DELIVERY SCHEDULES

1.1 FIDELITY INPUT TO SYSTEMATICS.

Item	Frequency	Available to Systematics
Monetary Input-Daily	(Mon.-Fri.)	7:30 p.m.
Non-Monetary Input-Daily	(Mon.-Fri.)	7:30 p.m.
Monetary and Non-monetary Input	(Saturday)	3:00 p.m.

[This space intentionally left blank.]

1.2 SYSTEMATICS OUTPUT TO FIDELITY.

Item	Frequency	Available to Fidelity
Batch Reports	Daily (Tues.-Sat.)	7:00 a.m.
	Weekly (2nd Business Day of Each Week)	7:00 a.m.
	Monthly (2nd Business Day of Each Month)	7:00 a.m.
General Ledger Reports	Daily (Mon.-Fri.)	6:30 a.m.
Savings Statements	Quarterly (2nd Business Day of each Quarter)	7:00 a.m.
1099 Processing	Annually (15th Business Day of each Year)	7:00 a.m.
Interest Registers/ Notice	Annually (15th Business Day of each Year)	7:00 a.m.
General Ledger Close	Annually (15th Business Day of each Year)	7:00 a.m.
IRA Statements	Annually (15th Business Day of each Year)	7:00 a.m.

[This space intentionally left blank.]

1.3 FIDELITY ONLINE AVAILABILITY.

	MONDAY THRU FRIDAY		SATURDAY		SUNDAY & HOLIDAYS	
	Daily					
Administrative	7:30am	7:30pm	7:30am	7:30pm	To be determined by Fidelity Systems Management Committee	
Teller Terminal	7:30am	7:30pm	7:30am	7:30pm	N/A	N/A
ATM/Voice Response Unit	12:00am	11:59pm	12:00am	11:59pm	12:00am	11:59pm
Operations Support	8:00am	7:59am	8:00am	7:59am	To be determined by the Fidelity Systems Management Committee	

1.4 BATCH PROCESSING UPDATE FREQUENCY.

Systematics shall complete a batch update of Fidelity's file five (5) times weekly, Monday through Friday.

1.5 ADDITIONAL SCHEDULES - FIDELITY.

TASK	FREQUENCY	DELIVERY DEADLINE
Deliver Exception Item and Statement Cycle Tape to Union Bank	Daily (Mon.-Fri.)	12:00 (midnight)
Delivery Offsite Storage Tapes to ARCUS Courier	Daily (Mon.-Sun.)	8:30 a.m.
Deliver Transmatic Tapes (ACH) to First Interstate by Courier	1st, 4th, 10th, and 18th of each Month	9:00 a.m.

2. PERFORMANCE CRITERIA.

2.1 INPUT AND OUTPUT PERFORMANCE. The parties agree that timely and accurate submission of input and output is essential to satisfactory performance under this Agreement. The parties acknowledge that the following is a list of acceptable time of performance standards. However, regardless of the effect of the on-line uptime provisions of this Section 2, if Fidelity experiences downtime or significantly degraded performance at peak hours or other times important to Fidelity's operation, Systematics shall research the cause, with Fidelity's reasonable assistance, and will take corrective action (where Systematics is responsible) or recommend corrective action (where Fidelity or a third party is responsible) and initiate action for correction as soon as reasonably practicable.

2.2 ON-TIME DELIVERY - OUTPUT TO FIDELITY. [CM] Systematics shall submit a written report to Fidelity on a monthly basis, in a format reasonably acceptable to Fidelity and including that information reasonably requested by Fidelity, including, without limitation, the results of the previous Performance Period's on-time output delivery performance. The on-time delivery percentages shall be calculated by dividing the number of reports that were delivered on-time (as specified in Exhibit D) by the number of reports scheduled to be delivered to Fidelity for the Performance Period as described in Exhibit B ("On-Time Percentage"). [CM]

On-Time Percentage	Rebate
[CM]	[CM]

[CM]

2.3 ONLINE APPLICATIONS [AND NETWORK] UPTIME.

(a) Online Application Uptime. [CM] Systematics shall submit a written report to Fidelity on a monthly basis, in a format reasonably acceptable to Fidelity and including that information reasonably requested by Fidelity, including, without limitation, the results of the previous Performance Period's on-line uptime performance. The on-line uptime percentages shall be calculated by dividing the accumulative number of application hours that such on-line up-time was achieved by the accumulative number of application hours the on-line System is scheduled to be available to Fidelity during the Performance Period pursuant to Section 1.3 of this Exhibit D (the "On-line Uptime Percentage"). Systematics shall not perform scheduled preventative maintenance during periods which the on-line systems are to be available to Fidelity pursuant to Section 1.3 of this Exhibit D and the performance of such preventative maintenance shall be designed to avoid or minimize disruption of Fidelity's operations. [CM]

On-line Uptime Percentage	Rebate
[CM]	[CM]

[CM]

(b) On-line Network Up-Time. During the first sixty (60) days of this Agreement, Systematics and Fidelity will jointly establish measurements for on-line up-time for Fidelity's network equipment and configuration (the

"Network Up-Time Standards"). Systematics shall provide planning and design services, problem diagnosis and problem resolution management and make recommendations to Fidelity as to how they should configure the Fidelity Network to meet or exceed their Network Up-Time Standards.

2.4 RESPONSE TIME. Systematics and Fidelity acknowledge the high importance of maintaining acceptable response time for users of Fidelity's on-line Systems. Systematics and Fidelity agree that on-line response time, herein defined as the elapsed time between the time any transactions are "entered" at the terminal and the time a related response is "received" by the terminal (the "On-line Response Time"), can be detrimentally affected by factors such as line speeds, modem speeds, terminal control unit capacity, third party on-line software, on-line transaction mix and other factors which may materially affect response time. Systematics shall submit a written report to Fidelity on a monthly basis, in a format reasonably acceptable to Fidelity and including that information reasonably requested by Fidelity, including, without limitation, the results of the previous month's response time performance.

(a) On-line Response Time. During the first sixty (60) days of this Agreement, Fidelity and Systematics shall work together to jointly determine and document the On-line Response Time levels. The On-line Response Times achieved subsequent to the Effective Date hereof shall meet or exceed the On-line Response Time Standard; provided, however, that Systematics shall not be responsible for degraded On-line Response Times if Systematics can demonstrate that such degraded On-line Response Times are directly attributable to: (i) Fidelity's failure to follow Systematics' recommendations with respect to line speeds, modem speeds, terminal control unit capacity or third party on-line software, or (ii) circumstances beyond the control of either Systematics or Fidelity. Systematics will monitor and make engineering recommendations to Fidelity in order to maintain the On-line Response Time Standards.

(b) Host Internal Response Time. In addition to the foregoing, the response times as measured internal to the host computer (the "Internal Response Time") shall be less than one (1) second response time (the "Internal Response Time Standard").

(c) Response Time Incentives. [CM]

Response Time Average For Month In Seconds	Rebate
[CM]	[CM]

2.5 GRACE PERIOD AND CURE. The provisions of Section 2 shall not be effective until the beginning of the first full calendar month beginning after thirty (30) days from the application conversion date. In the event that an incentive rebate is incurred during a given Performance Period none of the months belonging to that Performance Period will be utilized to measure performance in subsequent Performance Periods.

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT E

FIDELITY-FURNISHED EQUIPMENT AND SOFTWARE

1. TERM.

Fidelity shall furnish to Systematics the leased equipment and licensed software ("Equipment" and "Software") described below through the listed expiration dates and under the terms and conditions set forth below and in the Agreement. The Expiration Date, if any, represents the date after which Fidelity is no longer obligated to provide the same to Systematics.

2. TAXES.

Fidelity will pay all taxes, however designated or levied or based on the Equipment or Software or their use.

3. RISK OF LOSS; REPLACEMENT.

Except for loss or damage caused by the negligence or intentional misconduct of Systematics, Systematics shall not be responsible for any loss or damage to the Equipment or Software.

If any Equipment or Software furnished hereunder is damaged, destroyed or malfunctions to the extent that the same cannot be repaired, or Fidelity elects not to so repair then, provided such damage or malfunction was not caused by Systematics as set forth above, Fidelity agrees to acquire and install, as soon as reasonably practicable, comparable replacement Equipment or Software.

4. CHARGES.

No charge shall be payable by Systematics for its use of the Equipment or Software. Services provided under the Agreement by Systematics are acknowledged by Fidelity to be adequate consideration of Fidelity's agreement to provide such Equipment and Software.

5. INSURANCE.

Fidelity is responsible for the cost of all fire, extended coverage and theft insurance in an amount covering the Equipment for the period during which Fidelity is obligated to provide the Equipment pursuant hereto.

6. MAINTENANCE.

Systematics agrees to enter into and to keep in force during the term hereof, at Systematics' sole cost and expense, standard maintenance agreements to keep the Equipment in good working order, to make all necessary adjustments and repairs thereto, and to pay all maintenance costs relative to the use of the Equipment. Fidelity may purchase software maintenance agreements from the vendors of each item of Software listed below until the expiration date listed below.

LEASED EQUIPMENT

LESSOR	TYPE	DESCRIPTION	EXPIRATION DATE	MONTHLY LEASE
IBM-ICC	9121-320	CPU	Jan-94	
IBM-ICC	9371-12	CPU Monitor	Jan-94	
EL CAMINO	3990-G03	DASD Controller	Dec-94	
PREMIER	3480-A22	Cartridge Tape	Sep-94	
PREMIER	3480-B22	Cartridge Tape	Sep-94	
PREMIER	3480-B22	Cartridge Tape	Sep-94	
PREMIER	3480-B22	Cartridge Tape	Sep-94	
PREMIER	3480-B22	Cartridge Tape	Sep-94	
INSIGHT	3480-A22	Cartridge Tape	Mar-93	
INSIGHT	3480-B22	Cartridge Tape	Mar-93	
INSIGHT	3480-B22	Cartridge Tape	Mar-93	
				[CM]
PREMIER	3480-AE4	DASD	May-94	
PREMIER	3380-BE4	DASD	May-94	
PREMIER	3380-BE4	DASD	May-94	
PREMIER	3380-AE4	DASD	May-94	
INSIGHT	3380-BE4	DASD	Apr-94	
INSIGHT	3380-BE4	DASD	Apr-94	
INSIGHT	3380-AE4	DASD	Dec-93	
INSIGHT	3380-BE4	DASD	Dec-93	
PHOENIX	3380-AE4	DASD	Sep-94	
PHOENIX	3380-BE4	DASD	Sep-94	

PHOENIX	3380-BE4	DASD	Sep-94	
PHOENIX	3380-BE4	DASD	Sep-94	
INSIGHT	3174-001	Controller	Nov-93	
INSIGHT	3290-220	Terminal	Nov-93	
INSIGHT	3290-220	Terminal	Nov-93	
INSIGHT	3290-220	Terminal	Nov-93	[CM]
INSIGHT	3290-220	Terminal	Nov-93	
XEROX	4090	Laser Printer	Oct-94	
XEROX		Extended Serv Weekend	Oct-94	
XEROX		Average Click Charge	Oct-94	

SOFTWARE
========

VENDOR	APPLICATION	EXPIRATION DATE
Computer Associates	Top Secret Uni-Service* Look* DataCom DB* IDEAL*	December 1993
Pansophic	Easytrieve* Pan Audit*	Contract Termination Date
**FiTech	Mortgage Loan Origination	Contract Termination Date
Broadview	Total Banking Systems*	Conversion Date
In-House	Current Mortgage Loan Origination*	Conversion Date
Conversion		
**Dunn & Bradstreet	General Ledger	Contract Termination Date
	Fixed Assets	Contract Termination Date
	Accounts Payable	Contract Termination Date
	Fixed Assets	Contract Termination Date
	Accounts Payable	Contract Termination Date

**Dunn & Bradstreet	Millinium	Contract Termination Date
Software Diversified	Power Tools* ORCA* Interpartition Command*	
ALTAI	Zack*	
Goal System	Flee*	
Sterling Software	Comparex*	
**Tower	EPIC	

Software applications annotated with "*" are expected to be replaced with products acceptable to Fidelity or removed with Fidelity's prior approval at no additional cost to Fidelity.

Software Vendors annotated with "**" are those referenced in Section 17.2(f) of the Agreement.

7. Systematics will purchase certain equipment from Fidelity as set out below.

EQUIPMENT TO BE PURCHASED BY SYSTEMATICS

EQUIPMENT TYPE	PURCHASE PRICE
3420-008 Tape Drives	
3420-008 Tape Drives	[CM]
3420-008 Tape Drives	
3803-002 Tape Controller	

EQUIPMENT TYPE	PURCHASE PRICE
4245-020 Impact Printer	
4245-020 Impact Printer	[CM]
3725-26 Communications Controller	

4050	Xerox Laser Printer	
	Personal Computers, Peripheral Equipment and Related Equipment as agreed by the parties	[CM]

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT F

INSURANCE COVERAGE

Type of Coverage	Limit	Insurance Company	Remarks
Commercial General Liability	$1,000,000 each occurrence $2,000,000 general aggregate	Cincinnati Insurance Company	Bodily injury and property damage; combined limit. $5,000 premises medical each person
Contents	Variable	Cincinnati Insurance Company	Blanket converge $100,000 deductible.
Data Processors Errors and Omissions	$25,000,000	Cincinnati Insurance Company	$25,000,000 each occurrence and aggregate. $250,000 deductible.
Equipment	Blanket Coverage	Cincinnati Insurance Company	$5,000,000 limit any one loss on EDP equipment; $15,000,000 extra expense any one loss. An all risks policy covering owned and leased equipment for replacement cost at each location with $100,000 deductible for all losses from any one event. $1,000,000 with $25,000 deductible in transit. Data Processing media coverage included.
Automobile	$1,000,000 each occurrence	Cincinnati Insurance Company	Owned, hired and non-owned vehicles.
Worker's Compensation	$500,000	Cincinnati Insurance Company	Statutory limit required by various state laws.
Fidelity Coverage	$10,000,000 Blanket Bond	Cincinnati Insurance Company	Employee dishonesty $100,000 deductible.
Umbrella	$50,000,000	Cincinnati Insurance Company	Fiduciary liability specifically excluded.

Effective January 1, 1993

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT G

This Exhibit G consists of the AMENDMENT TO SOFTWARE LICENSE AGREEMENT effective the first day of May, 1993, and the SOFTWARE LICENSE AGREEMENT dated as of the 31st day of October, 1991.

AMENDMENT TO
SOFTWARE LICENSE AGREEMENT

This Amendment ("Amendment") is effective as of the first day of May, 1993 ("Amendment Effective Date") and amends and supplements that certain Software License Agreement ("License Agreement") dated as of the 31st day of October, 1991 by and between FIDELITY FEDERAL BANK, FSB ("Customer") and SYSTEMATICS FINANCIAL SERVICES, INC. ("Systematics").

