GOLD BANC CORP INC
Form 10-Q
August 14, 2003

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT
For the transition period from to

COMMISSION FILE NUMBER 0-28936

GOLD BANC CORPORATION, INC.
(Exact name of registrant as specified in its charter)

KANSAS	48-1008593
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11301 NALL AVENUE, LEAWOOD, KANSAS	66211
(Address of principal executive offices)	(Zip code)

(913) 451-8050
(Registrant's telephone number, including area code)

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 past 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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

CLASS	OUTSTANDING AT AUGUST 5, 2003
Common Stock, $1.00 par value	38,930,882

GOLD BANC CORPORATION, INC.
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PERIOD ENDED JUNE 30, 2003

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PART I FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

	JUNE 30, 2003	DECEMBER

ASSETS		
Cash and due from banks	$ 94,000	$
Federal funds sold and interest-bearing deposits	98,359	
Total cash and cash equivalents	192,359	
Investment securities:		
Held-to-maturity	173,526	
Available-for-sale	712,236	
Trading	2,357	
Total investment securities	888,119	
Mortgage loans held for sale, net	21,585	
Loans, net	2,864,338	2
Allowance for loan losses	(33,381)	
Premises and equipment, net	67,066	
Goodwill, net	35,643	
Intangible assets, net	6,462	
Cash surrender value of bank owned life insurance	78,448	
Accrued interest and other assets	48,827	
Total assets	$ 4,169,466	$ 3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 2,962,173	$ 2
Securities sold under agreements to repurchase	144,450	
Federal funds purchased and other short-term borrowings	1,117	
Subordinated debt and guaranteed preferred beneficial interests in Company's debentures	113,365	
Long-term borrowings	684,395	
Accrued interest and other liabilities	23,445	
Total liabilities	3,928,945	3
Stockholders' equity:		
Preferred stock, no par value; 50,000,000 shares authorized, no shares issued	-	
Common stock, $1.00 par value; 50,000,000 shares authorized 44,218,092 issued at June 30, 2003 and 44,188,384 issued at December 31, 2002	44,218	
Additional paid-in capital	118,410	
Retained earnings	119,018	
Accumulated other comprehensive income, net	5,427	

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Unearned compensation	(13,432)	
	273,641	
Less treasury stock - 4,721,510 shares at June 30, 2003		

and December 31, 2002	(33,120)	
	240,521	
Total liabilities and stockholders' equity	$ 4,169,466	$ 3

See accompanying notes to consolidated financial statements

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	JUNE 30, 2003	JUNE 30 2002
		(Restated)
Interest Income:		
Loans, including fees	$ 43,239	$ 41,077
Investment securities	9,595	8,625
Other	533	432
	53,367	50,134
Interest Expense:		
Deposits	15,273	16,069
Borrowings and other	8,697	8,632
	23,970	24,701
Net interest income	29,397	25,433
Provision for loan losses	3,025	4,920
Net interest income after provision for loan losses	26,372	20,513
Other income:		
Service fees	4,354	4,550
Investment trading fees and commissions	1,414	1,172
Net gains on sale of mortgage loans	773	142
Net securities gains	976	2,825
Gain on sale of branch facilities	1,179	2,381
Information technology services	3,381	4,780
Bank-owned life insurance	1,038	794
Other	1,026	224
	14,141	16,868
Other expense:		
Salaries and employee benefits	14,408	13,329

Net occupancy expense	1,927	1,538
Depreciation expense	1,717	1,537
Core deposit intangible amortization	188	125
Losses resulting from misapplication of bank funds	-	78
Information technology services	2,317	3,317
Other	9,681	7,580
	30,238	27,504
Earnings before income tax	10,275	9,877
Income tax expense	2,990	2,837
Net earnings	$ 7,285	$ 7,040
Net earnings per share-basic and diluted	$ 0.19	$ 0.21

See accompanying notes to consolidated financial statements.

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	JUNE 30, 2003	JUNE 30 2002
	(Restated)	
Interest Income:		
Loans, including fees	$ 85,703	$ 79,943
Investment securities	19,531	16,962
Other	1,002	1,027
	106,236	97,932
Interest Expense:		
Deposits	30,758	31,466
Borrowings and other	16,544	17,072
	47,302	48,538
Net interest income	58,934	49,394
Provision for loan losses	6,575	9,955
Net interest income after provision for loan losses	52,359	39,439
Other income:		
Service fees	8,551	8,520
Investment trading fees and commissions	2,891	2,568

Net gains on sale of mortgage loans	1,517	838
Net securities gains	973	3,426
Gain on sale of branch facilities	1,179	2,381
Information technology services	5,632	9,595
Bank-owned life insurance	1,947	1,897
Other	2,138	1,473
	24,828	30,698
Other expense:		
Salaries and employee benefits	29,148	25,277
Net occupancy expense	3,800	3,016
Depreciation expense	3,462	3,046
Core deposit intangible amortization	375	250
Losses resulting from misapplication of bank funds	-	103
Information technology services	3,883	6,488
Other	17,368	14,093
	58,036	52,273
Earnings before income tax	19,151	17,864
Income tax expense	5,157	4,767
Net earnings	$ 13,994	$ 13,097
Net earnings per share-basic and diluted	$ 0.37	$ 0.39

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2003, AND JUNE 30, 2002 (RESTATED)
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	CO
Balance at December 31, 2001	$ -	38,352	76,584	83,987	(8)	
Net earnings for the six months ended						
June 30, 2002	-	-	-	13,097	-	
Change in unrealized gain on						
available for-sale securities	-	-	-	-	4,555	
Total comprehensive income						

for the six months ended June 30, 2002	-	-	-	13,097	4,555
Exercise of 79,619 stock options	-	80	150	-	-
Purchase of 304,500 shares of treasury stock	-	-	-	-	-
Increase in unearned compensation	-	-	-	-	-
Dividends paid ($0.04 per common share)	-	-	-	(1,348)	-
Balance at June 30, 2002	$ -	38,432	76,734	95,736	4,547
Balance at December 31, 2002	$ -	44,188	118,257	107,392	3,489
Net earnings for the six months ended June 30, 2003	-	-	-	13,994	-
Change in unrealized gain on available for-sale securities	-	-	-	-	1,938
Total comprehensive income for the six months ended June 30, 2003	-	-	-	13,994	1,938
Exercise of 29,708 stock options	-	30	153	-	-
Increase in unearned compensation	-	-	-	-	-
Dividends paid ($0.06 per common share)	-	-	-	(2,368)	-
Balance at June 30, 2003	$ -	44,218	118,410	119,018	5,427

See accompanying notes to consolidated financial statements.

