LOCAL FINANCIAL CORP /NV
Form 10-Q
May 15, 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 March 31, 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 Exchange Act Rule 12b-2).

Yes [X] No [ ]

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

NUMBER OF SHARES
17,292,623

LOCAL FINANCIAL CORPORATION

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	MARCH 31, 2003 (unaudited)
ASSETS	
Cash and due from banks	$ 54,985
Interest bearing deposits with other banks	6,200
Securities:	
Available for sale	151,088
Held to maturity	311,372
Total securities	462,460
Loans receivable, net of allowance for loan losses of $30,316 at March 31, 2003 and $29,532 at December 31, 2002	2,140,561
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	39,548
Premises and equipment, net	42,743
Assets acquired through foreclosure and repossession, net	2,058
Intangible assets, net	19,543
Current and deferred taxes, net	9,785
Other assets	70,732
Total assets	$ 2,848,615
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Demand	$ 754,993
Savings	89,210
Time	973,844
Total deposits	1,818,047
Advances from the Federal Home Loan Bank of Topeka	711,409
Securities sold under agreements to repurchase	41,035
Senior Notes	21,295
Other liabilities	26,586
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 17,457,923 shares outstanding at March 31, 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	158,565
Treasury stock, 3,515,044 shares at March 31, 2003 and 3,078,644 shares at December 31, 2002, at cost	(200,338)
Accumulated other comprehensive income, net of tax	1,715
Total stockholders' equity	169,993
Total liabilities and stockholders' equity	$ 2,848,615

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

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	(unaudited)	
Interest income:		
Loans	$ 33,049	$ 34
Securities available for sale	2,108	3
Securities held to maturity	4,154	6
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	361	
Other investments	22	
Total interest income	39,694	45
Interest expense:		
Deposit accounts	8,960	13
Advances from the Federal Home Loan Bank of Topeka	6,479	6
Securities sold under agreements to repurchase	107	
Senior Notes	629	
Trust preferred securities	1,178	
Total interest expense	17,353	21
Net interest income	22,341	23
Provision for loan losses	(1,800)	(1
Net interest income after provision for loan losses	20,541	21
Noninterest income:		
Deposit related income	5,476	4
Loan fees and loan service charges	653	
Net gains on sale of assets	136	
Other	1,560	1

Total noninterest income	7,825	6
Noninterest expense:		
Compensation and employee benefits	10,566	10
Equipment and data processing	1,700	1
Occupancy	1,338	1
Advertising	127	
Professional fees	263	
Other	3,741	3
Total noninterest expense	17,735	17
Income before provision for income taxes	10,631	10
Provision for income taxes	3,561	3
Net income	$ 7,070	$ 7
Earnings per share:		
Net income:		
Basic	$ 0.40	$
Diluted	$ 0.38	$
Average shares outstanding:		
Basic	17,797,691	19,174
Diluted	18,408,968	19,887

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

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

	THREE MONTHS MARCH 3
	2003
	(unaudit
Cash provided (absorbed) by operating activities:	
Net income	$ 7,070
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	1,800
Deferred income tax benefit	(607)

Accretion of discounts and amortization of deferred fees on loans acquired and securities, net	200
Depreciation and amortization	1,381
Net change in loans held for sale	(2,385)
Net gains on sale of assets	(136)
Change in other assets	(2,981)
Change in other liabilities	4,488
Net cash provided by operating activities	8,830
Cash provided (absorbed) by investing activities:	
Proceeds from principal collections on securities	111,929
Purchases of securities	(45,869)
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	(1,361)
Proceeds from the sale of Federal Home Loan Bank stock	--
Purchases of bank owned life insurance	(10,000)
Change in loans receivable, net	(56,710)
Proceeds from disposal of assets acquired through foreclosure and repossession	792
Purchases of premises and equipment	(1,975)
Proceeds from sales of premises and equipment	279
Net cash provided (absorbed) by investing activities	(2,915)
Cash provided (absorbed) by financing activities:	
Change in transaction accounts	4,744
Change in time deposits	(16,136)
Change in securities sold under agreements to repurchase	(18,661)
Proceeds from advances from the Federal Home Loan Bank	437,920
Repayments of advances from the Federal Home Loan Bank	(410,704)
Proceeds from the issuance of common stock	1,090
Purchase of treasury stock	(1,349)
Net cash absorbed by financing activities	(3,096)
Net change in cash and cash equivalents	2,819
Cash and cash equivalents at beginning of period	58,366
Cash and cash equivalents at end of period	$ 61,185
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 18,310
Income taxes	$ --
Supplemental schedule of noncash investing and financing activities:	
Transfer of loans to assets acquired through foreclosure and repossession	$ 1,157
Payable on treasury stock purchase	$ 5,206

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

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 FASB Statement No. 123, the Company's net income for the three months ended March 31, 2003 and 2002 would have been decreased to the pro forma amounts below (dollars in thousands, except share data).