W I T N E S S E T H:

WHEREAS, Customer and Systematics have entered into a Data Processing Agreement of even date herewith ("DP Agreement");

WHEREAS, [CM]

WHEREAS, the parties desire to supplant Systematics' obligation to provide the ESR Services as set out in the License Agreement and other provisions of the License Agreement with those provisions set forth in the DP Agreement; and

WHEREAS, the parties are willing to do so pursuant to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the mutual promises and considerations contained herein, the parties hereto agree as follows:

1. [CM]

2. Pursuant to the DP Agreement, Systematics agrees to provide Customer with certain data processing services which are currently being performed by Customer through the utilization of Systematics' Software. Customer and Systematics agree that upon termination or expiration of the DP Agreement, Customer may reinstate the ESR Services for a term to be mutually determined and at Systematics' then current prices. In the event that Fidelity obtains ESR Services within ninety (90) days after the expiration or termination of the DP Agreement, Fidelity shall not be required to pay a recertification fee to obtain such ESR Services.

3. Exhibit A of the License Agreement shall be amended to delete Mortgage System (RE) from the list of Systematics Software Systems to be licensed to Customer under the License Agreement. Customer and Systematics agree that the License Agreement does not provide for any mortgage processing systems.

4. Customer and Systematics further agree that upon the expiration of the DP Agreement the License Agreement shall also apply to all Systematics-developed program modifications, enhancements, new systems or major subsystems installed for Customer's benefit pursuant to the DP Agreement.

5. [CM]

6. In addition, during the time of the DP Agreement the following provisions shall apply:

6.1 Systematics has or shall, at Fidelity's request, within thirty (30) days of the installation thereof deliver to Fidelity a copy of the source code form of all Systematics Systems (both mainframe and microcomputer Systems) which are installed for the benefit of Fidelity pursuant to the DP Agreement (the "Source Code"), including all relevant commentary, explanations, and other documentation of the Source Code (collectively, "Commentary"). Systematics also agrees to deliver to Fidelity, at such times as they are made and upon request by Fidelity, a copy of all revisions to the Source Code or Commentary encompassing all corrections or enhancements made to the Systematics Systems (both mainframe and microcomputer Systems) by Systematics pursuant to the Software License Agreement or DP Agreement.

6.2 Fidelity shall have the right to use the Source Code and Commentary for the purpose of continuing the benefits afforded to Fidelity under the Software License Agreement including, without limitation to support, maintain, modify or enhance for Fidelity's internal use, upon the occurrence of any of the following ("Event Permitting Use"):

(a) if Systematics has availed itself of, or been subjected to by any third party, a proceeding in bankruptcy in which Systematics is the named debtor, an assignment by Systematics for the benefit of its creditors, the appointment of a receiver for Systematics, or any other proceeding involving insolvency or the protection of, or from, creditors, and same has not been discharged or terminated without any prejudice to Fidelity's rights or interests under the DP Agreement or Software License Agreement within thirty (30) days; or

(b) if Systematics has ceased its on-going business operations, or sale, licensing, maintenance or other support of the Systematics Systems (mainframe or microcomputer Systems); or

(c) if any other event or circumstance occurs which demonstrates with reasonable certainty the inability or unwillingness of Systematics to fulfill its obligations to Fidelity under the Software License Agreement or the DP Agreement, including, without limitation, the correction of defects in the Systematics Systems (mainframe or microcomputer Systems).

6.3 Fidelity shall give written notice to Systematics of the occurrence of an Event Permitting Use hereunder. Unless within seven (7) days thereafter Systematics files with Fidelity its affidavit executed by a responsible executive officer stating that no such Event Permitting Use has occurred or that the Event Permitting Use has been cured, then Fidelity shall upon the eighth (8th) day be permitted to use Source Code and Commentary as set forth herein.

6.4 It is understood that ownership of the source Code and Commentary at all times belongs solely to Systematics, and that Fidelity's right to use the Source Code and Commentary as provided herein is made as an accommodation to Fidelity and nothing thereby shall be deemed to vest any ownership thereof to Fidelity.

[This space intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Amendment by their duly authorized officers as of the Amendment Effective Date.

SYSTEMATICS FINANCIAL SERVICES, INC.		FIDELITY FEDERAL BANK	
By:	/s/ Michael Montgomery	By:	/s/ Richard M. Greenwood
Name:	Michael Montgomery	Name:	Richard M. Greenwood
Title:	Executive Vice President	Title:	President and Chief Executive Officer
Date:		Date:	

SYSTEMATICS FINANCIAL SERVICES, INC.
SOFTWARE LICENSE AGREEMENT
(CHARTER)

This Agreement ("Agreement") dated as of the 31st day of October, 1991, ("Commencement Date") is made and entered into by and between SYSTEMATICS FINANCIAL SERVICES, INC., an Arkansas corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212 ("Systematics") and Fidelity Federal Bank, FSB ("Customer"), a financial corporation with its principal place of business at 600 North Brand Blvd., Glendale, CA 91203.

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1. PROVISION OF SOFTWARE.

Systematics agrees to license and furnish to Customer the computer software programs ("Software") listed on Exhibit A entitled "Software Systems Licensed" attached to and made a part of this Agreement.

2. DELIVERY AND ACCEPTANCE.

2.1 Systematics agrees to deliver each item of Software to Customer at Customer's premises designated on Exhibit A ("Installation Site") on or before the date requested for delivery as indicated on Exhibit A or at such other time as may be mutually agreed. Delivery shall be deemed to be complete upon receipt of the first item of Software by Customer at the Installation Site.

2.2 Customer shall have until March 1, 1992, (the "Acceptance Period"), to test the Software to determine whether the Software substantially meets the specifications reflected in the Documentation. Unless within the Acceptance Period Customer has given SI written notice specifying a material failure of the Software to meet such specifications, the Software shall be deemed to have been accepted. If Customer gives written notice to SI of such a material failure during the Acceptance Period, SI shall have thirty (30) days following receipt of such notification to cure such material failure and SI agrees to exercise good faith and its best eforts to cure the material failure. Upon SI's cure of such material failure, the Acceptance Period shall be extended by an additional thirty (30) days to permit Customer to complete its retesting procedures and so notify SI. In the event SI fails to cure all material failures within the thirty-day period after notification as set out above, Customer may terminate the Agreement upon written notice to SI. Such written notice to terminate shall be given within sixty (60) days after Customer's notice of material failure described above. In the event of such termination by Customer, SI agrees to refund to Customer all fees previously paid to SI by Customer under the Agreement, and Customer agrees to promptly return all Software, Documentation, and related materials to Systematics.

3. DOCUMENTATION.

Systematics agrees to deliver to Customer two complete sets of its standard operational instructions, manuals, and other related documentation ("Documentation") for each item of Software ordered. In order to satisfy its internal requirements and subject to the disclosure restrictions set forth herein, Customer may copy the Documentation or may request additional copies from Systematics at Systematics' then standard fees for such Documentation.

4. SOFTWARE LICENSE.

Systematics grants to Customer, and Customer accepts from Systematics, a non-exclusive, ninety-nine year license beginning on the Commencement Date and continuing hereafter until expiration or termination of this license in accordance with its terms to use the Software and Documentation, only at the Installation Site (except for regular offsite backup at the "Backup Site" designated on Exhibit A, or a temporary emergency relocation), solely for processing of Customer, its affiliated corporations and subsidiaries. Customer may change the Installation Site upon prior written notice to Systematics. Upon such notice of the change of Installation Site, Customer will promptly cease use of the Software at the old Installation Site and will in no event use the Software for production purposes at more than one site concurrently.

5. CONFIDENTIALITY AND SAFEGUARDS.

Customer acknowledges that the Software and Documentation constitute valuable assets and trade secrets of Systematics, that neither legal nor equitable title to the Software passes to Customer under the terms of this Agreement, and that all information with respect to the Software is confidential.

Customer agrees to use its best efforts to prevent disclosure of any part of the Software or Documentation, and shall assure that it does not, through its employees or representatives, sell, lease, assign, or otherwise transfer, disclose, or make available, in whole or in part, the licensed Software or Documentation to any third party for any reason (except for employees of Customer, necessary for the use of the Software and Documentation by Customer, for auditing purposes by independent certified public accountants, or for complying with applicable governmental laws, regulations, or court orders). In the event that Customer desires to provide any third party access to the Software and Documentation, Customer agrees that such third party shall execute a Non-Disclosure Agreement in the form attached as Exhibit B and Customer shall immediately provide a copy of such executed proposed Non-Disclosure Agreement to Systematics. Systematics, has the right to not accept any such proposed Non-Disclosure Agreement and until such Non-Disclosure Agreement is accepted by Systematics, no disclosure of any part of the Software or Documentation may be made by Customer to any third party. Systematics will exercise reasonable efforts to accept or reject a proposed Non-Disclosure Agreement within thirty days of the receipt of the proposed Non-Disclosure Agreement by Systematics. In no event shall any competitor of Systematics be furnished with any information concerning the Software or Documentation.

If either party discloses to the other confidential information concerning the disclosing party's business, plans or customers and if the recipient is advised in writing at the time of disclosure that such information is confidential, the recipient will take reasonable steps to maintain such confidentiality. Systematics understands and agrees that information given to Systematics by customer is acknowledged to be privileged and confidential and that Systematics will use its best efforts to prevent disclosure of any part of that data.

The terms and conditions of this Section shall survive the termination or expiration of this Agreement for any reason.

6. CUSTOMER MODIFICATIONS.

Customer may modify the Software and/or the Documentation, and such modifications shall become a part of the Software, subject to all the terms and conditions fo this Agreement. Customer may not offer or make available to any third party, with or without charge, any modification to the Software.

7. SOFTWARE ENHANCEMENT, SUPPORT AND REPLACEMENT SERVICES ("ESR SERVICES").

7.1 For a period of 5 years from the Commencement Date (the "ESR Period"), the parties agree as follows:

a. Systematics shall correct and repair any failure, malfunction, defect, or nonconformity ("Defect") in the Software, if such Defect prevents the Software from operating and performing substantially in accordance with the Documentation and applicable warranties. Should Systematics request, Customer agrees to provide in writing and in reasonable detail a description of such Defect.

b. Systematics agrees to provide to Customer all revisions, modifications, and enhancements ("Updates") to each item of Software which Updates shall become a part of the licensed Software for all purposes described herein. New systems will not be considered an Update, but will be available to Customer at Systematics' then standard prices.

As used herein the following terms shall be defined as set forth below:

i) Updates - all new releases of revisions, modifications and enhancements to existing application systems licensed to Customer, which are necessary or desirable to implement functional or regulatory changes to the existing systems. Updates will generally be provided at least on an annual basis and are provided under normal ESR services;

ii) Replacement System - an application system which is: a) a newly developed application system and is substantially the functional equivalent of an existing application system; b) replaces the existing application system; and c) is denominated by SI as a Replacement System. Replacement Systems shall be provided at no additional fee; and

iii) New System - a newly developed and offered application system which performs different functions from the application systems included in Exhibit A hereto and which are denominated by SI as new systems. New Systems may be licensed to Customer but require the payment of additional license and maintenance fees.

c. Systematics shall provide reasonable technical assistance and consultation by telephone or by mail to Customer on a twenty-four hour, seven day a week basis.

d. Customer is responsible for testing the Software and each Update and for the control, review, and inspection of all reports prepared utilizing the Software. Customer further acknowledges that Customer's exclusive remedy hereunder is set out in Section 7.1.a above and that Systematics has no liability, either expressed or implied, for any erroneous processing or processing errors whether or not atttributable to the Software.

7.2 Following the ESR Period, Customer may purchase continuing ESR Services as described in Section 7.1 above, upon such terms and conditions and at Systematics prices then in effect. Systematics will provide Customer with twelve months written notice of any discontinuance of such ESR Services on any item of Software. During the ESR Term, Systematics shall not discontinue ESR Services for any portion of the Software designated as a "Major System" on Exhibit A, unless Systematics offers replacement with respect to such Major System at no cost to customer.

7.3 To the extent Customer modifies the Software, fails to install Updates, or fails to pay ESR fees as set forth in Article 8.2, Systematics shall only be relieved of its responsibility under this Section 7 and of all responsibility and liability for any Defect or improper operation of the affected Software resulting from customer modification or failure to install updates in a timely manner so as to remain no more than one release less current than the most current release of any element of the Software.

7.4 Until November 1, 1993, Customer shall have the option to license the OS/MVS version of the Software in consideration of Customer's payment to Systematics of a license upgrade fee of $[CM]. The annual ESR fee set forth in Article 8.2 shall be increased to $[CM], pro-rated for any partial ESR period.

8. INVOICING AND PAYMENT.

8.1 For the licensing of the Software pursuant to the terms and conditions of this Agreement Customer will pay to Systematics a license fee of [CM] ("Software License Fee"), payable as follows:

a. [CM] upon execution of the Agreement; and
b. [CM] upon delivery of the Software; and
c. [CM] upon completion of the Acceptance period

8.1.1 Customer acknowledges that applicable sales and/or use taxes in the amount of [CM] shall be added to the Software License Fee and Customer will remit such taxes to Systematics.

8.2 For the ESR Services described in Section 7.1, Customer shall pay to Systematics the amounts reflected in the following table increased, in accordance with the provisions of Section 8.3 below.

Systematics agrees that if ESR Services are discontinued on a non-major system without provision of a replacement system of substantially equivalent functions the ESR fees payable hereunder will be appropriately adjusted. The adjustment will be equal to the sum of the then current ESR fees for the Software components removed from the Software listed on Exhibit A.

PAYMENT DUE DATE	ESR FEES DUE
[CM]	

8.3 Except for the initial ESR Fee of $[CM] due six months following Commencement Date, ESR Fees may be increased for the calendar year following the year of the Commencement Date and all subsequent years during the ESR Term by multiplying $[CM] by a fraction, the numerator of which is [CM] and the denominator of which is [CM].

8.4 All sums due from Customer to Systematics are payable in the amounts and at the times described in this Agreement. Any amount or payment due for which a specific date is not set out will be due from Customer to Systematics within thirty (30) days of Customer's receipt of an invoice from Systematics.

8.5 [CM]

9. INSTALLATION, CONVERSION AND CONSULTING ASSISTANCE.

9.1 Systematics agrees to furnish 100 hours of installation, conversion and consulting assistance ("Assistance" at no fee) to Customer. Such Assistance may, at Customer's option, be furnished at the Installation Site or at Systematics' facilities. If the Assistance is furnished at the Installation Site, reasonable travel time for Systematics personnel will be deducted from the above allotted hours. The Assistance may include conversion planning and/or assistance, workshops, or other functions mutually agreed to by Customer and Systematics. In addition to applicable fees, Customer agrees to pay all reasonable travel and subsistence expenses related to the Assistance. Assistance specified in this Section 9.1 must be utilized within 24 months from Commencement Date. Systematics will be responsible for providing personnel for this role as may be reasonable.

9.2 Systematics agrees to provide additional consulting and/or support services, as available and as requested, upon mutually acceptable written terms and conditions.

