LOCAL FINANCIAL CORP /NV
Form 10-Q
November 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 September 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 November 7, 2003 were as follows: 16,534,773

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	SEPTEMBER 30, 2003
	(unaudited)
ASSETS	
Cash and due from banks	$ 49,601
Interest bearing deposits with other banks	126,000
Securities:	
Available for sale	89,041
Held to maturity	254,844
Total securities	343,885
Loans receivable, net of allowance for loan losses of $30,358 at September 30, 2003 and $29,532 at December 31, 2002	2,236,015
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	39,499
Premises and equipment, net	43,325

Assets acquired through foreclosure and repossession, net	928
Intangible assets, net	19,441
Current and deferred taxes, net	10,723
Other assets	71,280
Total assets	$ 2,940,697
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Demand	$ 879,160
Savings	98,339
Time	1,001,817
Total deposits	1,979,316
Advances from the Federal Home Loan Bank of Topeka	635,020
Securities sold under agreements to repurchase	57,318
Senior Notes	21,295
Other liabilities	18,788
Mandatorily redeemable trust preferred securities	60,250
Total liabilities	2,771,987
Commitments and contingencies	
Stockholders' equity:	
Common stock, $0.01 par value, 25,000,000 shares authorized; 20,975,967 shares issued and 16,518,223 shares outstanding at September 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	209,878
Retained earnings	172,606
Treasury stock, 4,457,744 shares at September 30, 2003 and 3,078,644 shares at December 31, 2002, at cost	(214,811)
Accumulated other comprehensive income, net of tax	827
Total stockholders' equity	168,710
Total liabilities and stockholders' equity	$ 2,940,697

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 September 30,		Nine Sep
	2003	2002	2003
		(unaudited)	
Interest income:			
Loans	$ 32,639	$ 34,745	$ 98,
Securities available for sale	956	2,437	4,
Securities held to maturity	2,871	6,759	9,
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	375	430	1,
Other investments	87	171	
Total interest income	36,928	44,542	113,
Interest expense:			
Deposit accounts	8,079	12,573	25,
Advances from the Federal Home Loan Bank of Topeka	6,507	6,353	19,
Securities sold under agreements to repurchase	65	129	
Senior Notes	629	636	1,
Trust preferred securities	1,167	1,020	3,
Total interest expense	16,447	20,711	50,
Net interest income	20,481	23,831	63,
Provision for loan losses	(1,500)	(1,500)	(5,
Net interest income after provision for loan losses.	18,981	22,331	58,
Noninterest income:			
Deposit related income	5,984	4,996	17,
Loan fees and loan service charges	548	489	1,
Net gains on sale of assets	474	97	
Other	1,780	1,593	5,
Total noninterest income	8,786	7,175	25,
Noninterest expense:			
Compensation and employee benefits	12,077	10,906	32,
Equipment and data processing	1,570	1,516	4,
Occupancy	1,236	1,242	3,
Advertising	178	182	
Professional fees	441	339	1,
Other	2,525	3,843	10,
Total noninterest expense	18,027	18,028	52,
Income before provision for income taxes	9,740	11,478	31,
Provision for income taxes	2,790	4,108	9,
Net income	$ 6,950	$ 7,370	$ 21,
Earnings per share:			

Net income:			
Basic	$ 0.41	$ 0.39	$ 1
Diluted	$ 0.40	$ 0.37	$ 1
Average shares outstanding:			
Basic	16,755,495	18,991,744	17,228,
Diluted	17,447,092	19,681,824	17,859,

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)

	NINE MONTHS END SEPTEMBER 30
	2003
	(unaudited)
Cash provided (absorbed) by operating activities:	
Net income	$ 21,111
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	5,100
Deferred income tax benefit	(1,088)
Accretion of discounts and amortization of deferred fees on loans acquired and securities, net	1,547
Depreciation and amortization	3,843
Net change in loans held for sale	1,169
Net gains on sale of assets	(862)
Change in other assets	(4,438)
Change in other liabilities	2,833
Net cash provided by operating activities	29,215
Cash provided (absorbed) by investing activities:	
Proceeds from sales of securities available for sale	8,414
Proceeds from principal collections on securities	383,354
Purchases of securities	(209,708)
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	(1,425)
Proceeds from the sale of Federal Home Loan Bank stock	113
Purchases of bank owned life insurance	(10,000)
Change in loans receivable, net	(158,684)
Proceeds from disposal of assets acquired through foreclosure and repossession	2,180
Purchases of premises and equipment	(4,925)