	MARCH 31,	
	2003	2002
Net income as reported	$ 7,070	$ 7,079
Deduct: Total stock-based employee compensation expense determined under fair value-based method for awards, net of related tax effects	(104)	(109)
Pro forma net income	$ 6,966	$ 6,970

Earnings per share:		
Basic - as reported	$ 0.40	$ 0.37
Basic - pro forma	$ 0.39	$ 0.36
Diluted - as reported	$ 0.38	$ 0.36
Diluted - pro forma	$ 0.38	$ 0.35

(3) LOANS RECEIVABLE

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

	MARCH 31, 2003	DECEMBER 31, 2002
Residential real estate	$ 224,396	$ 212,862
Commercial	1,724,475	1,695,293
Held for sale	10,961	8,576
Consumer	211,045	196,945
Total loans	2,170,877	2,113,676
Less:		
Allowance for loan losses	(30,316)	(29,532)
Loans receivable, net	$ 2,140,561	$ 2,084,144

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

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

	MARCH 31, 2003		DECEMBER 31, 2002	
	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RATE	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RA
Fixed rate	$ 675,021	3.83%	$ 600,022	4.

Variable rate	36,388	1.65	84,171	1.
	$ 711,409	3.72%	$ 684,193	3.

Additionally, the Company had outstanding letters of credit with the FHLB of approximately $83.2 million and $93.9 million at March 31, 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 March 31, 2003, the Company had approximately $801.6 million in eligible assets pledged against FHLB advances.

At March 31, 2003, the Company had additional borrowing capacity of approximately $237.4 million under the FHLB credit policy.

Scheduled principal repayments of advances from the FHLB at March 31, 2003 were as follows (dollars in thousands):

YEARS ENDING DECEMBER 31,	AMOUNT	WEIGHTED AVERAGE CONTRACTUAL RATE
2003	$ 101,387	1.41%
2004	--	--
2005	10,000	1.81
2006	100,000	3.35
2007 and thereafter	500,022	4.30
	$ 711,409	3.72%

(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 March 31, 2003 and December 31, 2002 and are summarized as follows (dollars in thousands):

	MARCH 31, 2003	DECEMBER 31, 2002

Average outstanding balance	$ 46,531	$ 43,425
Weighted average interest rate during the period	0.93%	1.22%
Maximum month-end balance	$ 48,955	$ 64,701
Outstanding balance at end of period	41,035	59,696
Weighted average interest rate at end of period	0.92%	0.94%
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$ 48,896	$ 66,931
Estimated market value	49,719	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 436,400 shares of its common stock at a cost of approximately $6.6 million. Subsequent to the quarter ended March 31, 2003, the Company purchased an additional 165,300 shares at a cost of approximately $2.5 million. The increase in additional paid-in capital during the first quarter of 2003 of approximately $1.2 million resulted from the exercise of 109,000 options to purchase the Company's stock and tax benefits on employee stock options.

(7) COMPREHENSIVE INCOME

Comprehensive income for the three months ended March 31, 2003 and 2002 consists of (dollars in thousands):

	THREE MONTHS ENDED MARCH 31, 2003	2002
Net income	$ 7,070	$ 7,079
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities, net of reclassification adjustment	355	(1,949)
Comprehensive income	$ 7,425	$ 5,130

(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 months ended March 31, 2003 and 2002.

	MARCH 31, 2003		
	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT
Basic net income per share	$ 7,070,000	17,797,691	$ 0.40
Effect of dilutive securities:			
Options	--	611,277	
Diluted net income per share	$ 7,070,000	18,408,968	$ 0.38

	MARCH 31, 2002		
	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT
Basic net income per share	$ 7,079,000	19,174,092	$ 0.37
Effect of dilutive securities:			
Warrants	--	70,841	
Options	--	642,657	
Diluted net income per share	$ 7,079,000	19,887,590	$ 0.36

Stock options to purchase 1,786,640 shares of common stock were outstanding as of March 31, 2003 and were included in the computation of diluted net income per share for 2003. Stock

options and warrants to purchase 2,228,238 shares of common stock were outstanding as of March 31, 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, National Association, (the "Bank") a national banking association. 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 SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information.

