LOCAL FINANCIAL CORP /NV
Form 10-Q
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from _________________ to _________________

Commission File Number:
001-13949

LOCAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	65-0424192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3601 N.W. 63RD, OKLAHOMA CITY, OK	73116
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (405) 841-2298

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes |X| No | |

Number of shares outstanding of the registrant's $0.01 par value common stock as of July 24, 2003 were as follows: 16,915,223

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PART I. FINANCIAL INFORMATION

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

	JUNE 30, 2003 (unaudited)
ASSETS	
Cash and due from banks	$ 52,722
Interest bearing deposits with other banks	4,500
Securities:	
Available for sale	113,683
Held to maturity	317,693
Total securities	431,376
Loans receivable, net of allowance for loan losses of $30,087 at June 30, 2003 and $29,532 at December 31, 2002	2,174,124
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	39,612

Premises and equipment, net	43,709
Assets acquired through foreclosure and repossession, net	1,625
Intangible assets, net	19,478
Current and deferred taxes, net	10,711
Other assets	70,066
Total assets	$ 2,847,923

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:	
Demand	$ 785,837
Savings	92,569
Time	961,172
Total deposits	1,839,578
Advances from the Federal Home Loan Bank of Topeka	712,685
Securities sold under agreements to repurchase	28,125
Senior Notes	21,295
Other liabilities	18,007
Mandatorily redeemable trust preferred securities	60,250
Commitments and contingencies	
Stockholders' equity:	
Common stock, $0.01 par value, 25,000,000 shares authorized; 20,972,967 shares issued and 16,915,223 shares outstanding at June 30, 2003 and 20,863,967 shares issued and 17,785,323 shares outstanding at December 31, 2002	210
Preferred stock, $0.01 par value, 5,000,000 shares authorized; none outstanding	--
Additional paid-in capital	209,841
Retained earnings	165,656
Treasury stock, 4,057,744 shares at June 30, 2003 and 3,078,644 shares at December 31, 2002, at cost	(208,411)
Accumulated other comprehensive income, net of tax	687
Total stockholders' equity	167,983
Total liabilities and stockholders' equity	$ 2,847,923

The accompanying notes are an integral part of these consolidated financial statements.

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LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
		(una
Interest income:		
Loans	$ 32,979	$ 35,008
Securities available for sale	1,548	1,664
Securities held to maturity	2,399	6,685
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	370	448
Other investments	17	342
Total interest income	37,313	44,147
Interest expense:		
Deposit accounts	8,370	13,272
Advances from the Federal Home Loan Bank of Topeka	6,422	6,302
Securities sold under agreements to repurchase	76	121
Senior Notes	629	637
Trust preferred securities	1,171	921
Total interest expense	16,668	21,253
Net interest income	20,645	22,894
Provision for loan losses	(1,800)	(1,800)
Net interest income after provision for loan losses	18,845	21,094
Noninterest income:		
Deposit related income	6,182	4,825
Loan fees and loan service charges	609	630
Net gains on sale of assets	252	604
Other	1,775	1,722
Total noninterest income	8,818	7,781
Noninterest expense:		
Compensation and employee benefits	9,847	10,875
Equipment and data processing	1,575	1,351
Occupancy	1,124	1,077
Advertising	152	182
Professional fees	415	309
Other	3,818	3,910
Total noninterest expense	16,931	17,704
Income before provision for income taxes	10,732	11,171
Provision for income taxes	3,641	3,706
Net income	$ 7,091	$ 7,465
Earnings per share:		
Net income:		
Basic	$ 0.41	$ 0.39

Diluted	$ 0.40	$ 0.37
Average shares outstanding:		
Basic	17,143,219	19,170,425
Diluted	17,724,125	19,993,691

The accompanying notes are an integral part of these consolidated financial statements.