10. EDUCATION AND TRAINING.

10.1 Systematics will make available to Customer, its standard application software training courses, which are generally held in Little Rock, Arkansas, in accordance with Systematics' Education and Training Department schedule, a current copy of which will be provided to Customer upon request. Customer shall be entitled to a cumulative total of 35 student (35) class days for such standard courses at no fee. Education and training provided in this Section 10.1 must be utilized within 24 months from Commencement Date.

10.2 Additional Customer personnel may attend such courses, and any other standard courses generally offered by Systematics to its other Customers, upon payment of Systematics' then current standard published fees.

10.3 Customer acknowledges that subject to Systematics obligations under paragraph 10.1 herein enrollment of Customer personnel in any courses offered by Systematics shall be subject to normal space availability requirements and compliance with Systematics' standard registration and enrollment deadlines and procedures.

10.4 Customer may elect to utilize other educational materials, including but not limited to, Computer Based Training ("CBT"). Systematics agrees to provide to Customer, upon such terms and conditions and for such fees as Systematics may stipulate the educational materials set forth on Exhibit A. Systematics may withdraw such materials from availabilty to its Customers in general upon provision of six (6) months prior written notice. Systematics will provide one copy of the CBT Modules listed in Exhibit "A" at no charge for the first year following the Commencement Date.

11. MICRO SOFTWARE

Customer acknowledges that all PC-based Software ("Micro Software") is released in object code only. The following additional provisions shall be applicable to Micro Software:

11.1 Customer may copy the Micro Software and use it on multiple microprocessors solely for the benefit of Customer and Customer's affiliated corporations and subsidiaries. Documentation for the Micro Software may be similarily copied and utilized. At Customer's option, additional copies of the Documentation may be made either by Customer or by ordering the same from Systematics at Systematics' standard rates.

11.2 All other restrictions on use, copying or disclosure of the Software and Customer's agreements to maintain the confidentiality shall also apply to the Micro Software and its Documentation. In addition, Customer may not distribute or provide copies of the Micro Software to any person, firm, or corporation not permitted hereunder without the prior written consent of Systematics and the payment to Systematics of additional license fees.

11.3 All support for end-users of the Micro Software will be supplied by Customer's personnel. Systematics is not resonsible for providing any such support services to end-users. Systematics will provide Micro Software support to the Customer's MIS personnel for Micro Computer Support.

12. REMEDIES.

12.1 For material breach of this Agreement by either party, the other party may terminate this Agreement if cure of any breach is not affected within thirty days of receipt of written notice thereof. In the event of a threatened or actual breach by Customer of Sections 4, 5 or 6 of this Agreement, monetary damages alone may not be an adequate remedy, and Systematics shall be entitled to injunctive, equitable, and other legal relief against such breach as may be awarded by a court of competent jurisdiction, plus reasonable expenses (including attorneys' fees). No election of any remedy shall be construed as a waiver of or prohibition against any other remedy in the event of breach hereunder.

In the event of a material breach of this Agreement by Systematics monetary damages alone may not be adequate remedy, and Customer shall be entitled to injunctive, equitable, and other legal relief against such breach as may be awarded by a court of competent jurisdiction, plus reasonable expenses (including attorney's fees). No election of any remedy shall be construed as a waiver of or prohibition against any other remedy in the event of a breach hereunder.

12.2 In the event of breach by either party and such party's failure to cure said breach as set out in Section 12.1 above the other party may reserving all other remedies, terminate the license arising under this Agreement. Upon such termination, Customer agrees to promptly cease using and return to Systematics all Software, Documentation, and copies thereof, accompanied by written certification by an officer verifying the accomplishment of such return.

13. COSTS OF COLLECTION.

Pursuant to Systematics providing Customer ten days prior written notice that amounts are past due and Customer's failure to cure, Customer agrees to pay to Systematics interest on the unpaid balance at a rate equal to the lesser of eighteen percent (18%) per annum or the highest rate allowed under applicable law, plus reasonable expenses (including attorneys' fees) incurred in collection. No failure by Systematics to request such payment shall be deemed a waiver by Systematics of Customer's obligation to pay such sum.

14. WARRANTIES.

14.1 Systematics warrants to Customer that (1) the Software and Documentation are free of all liens, claims and encumbrances; and (2) Customer shall have the right of quiet enjoyment of the Software and Documentation.

14.2 Systematics warrants and represents that the Software will perform in the manner and environment described in the Documentation.

14.3 Systematics agrees to hold Customer harmless from any claims of infringement for patent, copyright or other similar property right including misappropriation of trade secrets arising out of Customer's use of the Software licensed hereunder, provided that Customer is not in default under any of the provisions of this Agreement. Systematics will defend, at its own expense, any such claim or action.

14.4 EXCEPT AS PROVIDED HEREIN, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ARE HEREBY EXPRESSLY DISCLAIMED.

15. LIMITATION OF LIABILITY.

15.1 Except as specifically described in Section 7, Systematics has no obligation or liability, either express or impled, with respect to any erroneous processing attributable to any error in the Software.

15.2 The liability of Systematics to Customer for any breach or default by Systematics of any warranty, covenant, or undertaking hereunder shall be limited to actual direct damages incurred by Customer, and in no event shall Systematics' aggregate liability exceed the license fees actually paid to Systematics by Customer hereunder. Customer acknowledges that Systematics is not and shall not be liable for any special, indirect, incidental or consequential damages suffered by Customer or demand made against Customer by any third party. Additionally, the liability of Customer to Systematics for any breach or defult by Customer of any warranty, covenant or undertaking hereunder (except for damages resulting from a breach of Sections 4, 5 or 6) shall be limited to actual direct damages incurred by Systematics and Customer's aggregate liability for such breach shall not exceed the license fees actually paid to Systematics by Customer hereunder, except for damages resulting from a breach of Sections 4, 5, or 6.

16. TAXES.

Customer agrees to pay all taxes levied by a duly constituted taxing authority against or upon the Software or its uses, or arising out of this Agreement, exclusive, however, of taxes based on Systematics' income, which taxes shall be paid by Systematics. Customer agrees to pay any tax for which it is responsible hereunder, which may be levied on or assessed against Customer directly, and, if any such tax is paid by Systematics, to reimburse Systematics therefor, upon receipt by Customer of proof of payment reasonably acceptable to Customer.

17. EXCUSABLE DELAY.

In the event of any delay caused by force majeure or other cause beyond the control of the parties, performance items called for by this Agreement shall be extended to the extent reasonably necessary under the circumstances.

18. ASSIGNMENT.

No party may sell, assign, convey, or transfer, by operation of law or otherwise, this license or any of such party's rights or obligations hereunder without the prior written consent of the other party. Provided, however that Customer may assign the license or any of Customer's rights and obligations hereunder to Customer's parent or subsidiary or in the event of a purchase of all of Customer's capital stock or substantially all of Customer's assets which result in a merger in which Customer is not the surviving entity, Customer may assign this Agreement to the surviving entity; however, the Software may not be used to process beyond the scope of the processing regularly being done by Customer with the Software immediately prior to such merger or assignment. In any event, Systematics may refuse assignment to a competitor of Systematics. This Agreement shall be binding upon the parties, their successors and assigns.

19. GOVERNING LAW AND LIMITATION OF ACTION.

This Agreement and performance hereunder shall be governed by the laws of the State of Arkansas. Customer agrees that the jurisdiction and venue of any action arising under this Agreement shall be concurrently and exclusively in the state or federal courts located in Pulaski County, Arkansas, and Los Angeles County, California and specifically waives any other choice of venue.

20. CONFIDENTIAL AGREEMENT.

No copy of this Agreement, nor any information relating to the Agreement or discussions, negotiations, terms or conditions related to this Agreement, may be shared with any third party, except by reason of legal, accounting, or regulatory requirements, without prior written permissions of the parties hereto.

21. ADVERTISING OR PUBLICITY.

Neither party shall use the name of the other in media advertising or publicity releases of any sort without securing the prior written consent of the other.

22. EMPLOYMENT.

Neither Customer nor Systematics will offer employment to any employee of the other without the prior written consent of the other.

23. ENTIRE AGREEMENT.

This Agreement, together with all attachments and amendments, constitutes the entire agreement between the parties and supersedes all prior understandings, either written or oral between them. Each provision of this Agreement is severable and shall be stricken in the event the provision is void, voidable, or unenforceable.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Commencement Date by their duly authorized representatives.

SYSTEMATICS FINANCIAL SERVICES, INC.	FIDELITY FEDERAL
By: /s/ RICHARD G> WILDUNG	By: /s/ GREGG A. JOHNSON
Name: Richard G. Wildung (type or print)	Name: Gregg A. Johnson (type or print)
Title: Senior Vice President	Title: Senior Vice President
Date: 10/31/91	Date: 10/31/91

EXHIBIT A
INVESTMENT CHARTER SOFTWARE LICENSE AGREEMENT

Listed below are the Systematics Software Systems to be licensed to Customer under the Investment Charter Software License Agreement. All systems are VSE operating system versions.

	System Designator
** Advanced Loan System - Consumer	AM
Certification Tracking System	HX
** Customer Information File System	CF
Customer Service Management Systems	CM
Customer Statement Relationship Pricing System	
** Demand Deposit System	IM
** Extended Application Architecture	SA
Item Reconciliation	IR
** Intersystem Transfer System	IT
** Loan Collections	KO
** Mortgage System	RE
Profitability Analysis	PS
** Savings/Time System	ST
* Systematics Information Management System	IS
Tax Reporting System	TX
** Transaction Delivery System	TS
Warehouse Window	WW

* Certain use restrictions apply to these Micro-based Software Systems as stated in Section 11 herein.

** Major System

*** By its acceptance hereof, Customer agrees that these systems are base systems which Customer expects to modify for execution in its specific terminal and network environment.

Computer Based Training:

Module	Annual Usage Fee
Systems Architecture	
General Banking	[CM]
Transaction System	
Introduction to Deposit Systems	

Installation Site Address:

4565 Colorado
Glendale, CA 91209-1631

Backup Site Address:

N/A

EXHIBIT B

NON-DISCLOSURE AGREEMENT

THIS NON-DISCLOSURE AGREEMENT ("Non-Disclosure Agreement") is made and entered into by and among ___________________ ("Customer"), SYSTEMATICS FINANCIAL SERVICES, INC. ("Systematics") and ______________________ ("Consultant").

WITNESSETH:

WHEREAS, Systematics has developed and owns software packages and related manuals and other documentation and materials, ("Software") more specifically described in an Agreement between Systematics and Customer dated as of ____, 1989 ("Agreement");

WHEREAS, Customer and Consultant have entered into an agreement pursuant to which Consultant will provide programming and/or consulting services to Customer; and

WHEREAS, Systematics is unwilling to permit Consultant to have access to the Software unless Consultant and Customer enter into this Agreement to protect the confidentiality of, and Systematics' proprietary rights to, the Software;

NOW, THEREFORE, the parties agree as follows:

In this Agreement, the following shall have the meanings shown:

1. (a) "Customer" means __________, ___________, __________, its successors and assigns, and any of its present or future subsidiaries, or organizations controlled by, controlling or under common control with it.

   (b) "Consultant" means ___________, ____________, ____________, its successors and assigns, and any of its present or future subsidiaries, or organizations controlled by, controlling or under common control with it.

   (c) "Systematics" means Systematics Financial Services, Inc., Little Rock, Arkansas, its successors and assigns, and any of its present or future subsidiaries, or organizations, controlled by, controlling or under common control of it.

2. Customer and Consultant acknowledge that the Software and all documentation, modifications, supplements, or alterations thereto (collectively referred to "Systematics Property") are owned by Systematics, that neither legal nor equitable title to the Systematics Property passes to Customer or Consultant under the terms of the Agreement or this Non-Disclosure Agreement, that the Systematics Property constitutes a valuable asset and trade secret of Systematics, and that any information with respect thereto is confidential. Accordingly, Customer and Consultant agree as follows:

a. Customer and Consultant shall exercise best effort to prevent the duplication, reproduction, or copying of the Systematics Property or any information related thereto, or otherwise make available for any purpose, whether gratuitously or for consideration, the Systematics Property or any part thereof or any information pertaining thereto, to any person or entity whatsoever (other than employees of Customer or Consultant for use by them solely for the benefit of Customer).

b. Except as contemplated hereby, neither Customer nor Consultant shall reveal to any person or entity, and shall instruct their employees and customers not to reveal to any person or entity, any information related to the design or programming of the Systematics Property, and Customer and Consultant shall take appropriate action to fulfill these obligations.

c. Except as contemplated hereby, neither Customer nor Consultant shall offer to make available to any person or entity, any modification to the Systematics Property which may be designed by either of them.

d. Consultant may have access to the Systematics Property for the following purposes only: ____

e. Consultant may have access to the following Systematics Property only: ____

f. Neither Consultant nor any other third party shall have any right by virtue of this Non-Disclosure Agreement, the Agreement or any other arrangement, whether written, oral, express or implied, to operate, run, execute or otherwise deal with the Systematics Property for or on behalf of the Customer, the Consultant or any other entity.

g. Consultant may have access to the Systematics Property under the conditions set out herein only during the following time period: ________

3. Customer and Consultant agree that, upon the occurrence of any actual breach or threatened breach of the restrictions upon the use, sale, transfer, or dislosure of the Systematics Property contained herein, monetary damages alone may not be sufficient remedy or protection and Systematics shall be entitled to such injunctive or other equitable relief as may be deemed proper or necessary by a court of competent jurisdiction.

4. The prevailing party in seeking to enforce any of its rights or remedies hereunder, shall have the right to collect from the losing party, all expenses incurred in connection with such enforcement, including but not limited to reasonable attorney's fees incurred in connection therewith.

5. Customer and Consultant hereby warrant and represent that prior to the disclosure of any Systematics Property to Consultant, this agreement will be executed and become part of any agreement between Customer and Consultant. No agreement or instrument to which any of them is a party or by which any of them is bound contains any provision which is inconsistent with this Non-Disclosure Agreement or which would inhibit the performance of their obligations as set forth herein.

Client: Fidelity Federal Bank, FSB

Effective Date: May 1, 1993

EXHIBIT H

SYSTEMATICS DISASTER RECOVERY SERVICE

Systematics will provide Fidelity support of the SunGard Disaster Recovery Service as described in Section 13.3 of the Agreement until it is replaced by the Systematics Disaster Recovery Service described below:

1. TERM.

The term of this Systematics Disaster Recovery Service shall begin on January 1, 1997 and shall be coterminous with the Agreement. If that certain SunGard Disaster Recovery Service Agreement between Fidelity and SunGard dated October 30, 1991, terminates or expires prior to January 1, 1997, then Systematics shall provide the disaster recovery service described herein as a Special Service pursuant to Section 3.3 of the Agreement.

2. DISASTER RECOVERY FACILITY.

2.10 ACCESS. Upon declaration of a Disaster, Fidelity may use the Disaster Recovery Facility under the appropriate class of service, upon at least six hours' notice to Systematics, for a period of up to six (6) consecutive weeks (the "Recovery Period"). Thereafter, continued use of the Disaster Recovery Facility, may be permitted except that another Subscribing Client who experiences a Disaster after Fidelity's Recovery Period shall be granted priority access to and use of the facility.