The Company also has three wholly-owned finance subsidiaries, namely, Local Financial Capital Trust I, Local Financial Capital Trust II and Local Financial Capital Trust III. These finance subsidiaries do not qualify as operating segments under SFAS No. 131 and have no independent operations and no other function other than the issuance of their securities and the related purchase of junior subordinated debentures from the Company and to distribute payments received thereon to the holders of their securities.

(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 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. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation 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 the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on our 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 $11,473,000 and $9,488,000 at March 31, 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 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. A direct or indirect ability to make decisions that significantly affect the results of the activities of a variable interest entity is a strong indication that a company has one or both of the characteristics that would require consolidation of the variable interest entity. Interpretation No. 46 also requires additional disclosures regarding variable interest entities. The new interpretation is effective immediately for variable interest entities created after January 31, 2003, and is effective in the first interim or annual period beginning after June 15, 2003, for variable interest entities in which a company holds a variable interest that it acquired before February 1, 2003. The application of FIN 46 is not expected to have a material effect on the Company's consolidated financial statements and no consolidation or disclosure is anticipated.

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 MARCH 31, 2003

During the three months ended March 31, 2003, total assets increased slightly by $8.8 million or 0.3%. The Company's loans receivable, net of allowance, experienced growth, increasing $56.4 million or 2.7% primarily as a result of increased commercial loan volume, which rose by $29.2 million. The residential and consumer loan portfolios also increased $11.5 million or 5.4% and $16.5 million or 8.0%, respectively. Additionally, the rise in other assets reflected the purchase during the quarter ended March 31, 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 $65.8 million or 12.5% resulting from paydowns and maturities.

Total deposits and securities under agreement to repurchase decreased during the three months ended March 31, 2003 by $11.4 million or 0.6% and $18.7 million or 31.3%, respectively. Advances from the FHLB of Topeka rose $27.2 million or 4.0% as the Company increased its short-term borrowings to meet funding needs.

Stockholders' equity increased from $167.9 million at December 31, 2002 to $170.0 million at March 31, 2003. The increase in stockholders' equity came primarily as a result of earnings during the period, offset by an increase in treasury shares. The Company increased its shares of treasury stock during 2003 as part of a stock repurchase program in which the Company purchased 436,400 shares of its common stock at a cost of $6.6 million. Subsequent to the quarter ended March 31, 2003, the Company purchased an additional 165,300 shares at a cost of $2.5 million. The increase in additional paid-in capital during the first quarter of 2003 of $1.2 million resulted from the exercise of 109,000 options to purchase the Company's stock and tax benefits on employee stock options. Accumulated other comprehensive income increased $355,000 during the quarter ended March 31, 2003. At March 31, 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 MARCH 31, 2003 AND 2002

Net Income. Net income for the three months ended March 31, 2003 was $7.1 million, basically the same as the first quarter in the prior year. Diluted earnings per share for the first quarter 2003 were $0.38, up 5.6% from the first quarter 2002. Diluted earnings per share include the effect of the Company's share repurchase program, which resulted in 1.5 million fewer shares outstanding on average during the current quarter compared to the first quarter of 2002.

Net Interest Income. The Company's net interest income declined $856,000 or 3.7% to $22.3 million for the quarter ended March 31, 2003 from $23.2 million for the comparable 2002 period. Net interest margin also declined to 3.34% at March 31, 2003 from 3.50% at March 31, 2002. The decrease in net interest income was largely due to the current low level of interest rates and the resulting asset repricings. In a continued low rate environment, the Company anticipates the probability of a continued decline in spreads and further margin compression, which could in turn adversely impact profitability.

Interest Income. Total interest income declined 11.8% during the three months ended March 31, 2003 from $45.0 million at March 31, 2002 to $39.7 million. The decline was primarily due to an 85 basis point decrease in yield on interest-earning assets in the current declining rate environment to 6.0%. The decrease in yield was partially offset by a $19.5 million or 0.7% increase in average earning assets driven primarily by growth in the commercial loan portfolio.