Proceeds from sales of premises and equipment	283
Net cash provided by investing activities	9,602
Cash provided (absorbed) by financing activities:	
Change in transaction accounts	138,040
Change in time deposits	11,837
Change in securities sold under agreements to repurchase	(2,378)
Proceeds from advances from the Federal Home Loan Bank	1,014,129
Repayments of advances from the Federal Home Loan Bank	(1,063,302)
Proceeds from the issuance of common stock	1,120
Proceeds from the issuance of trust preferred securities	-
Payments of trust preferred securities issuance costs	-
Purchase of treasury stock	(21,028)
Purchase of stock warrants and options	-
Net cash provided (absorbed) by financing activities	78,418
Net change in cash and cash equivalents	117,235
Cash and cash equivalents at beginning of period	58,366
Cash and cash equivalents at end of period	$ 175,601
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 51,581
Income taxes	$ 10,850
Supplemental schedule of noncash investing and financing activities:	
Transfer of loans to assets acquired through foreclosure and repossession	$ 1,415

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 Company believes that it has certain additional federal income tax deductions; however, the related contingent tax asset has not been recognized in the consolidated financial statements pending final resolution. 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. 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 nine months ended September 30, 2003 and 2002 would have been decreased to the pro forma amounts below (dollars in thousands, except share data):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SE
	2003	2002	2003
Net income as reported	$ 6,950	$ 7,370	$ 21,1
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	(96)	(113)	(3
Pro forma net income	$ 6,854	$ 7,257	$ 20,8
Earnings per share:			
Basic-as reported	$ 0.41	$ 0.39	$ 1.
Basic-pro forma	$ 0.41	$ 0.38	$ 1.
Diluted-as reported	$ 0.40	$ 0.37	$ 1.
Diluted-pro forma	$ 0.39	$ 0.37	$ 1.

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(3) LOANS RECEIVABLE

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

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Residential real estate(1)	$ 359,951	$ 276,883
Commercial	1,778,684	1,695,293
Held for sale	7,407	8,576
Consumer(1)	120,331	132,924
Total loans	2,266,373	2,113,676
Less:		
Allowance for loan losses	(30,358)	(29,532)
Loans receivable, net	$ 2,236,015	$ 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):

	SEPTEMBER 30, 2003		DECEMBER 31, 2002	
	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RATE	BALANCE	WEIGHTED AVERAGE CONTRACTUAL R
Fixed rate	$ 625,020	4.04%	$ 600,022	4.14%
Variable rate	10,000	1.13	84,171	1.51
	$ 635,020	4.00%	$ 684,193	3.82%

Additionally, the Company had outstanding letters of credit with the FHLB of approximately $103.9 million and $93.9 million at September 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 September 30, 2003, the Company had approximately $844.2 million in eligible assets pledged against FHLB advances.

At September 30, 2003, the Company had additional borrowing capacity of approximately $187.6 million under the FHLB credit policy.

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

YEARS ENDING DECEMBER 31,	AMOUNT	WEIGHTED AVERAGE CONTRACTUAL RATE
2003	$ -	-
2004	-	-
2005	35,000	1.52%
2006	100,000	3.35
2007 and thereafter	500,020	4.30
	$ 635,020	4.00%

(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 September 30, 2003 and December 31, 2002 and are summarized as follows (dollars in thousands):

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Average outstanding balance	$ 39,662	$ 43,425
Weighted average interest rate during the period	0.84%	1.22%
Maximum month-end balance	$ 57,318	$ 64,701
Outstanding balance at end of period	57,318	59,696
Weighted average interest rate at end of period	0.70%	0.94%
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$ 102,981	$ 66,931
Estimated market value	102,400	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 1,379,100 shares of its common stock at a cost of approximately $21.0 million. The increase in common stock and additional paid-in capital during the nine months ended September 30, 2003 of approximately $1.3 million included the exercise of 112,000 options to purchase the Company's stock.