2.20 SYSTEMATICS COMPUTER EQUIPMENT. Systematics will purchase and maintain in force maintenance agreements for the equipment described in Schedule 2.

2.30 SYSTEMATICS COMPUTER EQUIPMENT CHANGE. Systematics may change or relocate its IBM compatible computer equipment configuration at any time upon sixty (60) days prior written notice to Fidelity.

2.40 MULTIPLE DISASTERS. In order to reduce the possibility of a Multiple Disaster, Systematics will exercise due care and discretion in contracting with new clients to avoid geographic concentrations that would unduly increase exposure.

In addition, no agreement will be signed with a prospective client who is currently experiencing a Disaster.

If a Multiple Disaster occurs, more than one Subscribing Client may be granted access to the Disaster Recovery Facility. Systematics will exercise its best efforts to coordinate the activities of these Subscribing Clients.

2.50 COMPUTER EQUIPMENT COMPATIBILITY ASSURANCE. The Data Center Staff will maintain records of the Data Center computer equipment sufficient to identify any differences which could affect successful processing, and will promptly notify Systematics' Disaster Recovery Department of any change which may do so. The Data Center Staff will maintain documentation for resolution of such differences in the event of a Disaster. Systematics will provide Fidelity with one (1) copy of the Systematics Disaster Recovery Services Users Guide to assist Fidelity in the understanding and use of the services provided herein.

Fidelity will direct the Data Center Staff to conduct a test annually in the Disaster Recovery Facility. Each test should be an analysis of compatibility consisting of Fidelity's operating system, applications, and communications software sufficient to achieve the pre-established mutually agreeable objectives. The test should be planned for completion within the test time allocation specified in Schedule 2, although extra time may be authorized by Systematics if unforeseen problems occur and there is a reasonable expectation of solution within the time extension. Fidelity will submit the request for an annual test to Systematics using forms and procedures established. Systematics will schedule the test on a mutually agreeable date. Data Center personnel will conduct the test with the assistance of Systematics staff, as necessary.

2.60 NON-DISASTER USE. The Disaster Recovery Facility will be used by Systematics for development and internal accounting, and for testing of other Subscribing Clients. During any Recovery Period, a Subscribing Client who has declared a Disaster shall take priority over all such use and may preempt Fidelity's test and use of associated services.

3. DISASTER RECOVERY PLAN.

Fidelity will assist the Data Center Staff in converting the SunGard Disaster recovery procedural plan to a specific Systematics written plan for dealing with its data processing needs during a Disaster (the "Disaster Recovery Plan"). A current copy of the Disaster Recovery Plan shall be retained by Fidelity at its operating facility, at an offsite backup location, at the Data Center, and at Systematics' Disaster Recovery Facility.

4. SYSTEMATICS AND FIDELITY RELATIONSHIP.

4.10 PERSONNEL. Data Center Staff with appropriate levels of authority shall be temporarily located at the Disaster Recovery Facility during all Recovery Period processing to perform all Fidelity operations functions. In addition, to the extent that Fidelity has responsibility under the Agreement, Fidelity agrees to provide the necessary supplies and personnel (at the Disaster Recovery Facility or at Fidelity's facility, as required) to perform said functions.

4.20 ADDITIONAL SYSTEMATICS PERSONNEL. Fidelity agrees to pay the amounts normally charged to Systematics' Similarly Situated Customers for all services performed by Systematics that are not otherwise provided for in the Agreement.

4.30 PROCESSING FREQUENCY. This Systematics Disaster Recovery Service does not guarantee that all applications will be processed as frequently during the Recovery Period as they are processed under the Agreement. The applications processed will be consistent with the priorities set forth in the Disaster Recovery Plan.

4.40 TIME OF PERFORMANCE. Systematics will use diligence to provide the data processing services set forth in the Agreement at the times required therein. Fidelity acknowledges, however, that the circumstances of a Disaster are likely to adversely impact Systematics' time of performance and that the provisions of the Time of Performance section of the Agreement shall continue to be applicable during the Recovery Period.

5. SERVICE LEVELS.

5.10 BASIC COVERAGE. The basic coverage under this Systematics Disaster Recovery Service provides for access to the Disaster Recovery Facility under the Class of Service indicated in Schedule 1.

5.20 PLANNING SERVICE. Planning services, to assist Fidelity in fulfilling the requirement for a Disaster Recovery Plan under Section 4 of this Systematics Disaster Recovery Service, are provided under the terms and conditions of Schedule 3.

5.30 SHELL FACILITY. Access to and use of the Shell Facility are provided under the terms and conditions of Schedule 4.

5.40 ONLINE. Availability of local terminals at the Disaster Recovery Facility is provided as shown in Schedule 2. Backup of Fidelity's online circuits, if any, is provided under the terms and conditions of the Schedule 5 for Dialup Analog Kits.

5.50 REMOTE TERMINAL CLUSTER. Availability of a remote terminal cluster, if any, is provided under the terms and conditions of the Addendum For Remote Terminal Cluster.

6. FEES.

6.10 PARTICIPATION FEE. Fidelity will pay the applicable monthly participation fees for the Class of Service indicated in Schedule 1. Included in the Monthly Base Charge paid by Fidelity is a credit equal to the Class 6A Participation Fee, as set forth in Schedule 1 as such credit amount may be adjusted from time to time (the "Base Participation Credit").

6.20 FIDELITY COMPUTER EQUIPMENT CHANGE. Upon the installation or deinstallation of any computer equipment at the Data Center which changes Fidelity's Class of Service, Fidelity agrees to pay or receive a credit for the difference between the participation fees (whether higher or lower) for the new Class of Service and the Base Participation Credit. If Fidelity's requirements exceed the capacity of or are incompatible with the highest class of service available from Systematics, Systematics' Disaster Recovery Department. Systematics and Fidelity will then have ninety (90) days in which to resolve the capacity or incompatibility situation, which solution may include an agreement with a third party. If, after ninety (90) days from Fidelity's notice to Systematics, Systematics and Fidelity have not agreed upon a mutually satisfactory solution, either party may terminate this Systematics Disaster Recovery Service.

6.30 FACILITY ACCESS FEE. Fidelity agrees to notify Systematics verbally and in writing of its declaration of a Disaster, and such notice shall require payment of the Facility Access Fee set forth in Schedule 1.

6.40 FACILITY USAGE FEE. During the Recovery Period, Fidelity will also pay the hourly Facility Usage Fee described in Schedule 1.

6.50 MISCELLANEOUS FEES. Fidelity will pay for miscellaneous Systematics services used during the Recovery Period at the rates then charged to Systematics' Similarly Situated Customers.

8. SECURITY AND CONFIDENTIALITY.

Fidelity agrees to observe Systematics' security procedures while using the Disaster Recovery Facility.

9. SHARED USE.

Fidelity acknowledges that Systematics is not liable for any loss, claim, damage or expense directly or indirectly resulting from the shared use of the Disaster Recovery Facility and related services in the event of a Multiple Disaster, except to the extent that such loss, claim, damage or expense was caused by Systematics' negligence or willful misconduct.

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SCHEDULE 1

FEE SCHEDULE

Fidelity's CLASS OF SERVICE is determined by the CPU size (in MIPS) in the Data Center. The services provided hereunder are indicated below under Class of Service. Total Monthly Participation Fees are computed below and are included in the Monthly Base Charge shown in Exhibit C.

	CLASS OF SERVICE
I. PARTICIPATION FEES:	
Basic Service includes:	
Planning Service	
Shell Facility	
On-Line Processing:	
Dialup Analog Kits(6)	
TOTAL MONTHLY PARTICIPATION FEE	[CM]
II. FACILITY ACCESS FEE:	
III. FACILITY USAGE FEE:	
Disaster Recovery Facility (Clock Hour)	

SCHEDULE 2

COMPUTER EQUIPMENT LIST
CLASS OF SERVICE "6A" 16.1-20.0 MIPS

Quantity	Type-Model	Description
1	3090-180E	Processor (or Equivalent) and the following equivalent capacities:
12	3178-C30	Terminals (Local)
20 Volumes	3380-E	Dual Density Disk Drives
12 Volumes	3380-K	Triple Density Disk Drives
3 Drives	3420-8	Tape Drives (1600/6250 BPI)
12 Drives	3480	Tape Cartridges
1	3725	Communications Controller
2	4050	Xerox Laser Printer (Supplied by 3rd Party)
1	4245-20	Printer (2000 LPM)
24 Hours	Test Time	Twenty-four Wall-Clock Hours (Non-cumulative)

SCHEDULE 3

PLANNING SERVICES

1. SYSTEMATICS RESPONSIBILITIES.

Systematics agrees to provide Fidelity with four (4) copies of the hardcopy version of Systematics' generic disaster recovery plan (the "Plan"). In addition, Systematics will provide one (1) entry level copy of the PC database planning software required to create and maintain the plan. Systematics also agrees to pay the maintenance fees associated with continued use of the software. Fidelity agrees to pay any software license and maintenance fees associated with any future higher level or LAN-based release of the planning software. Systematics also agrees to provide Fidelity with updates to the Plan and planning software as they are developed. Systematics will offer a Disaster Recovery Planning Workshop (the "Workshop") on a regular basis, to assist Fidelity planners in contingency planning techniques. Fidelity may send no more than four (4) people to the Workshop. Systematics will publish a list, at the beginning of each calendar year, of projected dates for the proposed Workshops, but reserves the right to cancel or reschedule workshops as appropriate.

2. FIDELITY RESPONSIBILITIES.

Fidelity, with assistance from Systematics Data Center personnel, agrees to customize the Plan to fulfill Fidelity's own requirements and to incorporate appropriate updates that Systematics may supply from time to time. Fidelity also agrees to exercise its best effort in taking advantage of planning Workshops and other planning aids as appropriate to Fidelity's requirements. Fidelity furthermore acknowledges that the Plan is confidential and proprietary material and will be returned to Systematics upon expiration of this contract.

SCHEDULE 4

SHELL FACILITY

1. SYSTEMATICS DISASTER RECOVERY SHELL FACILITY.

1.10 ACCESS AND UTILIZATION. Upon declaration of a Disaster, Fidelity will have access to the Shell Facility for a period of up to nine (9) months (the "Extended Recovery Period"). In the event of a Multiple Disaster, more than one Subscribing Client may be granted access to the Shell Facility pursuant to Section 2.40 of this Exhibit H. Systematics may utilize the facility if a Disaster occurs in any of its own data centers.

1.20 COMPUTER EQUIPMENT. No computer equipment will be installed prior to the Recovery Period. The party responsible for providing the equipment in the Data Center pursuant to the Agreement will be responsible for procurement, shipment and installation of all required equipment following the declaration of a Disaster.

1.30 SPECIFICATIONS. The Shell Facility consists of 17,500 sq. ft. of space, including 4,500 sq. ft. of raised floor area. Air conditioning capacity is 600,000 BTU/HR, electrical capacity is 160KVA. There are 200 telephone pairs into the building, with 20 pairs active. The remaining non-raised floor area consists of office and storage space for Fidelity use. Fidelity will pay the fee prescribed in Schedule 1, for the amount of space actually used by Fidelity during the Extended Recovery Period.

2. PERSONNEL.

Data Center Staff with appropriate levels of authority shall be temporarily located at the Shell Facility during the Extended Recovery Period to perform all Fidelity operations functions. A Systematics representative will be present while Fidelity personnel are occupying the Shell Facility. To the extent that they are available, qualified Systematics personnel may be assigned to augment Fidelity's staff at the rates referenced in Section 6.30 of this Exhibit.

3. TERMINATION.

Systematics may terminate this Schedule 4, without the termination of the Systematics Disaster Recovery Service and other schedules upon ninety (90) days prior written notice to Fidelity. Should this service be supplanted by another form of service which is useful to Fidelity, Fidelity will be afforded priority to subscribe to the new service. If Systematics terminates this Schedule 4 then Fidelity may at its option terminate this

Exhibit H and receive a reduction in the Monthly Base Charge for the duration of the Terms of the Agreement equal to the Base Participation Credit.

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SCHEDULE 5

DIALUP ANALOG KITS

1. RESPONSIBILITIES OF THE PARTIES.

Systematics will provide up to six (6) dial backup modem kits, and a sufficient number of dial telephone lines to accommodate the kits provided. Fidelity agrees to provide all other hardware, including compatible modems, communications links and any necessary software to utilize this service. Systematics will ship the kits to Fidelity's designated locations as soon as possible after Fidelity declares a Disaster. Fidelity agrees to pay the prices that are current at that time to lease or purchase all such equipment and to bear all shipping, installation, and telephone usage charges. Fidelity also acknowledges that response times may be greater than those experienced during normal operations.

2. LOCATION OF ALTERNATE CONTROL POINT ("ACP").

Fidelity will provide a location for the installation of dial backup equipment for each designated circuit. At each location, an ACP will be installed, along with a corresponding dial telephone circuit, for each Fidelity multi-point circuit to be backed up. Fidelity will notify Systematics in writing of ACP locations and of any changes as they occur.

3. TESTING.

Systematics hereby grants Fidelity usage of one of the kits for up to one week annually for on-line testing, in conjunction with other tests of Fidelity's disaster recovery requirements. Systematics will air-ship the on-line backup kit to Fidelity during the week prior to the test. Fidelity will install the kit per Systematics instructions and pay all shipping, installation, and telephone usage charges. Fidelity will return air-ship the kit to Systematics Disaster Recovery on the first work day following the test. Additional test time will be chargeable at the rates shown in Schedule 1.

FIRST AMENDMENT
TO
DATA PROCESSING AGREEMENT
FOR
MORTGAGE SERVICING

BACKGROUND

Attached is the First Amendment to our Data Processing Agreement with Systematics Financial Services, Inc. The Amendment is to contract for certain Mortgage Processing Services to be provided through Computer Power, Inc.(CPI). CPI is a subsidiary of ALLTEL, also the parent company of Systematics.

During the negotiations for the Systematics outsourcing agreement last spring, we reached mutual agreement with Systematics over the contracting process for the mortgage servicing systems. The agreement was to contract through Systematics for mortgage processing services to be provided by CPI, versus contracting directly with CPI. This was a very significant gain, as it would allow Fidelity Federal to utilize the contract leverage we have with our Systematics DP Agreement with a service to be provided by an affiliated company.

The negotiation team for the mortgage servicing contract addendum was as follows:

Gregg A. Johnson	FFB Chief Information Officer
Godfrey B. Evans	FFB General Counsel
W. C. Taylor	FFB Loan Administration
Ronald G. Drake	FFB EDP Auditor
David L. Hayes	Gibson, Dunn, & Crutcher

The financial analysis for the costing of the mortgage servicing system from CPI was included, as part of the overall costs for Data Processing services, as indicated in the April 28, 1993 board recommendation for the Systematics Agreement.

SCOPE OF SERVICES

CPI Mortgage Servicing Package(MSP) provides for the complete servicing for all Mortgage loans including:

- Customer Service
- Escrow Management
- Payment Processing
- Default Management
- Investor Reporting
- Management Reporting

CPI provides processing services for over 13 million loans totaling $932 billion of principal balances. They provide services for 43 of the largest 100 savings institutions and 49 of the 100 largest commercial banks.