Interest Expense. Total interest expense decreased $4.5 million or 20.5% in the three months ended March 31, 2003 as compared to the same period in the prior year. This decrease came primarily as a result of the declining cost of deposits, which fell 110 basis points to 2.22% for the period ended March 31, 2003 compared to the same period in the prior year, coupled with the decline in average balance of deposits of $27.8 million or 1.7%. This decrease was partially offset by a $256,000 or 27.8% increase in interest expense on trust preferred securities as the Company recognized interest on the additional trust preferred securities issued in July and October 2002.

Provision for Loan Losses. The Company's provision for loan losses remained stable at $1.8 million for the three months ended March 31, 2003 and 2002. Charge-offs (net of recoveries) in the three-month periods ended March 31, 2003 and 2002 were $1.0 million and $1.8 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 $1.3 million or 20.5% during the three months ended March 31, 2003 compared to the same period in the prior year. The increase was primarily due to an increase in deposit related income of $1.2 million or 27.6% as the Company was successful with its commercial customers in providing cash management services and with marketing programs focused on increasing the number of consumer accounts and services.

Noninterest expense. Noninterest expense increased to $17.7 million during the three months ended March 31, 2003 as compared to $17.3 million in the same period of the prior year, a total increase of 2.5%. Compensation and employee benefits expense remained relatively stable at $10.6 million for the three months ended March 31, 2003 compared to $10.4 million during the same period of the prior year. Occupancy and other noninterest expense rose $151,000 or 12.7% and $267,000 or 7.7%, respectively during the period. Offsetting these increases were declines in equipment and data processing and advertising expense.

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 MAR			
	2003			
	AVERAGE		AVERAGE YIELD/	AVER

	BALANCE	INTEREST	COST	BALA
ASSETS				
Loans receivable(1)	$2,130,782	$ 33,049	6.28%	$2,00
Securities:				
Available for sale(2)	163,885	2,108	5.15	16
Held to maturity	330,556	4,154	5.03	41
Total securities	494,441	6,262	5.07	57
Other earning assets(3)	46,492	383	3.30	7
Total interest-earning assets	2,671,715	39,694	6.00%	2,65
Noninterest-earning assets	145,133			12
Total assets	$2,816,848			$2,77
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Transaction accounts(4)	$ 656,524	1,856	1.15%	$ 56
Term certificates of deposit	982,598	7,104	2.93	1,10
Total deposits	1,639,122	8,960	2.22	1,66
FHLB advances	676,331	6,479	3.83	65
Securities sold under agreements to repurchase	46,531	107	0.93	3
Senior Notes	21,295	629	11.81	2
Mandatorily redeemable trust preferred securities	60,250	1,178	7.82	4
Total interest-bearing	2,443,529	17,353	2.88%	2,42
Noninterest-bearing liabilities	202,609			18
Stockholders' equity	170,710			16
Total liabilities and stockholders' equity	$2,816,848			$2,77
Net interest-earning assets	$ 228,186			$ 22
Net interest income/interest rate spread		$ 22,341	3.12%	
Net interest margin			3.34%	
Ratio of average interest-earning to average interest-bearing			109.34%	

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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 March 31, 2003, the Company had $237.4 million in available borrowing capacity with the FHLB.

At March 31, 2003, the Company had outstanding loan commitments (including unused lines of credit) for home equity, commercial real estate and commercial business loans of approximately $361.5 million and an additional $11.5 million in performance standby letters of credit. Certificates of deposit, which are scheduled to mature within one year, totaled $699.7 million at March 31, 2003, and borrowings, including trust preferred securities, which are scheduled to mature within the same period, totaled $142.4 million. The Company anticipates that sufficient funds will be available to meet its current loan 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, in connection with the Company's recapitalization, the Company issued $80.0 million of Senior Notes. As of March 31, 2003, the Company has 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 March 31, 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 11.25%, a Tier 1 risk-based capital ratio of 9.49% and a leverage ratio of 7.09%. The Company's subsidiary, Local Oklahoma Bank, N.A., has filed an application with the

Oklahoma State Banking Commission to become a state-chartered member bank of the Federal Reserve System. This action will have no effect on either the Company's or the Bank's capital requirements.