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

Cash provided (absorbed) by operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan losses
Deferred income tax benefit
Accretion of discounts and amortization of deferred fees on loans acquired and securities, net
Depreciation and amortization
Net change in loans held for sale
Net gains on sale of assets
Change in other assets
Change in other liabilities

Net cash provided by operating activities

Cash provided (absorbed) by investing activities:
Proceeds from sales of securities available for sale
Proceeds from principal collections on securities
Purchases of securities
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock
Proceeds from the sale of Federal Home Loan Bank stock
Purchases of bank owned life insurance
Change in loans receivable, net
Proceeds from disposal of assets acquired through foreclosure and repossession
Purchases of premises and equipment
Proceeds from sales of premises and equipment

Net cash provided (absorbed) by investing activities

Cash provided (absorbed) by financing activities:
Change in transaction accounts
Change in time deposits
Change in securities sold under agreements to repurchase
Proceeds from advances from the Federal Home Loan Bank
Repayments of advances from the Federal Home Loan Bank
Proceeds from the issuance of common stock
Purchase of treasury stock

Net cash absorbed by financing activities

Net change in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Supplemental disclosures of cash flow information:
Cash paid during the period for:
Interest

Income taxes

Supplemental schedule of noncash investing and financing activities:
Transfer of loans to assets acquired through foreclosure and repossession

The accompanying notes are an integral part of these consolidated financial statements.

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LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. All adjustments (consisting of only normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of the interim financial statements have been included. The interim financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes included in the Local Financial Corporation (the "Company") Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission (the "SEC").

(2) STOCK COMPENSATION

The Company applies the intrinsic-value based method of accounting prescribed by APB Opinion No. 25 and related interpretations in accounting for its stock option plan. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Accordingly, no compensation cost has been recognized for its stock option rights. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, and as provided for under SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123, the Company's net income for the three and six months ended June 30, 2003 and 2002 would have been decreased to the pro forma amounts below (dollars in thousands, except share data):

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Net income as reported	$ 7,091	$ 7,465
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	(106)	(116)
Pro forma net income	$ 6,985	$ 7,349
Earnings per share:		
Basic-as reported	$ 0.41	$ 0.39
Basic-pro forma	$ 0.41	$ 0.38
Diluted-as reported	$ 0.40	$ 0.37
Diluted-pro forma	$ 0.39	$ 0.37

(3) LOANS RECEIVABLE

Loans receivable are summarized below at amortized cost (dollars in thousands):

	JUNE 30, 2003	DECEMBER 31, 2002
Residential real estate(1)	$ 335,804	$ 276,883

Commercial	1,741,484	1,695,293
Held for sale	3,135	8,576
Consumer(1)	123,788	132,924
Total loans	2,204,211	2,113,676
Less:		
Allowance for loan losses	(30,087)	(29,532)
Loans receivable, net	$ 2,174,124	$ 2,084,144

(1) Beginning in June 2003, the Company began including home equity first mortgages as residential real estate loans. Consequently, loans receivable as of December 31, 2002 include a $64.0 million reclassification from consumer loans to residential real estate loans.

(4) ADVANCES FROM THE FEDERAL HOME LOAN BANK OF TOPEKA ("FHLB")

Advances from the FHLB are summarized as follows (dollars in thousands):

	JUNE 30, 2003		DECEMBER 31, 2002	
	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RATE	BALANCE	WEIGHTE AVERAGE CONTRACTUAL
Fixed rate	$625,022	4.04%	$600,022	4.14%
Variable rate	87,663	1.48	84,171	1.51
	$712,685	3.73%	$684,193	3.82%

Additionally, the Company had outstanding letters of credit with the FHLB of approximately $137.4 million and $93.9 million at June 30, 2003 and December 31, 2002, respectively. The letters of credit have one-year terms or less and were pledged to secure certain deposits.

The FHLB requires the Company to hold eligible assets with a lending value, as defined, at least equal to FHLB advances and letters of credit issued. Eligible assets can include such items as first and second mortgage loans, multifamily mortgage loans, commercial and construction real estate loans, small business loans and investment securities, which are not already pledged or otherwise encumbered. At June 30, 2003, the Company had approximately $879.9 million in eligible assets pledged against FHLB advances.