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(IN THOUSANDS)
(UNAUDITED)

	JUNE 30, 2003	JUNE 3

		(REST
Cash flows from operating activities:		
Net earnings	$ 13,994	$
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for loan losses	6,575	
Gains on sales of securities	(973)	
Amortization of investment securities premiums, net of accretion	1,801	
Depreciation	3,462	
Amortization of intangible assets	375	
Gain on sale of mortgage loans held for sale	(1,517)	
Increase in cash surrender value of bank owned life insurance	(1,947)	
Net decrease in trading securities	1,128	
Proceeds from sale of loans held for sale	130,498	
Origination of loans held for sale, net of repayments	(125,432)	
Other changes:		
Accrued interest receivable and other assets	64,925	
Accrued interest payable and other liabilities	(1,933)	
Net cash provided by operating activities	$ 90,954	$
Cash flows from investing activities:		
Net increase in loans	$ (165,754)	$
Principal collections and proceeds from sales and maturities of available-for-sale securities	103,314	
Purchases of available-for-sale securities	(283,878)	
Principal collections and proceeds from sales and maturities of held-to-maturity securities	10,529	
Purchases of held-to-maturity securities	17,219	
Purchase of bank owned life insurance policy	(20,000)	
Net additions to premises and equipment	(941)	
Net cash used in investing activities	$ (339,511)	$
Cash flows from financing activities:		
Increase in deposits	$ 245,604	$
Net decrease in short-term borrowings	(33,686)	
Proceeds from FHLB & long-term borrowings	134,775	
Proceeds from issuance of common stock	183	
Purchase of treasury stock	-	
Dividends paid	(2,368)	
Net cash provided by financing activities	344,508	
Increase in cash and cash equivalents	95,951	
Cash and cash equivalents, beginning of period	96,408	
Cash and cash equivalents, end of period	$ 192,359	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 49,296	$
Cash paid for income taxes	7,682	

See accompanying notes to consolidated financial statements

GOLD BANC CORPORATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. The consolidated financial statements should be read in conjunction with the audited financial statements included in Amendment No. 1 to our 2002 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on April 15, 2003 (the "2002 Annual Report").

The consolidated financial statements include the accounts of Gold Banc Corporation, Inc. and its subsidiary banks and companies. All significant inter-company balances and transactions have been eliminated.

The consolidated financial statements as of June 30, 2003 and for the three and six months ended June 30, 2003 and 2002 are unaudited but include all adjustments (consisting only of normal recurring adjustments) which we consider necessary for a fair presentation of our financial position and results of our operations and cash flows for those periods. The consolidated statements of earnings for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the entire year.

2. RESTATEMENT AND IMPACT ON EARNINGS

As disclosed in our 2002 Annual Report, we have restated our financial statements for the years ended December 31, 2001 and 2000. The 2002 Annual Report included all of the adjustments relating to the restatement for such prior periods including those required by Staff Accounting Bulletin 99. We also filed amended Form 10-Qs with respect to the first two quarters of 2002 to reflect the restatement of the financial information presented therein. We intend to file an amended Form 10-Q for the third quarter of 2002 in the near future. Based on discussions with the staff of the SEC, we do not plan to file amended Form 10-Ks or Form 10-Qs for 2001 or 2000. The accompanying consolidated financial information for the three and six months ended June 30, 2002 are also restated for the effect of the adjustments described above.

The restatement principally related to certain transactions totaling approximately $136,000, $1.1 million and $1.3 million in 2002, 2001 and 2000, respectively, in which Michael W. Gullion, our former Chief Executive Officer, diverted funds of Gold Bank-Kansas for personal use, as well as the use of his company credit card for personal use and improper reimbursement of personal expenses charged to his personal credit card. The transactions were discovered by an internal investigation conducted by our Audit Committee, with assistance from its independent legal counsel and forensic accountants. For a detailed discussion of the internal investigation and the transactions discovered therefrom, see "Item 13 - Certain Relationships and Related Transactions" in the 2002 Annual Report.

The effect of the restatement is as follows:

	RESTATEMENTS TO NET EARNINGS AS PREVIOUSLY REPORTED			
	PRE-TAX	TAX EFFECT	AFTER TAX	% CHANGE TO REPORTED
	(DOLLARS IN THOUSANDS)			
Three Months Ended June 30, 2002	$ (255)	$ (183)	$ (72)	1.01%

Six Months Ended June 30, 2002	$ (488)	$ (366)	$ (122)	0.92%

The impact of these amounts is as follows:

	BASIC EARNINGS PER SHARE		DILUTED EARNINGS PER SHARE	
	AS REPORTED	AS RESTATED	AS REPORTED	AS RESTATED
Three Months Ended June 30, 2002	$ 0.21	$ 0.21	$ 0.21	$ 0.21
Six Months Ended June 30, 2002 .	$ 0.39	$ 0.39	$ 0.39	$ 0.39

3. EARNINGS PER COMMON SHARE

Basic earnings per share is based upon the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share includes the effects of all potentially dilutive common shares outstanding during each period. Employee stock options are our only potential common share equivalent.

The shares used in the calculation of basic and diluted income per share for the three and six months ended June 30, 2003 and June 30, 2002 are shown below (in thousands):

	FOR THE THREE MONTHS ENDED JUNE 30		FOR THE SIX MO ENDED JUNE 30	
	2003	2002	2003	2
		(RESTATED)		(RES
Weighted average common shares outstanding.	39,496	33,199	39,486	3
Unallocated ESOP Shares	(1,546)	(947)	(1,505)	
Total basic average common shares outstanding	37,950	32,252	37,982	3
Stock options	178	225	191	
Total diluted weighted average common shares outstanding.	38,128	32,477	38,173	3

We account for employee options under the intrinsic-value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" with pro forma disclosures of net earnings and earnings per share, as if the fair value method of accounting defined in SFAS No. 123 "Accounting for Stock Based Compensation" had been applied. SFAS No. 123 establishes a fair value based method of accounting for stock based employee compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under SFAS No. 123, our net income and net income per share would have decreased as reflected in the following pro forma

amounts (in thousands, except per share amounts):

