

TEAM FINANCIAL INC /KS
Form 10-Q
August 13, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2003

Securities and Exchange Commission File Number: 000-26335

TEAM FINANCIAL, INC.

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(Exact name of registrant as specified in its charter)

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

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8 West Peoria, Suite 200, Paola, Kansas 66071

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(Address of principal executive offices) (Zip Code)

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Registrant's telephone, including area code: **(913) 294-9667**

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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 No

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUES:

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

There were 4,094,305 shares of the Registrant's common stock, no par value, outstanding as of July 31, 2003.

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Consolidated Statements of Financial Condition as of June 30, 2003 and December 31, 2002

Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2003 and 2002

Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2003 and 2002

Consolidated Statements of Changes In Stockholders' Equity for the Six Months Ended June 30, 2003

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Team Financial, Inc. And Subsidiaries

Consolidated Statements of Financial Condition

(In Thousands)

(Unaudited)

| | June 30, 2003 | December 31, 2002 |
|--|------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 23,997 | \$ 18,298 |
| Federal funds sold and interest bearing bank deposits | 1,415 | 17,260 |
| Cash and cash equivalents | 25,412 | 35,558 |
| Investment securities | | |
| Available for sale, at fair value (amortized cost of \$221,062 and \$218,037 at June 30, 2003 and December 31, 2002, respectively) | 226,631 | 224,052 |
| Total investment securities | 226,631 | 224,052 |
| Loans receivable, net of unearned fees | 342,750 | 340,986 |
| Allowance for loan losses | (4,644) | (4,611) |
| Net loans receivable | 338,106 | 336,375 |
| Accrued interest receivable | 3,830 | 4,053 |
| Premises and equipment, net | 12,910 | 12,219 |
| Assets acquired through foreclosure | 1,366 | 1,770 |
| Goodwill | 14,538 | 14,407 |
| Intangible assets, net of accumulated amortization | 6,049 | 6,579 |
| Bank owned life insurance policies | 17,371 | 16,968 |
| Other assets | 3,294 | 3,888 |
| Total assets | \$ 649,507 | \$ 655,869 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Deposits: | | |
| Checking deposits | \$ 164,248 | \$ 172,886 |
| Savings deposits | 32,616 | 31,212 |
| Money market deposits | 52,372 | 54,485 |
| Certificates of deposit | 201,504 | 197,022 |
| Total deposits | 450,740 | 455,605 |
| Federal funds purchased and securities sold under agreements to repurchase | 5,714 | 4,401 |
| Federal Home Loan Bank advances | 111,271 | 112,331 |
| Notes payable | 4,376 | 6,455 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 15,525 | 15,525 |

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| | | |
|--|------------|------------|
| Accrued expenses and other liabilities | 9,055 | 9,724 |
| Total liabilities | 596,681 | 604,041 |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, no par value, 10,000,000 shares authorized, no shares issued | | |
| Common stock, no par value, 50,000,000 shares authorized; 4,448,888 and 4,442,210 shares issued; 4,094,305 and 4,107,627 shares outstanding at June 30, 2003 and December 31, 2002, respectively | 27,443 | 27,393 |
| Capital surplus | 182 | 211 |
| Retained earnings | 24,766 | 23,290 |
| Treasury stock, 354,583 and 334,583 shares of common stock at cost at June 30, 2003, and December 31, 2002, respectively | (3,239) | (3,034) |
| Accumulated other comprehensive income | 3,674 | 3,968 |
| Total stockholders' equity | 52,826 | 51,828 |
| Total liabilities and stockholders' equity | \$ 649,507 | \$ 655,869 |