At June 30, 2003, the Company had additional borrowing capacity of approximately $210.1 million under the FHLB credit policy.

Scheduled principal repayments of advances from the FHLB at June 30, 2003 were as follows (dollars in thousands):

YEARS ENDING DECEMBER 31,	AMOUNT	WEIGHTED AVERAGE CONTRACTUAL RATE
2003	$ 77,663	1.53%
2004	--	--
2005	35,000	1.71
2006	100,000	3.35
2007 and thereafter	500,022	4.30
	$ 712,685	3.73%

(5) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Periodically, the Company provides securities sold under agreements to repurchase to customers as a part of the commercial banking operations. The securities underlying the agreements were under the Company's control at June 30, 2003 and December 31, 2002 and are summarized as follows (dollars in thousands):

	JUNE 30, 2003	DECEMBER 31, 2002
Average outstanding balance	$40,171	$43,425
Weighted average interest rate during the period	0.92%	1.22%
Maximum month-end balance	$48,955	$64,701
Outstanding balance at end of period	28,125	59,696
Weighted average interest rate at end of period	0.65%	0.94%
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$37,408	$66,931
Estimated market value	37,578	68,501
Accrued interest payable at the end of the period	--	--

(6) STOCKHOLDERS' EQUITY

The Company increased its shares of treasury stock during 2003 as part of a stock repurchase program in which the Company purchased 979,100 shares of its common stock at a cost of approximately $14.6 million. The increase in common stock and additional paid-in capital during the six months ended June 30, 2003 of approximately $1.2 million included the exercise of 109,000 options to purchase the Company's stock.

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(7) COMPREHENSIVE INCOME

Comprehensive income for the three and six months ended June 30, 2003 and 2002 consisted of (dollars in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Net income	$ 7,091	$ 7,465
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities, net of reclassification adjustment	(1,028)	97
Comprehensive income	$ 6,063	$ 7,562

(8) EARNINGS PER SHARE

Basic net income per share is based upon the weighted average number of shares outstanding during the period. Stock options and warrants to purchase common stock are considered in diluted income per share calculations, if dilutive, and are computed using the treasury stock method.

The following table reconciles the net income and weighted average shares outstanding used in the calculation of basic and diluted net income per share for the three and six months ended June 30, 2003 and 2002:

	THREE MONTHS ENDED JUNE 30, 2003			
	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT	NET INCOME
Basic net income per share	$ 7,091,000	17,143,219	$ 0.41	$14,161,00
Effect of dilutive securities:				
Options	--	580,906		-
Diluted net income per share	$ 7,091,000	17,724,125	$ 0.40	$14,161,00

THREE MONTHS ENDED
JUNE 30, 2002

WEIGHTED

	NET INCOME	AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT	NET INCOME
Basic net income per share	$ 7,465,000	19,170,425	$ 0.39	$14,544,00
Effect of dilutive securities:				
Warrants	--	55,841		-
Options	--	767,425		-
Diluted net income per share	$ 7,465,000	19,993,691	$ 0.37	$14,544,00

Stock options to purchase 1,786,240 shares of common stock were outstanding as of June 30, 2003 and were included in the computation of diluted net income per share for 2003. Stock options and warrants to purchase 2,196,671 shares of common stock were outstanding as of June 30, 2002 and were included in the computation of diluted net income per share for 2002.

(9) SEGMENTS

The Company operates as one segment. The operating information used by the Company's chief operating decision-maker for purposes of assessing performance and making operating decisions about the Company is the consolidated financial statements presented herein. The Company has one active operating subsidiary, namely, Local Oklahoma Bank (the "Bank"). The Bank, in turn, has one active operating subsidiary, Local Securities Corporation ("Local Securities"), which is a registered broker-dealer under the Securities Exchange Act of 1934 and provides retail investment products to customers of the Bank. While Local Securities qualifies as a separate operating segment, it is not considered material to the consolidated financial statements for the purposes of making operating decisions and does not meet the 10% threshold for disclosure under Statement No. 131, Disclosure About Segments of an Enterprise and Related Information.