(7) COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED SEPTEMBER 30, 2003	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE M SEP 2003
Net income	$ 6,950	$ 7,370	$ 21,111
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities, net of reclassification adjustment	140	(803)	(533)
Comprehensive income	$ 7,090	$ 6,567	$ 20,578

(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 nine months ended September 30, 2003 and 2002:

	THREE MONTHS ENDED SEPTEMBER 30, 2003			NINE MONTHS SEPTEMBER 30	
	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT	NET INCOME	WEIGHT AVERA SHARE OUTSTAN
Basic net income per share	$ 6,950,000	16,755,495	$ 0.41	$21,111,000	17,228

Effect of dilutive securities:					
Options	-	691,597		-	631
Diluted net income per share	$ 6,950,000	17,447,092	$ 0.40	$21,111,000	17,859

	THREE MONTHS ENDED SEPTEMBER 30, 2003			NINE MONTHS SEPTEMBER 30	
	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT	NET INCOME	WEIGHT AVERA SHARE OUTSTAN
Basic net income per share	$ 7,370,000	18,991,744	$ 0.39	$21,914,000	19,111
Effect of dilutive securities:					
Warrants	-	30,574		-	53
Options	-	659,506		-	695
Diluted net income per share	$ 7,370,000	19,681,824	$ 0.37	$21,914,000	19,859

Stock options to purchase 1,774,040 and 2,005,640 shares of common stock were outstanding as of September 30, 2003 and 2002, respectively, and were included in the computation of diluted net income per share.

(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 $10.9 million and $9.5 million at September 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 will have no material impact on the Company's consolidated financial statements. In its current form, Interpretation No. 46 may

require the Company to deconsolidate one or more of its three trust preferred security subsidiaries. Deconsolidation of these subsidiaries will not change the classification of this debt, but will change the description from mandatorily redeemable trust preferred securities to subordinated debt. The Federal Reserve Board has announced that "until notice is given to the contrary", this debt would continue to qualify as Tier 1 capital to the extent allowed by regulation.

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. 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 the Company's forward-looking information and statements proves incorrect, then the Company's 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, the Company cautions the reader not to place undue reliance on its forward-looking information and statements.

The Company does not intend to update its forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company 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.

FINANCIAL CONDITION

Assets. At September 30, 2003, the Company's total assets were $2.9 billion compared to $2.8 billion at December 31, 2002. Total assets increased during the nine months ended September 30, 2003 by $100.8 million or 3.6%. Paydowns and maturities of securities and an increased deposit base provided funding for the increase in the Company's loan portfolio and additional interest bearing deposits with other banks. The Company's loan portfolio, net of allowance, increased $151.9 million or 7.3% during the nine months ended September 30, 2003 primarily as a result of increased commercial and residential loan volume. Commercial loans grew, primarily in the commercial real estate portfolio, by $83.4 million or 4.9% during the nine-month period. Residential mortgage loans, which include home equity first mortgages, rose by $83.1 million or 30.0% during the nine-month period as continuing low interest rates generated increased levels of mortgage loan activity. Additionally, the increase in other assets reflected the purchase during the period ended September 30, 2003 of an additional $10.0 million of bank-owned life insurance. The Company's securities portfolio decreased 34.9% from $528.3 million at December 31, 2002 to $343.9 million at September 30, 2003 due to amortization and prepayments.

Liabilities. At September 30, 2003, the Company's total liabilities were $2.8 billion compared to $2.7 billion at December 31, 2002. Total liabilities increased by $100.0 million or 3.7% during the nine months ended September 30, 2003 due to growth in the deposit base offset by lower borrowings. Total deposits reflected an increase of $149.9 million or 8.2% during the nine months ended September 30, 2003. This includes growth of $113.0 million in brokered deposits, which are less susceptible to early withdrawal in a rising rate environment. Core deposits for the Company consist of total deposits, other than brokered deposits, plus commercial customer sweep accounts (repurchase agreements). The Company's deposit base continues to be comprised substantially of core deposits, which were $1.908 billion or 93.7% of total deposits and sweep accounts at September 30, 2003 compared to $1.873 billion or 99.2% at December

31, 2002. Advances from the FHLB of Topeka were reduced by $49.2 million or 7.2%, during the nine-month period, as additional funding needs declined.

Stockholders' Equity. Stockholders' equity increased slightly from $167.9 million at December 31, 2002 to $168.7 million at September 30, 2003. Earnings during the period of $21.1 million

were largely offset by the purchase of 1.4 million treasury shares at an average per share price of $15.25 and an aggregate cost of $21.0 million. See also Note 6 of the Notes to the Consolidated Financial Statements. The increase in common stock and additional paid-in capital during the period ended September 30, 2003 of $1.3 million included the exercise of 112,000 options to purchase the Company's stock. At September 30, 2003, the Company and the Bank exceeded all regulatory requirements for capital adequacy. See "--Liquidity and Capital Resources".