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries
Consolidated Statements of Operations
(Dollars In Thousands, Except Per Share Data)
(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------------|-----------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 5,802 | \$ 6,626 | \$ 11,767 | \$ 13,597 |
| Taxable investment securities | 1,715 | 2,482 | 3,669 | 4,866 |
| Nontaxable investment securities | 265 | 229 | 512 | 444 |
| Other | 34 | 88 | 82 | 197 |
| Total interest income | 7,816 | 9,425 | 16,030 | 19,104 |
| Interest Expense: | | | | |
| Deposits | | | | |
| Checking deposits | 143 | 266 | 316 | 552 |
| Savings deposits | 63 | 133 | 133 | 301 |
| Money market deposits | 151 | 254 | 320 | 490 |
| Certificates of deposit | 1,402 | 2,080 | 2,870 | 4,408 |
| Federal funds purchased and securities sold under agreements to repurchase | 11 | 15 | 22 | 29 |
| FHLB advances payable | 1,245 | 870 | 2,485 | 1,750 |
| Notes payable | 49 | 91 | 104 | 180 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 377 | 377 | 754 | 754 |
| Total interest expense | 3,441 | 4,086 | 7,004 | 8,464 |
| Net interest income before provision for loan losses | 4,375 | 5,339 | 9,026 | 10,640 |
| Provision for loan losses | 142 | 178 | 487 | 334 |
| Net interest income after provision for loan losses | 4,233 | 5,161 | 8,539 | 10,306 |
| Non-Interest Income: | | | | |
| Service charges | 896 | 951 | 1,701 | 1,805 |
| Trust fees | 145 | 145 | 274 | 287 |
| Insurance agency commissions | 1,174 | | 2,310 | |
| Gain on sales of mortgage loans | 771 | 402 | 1,422 | 947 |
| Gain (loss) on sales of investment securities | 149 | 40 | 150 | 66 |

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| | | | | |
|--|------------------|------------------|------------------|------------------|
| Gain on sale of branch assets | | 452 | | 452 |
| Other | 652 | 643 | 1,334 | 1,232 |
| Total non-interest income | 3,787 | 2,633 | 7,191 | 4,789 |
| Non-Interest Expenses: | | | | |
| Salaries and employee benefits | 3,539 | 2,925 | 6,983 | 5,864 |
| Occupancy and equipment | 672 | 578 | 1,389 | 1,156 |
| Data processing | 511 | 512 | 981 | 982 |
| Professional fees | 304 | 241 | 615 | 564 |
| Marketing | 107 | 64 | 198 | 116 |
| Supplies | 102 | 92 | 210 | 181 |
| Intangible asset amortization | 347 | 199 | 676 | 335 |
| Disposal of branch assets | 258 | | 258 | |
| Conversion | 50 | 2 | 50 | 6 |
| Other | 911 | 902 | 1,818 | 1,713 |
| Total non-interest expenses | 6,801 | 5,515 | 13,178 | 10,917 |
| Income before income taxes | 1,219 | 2,279 | 2,552 | 4,178 |
| Income taxes | 245 | 1,148 | 587 | 1,689 |
| Net income | \$ 974 | \$ 1,131 | \$ 1,965 | \$ 2,489 |
| Shares applicable to basic income per share | 4,094,305 | 4,175,160 | 4,100,025 | 4,178,169 |
| Basic income per share | \$ 0.24 | \$ 0.27 | \$ 0.48 | \$ 0.60 |
| Shares applicable to diluted income per share | 4,121,775 | 4,200,551 | 4,127,620 | 4,195,698 |
| Diluted income per share | \$ 0.24 | \$ 0.27 | \$ 0.48 | \$ 0.59 |

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net Income | \$ 974 | \$ 1,131 | \$ 1,965 | \$ 2,489 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gains (losses) on investment securities available for sale net of tax of \$339 and \$1,007 for the three months ended June 30, 2003 and June 30, 2002, respectively; and net of tax \$(101) and \$845 for the six months ended June 30, 2003 and June 30, 2002, respectively | 653 | 2,100 | (195) | 1,698 |
| Reclassification adjustment for gains (losses) included in net income net of tax of \$(51) and \$(14) for the three months ended June 30, 2003 and June 30, 2002, respectively; and net of tax \$(51) and \$(22) for the six months ended June 30, 2003 and June 30, 2002, respectively | (98) | (26) | (99) | (44) |
| Other comprehensive income (loss), net | 555 | 2,074 | (294) | 1,654 |
| Comprehensive income | \$ 1,529 | \$ 3,205 | \$ 1,671 | \$ 4,143 |

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Changes In Stockholders Equity

Six Months Ended June 30, 2003

(Dollars In Thousands, Except Per Share Amounts)