	FOR THE THREE MONTHS ENDED	
	JUNE 30, 2003	JUNE 30, 2002
Net earnings as reported	$ 7,285	$ 7,040
Deduct: Total stock based employee compensation expense determined under fair valued based method for all awards, net of related tax effects	107	75
Pro forma net earnings	$ 7,178	$ 5,982
Earnings per share:		
Basic-as reported	$ 0.19	$ 0.21
Basic-pro forma	0.19	0.21
Diluted-as reported	0.19	0.21
Diluted-pro forma	0.19	0.21

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	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2003	JUNE 30, 2002
Net earnings as reported	$ 13,994	$ 13,077
Deduct: Total stock based employee compensation expense determined under fair valued based method for all awards, net of related tax effects	182	150
Pro forma net earnings	$ 13,812	$ 12,947
Earnings per share:		
Basic-as reported	$ 0.37	$ 0.39
Basic-pro forma	0.36	0.39
Diluted-as reported	0.37	0.39
Diluted-pro forma	0.36	0.39

4. INTANGIBLE ASSETS AND GOODWILL

The following table presents information about our intangible assets which are being amortized in accordance with Statement of Financial Accounting Standards (SFAS) No. 142.

	JUNE 30, 2003		JUNE 30, 2	
			(RESTATE	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUM AMORT
	(IN THOUSANDS)			
Amortized intangible assets:				
Core deposit premium.	$ 7,508	$ 1,046	$ 4,156	$

Aggregate amortization expense for the six months ended.	-	$ 375	-	$

Estimated amortization expense (in thousands) for the years ending December 31:

2003.	$751
2004.	$751
2005.	$751
2006.	$751
2007.	$751

Goodwill at June 30, 2003 was $35.6 million, which was the same amount at December 31, 2002. There was no impairment to goodwill recorded for the three or six months ended June 30, 2003.

During 2002 and the first six months of 2003, CompuNet Engineering did not comply with certain Federal Reserve regulations regarding the sources of its revenue. As a result, we may be required under the Bank Holding Company Act to divest our interest in CompuNet Engineering. In the event that CompuNet Engineering is sold for less than the carrying value of its associated assets and goodwill, we will be required to record a goodwill impairment charge. The goodwill associated with CompuNet Engineering was $4.6 million at June 30, 2003.

5. COMPREHENSIVE INCOME

Comprehensive income was $10.0 million and $11.8 million for the three months ended June 30, 2003 and June 30, 2002, respectively. Comprehensive income was $15.9 million and $17.7 million for the six months ended June 30, 2003 and June 30, 2002, respectively. The difference between comprehensive income and net earnings presented in the consolidated statements of earnings is attributed solely to unrealized gains and losses on available-for-sale securities. During the three months ended June 30, 2003 and June 30, 2002, we recorded

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reclassification adjustments of $622,000 and $1.8 million, respectively, associated with gains included in net earnings for such periods. During the six months ended June 30, 2003 and June 30, 2002, we recorded reclassification adjustments of $624,000 and $2.2 million, respectively, associated with gains included in net earnings for such periods.

6. MERGERS, ACQUISITIONS, DISPOSITIONS AND CONSOLIDATIONS

SALE OF GUYMON BRANCH. On December 24, 2002, Gold Bank-Oklahoma entered into an agreement for the sale of its Guymon, Oklahoma branch location to City National Bank and Trust Company of Guymon, Oklahoma. The deposits and loans of this branch were approximately $36 million and $8 million, respectively, as of March 31, 2003. The sale of this branch closed on April 11, 2003, following receipt of regulatory approvals. In connection with the sale of the Guymon branch location, the Company recorded a gain of approximately $845 thousand. We believe the sale of this branch will not have a significant impact on our capital and liquidity or operations.

SALE OF WAKITA & HELENA BRANCHES. On March 4, 2003, Gold Bank-Oklahoma entered into an agreement for the sale of its Helena and Wakita, Oklahoma branch locations to Farmers Exchange Bank of Cherokee, Oklahoma. The aggregate deposits and loans of these Gold Bank-Oklahoma branches were approximately $18 million and $3 million, respectively, at the closing date. The sale of these branches closed on May 30, 2003 upon receipt of regulatory approvals. In

connection with the sale of these branches, the Company recorded a gain of approximately $334 thousand. We believe the sale of these branches will not have a significant impact on our capital and liquidity or operations.

7. DERIVATIVE INSTRUMENTS

In August 2002, we entered into three interest rate swap agreements with an aggregate notional amount of $82.5 million. Each swap has a notional amount equal to the outstanding principal amount of the related trust preferred securities, together with the same payment dates, maturity date and call provisions as the related trust preferred securities. Under each of the swaps, we pay interest at a variable rate equal to a spread over 90-day LIBOR, adjusted quarterly, and we receive a fixed rate equal to the interest that we are obligated to pay on the related trust preferred securities. The interest rate swaps are derivative financial instruments and have been designated as fair value hedges of the trust preferred securities.

During the quarter ended June 30, 2003, we received net cash flows of $700 thousand under these agreements, which was recorded as a reduction of interest expense on the trust preferred securities. During the six months ended June 30, 2003, we received net cash flows of $1.7 million under these agreements, which was also recorded as a reduction of interest expense on the trust preferred securities.

The $28.7 million notional amount swap agreement was called by the counter-party and terminated on April 7, 2003. The $16.3 million notional amount swap agreement was called by the counter-party and terminated on June 30, 2003. Under these swap agreements, no payments were due between the parties and no gain or loss was recognized by us. There are no current plans to replace these terminated swap agreements. The remaining swap agreement is also callable by the counter-party prior to its respective maturity date.

8. LEGAL PROCEEDINGS

REGULATORY EXAMINATIONS AND SUPERVISORY ACTIONS

During the first quarter of 2003, the Kansas Office of the State Bank Commissioner (the "OSBC") and the Federal Reserve Bank of Kansas City (the "FRB-KC") conducted a joint safety and soundness examination of Gold Bank-Kansas. The FRB-KC also began a financial holding company examination of the Company. Concurrently with these examinations, we conducted an internal investigation that uncovered misappropriations and other improper conduct by our former CEO, Michael W. Gullion. For additional information relating to Mr. Gullion's misconduct, see our 2002 Annual Report.