(10) RECLASSIFICATIONS

Certain reclassifications were made to the 2002 consolidated financial statements to conform to the 2003 presentation.

(11) NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34 ("Interpretation No. 45"). Interpretation No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of Interpretation No. 45 are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the

Company's consolidated financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. Standby letters of credit and financial guarantees written of approximately $11.4 million and $9.5 million at June 30, 2003 and December 31, 2002, respectively, are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The Company holds marketable securities as collateral supporting those commitments for which collateral is deemed necessary.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("Interpretation No. 46"). Interpretation No. 46 requires a company to consolidate a variable interest entity if the company has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns

if they occur, or both. The application of Interpretation No. 46 had no impact on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("Statement No. 150"). Statement No. 150 requires issuers to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of Statement No. 150 on July 1, 2003. The Company did not enter into any financial instruments within the scope of Statement No. 150 during June 2003. The adoption of Statement No. 150 did not have a material effect on the Company's consolidated financial statements.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by or which include the words "may," "could," "should," "will," "would," "hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including our expectations and estimates with respect to our revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond our control). The following factors, among others, could cause our financial performance to differ materially from our goals, plans, objectives, intentions, expectations and other forward-looking statements:

- the strength of the United States economy in general and the strength of the regional and local economies within Oklahoma;

- adverse changes in the local real estate market, as most of the Company's loans are concentrated in Oklahoma and a substantial portion of these loans have real estate as collateral;

- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;

- inflation, interest rate, market and monetary fluctuations;

- adverse changes in asset quality and the resulting credit risk-related losses and expenses;

- our timely development of new products and services in a changing environment, including the features, pricing and quality of our products and services compared to the products and services of our competitors;

- the willingness of users to substitute competitors' products and services for our products and services;

- the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;

- technological changes;

- changes in consumer spending and savings habits; and

- regulatory or judicial proceedings.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

We do not intend to update our forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

A reader should not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Various factors, including those described above and those described in the Company's Form 10-K for the year ended December 31, 2002, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been anticipated or projected.

CHANGES IN FINANCIAL CONDITION FROM DECEMBER 31, 2002 TO JUNE 30, 2003

During the six months ended June 30, 2003, total assets increased slightly by $8.1 million or 0.3%. The Company's loan portfolio, net of allowance, increased $90.0 million or 4.3% during the six months ended June 30, 2003 primarily as a result of increased residential and commercial loan volume. Residential mortgage loans, which include home equity first mortgages, rose by $58.9 million or 21.3% during the period as record low interest rates continue to generate increased levels of mortgage loan activity. Commercial loans showed moderate growth of $46.2 million or 2.7% during the six months ended June 30, 2003. Additionally, the increase in other assets reflected the purchase during the period ended June 30, 2003 of an additional $10.0 million of bank-owned life insurance. These increases were offset in part by a decline in the Company's security portfolio of $96.9 million or 18.3% during the same period resulting from paydowns and maturities.

Total deposits reflected an increase of $10.1 million or 0.6% during the six months ended June 30, 2003 as the Company's focus on transaction accounts successfully replaced maturing time deposits with demand and savings deposits. Advances from the FHLB of Topeka used to help meet funding needs rose $28.5 million or 4.2% during the period. Securities under agreement to repurchase which represent interest-bearing accounts from commercial customers decreased during the six months ended June 30, 2003 by $31.6 million or 52.9%.