RESULTS OF OPERATIONS

THIRD QUARTER

Net Income. Diluted earnings per share for the third quarter 2003 were $.40, an increase of 8.1% from the third quarter 2002. Diluted earnings per share include the effect of the Company's share repurchase program which resulted in 2.2 million fewer shares outstanding on average during the third quarter of 2003 compared to the third quarter of 2002. Net income for the three months ended September 30, 2003 was $7.0 million, a decrease of 5.7% from $7.4 million for the same period in the prior year. See "--Financial Condition-Stockholders' Equity" and Note 6 of the Notes to the Consolidated Financial Statements.

Net Interest Income. The Company's net interest income declined $3.3 million or 14.1% to $20.5 million for the quarter ended September 30, 2003 from $23.8 million for the comparable 2002 period. The decrease in net interest income was primarily due to a 57 basis point decline in net interest margin, which was partially offset by a $58.3 million or 2.2% increase in average interest-earning assets. Net interest margin, the ratio of tax-equivalent net interest income to average earning assets, declined to 3.01% for the three months ended September 30, 2003 from 3.58% for the same period of 2002. The decrease of net interest margin resulted from the yield on interest-earning assets falling more than rates paid on interest-bearing liabilities and the decline of net noninterest-bearing liabilities. Driven by the low rate environment, the quicker decline in earning asset yields came as a result of the continued repricing of floating rate loans and refinancing of fixed rate loans. The yield on the securities portfolio decreased 232 basis points and the yield on the loan portfolio decreased 115 basis points for the three months ended September 30, 2003 compared to the same period in the prior year, while the cost of the interest-bearing liabilities decreased only 78 basis points compared to the prior year. Although the Company continues to see growth in its commercial and residential mortgage loan portfolios, negative rate variances resulting from the current low interest rate environment continue to drive net interest income lower. Assuming no change in the current rate environment, the Company's net interest income and margin would reasonably be expected to continue to decline over the next several quarters.

Provision for Loan Losses. The Company's provision for loan losses remained the same at $1.5 million for the three-month periods ended September 30, 2003 and 2002. Charge-offs (net of recoveries) in the three-month period ended September 30, 2003 were $1.2 million compared to $1.4 million for the same period in the prior year. The net charge-offs represent an annualized rate of 0.22% and 0.28% of average loans for the third quarter of 2003 and 2002, 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 $1.6 million or 22.5% during the three months ended September 30, 2003 compared to the same period in the prior year. This increase was primarily due to a significant increase in deposit related income, which consists primarily of service charges and fees on deposit accounts, and a gain on sales of securities. Deposit related income rose $988,000 or 19.8% during the three month comparative periods. Additionally, the Company recognized a gain of $244,000 on sales of securities during the third quarter of 2003.

Noninterest expense. Total noninterest expense remained stable at $18.0 million for the third quarter of 2003 compared to third quarter 2002. The increase in compensation and professional fees was offset by a decrease in other noninterest expense. Compensation includes an executive benefit plan with a tax-offsetting bonus feature for non-qualified stock options issued to selected officers, which is expensed under the variable option accounting provisions. Other noninterest expense for the third quarter 2003 included a non-taxable excise tax refund received in connection with the dissolution of the Company's defined benefit plan in 2001.

YEAR-TO-DATE

Net Income. Diluted earnings per share for the nine months ended September 30, 2003 were $1.18, an increase of 7.3% from the same period in the prior year. Diluted earnings per share include the effect of the Company's share repurchase program which resulted in 1.9 million fewer shares outstanding on average during the nine-month period in 2003 compared to 2002. Net income for the nine months ended September 30, 2003 was $21.1 million, a decrease of 3.7% from $21.9 million for the same period in the prior year. See "--Financial Condition-Stockholders' Equity" and Note 6 of the Notes to the Consolidated Financial Statements.