The services are provided through a satellite network to the CPI data center in Jacksonville, Florida in conjunction with our data center in Glendale. The Fidelity personnel have access through their terminals to both data centers. Fidelity also has a daily updated copy of the loan master files for further local access.

CONTRACT ADDENDUM HIGHLIGHTS

Since the addendum is part of our Systematics base agreement, only the terms stated in the addendum would override the base agreement.

Pricing is bundled for the basic services of processing, report creation, on-line access, information storage, and standard system enhancements. Monthly charges for loans processed are volume tiered and would range between $[CM] for the first [CM] loans, $[CM] for the next [CM], $[CM] for the third [CM] and so on. For example, if Fidelity reaches [CM] loans serviced we would be paying $[CM] per loan.

Future price increases are tied to the same Consumer Price Index, as the base agreement.

Performance penalties are included for the CPI services of on-line availability, terminal response time and daily update schedules.

Addendum administration, governance, and a multi-tiered dispute resolution mechanism are provided through the Systematics base agreement.

Disaster Recovery Services are annually tested and provided for by CPI.

CONVERSION

The conversion to the CPI system was completed on October 31, 1993.

FIRST AMENDMENT
TO
DATA PROCESSING AGREEMENT

This First Amendment ("First Amendment") is effective as of the 31st day of October, 1993 ("Amendment Effective Date") and amends and supplements that certain Data Processing Agreement ("Agreement") dated as of May 1, 1993 by and between FIDELITY FEDERAL BANK, a Federal Savings Bank ("Fidelity") and SYSTEMATICS FINANCIAL SERVICES, INC. ("Systematics").

W I T N E S S E T H:

WHEREAS, Fidelity desires to obtain mortgage processing; and

WHEREAS, Systematics is willing to provide such mortgage processing pursuant to the terms and conditions set out herein.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

1. The Agreement is amended to add Exhibit I in its entirety as attached to this First Amendment.

2. All warranties, covenants and undertakings of Computer Power, Inc. in the attached Exhibit I shall be, as between Systematics and Fidelity, deemed to be warranties, covenants and undertakings of Systematics.

3. All terms and conditions of the Agreement not amended herein remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this First Amendment by their duly authorized representatives as of the Amendment Effective Date.

SYSTEMATICS FINANCIAL SERVICES, INC.	FIDELITY FEDERAL BANK, a Federal Savings Bank
By: /s/ CLIFFORD E. NEWKIRK	By: /s/ GREGG A. JOHNSON
Name: Clifford E. Newkirk	Name: Gregg A. Johnson
Title: Sr. V. P.	Title: Sr. V. P. & CIO
Date: November 30, 1993	Date: November 22, 1993

EXHIBIT I

MORTGAGE PROCESSING
(THIS EXHIBIT RELATES TO MORTGAGE PROCESSING ONLY)

Systematics will provide, through subcontract with Computer Power, Inc. ("CPI"), mortgage processing as set out herein.

1. DEFINITION OF PROCESSING SERVICES

The Software Systems ("Software" or "System") referred to by this Mortgage Agreement are a series of computer programs employed by CPI to perform electronic data processing ("EDP") services for Fidelity as described in the Documentation, as defined below. CPI's Documentation User Manuals ("Documentation") for the Software are incorporated herein by reference as a definition of the functions of the Software.

2. INPUT/OUTPUT SERVICES

2.1 INPUT. Fidelity shall perform the data entry requirements from items of original entry (which items remain in the possession of Fidelity). Fidelity shall create the input data and Fidelity and/or Fidelity's Agent will transmit the input data required by each System, as defined in the Documentation, to CPI's computer facilities in Jacksonville, Florida via satellite or some other mutually agreed upon method of data transmission. Input data is to be received by CPI each business day, or other processing frequency as required, at a mutually agreed upon time. Fidelity shall be responsible for verification of the data transmitted and for the release of the data to CPI for processing.

2.2 OUTPUT. CPI will process the data using the Software and will have the output available to allow the Fidelity to begin to print the output data at Fidelity's location at a mutually agreed upon time. CPI will use its best efforts to complete the processing and transmission of Fidelity's data on schedule, provided Fidelity has transmitted and released its input in accordance with paragraph 2.1 of this Mortgage Agreement.

2.3 REJECTED TRANSACTIONS AND SYSTEM BALANCING. Fidelity shall correct and resubmit all transactions rejected by the Software and Fidelity shall be responsible for reconciling and adjusting differences in batch control totals which result from rejected transactions and/or erroneous control totals. Fidelity is responsible for the system balancing on a daily basis.

2.4 REASONABLE CARE. Fidelity agrees to exercise reasonable care in the use of each service. "Reasonable care" includes, but is not limited to avoiding the scheduling of certain reports and producing large volumes of output data at month end peaks. Certain reports identified in the Documentation have been blocked in the Software System from being produced during peak cycles.

3. ON-LINE SERVICES

3.1 DESCRIPTION AND AVAILABILITY OF SERVICES. CPI agrees to provide to Fidelity on-line access to information contained in Fidelity's mortgage master, history, and certain utility files from terminals located in Fidelity's office(s). The Documentation lists the inquiry displays and the primary data entry menus to be provided by CPI. The On-Line Systems access Fidelity's files through the CICS telecommunication facility. The data entered by Fidelity is verified using logic tests. Errors found in the data are immediately displayed to Fidelity for correction. These On-Line services shall be available at the times specified in Addendum I Schedule A attached to this Exhibit. CPI shall put forth its best efforts to maximize the availability of the On-Line Systems during the times specified in Schedule A and in accordance with Section 15.2. Data accepted by the On-Line System generates transactions which are stored on CPI's host computer. This transaction file serves as an input file for the Fidelity's update processing run. The On-Line System includes on-line or printed documentation for every screen in the System. Instructions for operating the Software and for entering transactions are included therein.

3.2 ERROR CORRECTION. CPI shall use its best efforts to minimize rejects due to program logic errors. The On-Line Systems also contain an on-line interrogation feature. Fidelity realizes that CPI will have no control over Fidelity transactions affecting the same loan number within the same processing cycle or correction and resubmission of all transactions originally entered through the On-Line System and rejected by the System. Fidelity shall also be responsible for reconciling and adjusting any differences in control totals which result from rejected transactions and/or erroneous totals.

4. TRANSMISSION SERVICE & TERMINAL EQUIPMENT

4.1 TRANSMISSION SERVICE. Fidelity will pay all costs for installation/deinstallation and for the data transmission service between Fidelity's office and CPI's site. CPI shall specify and order the type of transmission service required and will bill Fidelity for those transmission services in accordance with the fees set forth on Addendum II to this Mortgage Agreement. In the event Fidelity relocates its service center, Fidelity shall be responsible for the cost of deinstalling at Fidelity's old site and for reinstallation of such transmission service at Fidelity's new site. Should Fidelity desire to terminate the data transmission service, Fidelity shall give CPI not less than ninety (90) days written notice, unless such service is provided by a third party in which case the notice shall be given in accordance with termination provisions of the Mortgage Agreement with such third party. Fidelity shall be responsible for any deconversion costs of such transmission service at the time of termination of such service.

4.2 COMMUNICATION DEVICES. The communication link, either satellite or terrestrial, shall be specified and ordered by CPI. Such devices will be leased in CPI's name or owned by CPI. CPI, in turn, will bill Fidelity for such devices located in Fidelity's office(s). Should Fidelity desire to terminate the devices, Fidelity shall give CPI not less than ninety (90) days notice.

4.3 TERMINAL AND PRINTING EQUIPMENT. CPI will specify the type of terminal, controller or printer equipment to be used by Fidelity. Fidelity may use its most cost effective or efficient method for acquiring the equipment specified by CPI.

4.4 TRANSMISSION PROBLEMS. CPI shall use its best efforts in isolating data transmission problems and obtaining service from the terminal hardware vendors and/or communication carriers. In situations where data transmission is rendered impossible by virtue of equipment failure at CPI's site, CPI agrees to print such data and ship to Fidelity at the expense of CPI. In the event of inability to transmit because of the communication carrier, the cost to print and ship will be borne equally by CPI and Fidelity. In the event of equipment failure at Fidelity's site which is not caused by Fidelity, Systematics shall pay all printing and shipping costs.

4.5 SHIPMENT OF OUTPUT. In situations where it is more economical for Fidelity to have input/output functions performed at CPI and to ship the output to Fidelity, the cost of such functions including postage and/or freight incurred to ship output media to Fidelity are billable to Fidelity at CPI's standard rates for Optional Processing and Support Services as shown in Addendum II.

5. BASIC PROCESSING CHARGES

5.1 BASIC MONTHLY CHARGES. In consideration for processing its data using the Software, Fidelity agrees to pay a monthly charge and fee according to the Schedules contained in each of the Addenda attached hereto, but in no case less than the minimum monthly charge set forth in the Schedules. The Basic Processing Charges described in Section 2 of Addendum I will be adjusted in accordance with Section 7 of Exhibit C to this Agreement. [CM]

[CM] Any increases exceeding these limits shall be creditable to Client for the period in which such increases are not permitted pursuant to these limitations and shall be reflected on the next invoice.

5.2 SOFTWARE MODIFICATIONS. The basic processing charges are for computer processing and for other services as described in Addendum I, Article 2. hereto. All reports described in the Documentation and processing provided by the standard Software System are available to Fidelity as of the date of conversion. Custom or special modifications of the Software are available to Fidelity upon specification of the nature of such modification and payment of fees to be negotiated between Fidelity and CPI for each such modification.

5.3 CROSS DOMAIN, RFUF. Fidelity shall not be charged for the following items set forth in Addendum II which do not apply to Fidelity's cross domain environment:

Item #	Item Name
1.a.1.	PC RJE System or MICRO Based Systems
1.d.1.	Point to Point Leased Line Support (per Line)
1.d.2.	Multi-drop Branch Office Support (each Branch)
1.d.3.	RJE/3270 On-Line (per Controller or Emulator)
3.a.	Central processing unit: IBM 9021-962
3.b.	3380 disk/input/output
3.c.	Magnetic tape drive
3.d.	Formatted Microfiche tape or disk output
3.e.	Laser Printing (Non-Special Forms)
4.a.	Stock Forms, 15 lb. greenbar paper
4.d.	Microfiche

RFUF. Fidelity shall not be charged for the following items set forth in Addendum II which do not apply to Fidelity while utilizing RFUF:

Item #	Item Name
5.b.	MSP Loan Master File Copy

BUNDLED PRICING. Fidelity shall not be charged for the following items set forth in Addendum II.

Item #	Item Name
2.1.	Monthly Client Telephone Support

In the event Systematics or Fidelity requires services which utilize any of the aforementioned items, Systematics will be billed and shall pay the then current rate for such services.

6. OPTIONAL PROCESSING AND SUPPORT SERVICES

From time to time, Fidelity may elect to use CPI's input/output functions, such as data entry, printing, microfiche, special computer usage for Easytrieve, consulting, etc. These services will be billed to Fidelity in accordance with the Schedule of Optional Processing and Support Services as shown in Addendum II. Supplies, including rental charges for tapes and disks dedicated to the storage of Fidelity's data, Fidelity's usage of CPI's electronic mail communication system known as "CIMON", will also be charged according to CPI's Optional Processing and Support Services as shown in Addendum II. CPI's Optional Processing and Support Services, as described in Addendum II, may be modified from time to time upon thirty (30) days written notice to Fidelity.

7. PROGRAM MODIFICATIONS

7.1 **CUSTOMIZED MODIFICATIONS.** Report contents and processing logic in the Software may be modified from time to time. Fidelity may initiate such modifications by either defining the desired change on a System Service Request ("SSR") and submitting the SSR to CPI or submitting the request in writing containing the same information as required on an SSR. CPI will review the SSR or written request and return it to Fidelity with a fixed price, which will include the cost of the programming definition, programming, testing, installation and documentation. If Fidelity wishes to proceed with the programming and installation of the modification, Fidelity will execute the SSR or written request, approving the fixed price indicated and return it to CPI for implementation. CPI's 850 Report ("Mortgage Servicing Client Project Inventory") will identify all approved SSRs or written requests to be invoiced to Fidelity.

7.2 **STANDARD ENHANCEMENTS.** Based on changes to government regulations, tax laws, mortgage industry and mortgage agencies' needs, as well as to increase the efficiency of the System, CPI will issue, usually each month, standard enhancement changes which are included as part of the Basic Processing Charges described in Addendum I, Article 2.

8. AUTHORIZED EMPLOYEES

Fidelity shall designate in writing to CPI within thirty (30) days of the date hereof and when requested by CPI from time to time, employees who are authorized to contact CPI support personnel, to release input data or request reports, to approve System Service Requests (SSRs) and to authorize other requests for services under this Mortgage Agreement. CPI may rely on the actions and representations of such authorized employees without performing any further investigation or confirmation. Fidelity shall be bound by all agreements both written and verbal, except to the extent required to be in writing hereunder, entered into between CPI and such authorized employees.

9. OWNERSHIP AND CONFIDENTIALITY

Systematics acknowledges that the Data (as defined below) is and remains the sole property of the Fidelity, and agrees to take and to cause CPI to take all such reasonable measures as may be necessary to protect the confidentiality of such.

Fidelity acknowledges that the Software and all information, programs, documentation and assistance concerning it are the sole property of CPI, and that they constitute the valuable proprietary products and trade secrets of CPI embodying substantial creative efforts, ideas and expressions. Fidelity further agrees to observe complete confidentiality regarding all aspects of the Software, including without limitation agreeing not to disclose or otherwise permit any other person or entity access to, in any manner, the Software or any part thereof, except that such disclosure or access shall be permitted to an employee of Fidelity requiring such access in the course of employment, for auditing purposes by independent certified accountants, to consultants, agents or service providers, or for complying with applicable governmental laws, regulations or court orders. In situations of disclosure or access permitted by the terms of this paragraph, Fidelity will cause the party granted such access (except for employees of Systematics or Fidelity and Office of Thrift Supervision and Fidelity's accountants, Deloitte and Touche) to execute and deliver a confidentiality and non-disclosure agreement in form and substance acceptable to Systematics. CPI will advise all parties that have access to the Software but are not required to sign non-disclosure agreements hereunder that such is subject to the provisions of this Section and secure their agreement to protect the confidentiality of any such information received. Provided, however, in no event shall any information regarding the Software be provided to any competitor of Systematics or CPI. Upon termination of this Agreement, Fidelity agrees to return the Software and all parts thereof, to destroy any copies made by Fidelity, and to certify to Systematics in writing that it has returned or destroyed all parts of the Software.