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 COMMERCIAL COMMITMENTS

The following tables present contractual cash obligations and commercial commitments of the Company as of March 31, 2003. See Notes 4 and 5 of the Notes to the Consolidated Financial Statements and "--Liquidity and Capital Resources" (dollars in thousands):

	Payments due by Period		
Contractual Cash Obligations	Total	Less than One Year	One to Three Years
FHLB advances	$ 711,409	$ 101,387	$ 10,000
Securities sold under agreements to repurchase	41,035	41,035	--
Senior Notes	21,295	--	21,295
Mandatorily redeemable trust preferred securities	60,250	--	--
Operating leases	7,197	932	1,359
Data processing maintenance obligation	796	265	531
Total contractual cash obligations	$ 841,982	$ 143,619	$ 33,185

	Amount of Commitment Expiration		
Commitments	Unfunded Commitments	Less than One Year	One to Three Years
Lines of credit	$ 258,523	$ 119,512	$ 123,939

Standby letters of credit	11,473	9,907	1,566	
Other commitments	103,004	11,503	16,232	
Total commitments	$ 373,000	$ 140,922	$ 141,737	$

RECENT LEGISLATION

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "SOA"). The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). Given the extensive SEC role in implementing rules relating to many of the SOA's new requirements, the final scope of these requirements remains to be determined.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters: audit committees; certification of financial statements by the chief executive office and the chief financial officer; the forfeiture of bonuses and profits made by directors and senior officers in the twelve month period covered by restated financial statements; a prohibition on insider trading during pension plan black out periods; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers (excluding Federally insured financial institutions); expedited filing requirements for stock transaction reports by officers and directors; disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; "real time" filing of periodic reports; the formation of a public accounting oversight board; auditor independence; and various increased criminal penalties for violations of securities laws.

The SOA contains provisions that became effective upon enactment on July 30, 2002 and provisions that will become effective from within 30 days to one year from enactment. The SEC has been delegated the task of enacting rules to implement various of the provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

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 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 March 31, 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 YEARS TO FIVE YEARS
Interest-earning assets(1):				
Loans receivable(2)	$ 1,019,021	$ 404,152	$ 384,363	$ 226,83
Securities:				
Available for sale(3)	33,356	51,822	54,721	5,07
Held to maturity	117,371	107,173	60,612	14,30
Other interest-earning assets(4)	96,756	3,977	--	-
Total	$ 1,266,504	$ 567,124	$ 499,696	$ 246,21
Interest-bearing liabilities:				
Deposits(5):				
Money market and NOW accounts	$ 237,417	$ 30,530	$ 64,136	$ 47,68
Passbook accounts	3,667	11,000	22,495	15,70
Certificates of deposit	288,421	412,308	185,641	84,11
FHLB advances(6)	111,387	--	--	100,00
Securities sold under agreements to repurchase	41,035	--	--	-
Senior Notes	--	--	21,295	-
Mandatorily redeemable trust preferred securities(6)	10,000	10,000	--	-

Total	$ 691,927	$ 463,838	$ 293,567	$ 247,50
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 574,577	$ 103,286	$ 206,129	$ (1,28
Cumulative excess of interest-earnings assets over interest-bearing liabilities	$ 574,577	$ 677,863	$ 883,992	$ 882,70
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percentage of total assets	20.17%	23.80%	31.03%	30.9

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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

Within the 90 days prior to the date of this 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 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

99 906 Certification by Chief Executive Officer and Chief Financial Officer

b. Reports on Form 8-K

The Company filed the following Form 8-Ks during the quarter ended March 31, 2003:

1. On March 21, 2003, Local Financial Corporation filed its Annual Report on Form 10-K for the period ended December 31, 2002 (the "Report"). 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.

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: May 14, 2003

By /s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: May 14, 2003

By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer

CERTIFICATION

I, EDWARD A. TOWNSEND, CERTIFY THAT:

1. I have reviewed this quarterly report on Form 10-Q of Local Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):

   (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in the registrant's internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated this 14th day of May 2003.

/s/ Edward A. Townsend

Edward A. Townsend
Chief Executive Officer

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CERTIFICATION

I, RICHARD L. PARK, CERTIFY THAT:

1. I have reviewed this quarterly report on Form 10-Q of Local Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in the registrant's internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated this 14th day of May 2003.

/s/ Richard L. Park

Richard L. Park
Chief Financial Officer

FORM 10-Q
INDEX TO EXHIBITS

EXHIBIT	DESCRIPTION
99	Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002