Net Interest Income. The Company's net interest income declined $6.5 million or 9.2% to $63.5 million for the nine months ended September 30, 2003 from $69.9 million for the comparable 2002 period. The decrease in net interest income was primarily due to the effects of the low interest rate environment. Net interest margin declined to 3.17% for the nine months ended September 30, 2003 from 3.50% for the same period of 2002. The yield on the securities portfolio decreased 197 basis points and the yield on the loan portfolio decreased 95 basis points for the nine months ended September 30, 2003 compared to the same period in the prior year, while the cost of the interest-bearing liabilities decreased only 75 basis points compared to the prior year. As discussed above, assuming no change in the current rate environment, the Company's net interest income and margin would reasonably be expected to continue to decline over the next several quarters.

Provision for Loan Losses. The Company's provision for loan losses remained the same at $5.1 million for the nine-month periods ended September 30, 2003 and 2002. Charge-offs (net of recoveries) in the nine-month periods ended September 30, 2003 and 2002 were also stable at approximately $4.3 million. The net charge-offs represent an annualized rate of 0.26% and 0.28% of average loans for the nine months ended September 30, 2003 and 2002, respectively.

Noninterest Income and Expense. Total noninterest income increased $4.0 million or 18.6% during the nine months ended September 30, 2003 compared to the same period in the prior year. The increase was primarily due to a significant increase in deposit related income. Deposit related income rose $3.5 million or 25.0% during the nine-month comparative periods due primarily to the success of consumer focused marketing initiatives. Total noninterest expense declined slightly by $343,000 or 0.6% during the nine months ended September 30, 2003 compared to the same period in 2002. The increase in compensation, occupancy and professional fees was partially offset by a decrease in other noninterest expense.

Other noninterest expense for the nine months ended September 30, 2003 included a non-taxable excise tax refund received in connection with the dissolution of the Company's defined benefit plan in 2001.

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 SEPTEMBER 30,				
	2003			2002	
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTERES
ASSETS					
Loans receivable(1)	$2,244,364	$ 32,639	5.82%	$1,993,483	$ 34,7
Securities:					
Available for sale(2)	104,806	956	3.65	116,880	2,4
Held to maturity	288,752	2,871	3.98	475,589	6,7
Total securities	393,558	3,827	3.89	592,469	9,1

Other earning assets(3)	84,373	462	2.19	78,090	6
Total interest-earning assets	2,722,295	36,928	5.43%	2,664,042	44,5
Noninterest-earning assets	155,877			128,944	
Total assets	$2,878,172			$2,792,986	
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Transaction accounts(4)	$ 729,745	1,762	0.96%	$ 607,515	2,7
Term certificates of deposit	1,004,879	6,317	2.49	1,105,393	9,8
Total deposits	1,734,624	8,079	1.85	1,712,908	12,5
FHLB advances	641,812	6,507	3.97	600,111	6,3
Securities sold under agreements to repurchase	38,661	65	0.67	39,181	1
Senior Notes	21,295	629	11.81	21,545	6
Mandatorily redeemable trust preferred securities	60,250	1,167	7.75	47,098	1,0
Total interest-bearing liabilities	2,496,642	16,447	2.61%	2,420,843	20,7
Noninterest-bearing liabilities	213,767			197,766	
Stockholders' equity	167,763			174,377	
Total liabilities and stockholders' equity	$2,878,172			$2,792,986	
Net interest-earning assets	$ 225,653			$ 243,199	
Net interest income/interest rate spread		$ 20,481	2.82%		$ 23,8
Net interest margin			3.01%		
Ratio of average interest-earning to average interest-bearing			109.04%		

	NINE MONTHS ENDED SEPTEMBER 30,				
	2003			200	
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTE
ASSETS					
Loans receivable(1)	$2,186,604	$ 98,667	6.02%	$1,995,062	$ 10
Securities:					
Available for sale(2)	133,932	4,612	4.59	130,163	
Held to maturity	293,784	9,424	4.28	446,100	1
Total securities	427,716	14,036	4.38	576,263	2
Other earning assets(3)	58,826	1,232	2.79	89,162	
Total interest-earning assets	2,673,146	113,935	5.69%	2,660,487	13
Noninterest-earning assets	151,391			127,072	

Total assets	$2,824,537			$2,787,559	
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Transaction accounts(4)	$ 685,710	5,358	1.04%	$ 587,756	
Term certificates of deposit	987,085	20,051	2.72	1,115,241	3
Total deposits	1,672,795	25,409	2.03	1,702,997	3
FHLB advances	652,895	19,408	3.92	621,066	1
Securities sold under agreements to repurchase	39,662	248	0.84	38,675	
Senior Notes	21,295	1,887	11.81	21,545	
Mandatorily redeemable trust preferred securities	60,250	3,516	7.78	42,558	
Total interest-bearing liabilities	2,446,897	50,468	2.76%	2,426,841	6
Noninterest-bearing liabilities	208,843			190,939	
Stockholders' equity	168,797			169,779	
Total liabilities and stockholders' equity	$2,824,537			$2,787,559	
Net interest-earning assets	$ 226,249			$ 233,646	
Net interest income/interest rate spread		$ 63,467	2.93%		$ 6
Net interest margin			3.17%		
Ratio of average interest-earning to average interest-bearing			109.25%		

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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.