We have received the joint report of examination for Gold Bank-Kansas and the financial holding company examination report. The "management" and "composite" CAMELS ratings for Gold Bank-Kansas in the joint report of examination were less than "satisfactory." Because of these CAMELS ratings, Gold Bank-Kansas is no longer a "well-managed" financial institution. In addition to the Gullion misconduct, the report of examination identified noncompliance or deficiencies by Gold Bank-Kansas in regard to:

- Regulation H (information technology, bank secrecy act, currency transaction reports, and suspicious activity reporting);
- Section 23A of the Federal Reserve Act (transactions with affiliates);
- Regulation O (loans to officers and directors); and
- Regulation Y and K.S.A. Sec. 17-11-21 (appraisals).

The financial holding company examination report identified noncompliance or deficiencies by us in regard to:

- Section 23A of the Federal Reserve Act (transactions with affiliates);
- Regulation Y (information security);
- CompuNet's revenues from non-financial data processing activities; and
- Late filing of a regulatory report.

The joint examination report was based upon the condition and management of Gold Bank-Kansas as of December 31, 2002. The holding company examination report was based upon the condition and management of the Company as of March 31, 2003.

As a result of the examinations, we are subject to the following restrictions:

- We must provide 30 days prior written notice to the FRB-KC before adding or replacing any member of our board of directors, employing any person as a senior executive officer or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive officer position.
- We are prohibited from making or contracting to make severance payments to any director, officer or employee in excess of the severance benefits we provided to all eligible employees without the prior written approval of the FRB-KC and the Federal Deposit Insurance Corporation.
- We are prohibited from making indemnification payments to any institution-affiliated party to pay or reimburse such person for any civil money penalty, judgement or legal expenses resulting from any administrative or civil action instituted by any federal banking agency.

Also, as a result of the examinations, the OSBC and FRB-KC will take formal supervisory action against Gold Bank-Kansas and us. The regulators have recently delivered to us a draft of a written supervisory agreement (a "Written Agreement") for Gold Bank-Kansas and us intended to address and remediate the deficiencies identified in the joint report of examination. The proposed Written Agreement does not prohibit or limit the payment of dividends by Gold Bank-Kansas or us. It is not a cease and desist order. After the draft has been reviewed by our directors and the directors of Gold Bank-Kansas, and the final text has been negotiated with the regulators, we expect to voluntarily sign the Written Agreement sometime in late August or early September 2003. We plan to make the final Written Agreement publicly available by filing it with a Current Report on Form 8-K. Because we have already begun or completed nearly all the corrective actions set forth in the draft Written Agreement, we believe that complying with the final supervisory agreement will not have a material adverse effect upon the conduct of our business operations or our future earnings or results of operations.

As a financial holding company under the Bank Holding Company Act (the "BHC Act"), each of our depository institution subsidiaries must remain both "well-capitalized" and "well-managed" for us to retain our status as a financial holding company with authority to engage in expanded financial activities. Because Gold Bank-Kansas has lost its "well-managed" rating, we are not in compliance with the requirements for financial holding companies under the BHC

Act. We will not be in compliance with the requirements for financial holding companies until the "management" and "composite" ratings of Gold Bank-Kansas have been upgraded to "satisfactory" by the FRB and the OSCB.

The FRB-KC has delivered to us a draft of a written agreement (a "BHC Agreement") under the BHC Act intended to address and remediate the deficiencies identified in the financial holding company examination report. It also sets forth corrective steps we must take to restore the well managed rating of Gold Bank-Kansas and bring us into compliance with the requirements for a financial holding company. The proposed BHC Agreement requires that we take all the actions required by the Written Agreement to correct the deficiencies at Gold Bank-Kansas. It further requries that until the FRB-KC determines that we meet the requirements for a financial holding company, we may not, directly or indirectly, engage in an additional activity, or acquire any company under Section 4(k) of the BHC Act, without prior written approval of the Federal Reserve. We expect to voluntarily sign the BHC Agreement contemporaneously with the Written Agreement.

Based upon the drafts of the Written Agreement and the BHC Agreement and the activities we are already taking to correct the deficiencies identified in the examination reports, we believe that Gold Bank-Kansas will regain its "well-managed" rating, and that we will remain a financial holding company. For a discussion of the implications and alternatives if Gold Bank-Kansas does not regain its "well-managed" rating, see our 2003 first quarter report on Form 10-Q.

9. SUBSEQUENT EVENTS

On May 20, 2003, Gold Bank-Kansas entered into a restitution agreement with our former Chairman and Chief Executive Officer, Michael W. Gullion. On July 23, 2003, we purchased from an unaffiliated bank a $4 million loan to Mr. Gullion evidenced by a promissory note collateralized by substantially all of the shares of common stock of the Company owned by Mr. Gullion. On the same day, we exercised our option under the restitution agreement to purchase 583,065 shares of our common stock from Mr. Gullion for approximately $6.3 million. The purchase price of $10.805 per share was calculated in accordance with the restitution agreement and was equal to the 10-day average closing price of our common stock on the NASDAQ preceding the date on which the shares were purchased. We retained the sales proceeds to satisfy Mr. Gullion's obligation under the note payable that we purchased (aggregating approximately $4.0 million) and to satisfy Mr. Gullion's obligation under the restitution agreement (aggregating approximately $2.3 million).

As a result of the transaction, we have acquired 583,065 shares of treasury stock and will record income of approximately $2.3 million in the third quarter of 2003. We plan to reissue some of these treasury shares in private sales. Two members of our Board of Directors have purchased an aggregate of 80,000 of these shares from us at a purchase price of $10.805 per share. On August 1, 2003, Daniel P. Connealy purchased 10,000 of these shares. On August 5, 2003, William Randon purchased 70,000 of these shares. In addition, Allen D. Peterson has agreed to purchase 300,000 of these shares either directly or through an affiliated entity for $10.805 per share. Resale of these shares will be restricted for two years in accordance with SEC regulations.

We are currently attempting to negotiate a settlement with Mr. Gullion that would result in the payment by Mr. Gullion of additional restitution amounts that we believe he owes us. In addition to the $2.3 million which has been paid by Mr. Gullion, we are seeking to recover from Mr. Gullion the following:

- $1.1 million for additional amounts that we believe Mr. Gullion either misappropriated from us or for which he failed to reimburse us;

- $1.5 million for the costs of investigation into Mr. Gullion's misconduct;

- $0.5 million of interest on the above items;

- $0.2 million of outstanding loans;

- $3.0 million representing the forfeiture of all cash compensation paid to Mr. Gullion since January 1, 1998; and

- the forfeiture of all stock options granted to Mr. Gullion since January 1, 1998.