Stockholders' equity increased slightly from $167.9 million at December 31, 2002 to $168.0 million at June 30, 2003. Earnings during the period of $14.2 million were offset by an increase in treasury shares and the adjustment to accumulated other comprehensive income resulting from a decrease in unrealized gains on available for sale securities. The Company increased its shares of treasury stock during 2003 as part of a stock repurchase program in which the Company purchased 979,100 shares of its common stock at an average per share price of $14.94 and an aggregate cost of $14.6 million. The increase in common stock and additional paid-in capital during the period ended June 30, 2003 of $1.2 million included the exercise of 109,000 options to purchase the Company's stock. At June 30, 2003, the Company and the Bank exceeded all regulatory requirements for capital adequacy. See "--Liquidity and Capital Resources".

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002 AND THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Net Income. Net income for the three and six months ended June 30, 2003 was $7.1 million and $14.2 million, respectively, down slightly from $7.5 million and $14.5 million, respectively, for the same periods in the prior year. Diluted earnings per share for the second quarter 2003 were $.40, up 8.1% from the second quarter 2002. Diluted earnings per share for the six months ended June 30, 2003 were $.78, up 6.8% from the same period last year. Diluted earnings per share include the effect of the Company's share repurchase program which resulted in 2.0 million fewer shares outstanding on average during the second quarter of 2003 compared to the second quarter of 2002.

Net Interest Income. The Company's net interest income declined $2.2

million or 9.8% to $20.6 million for the quarter ended June 30, 2003 from $22.9 million for the comparable 2002 period. Net interest income declined $3.1 million or 6.7% to $43.0 million for the six months ended June 30, 2003 from $46.1 million for the comparable 2002 period. Net interest margin during both the three and six month periods ended June 30, 2003 declined to 3.15% and 3.25%, respectively, from 3.44% and 3.47% for the three and six month periods ended June 30, 2002, respectively. The decrease in net interest income was largely due to the current low level of interest rates and the resulting asset repricings. The Company anticipates further declines in net interest income along with lower spreads and margins.

Interest Income. Total interest income declined 15.5% during the three months ended June 30, 2003 from $44.1 million at June 30, 2002 to $37.3 million. Similarly, interest income declined 13.6% during the six months ended June 30, 2003 compared to the same period in the prior year from $89.2 million to $77.0 million. The decline was primarily due to a lower yield on interest-earning assets, which dropped from 6.63% to 5.68% in the three-month comparative period and from 6.73% to 5.84% in the six-month comparative period. The decreases in yield were offset to a certain extent in both comparative periods by increases in loan average balances driven primarily by growth in the residential mortgage and commercial loan portfolios.

Interest Expense. Total interest expense decreased $4.6 million or 21.6% in the three months ended June 30, 2003 as compared to the same period in the prior year, and fell by $9.1 million or 21.0% in the six months ended June 30, 2003 as compared to the same period in the prior year. These decreases came primarily as a result of the declining cost of deposits, which fell approximately 100 basis points during both comparative periods. Also contributing to the decrease in interest expense was the decline in average balance of interest-bearing deposits of $85.1 million or 4.9% for the three-month comparative period and $56.6 million or 3.3% for the six-month comparative period. This decrease was partially offset by an increase in interest expense on trust preferred securities as the Company accrued interest on the additional trust preferred securities issued in July and October of 2002.

Provision for Loan Losses. The Company's provision for loan losses remained the same at $1.8 million and $3.6 million for the three and six-month periods ended June 30, 2003 and June 30, 2002, respectively. Charge-offs (net of recoveries) in the three and six-month periods ended June 30, 2003 were $2.0 million and $3.0 million, respectively.

The provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on (i) an estimate by management of loan losses that occurred during the current period and (ii) an ongoing adjustment of prior estimates of losses occurring in prior periods. To serve as a basis for making this provision each quarter, the Company maintains an extensive credit risk monitoring process that considers several factors, including among other things, current economic conditions affecting the Company's customers, the payment performance of individual

large loans and pools of homogeneous small loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific large loan relationships.