Systematics acknowledges that the Data is the sole property of Fidelity, and that it constitutes valuable proprietary information. Systematics further agrees to observe complete confidentiality regarding all aspects of the data, including without limitation agreeing not to disclose or otherwise permit any other person or entity access to, in any manner, the data or any part thereof, except that such disclosure or access shall be permitted to an employee of CPI or Fidelity's requiring such access in the course of employment, for auditing purposes by independent certified accountants, to consultants, agents or service providers, or for complying with applicable governmental laws, regulations or court orders. In situations of disclosure or access permitted by the terms of this paragraph, Systematics will cause the party granted such access to execute and deliver a confidentiality and non-disclosure agreement in form and substance acceptable to Fidelity. Upon termination of this Agreement, Systematics agrees to cause CPI to return the Data and all parts thereof, to destroy any copies made by CPI or Systematics, and to certify to Fidelity in writing that it has returned or destroyed all parts of the Data.

All Data stored by CPI's system remains the property of Fidelity. At the request of Fidelity, Systematics shall cause CPI to transfer the Data to Fidelity at no additional fee and despite the existence of any dispute between the parties.

For the purposes of this section, "Data" shall mean all data and information belonging to Fidelity and designated by Fidelity as confidential and transmitted to CPI, however communicated or stored.

10. DOCUMENTATION AND REVIEW OF INTERNAL CONTROLS OF CPI

Systematics will cause CPI, annually throughout the term of this Agreement, to engage an independent certified public accounting firm to conduct an audit of CPI's operations, internal controls and accounting procedures and Systematics will provide Fidelity (and the District Director of the OTS if applicable) at no charge with one (1) copy of the Documentation and Review of Internal Controls ("Third Party Review") prepared by such accounting firm each year. The Third Party Review is a review of CPI's internal procedures, and is not intended in any way to replace or substitute Fidelity's internal annual review of its own operations.

11. STORAGE OF DATA FILES

11.1 Off-Site Storage. Systematics will cause CPI to provide off-site storage for Fidelity's data files so that they can be reconstructed (at no additional fee to Fidelity) in the event of loss or destruction of Fidelity's processing files at CPI's data center. Such off-site storage will be in accordance with the guidelines set forth in CPI's Third Party Review.

11.2 Data Retention. The standard schedule for annual cycle data files is three (3) years after payoff. Fidelity may request Systematics to increase the retention schedule for Fidelity's data files for a period of up to seven (7) years by giving Systematics written notice, subject to Systematics' charges for such service. Fidelity may either request Systematics to store the data tapes or to send them to Fidelity for storage under Fidelity's control.

12. SECURITY

The System provides Fidelity with built-in security through initial access and through submenus. Fidelity is responsible for the initial setup of security levels and security codes as well as for the ongoing maintenance of security codes and security levels within the system. Fidelity agrees at the time this Mortgage Agreement is executed to identify in writing to CPI the person who is responsible for the initiation and maintenance of the security controls within the System.

13. DISASTER RECOVERY

At all times during the term of the Mortgage Agreement, Systematics agrees to cause CPI to maintain an adequate disaster recovery plan so that the critical batch and on-line functions provided under this Mortgage Agreement can be performed from an alternate site within seventy-two (72) hours of interruption of service. Systematics also agrees to cause CPI to perform a comprehensive test of the "hot site" at least once annually and will provide Fidelity evidence of same at CPI's facilities. CPI's Disaster Recovery Plan is available for review by Fidelity at CPI's facilities.

Systematics will cause CPI to provide backup for its computer facilities at all times during the term of this Agreement, including an Uninterruptable Power Supply (UPS) with diesel generators to backup the electrical power, to keep Fidelity's critical batch and on-line functions operational within the guidelines set forth in CPI's Third Party Review. In the event of a disaster at CPI's facilities in which its UPS and diesel generators are deemed inoperable, Systematics will cause CPI to transfer processing to its backup site (hot site) in a reasonable time frame after a disaster per CPI's Disaster Recovery Plan. Systematics warrants that the procedures set forth in the Disaster Recovery Plan are true and correct and that Systematics will, during the Original and any Extended Term of this Exhibit, maintain at least the same level of Disaster Recovery standards as currently exist in such Plan.

14. WARRANTIES

Systematics represents and warrants that the mortgage loan processing performed by the System conforms to the specifications set forth in the Documentation. Systematics further represents and warrants that the System was developed by CPI for its own use, and that CPI and Systematics have all the necessary rights to use such System to provide mortgage loan servicing to Fidelity under the terms of this Exhibit, and that Fidelity has the right to use the System as described herein, including without limitation, for on-line processing of Data. Systematics, at its own expense, shall indemnify and hold harmless Fidelity, its parent, divisions, subsidiaries, affiliates or assignees, and their directors, officers, employees and agents and defend any action brought against same with respect to any claim, demand, cause of action, debt or liability, including attorneys' fees, to the extent that it is based upon a claim that the CPI System, or any aspect thereof used hereunder, including without limitation Fidelity's on-line access and use of the System, infringes or violates any patents, trademark, copyrights, trade secrets or other proprietary rights of any third party provided Fidelity promptly provides Systematics with written notice of any claim which Fidelity believes falls within the scope of this paragraph. In the event that the CPI System or any portion thereof is held to constitute an infringement or its use is enjoined, Systematics shall, within two (2) business days from loss of use by Fidelity of the System, and at Systematics' expense, do one of the following as Systematics may choose in its reasonable discretion: (i) modify the infringing portion, without impairing in any material respect its functionality or performance, so that the product is no longer infringing, (ii) procure for Fidelity the right to continue to use the infringing portion, or (iii) replace said infringing product with a non-infringing product which performs to Fidelity's satisfaction as well as the infringing product. If Systematics is unable to do any of the foregoing then, at Fidelity's option and written notice from Fidelity, this Exhibit I shall be terminated and Systematics will provide full reasonable assistance, at its own expense, to convert Fidelity to another service provider. Systematics further warrants that it shall use its best efforts to cause CPI to make the System conform to all changes in appropriate government regulations, tax laws, and all mortgage industry and mortgage agency related laws and regulations that are deemed necessary by CPI's User Group, industry trends, market conditions and CPI's judgment. In addition, Systematics agrees to cause CPI to continue to support, through the end of the term of this Exhibit, all reporting requirements as they exist as of the commencement date of this Exhibit of private investors which are supported by CPI as of the commencement date of this Exhibit, including those in Fidelity's current business plan which Fidelity is using or plans to begin using by year end 1993 and which are currently supported by CPI. Should the aforementioned reporting requirements change and such change is not supported by CPI's standard software released to its commercial customers in general, CPI's custom programming services are available to Fidelity to accommodate such changes. Any such services shall be ordered in accordance with Paragraph 7.1 of this Exhibit. THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

15. PERFORMANCE STANDARDS

15.1 REGULAR PROCESSING RESPONSE TIME. Provided that Fidelity has transmitted and released its input data at the mutually agreed upon time, Systematics shall have a maximum of eight (8) hours to process such input data and make the data available to Fidelity for transmission (the "Regular Processing Cycle"). If the processed data becomes available to Fidelity after the eight (8) hours allowed for the regular processing cycle, it will be deemed to be a "Late Processing Cycle."

Month-end Processing Response Time. Provided that Fidelity has transmitted and released its input data at the mutually agreed upon time, Systematics shall have a maximum of twelve (12) hours to process such month-end input data and make the data available to Fidelity for transmission. If the processed data becomes available to Fidelity after the twelve (12) hours allowed for the processing cycle, it will be deemed to be a Late Processing Cycle.

Systematics shall be allowed two (2) Late Processing Cycles per month ("Force Majeure" or "Disaster Recovery" events are exempted). Fidelity may elect at no additional charge to have this data processed in a separate cycle or combined into Fidelity's next processing cycle.

[CM]

Should Fidelity not transmit the data to Systematics on time or if Fidelity does not release its data to Systematics for processing according to the mutually agreed upon schedule, Systematics will make a reasonable effort to complete processing on time for Fidelity, however, under those circumstances, Systematics does not guarantee such results.

15.2 UPTIME AVAILABILITY. The On-Line Systems will be available to Fidelity in accordance with the system availability times as per Addendum I, Schedule A, with a monthly average "uptime" of [CM]. If such percentage of uptime is not achieved on the average in any given month, Systematics will use its best efforts to meet such percentage in the subsequent months. [CM]

[CM]

15.3 RESPONSE TIME MEASUREMENT/RESPONSE TIME GUARANTEE. "Response Time" shall be measured from CPI's CPU to Fidelity's CPU using NETSPY or similar software. Systematics shall, on a daily basis, monitor the Response Time from CPI's CPU to Fidelity's CPU through the use of such software. The results of such monitoring shall be provided to Fidelity upon request. Fidelity shall also have the right to monitor Response Time using NETSPY (or similar software) from its own CPU. Provided Fidelity is operating the On-Line Systems according to CPI or Systematics specifications for Fidelity's usage, Systematics shall provide the following on-line system response time (the "Response Time"):

- The daily average on-line Response Time for CICS transactions shall be five (5) seconds or less on a Cross Domain network.

[CM] Thereafter, provided Fidelity is operating the on-line systems according to CPI or Systematics specifications for Fidelity's usage, Systematics will provide, at Systematics' cost, a consultant at Fidelity's site to investigate and analyze the problem and make appropriate recommendations. Should it be determined that the degradation in response time was due to Fidelity error or non-conformance to specifications, Fidelity shall reimburse Systematics for all costs relating to such consultant services. If after Systematics' best efforts to attempt to cure any such problem the Response Time is still not achieved, CPI, Systematics and Fidelity will promptly meet to discuss an appropriate remedy.

16. OPTIONAL ALTERNATIVE TECHNOLOGY

If at any time during the Term of this Exhibit Systematics or CPI has available or offers to any of its current or prospective clients, on an optional basis, any delivery methods for systems similar to the System or portion thereof, including, without limitation, use of an alternative technology platform or architecture (the "Alternative Technology"), then Systematics shall offer such Alternative Technology to Fidelity [CM]. Systematics shall submit a proposal to Fidelity regarding the implementation of such Alternative Technology which shall include information reasonably requested by Fidelity, including without limitation, information regarding conversion, operation and logistical details of implementing such Alternative Technology along with a price for providing such Alternative Technology. If Fidelity decides to obtain the Alternative Technology, then this Exhibit shall be amended to incorporate the terms, conditions and pricing related to the Alternative Technology. Reasonable costs of conversion to the Alternative Technology shall be paid by Fidelity. [CM]

17. REMOTE FILE UPDATE FACILITY (RFUF)

Systematics will make the ability to remotely update duplicate master files at Fidelity's site ("RFUF") available for Fidelity's use during the term of this Exhibit at a rate of [CM] per month based on Fidelity's portfolio size of less than [CM] loans. Should Fidelity's portfolio exceed [CM] loans, the pricing for RFUF shall be at [CM]. In addition to this monthly charge, Fidelity shall be responsible for all reasonable out-of-pocket expenses incurred by Systematics for the installation and testing of such product at Fidelity's facility.

18. BANKRUPTCY

18.1 Systematics acknowledges that if Systematics or CPI, as a debtor-in-possession or a trustee in bankruptcy in a case under the Bankruptcy Code, rejects this Agreement or any agreement supplementary hereto, Fidelity may elect to retain its rights under this Agreement or any agreement supplementary hereto as provided in Section 365(n) of the Bankruptcy Code. Upon written request of Fidelity to Systematics, CPI or the Bankruptcy Trustee, Systematics, CPI or such Bankruptcy Trustee shall not interfere with the rights of Fidelity as provided in this Agreement or any agreement supplementary hereto and shall, if requested, cause a current copy of the source code and related documentation to be provided to Fidelity.

18.2 In the event that Systematics ceases to provide services hereunder, for any cause other than Fidelity's breach of this Agreement, or if Systematics otherwise breaches its obligations, Systematics shall furnish to Fidelity a current copy of the source code and related documentation. In addition, Systematics shall provide Fidelity with instruction on how to utilize the Software.

18.3 Upon taking possession of the source code and related documentation for the Software, Fidelity agrees that the source code and related documentation for the Software shall be subject to the restrictions as set out herein.

18.4 Fidelity acknowledges that the rights described in this Section 18 do not include any third party environmental software utilized to provide the services hereunder.

19. ADDITIONAL USE

In the event of excessive use by Fidelity of Letter Writer and CICS options, Systematics will cooperate and work with Fidelity to reduce such excess usage. In the event of such excess usage, Systematics will meet with Fidelity at least quarterly to discuss such matters.

20. TERMINATION OF MORTGAGE PROCESSING

In the event that Systematics breaches any material provision of this Exhibit I, Fidelity may, at its option, terminate the Services provided under without terminating the Agreement.

21. DISPUTE RESOLUTION

Any disputes arising under this Exhibit I shall be administered and resolved in accordance with Section 12 of the Agreement. Systematics will cause CPI to comply with this provision.

ADDENDUM I

MORTGAGE SERVICING PACKAGE WITH ON-LINE SERVICES

1. DEFINITION OF MORTGAGE SERVICING PACKAGE

The Mortgage Servicing Package ("MSP") referred to by this Exhibit is a series of computer programs developed by CPI and currently employed by CPI to perform EDP services for its Clients. CPI's Documentation is incorporated herein by reference as a definition of the functions of MSP. A list of the standard output reports produced by the MSP is included in the Documentation.

2. BASIC PROCESSING CHARGES

In consideration for processing data in accordance with the MSP and for Fidelity's use of the Systems, Fidelity shall be charged and shall pay to CPI processing charges according to the following table:

Minimum Monthly Number of Loans: [CM]

LOANS From	LOANS To	MONTHLY RATE PER LOAN
0	10,000	
10,001	20,000	
20,001	30,000	
30,001	50,000	
50,001	75,000	
75,001	100,000	[CM]
100,001	125,000	
125,001	150,000	
150,001	175,000	
175,001	200,000	
200,001	300,000	

This charge is to cover regular monthly and normal year-end processing. Loans which have been paid-in-full, foreclosed, or transferred to a non-affiliated company, and are therefore inactive zero balance loans, will be billed to Fidelity at the rate of [CM] per loan per month for the first [CM] loans and [CM].

The above fees cover total on-line transactions equal to a maximum of ten (10) transactions per loan per month. For example, if Fidelity has a processing portfolio of 10,000 loans the above fees cover up to 100,000 transactions per month. CPI shall have the right to bill Fidelity and Fidelity agrees to pay a fee as described in Addendum II, Section 3., Item g. for the number of transactions over and above the maximum number of transactions.

For the fees described above, the processing service will also include the following:

1. All documentation updates, telephone support, and enhancement videos (if applicable).

2. All shared standard enhancements added to the MSP Software System during the term of this Mortgage Agreement. (Note: Custom charges requested by Fidelity shall be paid by Fidelity as defined by Fidelity's SSR (see Article 7) for such custom changes.)

3. Up to one hundred (100) LetterWriter letters per each one thousand (1,000) loans per month (the "Allowable Amount"). Additional letters produced above the allowable amount will be billable as described in Addendum II.

4. The Interest Accrual Subsystem Base monthly rate. (Note: Fidelity shall pay the installation charges for such system).