We are currently attempting to negotiate a settlement with Mr. Gullion that would result in the repayment by Mr. Gullion of some or all these amounts. In the event that we are unable to reach a satisfactory settlement with Mr. Gullion, we intend to initiate legal proceedings against Mr. Gullion for the payment of such amounts. No assurance can be given, however, that we will be able to recover such amounts from Mr. Gullion. Mr. Gullion's assets may be insufficient to pay all of such amounts and he may have statute of limitations or other defenses to the payment of some of these amounts.

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

The following financial review presents management's discussion and analysis of our consolidated financial condition and results of operations. This review highlights the major factors affecting results of operations and any significant changes in financial condition for the three and six month periods ended June 30, 2003. This review should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this report as well as Amendment No. 1 to our 2002 Annual Report on Form 10-K/A (the "2002 Annual Report"). Results of operations for the three and six month periods ended June 30, 2003 are not necessarily indicative of results to be attained for any other period.

STRATEGIC DIRECTION AND GOALS

We have undertaken a review and assessment of our strategic direction and goals. We continue to believe in the underlying soundness of our community banking model, which has been strengthened by the recent improvements in process and controls, while retaining a substantial amount of decision-making at the local level. We are also committed to a renewed focus on our core businesses of commercial banking and wealth management. As a result, we may seek to sell some of our non-core businesses.

We intend to focus our efforts in our existing fast growing, metropolitan markets: Kansas City (particularly Johnson County, Kansas) and four counties in Florida (Manatee, Charlotte, Sarasota and Hillsborough). Our branches in slower growth markets such as out-state Kansas (i.e., outside of metropolitan Kansas City) and out-state Oklahoma (i.e., outside of Oklahoma City and Tulsa) have lower growth opportunities, reduced margin opportunities, and higher cost of funds. As a result, these branches do not fit as well with our current growth and other strategic goals. We are currently evaluating the possible sale of some or all of these out-state branches in order to refine our strategic focus.

We may use the proceeds from any sales of our out-state branches to fund loans in our higher growth markets, call and redeem some of our trust preferred securities or repurchase shares of our common stock. Also, the resulting reduction in our assets and liabilities from any sales of our out-state branches would increase our regulatory capital ratios.

At this time, Gold Bank-Florida benefits from being in a rapidly growing market and a sale of the bank would result in a high tax burden. Therefore, a sale of Gold Bank-Florida is unlikely in the foreseeable future.

We plan to decrease the asset sensitivity of our balance sheet by entering into interest rate swap agreements for a portion of our long-term fixed rate borrowings. By agreeing to pay a variable rate of interest that is currently lower than the fixed rates we are paying on our borrowings, we expect to increase our net interest margin and more closely match our variable rate assets with variable rate liabilities. Our plans are to have interest rate swap agreements in place by the end of August 2003 for up to $250 million of our fixed rate borrowings from the Federal Home Loan Bank System. In addition, we currently have in place an interest rate swap agreement with respect to $37.6 million of our trust preferred securities. We have no current plans to enter into interest rate swap agreements for our other trust preferred securities because we want to have the flexibility to call and redeem those securities.

Our strategic objectives of this more refined focus are to improve profitability and the strength and flexibility of our balance sheet as well as to reduce asset sensitivity. In order to achieve these objectives, we have established the following strategic goals:

- equity capital ratio in the range of 8%,
- liquidity ratio of approximately 20%,
- loan to deposit ratio in the range of 90%,
- earnings per share growth in excess of 10%,
- return on equity in excess of 15%, and
- efficiency ratio of 60%.(1)

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(1) We calculate the efficiency ratio as a ratio, expressed as a percentage, the numerator of which is non-interest expense (excluding any non-recurring expenses), and the denominator of which is the sum of net interest income before provision for loan losses, plus non-interest income (excluding any non-recurring income).

We are also targeting total annual expense reductions of $2.5 million. Approximately $600,000 of such savings have been realized during the first six months of 2003.

Our focus on achieving the above goals makes it unlikely that we will pursue any acquisitions in the next 12 to 18 months.

CERTAIN FINANCIAL DATA

The following table sets forth certain financial data for the three and six month periods ended June 30, 2003 and June 30, 2002 (dollars in thousands, except per share amounts):

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,

	2003	2002	2003	2002
Net Earnings	$ 7,285	$ 7,040	$ 13,994	$ 13,097
Earnings Per Share	$ 0.19	$ 0.21	$ 0.37	$ 0.39
Return on Average Assets	0.72%	0.86%	0.71%	0.83%
Return on Equity	12.23%	16.66%	12.03%	15.75%
Dividend to Net Earnings	16.27%	9.56%	16.93%	10.29%

	AT JUNE 30, 2003	AT JUNE 30, 2002
Stockholders' equity to total assets	5.77%	5.20%

RECENT EVENTS AND RESTATEMENT

As disclosed in our 2002 Annual Report, we have restated our financial statements for the years ended December 31, 2001 and 2000. The 2002 Annual Report included all of the adjustments relating to the restatement for such prior periods including those required by Staff Accounting Bulletin 99. We also filed amended Form 10-Qs with respect to the first two quarters of 2002 to reflect the restatement of the financial information for such periods. We intend to file an amended Form 10-Q for the third quarter of 2002 in the near future. Based on discussions with the staff of the SEC, we do not plan to file amended Form 10-Ks or Form 10-Qs for 2001 or 2000. The consolidated financial statements included elsewhere in this report restate our financial statements for the three and six months ended June 30, 2002.

The restatement principally related to certain transactions totaling approximately $136,000, $1.1 million and $1.3 million in 2002, 2001 and 2000, respectively, in which Michael W. Gullion, our former Chief Executive Officer, diverted funds of Gold Bank-Kansas for personal use, as well as the use of his company credit card for personal use and improper reimbursement of personal expenses charged to his personal credit card. The transactions were discovered by an internal investigation conducted by our Audit Committee, with assistance from its independent legal counsel and forensic accountants. For a detailed discussion of the internal investigation and the transactions discovered therefrom, see "Item 13 - Certain Relationships and Related Transactions" in the 2002 Annual Report. For a discussion of the amounts we seek to recover from Mr. Gullion, see "-Financial Condition-Recovery of Restitution Amounts from Gullion" below.