Noninterest Income. The components of noninterest income are deposit related income, loan fees and loan service charges, net gains on sale of assets, and other income. Total noninterest income increased $1.0 million or 13.3% during the three months ended June 30, 2003 and $2.4 million or 16.6% during the six months ended June 30, 2003 compared to the same periods in the prior year.

These increases were primarily due to a significant increase in deposit related income, which consists primarily of service charges and fees on deposit accounts. Deposit related income rose $1.4 million or 28.1% and $2.5 million or 27.9% during the three and six month comparative periods, respectively.

Noninterest expense. Total noninterest expense for the three and six months ended June 30, 2003 decreased by $773,000 or 4.4% and $342,000 or 1.0%, respectively, compared to the same period in the prior year. The declines during the comparative periods were primarily due to a reduction in compensation and employee benefits expense, which fell 9.5% and 3.9%, respectively, led by a reduction in executive benefit plan expense and a focus on monitoring and controlling compensation and benefits expense, as it represents the largest component of noninterest expense.

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AVERAGE BALANCES, NET INTEREST INCOME, YIELDS EARNED AND RATES PAID

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields, (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates, (iii) net interest income, (iv) interest rate spread, and (v) net interest margin. Information is based on average daily balances during the indicated periods (dollars in thousands):

	THREE MONTHS ENDED JUN			
	2003			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE
ASSETS				
Loans receivable(1)	$2,183,413	$ 32,979	6.04%	$1,985,362
Securities:				
Available for sale(2)	133,756	1,548	4.63	110,463
Held to maturity	262,503	2,399	3.65	450,972
Total securities	396,259	3,947	3.98	561,435
Other earning assets(3)	45,196	387	3.43	118,293
Total interest-earning assets	2,624,868	37,313	5.68%	2,665,090
Noninterest-earning assets	153,049			128,034
Total assets	$2,777,917			$2,793,124
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Transaction accounts(4)	$ 670,057	1,739	1.04%	$ 594,471
Term certificates of deposit	973,532	6,631	2.73	1,134,201
Total deposits	1,643,589	8,370	2.04	1,728,672
FHLB advances	640,920	6,422	3.96	603,996

Securities sold under agreements to repurchase	33,881	76	0.90	37,330
Senior Notes	21,295	629	11.81	21,545
Mandatorily redeemable trust preferred securities	60,250	1,171	7.77	40,250
Total interest-bearing	2,399,935	16,668	2.79%	2,431,793
Noninterest-bearing liabilities	210,088			191,445
Stockholders' equity	167,894			169,886
Total liabilities and stockholders' equity	$2,777,917			$2,793,124
Net interest-earning assets	$ 224,933			$ 233,297
Net interest income/interest rate spread		$ 20,645	2.89%	
Net interest margin			3.15%	
Ratio of average interest-earning to average interest-bearing			109.37%	

	SIX MONTHS ENDED JUNE			
	2003			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVER BALA
ASSETS				
Loans receivable(1)	$2,157,244	$ 66,028	6.15%	$1,99
Securities:				
Available for sale(2)	148,737	3,656	4.92	13
Held to maturity	296,341	6,553	4.42	43
Total securities	445,078	10,209	4.59	56
Other earning assets(3)	45,841	770	3.36	9
Total interest-earning assets	2,648,163	77,007	5.84%	2,65
Noninterest-earning assets	149,113			12
Total assets	$2,797,276			$2,78
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Transaction accounts(4)	$ 663,328	3,596	1.09%	$ 57
Term certificates of deposit	978,040	13,734	2.83	1,12
Total deposits	1,641,368	17,330	2.13	1,69
FHLB advances	658,528	12,901	3.90	63
Securities sold under agreements to repurchase	40,171	183	0.92	3

Senior Notes	21,295	1,258	11.81	2
Mandatorily redeemable trust preferred securities	60,250	2,349	7.80	4
Total interest-bearing	2,421,612	34,021	2.83%	2,42
Noninterest-bearing liabilities	206,341			18
Stockholders' equity	169,323			16
Total liabilities and stockholders' equity	$2,797,276			$2,78
Net interest-earning assets	$ 226,551			$ 22
Net interest income/interest rate spread		$ 42,986	3.01%	
Net interest margin			3.25%	
Ratio of average interest-earning to average interest-bearing			109.36%	

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(1) The average balance of loans receivable includes nonperforming loans, interest on which is recognized on a cash basis, and excludes the allowance for loan losses which is included in noninterest-earning assets.