5. [CM]

3. CONVERSION SERVICES

3.1 GENERAL. Each party agrees to use their best efforts to convert Fidelity's mortgage servicing portfolio. Fidelity agrees at the time this Mortgage Agreement is executed, to identify its Project Coordinator. Fidelity's Project Coordinator will be responsible for the overall conversion effort, for all communications with CPI and for identifying and authorizing conversion critical programming modifications to the MSP.

3.2 PROJECT MANAGEMENT AND TECHNICAL SERVICES. CPI will provide Fidelity with specific project management and technical services during the conversion process. CPI will charge Fidelity for such services based on the attached Schedule I. Services beyond the scope of those included in such Schedule I will be billed at the CPI Optional Processing and Support Service Rates described in Addendum II. [CM]

3.3 CONVERSION PROGRAMMING. CPI will provide file conversion programming to convert Fidelity's servicing portfolio from the present method of processing the data to the MSP. Fidelity will use its best efforts to see that CPI is provided with documentation and cooperation with respect to the preconverted data. CPI will be responsible for the initial loading and balancing of the files, for performing file validation tests on the converted files and for ensuring that all of the Fidelity's mortgage servicing computer files have been correctly converted to the formats required by the MSP.

3.4 OPTIONAL CONVERSION SERVICES. CPI provides optional conversion services which have been identified to Fidelity by CPI in the CPI conducted planning session. Services rendered by CPI to Fidelity will be identified and described in CPI's System Service Requests ("SSR") which acts as a "Work Order". CPI shall render Fidelity an invoice for these services within thirty (30) days from the date of completion. CPI's "850 Report" ("Mortgage Servicing Client Project Inventory") will be provided periodically to Fidelity's Project Coordinator to identify all approved SSRs to be billed to Fidelity. Conversion critical software modifications requested by Fidelity must be identified, defined and a price approved by Fidelity prior to the final conversion critical SSR due date established by CPI and Fidelity in the published conversion schedule. CPI will provide Fidelity's coordinator with a periodic report identifying all conversion critical SSRs known to CPI. CPI will not be obligated to complete software modifications requested by Fidelity by final conversion which are not received by CPI and prior approved by Fidelity or the said date in the final conversions schedule.

ADDENDUM I
SCHEDULE I

ESTIMATED ONE TIME COSTS

I. Mortgage Servicing Package

A. MSP Conversion Support
   1. Project Management
   2. Definition/Data Mapping (4 Days)
   3. Trial Conversion (2 Man Weeks support on-site)
   4. Final Conversion (4 Man Weeks support on-site)
   5. Month-end Follow up (If needed - 1 Man Week)

Subtotal

B. MSP Training Support
   1. Project Team Training/Needs Assessment (1 Week)
   2. System Administration Training (3 Days)
   3. Train the Trainer (3 Weeks) [CM]
   4. End-User Course Development ($[CM])

Subtotal

C. MSP Conversion Programming
   1. Conversion Program, Trial and Final, Verification Load and Balance, and Headers
   2. Year-to-Date Transactions for IRS Combined Reporting
   3. Lockbox Setup and Testing (if needed)

Subtotal

TOTAL ESTIMATED MSP CONVERSION COSTS

II. Telecommunications And Installation Costs (IBM/Telex)

A. Standard Installation Charge (Site survey, hardware installation and training) ($[CM]/day)
B. Actual Satellite Earth Station Installation (Estimate)
C. Freight & Shipping (Estimate)

Subtotal

TOTAL ESTIMATED ONE TIME COSTS

****

III. Optional Programming Services

A. Additional Trial Conversion (if needed)
B. Interest Accrual Installation
C. General Ledger Interface
D. Modification and Custom Programming

TOTAL ESTIMATED OPTION

****

TOTAL ESTIMATED ONE TIME COSTS PLUS OPTIONAL COST

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Note: 1. CPI out-of-pocket expenses for travel, lodging, meals, and any applicable sales tax are reimbursed based on actual expense.
2. Additional on-site support, if required, will be billed at $ [CM] per day plus expenses .
3. Freight, postage and shipping are reimbursed based on actual expense.
4. Costs for training support are based on Jacksonville delivery. On-site training services will be billed at $[CM] per day plus materials.
5. Fidelity out-of-pocket expenses for travel, lodging, meals, and any applicable sales tax are not included but estimated at $[CM].

Systematics agrees that in no event shall the charges for the MSP conversion services specified in Schedule I to this Exhibit exceed [CM].

ADDENDUM I
SCHEDULE A

SYSTEM AVAILABILITY TIMES

1. CPI ON-LINE SYSTEMS SCHEDULED SYSTEM AVAILABILITY

(Note: All times are Local Client time)

DAY OF WEEK	START-TIME	STOP-TIME*
Monday	0700	2000
Tuesday	0700	2000
Wednesday	0700	2000
Thursday	0700	2000
Friday	0700	2000
Saturday	0700	2000
Sunday	not available	

* Note: Alaska, Hawaii, or Puerto Rico Clients' hours may vary.

2. EXCEPTIONS TO NORMAL ON-LINE SYSTEMS USAGE AVAILABILITY

a. HOLIDAY SCHEDULES: CPI annually publishes the dates on which CPI observes the following holidays via electronic mail (CIMON).

1. Memorial Day
2. Independence Day
3. Labor Day
4. Thanksgiving
5. Christmas
6. New Year's
7. President's Day
8. Columbus' Day

With the exception of President's Day and Columbus Day, no support or regular systems processing will be made available from 0700 on the dates published until 0700 the following day. If Fidelity observes additional processing holidays, Fidelity should notify CPI Client Services in writing at least 15 days prior to the scheduled holiday.

b. PREVENTATIVE MAINTENANCE will normally be conducted on the CPI in-house equipment until 0800 Eastern Time each Monday morning. This schedule will automatically change to Tuesday morning when CPI is closed for a holiday on Monday. Occasionally, the systems may not be available on Saturdays when CPI is making hardware/software upgrades or change-overs. In such instances, CPI will provide notice via electronic mail (CIMON).

c. YEAR-END PROCESSING: CPI will publish a special year-end processing schedule at least 60 days prior to each year-end. Fidelity agrees to cooperate in meeting the special year-end processing schedule.

ADDENDUM II

CPI OPTIONAL PROCESSING AND SUPPORT SERVICES
BILLING RATES

(As of March 1, 1992)

TABLE OF CONTENTS

ADDENDUM II

CPI OPTIONAL PROCESSING AND SUPPORT SERVICES BILLING RATES

Effective March 1, 1992
(These rates are subject to adjustment as set out in
Section 5.1, Exhibit I to the Agreement.

	INSTALLATION CHARGE *	MONTHLY CHARGE
1. REMOTE SERVICES		
a. Data Terminal Equipment Support	[CM]	[CM]
1. PC RJE System or MICRO Based Systems		
2. Training on Client Hardware Configuration		
3. Coordination of Interface on Client Supplied Equipment		
b. Software Support		
1. Batch Data Entry		
2. Televoice (without RMF) Maintenance and Support		
c. Communication Equipment		
1. Transmission Links		
2. 9600 BPS Port Charge (per 9600 BPS)		
3. Dial-Up 4800 BPS Port/Line Charge (MICRO per System)		
4. Dial-Up Lockbox Port/Line Charge		
d. Teleprocessing Support Charges		
1. Point to Point Leased Line Support (Per Line)		
2. Multidrop Branch Office Support (Each Branch)		
3. RJE/3270 On-line (Per Controller or Emulator)		
4. CPU to CPU (Bisync NJE)		
5. NJE Cross Domain Facility		
6. Cross Domain Facility		
7. Excess Terminal Charge (above 2.5 Terminals per 1,000 loans)		
e. Electronic Mail Communication System ("CIMON")+		
1. 1-10 Boxes +++		
2. 11-50 Boxes		
3. Over 50 Boxes		
f. On-Line Reporting Environment ("CORE")+		
1. Compressed Print Set-up (for Non-supported Printers)		
g. On-Line Training System		

* Fidelity also reimburses CPI for reasonable travel, meals, and lodging expenses.
\+ Available to Remote Clients only.
++ Plus the cost of any sales or use tax (if applicable).
+++ Each subscribing CPI Client will be supplied with one (1) CPI Communication Box at no charge.
x At proposed rates.

		Rate Per Unit*
2. PERSONNEL AND RELATED		[CM]
a. Senior Consultants	per hour	
b. Consultants	per hour	
c. Senior Analysts	per hour	
d. Analysts	per hour	
e. Senior Programmer/Analyst	per hour	
f. Senior Systems Programmer	per hour	
g. Programmer/Analyst	per hour	
h. Programmers	per hour	
i. Client Services Representative	per hour	
j. Hardware & Telecommunications Specialists	per hour	
k. Key Entry/Report Preparation	per hour	
l. Monthly Client Telephone Support Charge (Non-Bundled Clients)	Up to 50,000 loans 50,001 to 100,000 loans More than 100,000 loans	
m. On-Site S&P Software Installation	per day	
3. COMPUTER PROCESSING		
a. Central processing unit: IBM 9021-962**	per minute	
b. 3380 disk/input/output	per minute	
c. Magnetic tape drive:	per minute of occupancy	
d. Formatted microfiche tape or disk output	per 1000 lines	
e. Laser Printing (non-special forms)	per page	
f. Easytrieve Class "C"		
g. Excess Transaction Fee: (Above the maximum allowable of 10 transactions)		

	Rate Per Unit
4. MEDIA AND OTHER	
a. Stock Forms, 15 lb. greenbar paper, price per 1000 sheets: 1 part wide - 10.00 1 part narrow - 7.00 2 part wide - 28.00 2 part narrow - 20.00 Impact printing - 0.75 per 1000 lines	
b. Tape rental; per reel per month, in-house backup	[CM]
c. Tapes shipped out of house will be billed to Fidelity if not returned within six (6) months to CPI	

* In addition to the Rate Per Unit Costs for Items in Section 2., Fidelity shall pay the out-of-pocket expenses for CPI's personnel when at Fidelity's site, plus the cost of shipping materials to the Fidelity's site (when applicable).

** Due to periodic CPU upgrades, CPI may adjust the "per minute" rate throughout the year without advance notice provided such adjustments do not materially affect the total charge to Fidelity for such service.

Note 1: The run time charge for Easytrieve is based on the rates in 3.a and 3.b above. [CM]

4. MEDIA AND OTHER (CONT'D)

d. Microfiche

(i) ORIGINALS			(ii) COPIES		
From	To	Price	From	To	Price
0	500		0	1,000	
501	1,000		1,001	2,000	
1,001	1,500		2,001	3,000	
1,501	3,000	[CM]	3,001	5,000	[CM]
3,001	5,000		5,001	10,000	
5,001	8,000		10,001	25,000	
8,001	plus		25,001	plus	

These scaled prices are based on the total fiche produced for a billing month. For instance, if two thousand (2,000) original fiche and three thousand fifty (3,050) fiche copies are generated in a given month, the cost for each original fiche would be [CM] and the cost for the fiche copies would be [CM] per copy.

	BASE	PER UNIT
5. SPECIAL PROCESSING & SERVICES		
a. FHA monthly charge processing via combined tape per item ($25 minimum)		
b. MSP Loan Master File Copy		
c. FNMA/FHLMC Laser Compare 0-19,999 loans:		
20,000-30,000 loans:		
Over 30,000:		
d. Chemical Bank Transfer Subsystem		
e. Interest Accrual Subsystem The interest accrual subsystem including the trial and final initialization of file, load and balance and coordination will be provided to Fidelity. CPI will charge Fidelity a fee of [CM] for the file installation; [CM] for initialization cycle; and [CM] for initialization run at trial. CPI shall render Fidelity an invoice within ten (10) days of initialization.	[CM]	[CM]
f. MI Audit Tapes Subsystem		
g. Tax Subsystem		
h. CUYA HOGA Tax System		
i. Reruns, Extra Cycles and Test Runs		
Reodds		
j. Jacksonville Airport Delivery		
k. Local Delivery		
l. Microcomputer Application: per month		
m. Letterwriter: (Standard) per letter		
(ARMS)		
Training in Jacksonville, Florida(optional)		
n. Mass Transmission Charge - Hazard Insurance, tax service, MIP, PMI ($[CM] minimum)		
o. MI Tapes (Delinquency or Audit)		

Note 2: Per Person; Fidelity pays out-of-pocket expenses for its employees.

5. SPECIAL PROCESSING AND SERVICES (CONT'D)

p.	Monthly Processing for Shipment or Transmissions to Third Parties (e.g., FNMA, GNMA, FHLMC)	[CM]	
q.	FHA 2344	[CM]	
r.	Master File Verification (full)	[CM]	N/A
	Master File Verification (sample)	[CM]	
s.	Report Changes to Delivery Receipt	Time & Material	
t.	Tape Copies		[CM] (per tape)
u.	Audit Confirmations	[CM]	
v.	Run Standalone Edit Programs vs. Test Files		[CM] (per run)
w.	Download Extract File	[CM] min./mo	[CM] per record/day
		[CM]	[CM]
		[CM]	[CM]

6. DOCUMENTATION

a.	MORTGAGE SERVICING PACKAGE		
	MSP Reference Manual	3	[CM]
	MSP Sample Reports Manual	1	
	MSP Source Documentation Packet	1	
	MSP On-Line Inquiry User Manual	3	
	MSP On-Line Collections User Manual	3	
	MSP On-Line LetterWriter User Manual	1	
	MSP On-Line Data Entry User Manual	3	
	Systems Administrators Guide	1	
	Workstation Manuals as Issued	(Note D)	
b.	RESIDENTIAL LOAN INVENTORY CONTROL PACKAGE		
	RLIC User Manual	3	
	RLIC On-Line Data Entry User Manual	3	
	RLIC On-Line LetterWriter User Manual	1	
	RLIC Sample Reports	3	
	RLIC Source Document Packet	1	
	RLIC Market Position Reporting	(Note A)	
	RLIC Buy Price Workstation Users Guide	1	
c.	RESIDENTIAL LOAN PRODUCTION SYSTEMS		
	RLPC System Administrators Guide	(Note A)	
	RLPC Reference Guide	(Note B)	
	RLPC RLIC/MSP Interface Guide	1	
	RLPC IQ		

NOTES:
A - Issued to each student attending the CPI training session.
B - One issued per software license.
C - Available at CPI's cost plus stocking and service fee.
D - Determined at time of issue.
E - When establishing a network, one CIMON Coordinators Guide and five additional CIMON Users Guides are issued at no additional charge.