The effect of the restatement (as described in Note 2 "Restatement and Impact on Earnings" of the consolidated financial statements) is as follows:

RESTATEMENTS TO NET EARNINGS AS PREVIOUSLY REPORTED
% CHANGE

	PRE-TAX	TAX EFFECT	AFTER TAX	TO REPORTED
	(DOLLARS IN THOUSANDS)			
Three Months Ended June 30, 2002.	$ (255)	$ (183)	$ (72)	1.01%
Six Months Ended June 30, 2002. .	$ (488)	$ (366)	$ (122)	0.92%

The impact of these amounts is as follows:

	BASIC EARNINGS PER SHARE		DILUTED EARNINGS PER SHARE	
	AS REPORTED	AS RESTATED	AS REPORTED	AS RESTATED
Three Months Ended June 30, 2002	$ 0.21	$ 0.21	$ 0.21	$ 0.21
Six Months Ended June 30, 2002 .	$ 0.39	$ 0.39	$ 0.39	$ 0.39

RESULTS OF OPERATIONS

Net Interest Income

Total interest income for the three months ended June 30, 2003 was $53.4 million compared to $50.1 million for the three months ended June 30, 2002 or an increase of $3.2 million. This increase resulted from a $2.2 million increase in loan interest and a $1.0 million increase in investment security interest. Total interest income for the six months ended June 30, 2003 was $106.2 million compared to $97.9 million for the six months ended June 30, 2002 or an increase of $8.3 million. This increase resulted from a $5.8 million increase in loan interest and a $2.5 million increase in investment security interest. Average loans increased to $2.8 billion for the three months ended June 30, 2003 compared to $2.4 billion for the three months ended June 30, 2002, or a 19.5% increase. Average loans increased to $2.8 billion for the six months ended June 30, 2003 compared to $2.3 billion for the six months ended June 30, 2002, or a 22.0% increase. This increase in loans resulted from the opening of our Briarcliff, Eastland and Olathe branches in our Kansas City market, our Tampa and Sarasota branches in our Florida market and our new Hefflin branch in our Oklahoma City market. For the three months ended June 30, 2003, our average rate on a tax equivalent basis for earning assets was 5.67%, a decrease from 6.73% for the three months ended June 30, 2002. For the six months ended June 30, 2003, our average rate on a tax equivalent basis for earning assets was 5.83%, a decrease from 6.76% for the six months ended June 30, 2002. The decrease in the average rate on earning assets primarily relates to the decrease in the prime rate that we charge to borrowers.

Average earning assets were $3.8 billion for the three months ended June 30, 2003 compared with $3.0 billion for the three months ended June 30, 2002. Average earning assets were $3.7 billion for the six months ended June 30, 2003 compared with $2.9 billion for the six months ended June 30, 2002. The increase in average earning assets is attributable to our increase in loans and our increase in investments, which relates to our leverage strategy.

Total interest expense for the three months ended June 30, 2003 was $24.0 million; a $731,000, or 3.0%, decrease over the three months ended June 30, 2002. The decrease was the result of a $796,000 decrease in interest on deposits partially offset by a $65,000 increase in interest expense on other borrowings.

Total interest expense for the six months ended June 30, 2003 was $47.3 million; a $1.2 million, or 2.5%, decrease over the six months ended June 30, 2002. The decrease was the result of a $708,000 decrease in interest on deposits and a $528,000 decrease in interest expense on other borrowings. For the three months ended June 30, 2003, our average cost of funds was 2.71%, a decrease from 3.46% for the three months ended June 30, 2002. For the six months ended June 30, 2003, our average cost of funds was 2.78%, a decrease from 3.56% for the six months ended June 30, 2002. The decrease in the average cost of funds primarily relates to the reduced rates paid on deposits.

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Net interest income was $29.4 million for the three months ended June 30, 2003, compared to $25.4 million for the same period in 2002; an increase of 15.6%. Net interest income was $58.9 million for the six months ended June 30, 2003, compared to $49.4 million for the same period in 2002; an increase of 19.3%. Our net interest margin decreased from 3.44% for the three months ended June 30, 2002 to 3.14% for the three months ended June 30, 2003 on a tax equivalent basis. Our net interest margin on interest earning assets decreased from 3.44% for the six months ended June 30, 2002 to 3.25% for the six months ended June 30, 2003 on a tax equivalent basis. The increase in net interest income and the decrease in net interest margin was the result of the combination of a significant increase in loans during the periods and a decrease in the average rate on loans receivable. For the three months ended June 30, 2003 compared to the three months ended June 30, 2002, average interest bearing liabilities increased $87.0 million compared to an increase of $351.3 million in average interest earning assets. For the six months ended June 20, 2003 compared to the six months ended June 30, 2002, average interest bearing liabilities increased $679 million compared to an increase of $756 million in average interest earning assets. The difference between the increase in average interest bearing liabilities and the increase in average interest earning assets is due to an increase in non-interest bearing deposits during the relevant periods.

Provision/Allowance for Loan Losses

The success of a bank depends to a significant extent upon the quality of its assets, particularly loans. This is highlighted by the fact that net loans were 68% of our total assets as of June 30, 2003. Credit losses are inherent in the lending business. The risk of loss will vary with general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and the value of the collateral in the case of a collateralized loan, among other things.

The allowance for loan losses totaled $33.4 million and $33.4 million at June 30, 2003 and December 31, 2002, respectively, and represented 1.16% and 1.22% of total loans at each date. The provision for loan losses for the three months ended June 30, 2003 was $3.0 million compared to $4.9 million for the three months ended June 30, 2002. The decrease in the provision for loan losses for the three months ended June 30, 2003 compared to the three months ended June 30, 2002 was the result of a slower rate of increase in our loan portfolio during 2003 and an improvement in the credit quality of our loan portfolio. Net charge-offs for the three months ended June 30, 2003 were $2.3 million compared to $2.6 million for the three months ended June 30, 2002. The provision for loan losses for the six months ended June 30, 2003 was $6.6 million compared to $10.0 million for the six months ended June 30, 2002. The decrease in the provision for loan losses for the six months ended June 30, 2003 compared to the six months ended June 30, 2002 was also the result of a slower rate of increase in our loan portfolio during 2003 and an improvement in the credit quality of our loan portfolio. Net charge-offs for the six months ended June 30, 2003 were $6.6 million compared to $5.6 million for the six months ended June 30, 2002.