(Unaudited)

| | Common stock | Capital surplus | Retained earnings | Treasury stock | Accumulated other comprehensive income | Total stockholders equity |
|--|-----------------|--------------------|----------------------|-------------------|---|---------------------------------|
| BALANCE, December 31, 2002 | \$ 27,393 | \$ 211 | \$ 23,290 | \$ (3,034) | \$ 3,968 | \$ 51,828 |
| Treasury stock purchased (20,000 shares) | | | | (205) | | (205) |
| Common stock issued in connection with compensation plans (6,678 shares) | 50 | | | | | 50 |
| Decrease in capital surplus in connection with compensation plans | | (29) | | | | (29) |
| Net Income | | | 1,965 | | | 1,965 |
| Dividends (\$0.12 per share) | | | (489) | | | (489) |
| Other comprehensive income (loss) net of \$(152) in taxes | | | | | (294) | (294) |
| BALANCE, June 30, 2003 | \$ 27,443 | \$ 182 | \$ 24,766 | \$ (3,239) | \$ 3,674 | \$ 52,826 |

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements Of Cash Flows

(In thousands)

| | Six Months Ended June 30, | |
|--|---------------------------|----------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,965 | \$ 2,489 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 487 | 334 |
| Depreciation and amortization | 2,611 | 1,189 |
| Non-cash compensation expense | (29) | |
| Change in bank owned life insurance | (403) | 94 |
| Net gain on sales of investment securities | (150) | (66) |
| Net gain on sales of mortgage loans | (1,422) | (947) |
| Net loss on sales of assets acquired through foreclosure | 57 | 6 |
| Net gain on sale of branch assets | | (452) |
| Disposal of branch assets | 258 | |
| Proceeds from sale of mortgage loans | 68,571 | 59,438 |
| Origination of mortgage loans for sale | (60,480) | (45,967) |
| Net decrease (increase) in other assets | 379 | (911) |
| Net decrease in accrued expenses and other liabilities | (516) | (137) |
| Net cash provided by operating activities | 11,328 | 15,070 |
| Cash flows from investing activities: | | |
| Net (increase) decrease in loans | (9,063) | 6,675 |
| Proceeds from sale of investment securities available-for-sale | 1,164 | 6,699 |
| Proceeds from maturities and principal reductions of investment securities available-for-sale | 68,379 | 24,813 |
| Purchases of investment securities available-for-sale | (73,789) | (47,964) |
| Proceeds from maturities and principal reductions of investment securities held-to-maturity | | |
| Purchase of premises and equipment, net | (1,468) | (536) |
| Proceeds from sales on assets acquired through foreclosure | 639 | 282 |
| Cash paid for acquisitions and dispositions, net | | (30,493) |
| Net cash used in investing activities | (14,138) | (40,524) |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (4,865) | 20,743 |
| Net increase (decrease) in federal funds purchased and securities sold under agreement to repurchase | 1,313 | (4,296) |
| Payments on Federal Home Loan Bank advances | (1,060) | (1,052) |
| Proceeds from Federal Home Loan Bank advances | | |

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| | | |
|--|-----------|-----------|
| Payments on notes payable | (2,279) | (258) |
| Proceeds of notes payable | 200 | |
| Common stock issued | 50 | 49 |
| Purchase of treasury stock | (205) | (98) |
| Dividends paid on common stock | (490) | (209) |
| Net cash (used in) provided by financing activities | (7,336) | 14,879 |
| Net change in cash and cash equivalents | (10,146) | (10,575) |
| Cash and cash equivalents at beginning of the period | 35,558 | 38,895 |
| Cash and cash equivalents at end of the period | \$ 25,412 | \$ 28,320 |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

| | | |
|--------------|----------|----------|
| Interest | \$ 7,046 | \$ 8,482 |
| Income taxes | 2,864 | 1,020 |

Noncash activities related to operations

| | | |
|--|--------|--------|
| Transfer of loans to assets acquired through foreclosure | \$ 291 | \$ 512 |
|--|--------|--------|

See accompanying notes to the consolidated financial statements

TEAM FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three and six month periods ended June 30, 2003 and 2002

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements of Team Financial, Inc. and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial condition and results of operations required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of results have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

The interim consolidated financial statements include the accounts of Team Financial, Inc. and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. The December 31, 2002 statement of financial condition has been derived from the audited consolidated financial statements as of that date. The results of the interim periods ended June 30, 2003, are not necessarily indicative of the results that may occur for the year ending December 31, 2003.

Note 2: Income Per Share

Basic income per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

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 income and income per share, as if the fair value method of accounting defined in SFAS No. 123 *Accounting for Stock Based Compensation* had been applied. SFAS 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.