(2) Includes the market valuation accounts.

(3) Includes interest-bearing deposits, Federal Home Loan Bank of Topeka stock and Federal Reserve Bank stock.

(4) Includes passbook, NOW and money market accounts.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan originations, to meet withdrawals from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing effort. Liquidity demand caused by net reductions in deposits is usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB, securities sold under agreements to repurchase and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally placed in short-term investments such as overnight money funds and short-term government agency securities. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At June 30, 2003, the Company had $210.1 million in available borrowing capacity with the FHLB.

At June 30, 2003, the Company had outstanding loan commitments (including unused lines of credit) for home equity, commercial real estate and commercial business loans of approximately $372.4 million and an additional $11.4 million in performance standby letters of credit. Certificates of deposit, which are scheduled to mature within one year, totaled $696.8 million at June 30, 2003, and borrowings, which are scheduled to mature within the same period, totaled $105.8 million. The Company anticipates that sufficient funds will be available to meet its current loan total commitments and that, based upon past experience and current pricing policies, it can adjust the rates of certificates of deposit to retain a substantial portion of its maturing certificates and also, to the extent deemed necessary, refinance the maturing borrowings.

In September 1997, the Company issued $80.0 million of Senior Notes. As of June 30, 2003, the Company had purchased and retired $58.7 million of those outstanding Senior Notes. These transactions reduced future interest costs associated with those notes. The remaining $21.3 million of Senior Notes mature in September 2004 and have an annual debt service requirement of $2.3 million (or $1.15 million for each semi-annual period) in 2003.

Capital Resources. Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the Federal Reserve Bank. The guidelines are commonly known as Risk-Based Capital Guidelines. On June 30, 2003, the Company exceeded all applicable capital requirements pursuant to the Risk-Based Capital Guidelines and was considered "well capitalized" by having a total risk-based capital ratio of 11.20%, a Tier 1 risk-based capital ratio of 9.43% and a leverage ratio of 7.15%.

INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to available for sale securities which are carried at market value), without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following tables present contractual cash obligations and commitments of the Company as of June 30, 2003. See Notes 4 and 5 of the Notes to the Consolidated Financial Statements and "--Liquidity and Capital Resources" (dollars in thousands):

Contractual Cash Obligations	Total	Payments due by Less than One Year	One to Three Years
FHLB advances	$712,685	$ 77,663	$ 35,000
Securities sold under agreements to repurchase	28,125	28,125	--
Senior Notes	21,295	--	21,295
Mandatorily redeemable trust preferred securities	60,250	--	--
Operating leases	7,807	1,081	1,601
Data processing maintenance obligation	796	265	531
Total contractual cash obligations	$830,958	$107,134	$ 58,427

Commitments	Unfunded Commitments	Amount of Commitment Expir Less than One Year	One to Three Years
Lines of credit	$263,339	$142,324	$105,997
Standby letters of credit	11,420	10,393	1,027
Other commitments	109,104	12,267	10,156
Total commitments	$383,863	$164,984	$117,180

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to evaluate asset and liability balances within maturity categories to control the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time.