Management has continued to review the loan portfolios of the banks, to increase the provision and to charge-off those credits when collection is considered to be doubtful.

The allowance for loan losses is comprised of specific allowances assigned to certain classified loans and a general allowance. We continuously evaluate our allowance for loan losses to maintain an adequate level to absorb loan losses inherent in the loan portfolio. Factors contributing to the determination of specific allowances include the credit worthiness of the borrower, changes in the expected future receipt of principal and interest payments and/or changes in the value of pledged collateral. An allowance is recorded when the carrying amount of the loan exceeds the discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of determining the general allowance, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Each credit grade is assigned a risk factor, or allowance allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required allowance.

The allowance allocation percentages assigned to each credit grade have been developed based on an analysis of historical loss rates at our individual banks, adjusted for certain qualitative factors and on our management's experience. Qualitative adjustments for such things as general economic conditions, changes in credit policies and lending standards, and changes in the trend and severity of problem loans, can cause the estimation of future losses to differ from past experience. The unallocated portion of the general allowance serves to compensate for additional areas of uncertainty and considers industry comparable reserve ratios.

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The methodology used in the periodic review of allowance adequacy, which is performed at least quarterly, is designed to be responsive to changes in actual credit losses. The changes are reflected in the general allowance and in specific allowances as the collectability of larger classified loans is continuously recalculated with new information. As our portfolio matures, historical loss ratios are being closely monitored.

We actively manage our past due and non-performing loans in each bank subsidiary in an effort to minimize credit losses, and monitor asset quality to maintain an adequate loan loss allowance. Although management believes our allowance for loan losses is adequate for each bank and on an aggregate basis, the allowance may not prove sufficient to cover future loan losses. Further, although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used, or adverse developments arise with respect to non-performing or performing loans. Accordingly, the allowance for loan losses may not be adequate to cover loan losses, and significant increases to the allowance may be required in the future if economic conditions should worsen. Material additions to the allowance for loan losses would result in a decrease of the our net earnings and capital.

We consider non-performing assets to include all non-accrual loans, other loans past due 90 days or more as to principal and interest and still accruing, other real estate owned and repossessed assets. Total non-performing loans were $20.1 million and $15.9 million at June 30, 2003 and December 31, 2002, respectively. The $4.2 million increase in non-performing loans can generally be attributed to one Gold Bank-Kansas loan of $4.0 million that was placed in non-performing status in March 2003. Total non-performing loans were 0.70% and 0.58% of gross loans at June 30, 2003 and December 31, 2002, respectively. Total

non-performing assets were $27.3 million and $22.2 million at June 30, 2003 and December 31, 2002, respectively. The increase in non-performing assets of $5.1 million can be generally attributed to the above mentioned non-performing loan. Total non-performing assets were 0.66% and 0.58% of total assets at June 30, 2003 and December 31, 2002, respectively.

Other Income

For the three months ended June 30, 2003, other income was $14.1 million compared to $16.9 million for the three months ended June 30, 2002, a decrease of $2.7 million, or 16.2%. The net decrease resulted from a decrease in sales from information technology sales, which decreased from $4.8 million in the second quarter of 2002 to $3.4 million in the second quarter of 2003. This decrease was the result of decreased sales revenue principally in the hardware sales area. In addition, the decrease in other income was also the result of a decline in net securities gains of $1.8 million in comparing the second quarter of 2003 to 2002. This decline was primarily the result of income recorded in the second quarter of 2002 from the sale of our investment in Blue Rhino stock. The decrease was also the result of gain on sale of branch facilities declining from $2.4 million in the second quarter of 2002 to $1.2 million in the second quarter of 2003. This decrease was also affected by an decrease in service fees of $196,000 and a $242,000 increase in investment trading fees and commissions compared with the first quarter of 2002. For the three months ended June 30, 2003, net gains on sale of mortgage loans increased $631,000 compared to the three months ended June 30, 2002. In comparing the same periods, Bank-owned life insurance income increased $244,000 and other income increased $802,000.

For the six months ended June 30, 2003, other income was $24.8 million compared to $30.7 million for the six months ended June 30, 2002, a decrease of $5.9 million, or 19.1%. The net decrease resulted from a decrease in sales from information technology sales, which decreased from $9.6 million in the first six months of 2002 to $5.6 million in the first six months of 2003. This decrease was the result of decreased sales revenue principally in the hardware sales area. The decrease was also the result of a decline in net securities gains of $2.4 million in comparing the first six months of 2003 to 2002. This decline was primarily the result of income recorded in the first six months of 2002 from the sale of our investment in Blue Rhino stock. The decrease was also the result of gain on sale of branch facilities declining from $2.4 million in the second quarter of 2002 to $1.2 million in the second quarter of 2003. This decrease was partially offset by an increase in service fees of $31,000 and a $257,000 increase in investment trading fees and commissions compared with the first six months of 2002. For the six months ended June 30, 2003, net gains on sale of mortgage loans increased $679,000 compared to the six months ended June 30, 2002. In comparing the same periods, Bank-owned life insurance income increased $50,000 and other income increased $715,000.

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Other Expense

For the three months ended June 30, 2003, other expense was $30.2 million compared to $27.5 million for the same period of 2002. Salaries and employee benefits increased from $13.3 million in the second quarter of 2002 to $14.4 million in the second quarter of 2003, or an increase of $1.1 million. Adding additional branch locations and expansion of our current operations caused this increase. Net occupancy expense increased from $1.2 million for the quarter ended June 30, 2002 to $1.9 million for the quarter ended June 30, 2003 as a result of opening new branch facilities in Florida and Kansas. Depreciation expense increased from $1.5 million to $1.7 million from the quarter period ended June 30, 2002 to June 30, 2003, respectively. Core deposit intangible amortization expense was $188,000 during the second quarter of 2003, compared to

$125,000 for the same period of 2002. A $1.0 million decrease in information technology services expenses resulted from the decline in cost of sales component for hardware and software sold by CompuNet. This directly relates to the $1.4 million decrease in information technology sales described above in the Other Income section. The remaining expenses classified as other expense increased from $7.6 million to $9.7 million. The largest items accounting for this increase in Other Expense of $2.1 million were a $900,000 increase in legal, accounting and consulting expense and an increase of $380,000 in advertising, marketing and public relations expense. The increase in legal and consulting expense was primarily attributable to the investigation into Mr. Gullion's misconduct discussed elsewhere in this report. The increase in advertising and marketing was caused by an increased communications effort.