6. DOCUMENTATION (CONT'D)

d. MICRO-COMPUTER BASED SYSTEMS

MIDSS Users Guide	3	
MIDSS Communique/Support Reference Guide	1	
Portfolio Evaluation Model (PEM) User Manual	1	
PCDOCS User Guide	3	
PCDOCS Communique/Support Reference Guide	1	

e. EASYTRIEVE

Pansophic Easytrieve Plus Reference Manual	(Note C)	
Pansophic Easytrieve Plus Users Guide	(Note C)	

f. TECHNICAL OR SYSTEMS MANUALS (FOR LICENSE CLIENTS ONLY)

On-Line Systems Technical Reference Guide	1	
MSP S&P Manual	1	[CM]
RLIC S&P Manual	1	
CLMP Analyst Manual	1	
FM Manual	1	
OS ODDS User Guide	1	
OS ODDS System Programmer's Guide	1	
OLDE System Manual	1	

g. MISCELLANEOUS

CIMON Users Guide	(Note E)	
CIMON Coordinators Guide	1	
CPI TeleVoice Users Guide	3	
CORE Users Guide	N/A	
Laser Check User Guide	3	

NOTES:
A - Issued to each student attending the CPI training session.
B - One issued per software license.
C - Available at CPI's cost plus stocking and service fee.
D - Determined at time of issue.
E - When establishing a network, one CIMON Coordinators Guide and five additional CIMON Users Guides are issued at no additional charge.

[FIDELITY FEDERAL BANK LOGO]

ADMINISTRATIVE OFFICES
4565 COLORADO BOULEVARD
P.O.BOX 1631
GLENDALE, CALIFORNIA 91209-1631 (818)956-7100

January 4, 1994

Mr. James E. Stutz
1702 Sienna Canyon Drive
Encinitas, CA 92024

Dear Jim:

We are pleased that you are considering our offer of employment as Executive Vice President of Retail Banking. Everyone who spoke with you was impressed with your qualifications and concluded that you fit our vision of the ideal person to oversee this important function.

Accordingly, we extend this formal offer of employment to include the following terms and conditions:

. Corporate title: Executive Vice President, Retail Banking Group

. Reporting to: Richard M. Greenwood, President and CEO

. Annual salary: $180,000 paid bi-weekly over 26 pay periods per year

. Incentive potential is equal to 40% of base salary, incentive is paid annually.

. You will receive use of a new luxury car plus all maintenance, insurance, registration, and gasoline, or $1,150 a month allowance.

. You will receive an up-front relocation bonus of $25,000 grossed up on your first day of employment.

. You will receive a temporary housing allowance of $1500.00 a month for the first six (6) months of your employment to cover costs of normal living expenses in the Glendale area, (i.e. room, board, etc).

. You will be eligible for executive medical benefits from your date of hire.

Exhibit 10.19

In addition to the aforementioned, we are prepared to offer the following severance arrangement. If your employment with the bank is terminated in the event of the Bank's sale or recapitalization:

- You will be entitled to 12 months of salary as severance during the subsequent period of your employment. This will be as witnessed by a change-in-control severance agreement, to be signed on the date of your employment.

Please acknowledge your acceptance of the above terms and conditions by signing below and returning one of the copies of this letter. In the meantime, if you have any questions or need further information please call.

Sincerely,

/s/ WALTER F. ABBOTT

Walter F. Abbott
Vice President, Human Resources

/s/ JAMES E. STUTZ	JANUARY 4, 1994
James E. Stutz	Date

[LETTERHEAD OF CITADEL HOLDING CORPORATION]

CONFIDENTIAL

December 14, 1993

Mr. Steve Wesson
622 Gayer Drive
Monte Nido, Calabasas
California, 91302

Dear Steve:

I am pleased that you have agreed to assume the position of President & CEO of Doran Street Real Estate Corporation, a subsidiary of Citadel Holding Corporation (Citadel), subject to Board approval of your appointment. As you know, Citadel and Fidelity Federal Bank (Fidelity) are contemplating a transaction which would involve transferring certain assets from Fidelity to Citadel's newly formed subsidiary, Doran Street Real Estate Corporation. (This transaction will be referred to as "the Doran Street Transaction", hereafter).

Everyone who spoke with you was most impressed with your qualifications, and conclude that you fit our vision of the ideal person to oversee that important function.

The remainder of this letter sets forth the terms and conditions of your employment, as we have mutually agreed:

1. CORPORATE TITLE: President & CEO, Doran Street Real Estate Corporation

2. REPORTING TO:

    a. Immediate (as defined below): President & Chief Executive Officer of Citadel

    b. Long-term (as defined below): Chairman of the Board of Directors of Citadel

3. EMPLOYMENT START DATE:

   a. Immediate: Interim employment commencing November 15, 1993. We understand that you are currently subject to a consulting contract with your former employer, but that the terms of that contract do not preclude your full-time employment with another entity. We also understand that you do not anticipate that the amount of time required to perform to your consulting contract will interfere substantially with your duties at Doran Street and that the contract expires in July, 1994.

   b. Long Term: Employment effective pursuant to formal written contract with establishment and commencement of operations, on the effective date of the Doran Street Transaction. It is contemplated by the parties to the employment contract that while Doran Street may exist as a formal entity in the immediate future, it may be several months before the Doran Street Transaction is consummated. If the Doran Street Transaction is not consummated for any reason, no long-term employment, hence no formal written contract is contemplated.

4. EMPLOYMENT CONTRACT PROVISIONS:

   a. Immediate: Employment is at will, on a month-to-month basis, except that if you are terminated without cause you will be entitled to three months salary as severance pay.

   b. Long Term: Initial contract providing for a maximum of 24 months of severance, reduced monthly to a rolling maximum of 12 months severance, at the end of the first year of employment, and continuing thereafter. The written contract will provide for its effectiveness as of the date the Doran Street Transaction is consummated.

5. ANNUAL CASH COMPENSATION (IMMEDIATE AND LONG-TERM):

   a. Annual Salary: $225,000, paid bi-weekly over 26 pay periods/year.

   b. Annual Bonus: Preliminary thoughts include: Generally, 3% of pre-tax income in excess of income required to generate a 12% pre-tax return on equity employed to shareholders--subject to a minimum annual bonus of $75,000. Specific provisions wil be designed and incorporated into the employment contract.

6. LONG-TERM BONUS: Preliminary thoughts include: Upon the sale of Doran Street or at the end of 5 years, whichever is sooner, a long-term bonus = to 3% of Doran Street market value (as determined by J.P. Morgan or a similar investment banking entity, in the event that Doran Street is not publicly traded) that is in excess of the employed shareholder equity investment + 12% compound annual return LESS the value of all bonus and retirement or deferred compensation payments or accruals made during the period. Specific provisions will be designed and incorporated into the employment contract.

7. RETIREMENT OR DEFERRED COMPENSATION: $45,000 pre-tax annual contribution to a qualified retirement vehicle on your behalf, or the same amount in deferred compensation. This amount would be funded or accrued at the end of each fiscal year for which you are employed. If you are terminated other than for cause prior to the end of a fiscal year, you would be entitled to a prorated portion of such retirement or deferred compensation.

8. EXECUTIVE BENEFITS/PERQUISITES

   a. Immediate:

      (1) Auto Allowance: $1,150.00 per month.

      (2) Executive Medical Insurance (under Fidelity Federal Bank plan): Reimbursement of up to $10,000 uninsured medical costs in excess of those covered by group medical plans, providing IRS guidelines followed.

      (3) Others: Club memberships and other benefits determined on an "as needed" basis.

   b. Long-term:

      (1) Reasonable auto allowance policy, as established by Doran Street.

      (2) Reasonable medical insurance, expense reimbursement, vacation accrual, and other benefits as established by Doran Street.

      (3) Others: Club memberships determined on an "as needed" basis and subject to prior approval by Citadel's Chairman of the Board.

NOTE: ALL PROPOSED PROVISIONS FOR INCLUSION IN THE WRITTEN EMPLOYMENT CONTRACT ARE SUBJECT TO CONTINUING DISCUSSIONS AND DESIGN OF SPECIFICS WITHIN THE 30 DAYS FOLLOWING EMPLOYMENT START DATE. FURTHER, NONE OF THE ABOVE PROPOSED PROVISIONS HAVE BEEN APPROVED BY THE BOARD OF DIRECTORS AS YET. NO EMPLOYMENT PROVISIONS DESCRIBED HEREIN, IMMEDIATE OR LONG-TERM, SHALL BE ENFORCEABLE, ABSENT BOARD APPROVAL.

This letter intends to reflect our respective current understandings and does not constitute an employment contract. Please acknowledge acceptance of the foregoing terms and conditions by signing in the space provided below and returning one of the copies of this letter to my attention. In the meantime, if you have any questions or need further information, please call.

Once again, Steve, we believe we have found the right individual for the job and that you will make a valuable addition to our team. We look forward to working with you soon.

Best regards,

/s/ RICHARD M. GREENWOOD
Richard M. Greenwood
President and CEO

AGREED AND ACCEPTED:

/s/ STEVE WESSON	14th December 1993
- -----------------	------------------------
Steve Wesson	Date

Subsidiaries of the Registrant

[SUBSIDIARIES OF THE REGISTRANT CHART APPEARS HERE]

CITADEL HOLDING CORPORATION
Date and State of Incorporation:
March 15, 1983 - Delaware
Date of Initial Stock Issue:
December 13, 1983
Nature of Business:
Holding Company

DORAN STREET REAL ESTATE CORPORATION
Date and State of Incorporation:
September 15, 1993 - Delaware
Percentage of Ownership:
100% by Citadel Holding Corporation
Nature of Business:
Real Estate

GATEWAY INVESTMENT SERVICES, INC.
Date and State of Incorporation:
October 30, 1989 - California
Percentage of Ownership:
100% by Citadel Holding Corporation
Nature of Business:
Provides securities and annuity products to Fidelity Federal Bank customers through licensed representatives

FIDELITY FEDERAL BANK, a Federal Savings Bank
Date of Charter:
August 17, 1937
(as Fidelity Federal Savings and Loan Association)
Date of Name Change to Fidelity Federal Bank, FSB:
September 28, 1989
Percentage of Ownership:
100% by Citadel Holding Corporation
Nature of Business:
Federally Chartered Savings Bank

CHINO EQUITIES, INC.
Date and State of Incorporation:
December 29, 1983 - California
Percentage of Ownership:
100% by Fidelity Federal Bank, FSB
Nature of Business:
Real Estate Investments

CITADEL SERVICE CORPORATION
dba FIDELITY INSURANCE AGENCY OF GLENDALE
Date and State of Incorporation:
November 19, 1970 - California
Percentage of Ownership:
100% by Fidelity Federal Bank, FSB
Nature of Business:
Operates Insurance Agency

CITADEL HOSPITALITY OF CALIFORNIA, INC.
Date and State of Incorporation:
September 25, 1992 - California
Percentage of Ownership:
100% by Fidelity Federal Bank, FSB
Nature of Business:
Holds liquor license for Holiday Inn
(Long Beach REO #480)

CITADEL HOSPITALITY OF FLORIDA, INC.
Date and State of Incorporation:
November 21, 1991 - Florida
Percentage of Ownership:
100% by Fidelity Federal Bank, FSB
Nature of Business:
Holds liquor license for Holiday Inn
(Altamonte Springs REO #385)

CITADEL HOSPITALITY OF PENNSYLVANIA, INC.
Date and State of Incorporation:
November 14, 1989 - Pennsylvania
Percentage of Ownership:
100% by Fidelity Federal Bank, FSB
Nature of Business:
Holiday Inn was sold 4/30/90. Liquor license was transferred to new owner. Corporation has no other assets.

FIDELITY NATIONAL TRUST COMPANY
Date of Charter:
September 23, 1981
Percentage of Ownership:
99% by Citadel Service Corporation
1% by Directors
Nature of Business:
Trust Functions

GATEWAY MORTGAGE CORPORATION
Date and State of Incorporation:
July 7, 1972 - California

Percentage of Ownership:
100% by Citadel Service Corporation
Nature of Business:
Acts as Trustee under deeds of trust, handles foreclosures and related items.

Exhibit 21

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CITADEL HOLDING CORPORATION'S 1993 10K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

		At or for the year ended December 31,		
(Dollars in thousands)		1993	1992	1991
9-03(1)	Cash and due from banks	$ 85,961	$ 110,262	$
9-03(2)	Interest bearing deposits	-		
9-03(3)	Federal funds sold - purchased securities for resale	60,000	-	
9-03(4)	Trading account assets	-	-	
9-03(6)	Investment and mortgage backed securities held for sale	183,367		
9-03(6)	Investment and mortgage backed securities held to maturity - carrying value	-	67,337	
9-03(6)	Investment and mortgage backed securities held to maturity - market value	-	69,041	
9-03(7)	Total loans	3,797,215	4,056,058	
9-03(7)(2)	Allowance for loan losses	83,832	64,277	
9-03(11)	Total assets	4,389,519	4,698,326	
9-03(12)	Deposits	3,368,643	3,457,918	
9-03(13)	Short-term borrowings	311,530	552,000	
9-03(15)	Other liabilities	39,243	48,822	
9-03(16)	Long-term debt	482,700	416,400	
9-03(19)	Preferred stock - mandatory redemption	-	-	
9-03(20)	Preferred stock - no mandatory redemption	-	-	
9-03(21)	Common stock	66	33	
9-03(22)	Other stockholders' equity	187,337	223,153	
9-03(23)	Total liabilities and stockholders' equity	4,389,519	4,693,326	
9-04(1)	Interest and fees on loans	275,101	363,445	502,874
9-04(2)	Interest and dividends on investments	19,880	15,162	23,119
9-04(4)	Other interest income	-	-	-
9-04(5)	Total interest income	289,592	370,722	520,124
9-04(6)	Interest on deposits	131,618	175,024	278,617
9-04(9)	Total interest expense	188,391	239,941	378,017
9-04(10)	Net interest income	101,201	130,781	142,107
9-04(11)	Provision for loan losses	65,100	51,180	49,843
9-04(13)(h)	Investment securities gains/losses	1,288	-	8,994
9-04(14)	Other expenses	105,341	77,911	79,446
9-04(15)	Income/loss before income tax	(103,628)	(3,795)	18,314
9-04(17)	Income/ loss before extraordinary items	(103,628)	(3,795)	18,314
9-04(18)	Extraordinary items, less tax	-	-	-
9-04(19)	Cumulative change in accounting principles	-	-	-
9-04(20)	Net income or loss	(67,161)	2,046	2,663
9-04(21)	Earnings per share - primary	(11.56)	0.62	0.81
9-04(21)	Earnings per share - fully diluted	(11.56)	0.62	0.81
I.B.5	Net yield - interest earning assets - actual	6.65%	7.94%	9.80%
III.C.1(a)	Loans on nonaccrual	93,475	112,041	68,982
III.C.1(b)	Accruing loans past due 90 days or more	-	-	-
III.C.1(c)	Troubled debt restructuring	28,713	87,304	6,939
III.C.2	Potential problem loans	-	-	-
IV.A.1	Allowance for loan loss - beginning of period	64,277	52,374	16,552
IV.A.2	Total charge-offs	50,504	27,350	17,005
IV.A.3	Total recoveries	4,959	473	2,984
IV.A.4	Allowance for loan loss - end of period	83,832	64,277	52,374
IV.B.1	Loan loss allowance allocated to domestic loans	83,832	64,277	52,374
IV.B.2	Loan loss allowance allocated to foreign loans	-	-	-
IV.B.3	Loan loss allowance - unallocated	-	-	-

Exhibit 27