Management's methods for evaluating interest rate risk include an analysis of the Company's interest rate sensitivity "gap", which is defined as the difference between interest-earning assets and

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interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table summarizes the anticipated maturities or repricing of the Company's interest-earning assets and interest-bearing liabilities as of June 30, 2003, based on the information and assumptions set forth in the notes below (dollars in thousands):

	WITHIN THREE MONTHS	THREE TO TWELVE MONTHS	MORE THAN ONE YEAR TO THREE YEARS	MORE THAN THREE YEAR TO FIVE YEARS
Interest-earning assets(1):				
Loans receivable(2)	$1,102,420	$ 396,564	$ 324,014	$ 242,74
Securities:				
Available for sale(3)	37,694	24,502	42,223	7,41
Held to maturity	64,450	84,836	40,727	58,00
Other interest-earning assets(4)	92,857	3,977	--	-
Total	$1,297,421	$ 509,879	$ 406,964	$ 308,16
Interest-bearing liabilities:				
Deposits(5):				
Money market and NOW accounts	$ 272,590	$ 30,606	$ 64,269	$ 47,75
Passbook accounts	3,805	11,414	23,342	16,29
Certificates of deposit	302,306	395,299	175,659	84,59
FHLB advances(6)	87,663	--	25,000	100,00
Securities sold under agreements to repurchase	28,125	--	--	-
Senior Notes	--	--	21,295	-
Mandatorily redeemable trust preferred securities(6)	20,000	--	--	-
Total	$ 714,489	$ 437,319	$ 309,565	$ 248,65
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 582,932	$ 72,560	$ 97,399	$ 59,50
Cumulative excess of interest-earnings assets over interest-bearing liabilities	$ 582,932	$ 655,492	$ 752,891	$ 812,40
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percentage of total assets	20.47%	23.02%	26.44%	28.5

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(1) Adjustable-rate loans and securities are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they mature and fixed-rate loans and securities are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments based on, among other things, historical performance.

(2) Balances have been reduced for nonaccrual loans.

(3) Does not include unrealized gain on securities classified as available for sale.

(4) Comprised of cash and due from banks, deposits with other banks, Federal Home Loan Bank stock and Federal Reserve Bank stock.

(5) Adjusted to take into account assumed annual decay rates, which were applied against money market, NOW and passbook accounts.

(6) Adjustable-rate FHLB advances and trust preferred securities are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they mature, while fixed rate FHLB advances and trust preferred securities are included in the period in which they are scheduled to mature.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect these controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company files under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in routine legal proceedings occurring in the ordinary course of business, which, in the aggregate, are believed by management to be immaterial to the consolidated financial position and results of operations of the Company.

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

The Company held its Annual Meeting of Stockholders on May 28, 2003. Management solicited proxies for the meeting and there was no solicitation in opposition to management's nominees for director, as listed in the Proxy Statement. All nominees for director were re-elected for a three-year term. Votes were cast for director as follows:

Nominee	For	Withheld	Abstain
Joseph A. Leone	16,863,652	--	296,567
Jan A. Norton	11,961,979	4,901,673	296,567

Other Continuing Directors

Edward A. Townsend
William D. Breedlove
Andrew M. Coats
Robert A. Kotecki
George P. Nigh
J. David Rosenberg

The stockholders ratified the appointment of KPMG LLP, independent auditors, to audit the Company's financial statements for the year ending December 31, 2003. Votes were cast as follows:

For	Against	Abstain
16,804,496	337,944	17,779

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

Exhibit 31.1 - Certification as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 - Certification as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 - Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K

The Company filed the following Form 8-Ks during the quarter ended June 30, 2003:

1. On April 17, 2003, Local Financial Corporation announced by press release its earnings for the quarter ended March 31, 2003. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the chief executive officer and chief financial officer of the Company have each signed a certification with respect to the Report.

2. Effective June 27, 2003, Local Oklahoma Bank, the wholly-owned subsidiary of Local Financial Corporation, affected a charter change to become an Oklahoma state banking corporation and a state member bank of the Federal Reserve System.

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SIGNATURES

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

LOCAL FINANCIAL CORPORATION

Date: August 14, 2003

By /s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: August 14, 2003

By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer

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FORM 10-Q
INDEX TO EXHIBITS

EXHIBIT	DESCRIPTION
31.1	Certification as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002