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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 September 30, 2003, the Company had $187.6 million in available borrowing capacity with the FHLB and $126.0 million in interest-bearing deposits with other banks.

At September 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 $391.7 million and an additional $10.9 million in performance standby letters of credit. Certificates of deposit, which are scheduled to mature within one year, totaled $642.8 million at September 30, 2003, and borrowings, which are scheduled to mature within the same period, totaled $78.6 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 September 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).

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 September 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 10.82%, a Tier 1 risk-based capital ratio of 9.37% and a leverage ratio of 7.15%. The Company includes its $60.3 million of trust preferred securities as part of its Tier 1 and total capital ratios to the extent allowed by regulation. While FASB Interpretation No. 46 may require the Company to deconsolidate one or more of its three trust preferred security subsidiaries, the Federal Reserve Board has announced that "until further notice is given to the contrary", these trust

preferred securities would continue to qualify as Tier 1 and total capital. See Note 11 of the Notes to the Consolidated Financial Statements.

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 September 30, 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	More T Three Five Y
FHLB advances	$ 635,020	$ -	$ 135,000	$
Securities sold under agreements to repurchase	57,318	57,318	-	
Senior Notes	21,295	21,295	-	
Mandatorily redeemable trust preferred securities	60,250	-	-	
Operating leases	7,729	1,044	1,580	
Data processing maintenance obligation	796	265	531	
Total contractual cash obligations	$ 782,408	$ 79,922	$ 137,111	$

		Amount of Commitment Expirati		
Commitments	Unfunded Commitments	Less than One Year	One to Three Years	More Thre Five
Lines of credit	$ 286,304	$ 174,540	$ 104,093	$
Standby letters of credit	10,854	9,648	1,206	
Other commitments	105,459	12,413	5,461	3
Total commitments	$ 402,617	$ 196,601	$ 110,760	$ 3

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.

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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 September 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 YEARS TO FIVE YEARS	OVER F YEAR
Interest-earning assets(1):					
Loans receivable(2)	$1,061,913	$ 339,164	$ 369,439	$ 324,298	$ 163,
Securities:					
Available for sale(3)	13,226	16,800	45,384	9,433	2,
Held to maturity	27,468	66,270	49,904	46,405	64,
Other interest-earning assets(4)	215,100	-	-	-	
Total	$1,317,707	$ 422,234	$ 464,727	$ 380,136	$ 231,
Interest-bearing liabilities:					
Deposits(5):					
Money market and NOW accounts	$ 351,451	$ 31,147	$ 65,258	$ 48,369	$ 182,
Passbook accounts	4,042	12,125	24,797	17,314	40,
Certificates of deposit	276,229	367,188	272,019	83,105	3,
FHLB advances(6)	10,000	-	125,000	-	500,
Securities sold under agreements to repurchase	57,318	-	-	-	
Senior Notes	-	21,295	-	-	
Mandatorily redeemable					

trust preferred securities(6)	10,000	10,000	-	-	40,
Total	$ 709,040	$ 441,755	$ 487,074	$ 148,788	$ 766,
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 608,667	$ (19,521)	$ (22,347)	$ 231,348	$(535,
Cumulative excess of interest-earnings assets over interest-bearing liabilities	$ 608,667	$ 589,146	$ 566,799	$ 798,147	$ 262,
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percentage of total assets	20.70%	20.03%	19.27%	27.14%	

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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.

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(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-15(b). 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 over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over final reporting.

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

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.

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b. Reports on Form 8-K

The Company filed the following Form 8-K during the quarter ended September 30, 2003:

1. On July 21, 2003, Local Financial Corporation announced by press release its earnings for the quarter ended June 30, 2003

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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: November 14, 2003

By/s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: November 14, 2003

By/s/ Richard L. Park

Richard L. Park
Chief Financial Officer

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