For the six months ended June 30, 2003, other expense was $58.0 million compared to $52.3 million for the same period of 2002. Salaries and employee benefits increased from $25.3 million in the first six months of 2002 to $29.1 million in the first six months of 2003, or an increase of $3.9 million. Adding additional branch locations and expansion of our current operations caused this increase. Net occupancy expense increased from $3.0 million for the first six months ended June 30, 2002 to $3.8 million for the six months ended June 30, 2003 as a result of opening new offices. Depreciation expense increased from $3.0 million to $3.5 million from the six month periods ended June 30, 2002 to June 30, 2003, respectively. Core deposit intangible amortization expense was $375,000 during the first six months of 2003, compared to $250,000 for the same period of 2002. A $2.6 million decrease in information technology services expenses resulted from the decline in cost of sales component for hardware and software sold by CompuNet. This directly relates to the $4.0 million decrease in information technology sales described above in the Other Income section. The remaining expenses classified as other expense increased from $14.1 million to $17.4 million. The largest items accounting for this increase in Other Expense of $3.3 million were a $1.4 million increase in legal, accounting and consulting expense and an increase of $188,000 in FDIC and state assessments. The increase in legal and consulting expense was primarily attributable to the investigation into Mr. Gullion's misconduct discussed elsewhere in this report.

Income Tax Expense

Income tax expense for the three months ended June 30, 2003 and 2002 was $3.0 million and $2.8 million, respectively. The effective tax rate for each time period was 29.1% and 28.7%, respectively. Income tax expense for the six months ended June 30, 2003 and 2002 was $5.2 million and $4.8 million, respectively. The effective tax rate for each time period was 26.9% and 26.7%, respectively. Our effective tax rate is less than the statutory federal rate of 35% due primarily to municipal tax-exempt interest on municipal bonds and tax deferred income generated from our investments in bank owned life insurance.

FINANCIAL CONDITION

From December 31, 2002 to June 30, 2003, total assets grew from $3.8 billion to $4.2 billion. Cash and cash equivalents increased from $96.4 million to $192.4 million. Net loans increased from $2.7 billion to $2.9 billion. Investment securities were $888.1 million at June 30, 2003, compared to $736.1 million at December 31, 2002; an increase of $152.0 million or 20.7%. Mortgage loans held for sale decreased from $25.1 million to $21.6 million. Net premises and equipment decreased from $69.6 million to $67.1 million. Cash surrender value of bank owned life insurance increased from $56.5 million to $78.4 million. Total liabilities increased from $3.6 billion to $3.9 billion. Deposits increased from $2.7 billion to $3.0 billion, from December 31, 2002 to June 30, 2003. Securities sold under agreements to repurchase decreased from $153.6 million to $144.5 million. Total long and short-term borrowings increased $111.2 million, or 16.2%, from December 31, 2002. Accrued interest and other liabilities decreased from $26.1 million to $23.4 million.

During the first six months of 2003, cash and cash equivalents increased $96.0 million or 99.5% over balances at December 31, 2002. This increase was the direct result of a certificate of deposit campaign we completed at the end of the second quarter of 2003, which raised approximately $100 million of new deposits. A significant amount of these new funds were used to repay brokered deposits that matured shortly after the end of the second quarter.

During the first six months of 2003, loans increased $155.6 million, or 5.7%, over balances at December 31, 2002. Mortgage loans held for sale decreased $3.6 million over the balance at December 31, 2002. The decrease was due to a decrease in fixed rate single-family mortgage loans originated during the six month period ended June 30, 2003.

Investment securities at June 30, 2003, increased $152.0 million compared to the balance at December 31, 2002. This increase resulted from an increase of $16.3 million in US agency mortgage-backed securities and an increase of $130.5 million in US agency securities. The total investment securities portfolio amounted to $888.1 million at June 30, 2003, and was comprised mainly of U.S. government and agencies (30.1%), mortgage-backed (49.7%), and other asset-backed (20.2%) investment securities.

Bank owned life insurance at June 30, 2003, increased $21.9 million compared to the balance sheet amount at December 31, 2002. The increase in the balance primarily resulted from the Company's additional investment of $20.0 million and earnings recorded on our investment in bank owned life insurance. Total deposits increased $245.6 million at June 30, 2003, compared to December 31, 2002, mainly due to the effect of an increase of $240.9 million in time deposits, a $82.5 million decrease in money market accounts and a $87.2 million increase in other deposits.

Compared to 2002 year-end balances, borrowings at June 30, 2003, increased $111.2 million. Our short-term borrowings of federal funds purchased and securities sold under agreements to repurchase vary depending on daily liquidity requirements. These borrowings decreased $24.5 million during the first six months of 2003 to a balance of $1.1 million at June 30, 2003. Long term borrowings, consisting mainly of FHLB advances, increased $135.5 million to $684.4 million outstanding at June 30, 2003. The increase in long-term borrowings is the direct result of loan growth in the current year, as well as our leverage strategy related to our investment portfolio.

During the first six months of 2003, accrued interest and other liabilities decreased $2.7 million, or 10.3%, due to a $3.3 million decrease in federal taxes payable due to tax payments made during the first six months of 2003 and some increase in the amount of accrued interest payable.

Contractual Obligations and Commercial Commitments

The following table presents our contractual cash obligations, defined as operating lease obligations, principal and interest payments due on non-deposit obligations and guarantees with maturities in excess of one year, as of June 30, 2003 for the periods indicated.

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL CASH OBLIGATIONS	TOTAL INTEREST AND PRINCIPAL	ONE YEAR AND LESS	ONE TO THREE YEARS	FOUR TO FIVE YEARS	MORE THAN FIVE YEARS

	(DOLLARS IN THOUSANDS)				
Operating leases	$ 36,952	$ 3,689	$ 7,127	$ 4,762	$ 21,37
FHLB advances(1)	671,726	61,928	96,495	127,504	385,79
Subordinated debt(1)	71,727	1,467	2,930	2,926	64,40
Trust preferred securities . .	277,919	7,548	14,642	14,642	240,18
Total contractual obligations.	$ 1,058,324	$ 74,632	$ 121,469	$ 150,288	$ 711,75