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| (Dollars In Thousands, Except Per Share Data) | | | | |
| Net income: | | | | |
| As reported | \$ 974 | \$ 1,131 | \$ 1,965 | \$ 2,489 |
| Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 93 | 120 | 246 | 251 |
| Pro forma | \$ 881 | \$ 1,011 | \$ 1,719 | \$ 2,238 |
| Basic earnings per share | | | | |
| As reported | \$ 0.24 | \$ 0.27 | \$ 0.48 | \$ 0.60 |
| Pro forma | 0.22 | 0.24 | 0.42 | 0.54 |
| Diluted earnings per share | | | | |
| As reported | \$ 0.24 | \$ 0.27 | \$ 0.48 | \$ 0.59 |
| Pro forma | 0.21 | 0.24 | 0.42 | 0.53 |
| Shares utilized in basic earnings per share | 4,094,305 | 4,175,160 | 4,100,025 | 4,178,169 |
| Shares utilized in diluted earnings per share | 4,121,775 | 4,200,551 | 4,127,620 | 4,195,698 |

Note 3: Stock Repurchase Program

Our Board of Directors approved a stock repurchase program in January 2001, authorizing the repurchase of up to 300,000 shares of our common stock. During the six month period ending June 30, 2003, we purchased 20,000 shares at an average price of \$10.25 per share. As of June 30, 2003, we had repurchased 142,978 shares of our common stock under the program at an average price of \$9.83 per share.

Note 4: Dividend Declared

On May 27, 2003, we declared a quarterly cash dividend of \$0.06 per share to all shareholders of record on June 30, 2003, payable July 21, 2003.

Note 5: Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The provisions of this Statement are effective for exit or disposal activities initiated after December 31, 2002. We do not believe that the adoption of Statement No. 146 will have a significant impact on our consolidated financial statements.

In October 2002, the FASB issued Statement No. 147, *Acquisitions of Certain Financial Institutions*. This Statement provides guidance on the accounting for the acquisition of a financial institution and applies to all acquisitions except those between two or more mutual enterprises. Those transition provisions were effective on October 1, 2002. The scope of Statement No. 144 was amended to include long-term customer-relationship intangible assets such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. We do not believe that the adoption of Statement No. 147 will have a significant impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. We do not believe that the adoption of Interpretation No. 45 will have a significant impact on our consolidated financial statements.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. This Statement, which amends Statement No. 123, *Accounting for Stock-Based Compensation*, provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition it requires more prominent and more frequent disclosure in financial statements about the effects of stock-based compensation. We will continue to account for stock-based compensation in accordance with APB No. 25. We do not believe that the adoption of Statement No. 148 will have a significant impact on our consolidated statements.

In January 2003, FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, elaborates on the financial statement disclosures to be made by enterprises involved with variable interest entities, including requiring consolidation of entities in which an enterprise has a controlling financial interest that is not controlled through voting interests. The requirements in this Interpretation are effective for variable interest entities created after January 31, 2003, and the first fiscal or interim period beginning after June 15, 2003, for variable interest entities acquired before that date. We do not believe that the adoption of Interpretation No. 46 will have a significant impact on our consolidated financial statements.

We adopted SFAS No. 144 *Accounting for the Impairment of Disposal of Long-Lived Assets* on January 1, 2002. The Statement established a single accounting model for all long-lived assets to be disposed of by sale, which is to measure a long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to cease depreciation. The Statement also establishes criteria to determine when a long-lived asset is held for sale and provides additional guidance on accounting for such specific circumstances. We do not believe that the adoption of Statement No. 144 will have a significant impact on our consolidated financial statements.

In May 2003, FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies, measures and discloses in its financial statements certain financial instruments with characteristics of both liabilities and equity. Statement No. 150 requires that an issuer classify financial instruments that are within its scope as a liability, in most circumstances. Such financial instruments include (i) financial instruments that are issued in the form of shares that are mandatorily redeemable; (ii) financial instruments that embody an obligation to repurchase the issuer's equity shares, or are indexed to such an obligation and that require the issuer to settle the obligation by transferring assets; (iii) financial instruments that embody an obligation that the issuers settle by issuing a variable number of its equity shares if, at inception, the monetary value of the obligations is predominately based on a fixed amount, variations in something other than the fair value of the issuer's equity share or variations inversely related to changes in the fair value of the issuer's equity shares; and (iv) certain freestanding financial instruments. Statement No. 150 is effective for contracts entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of Statement No. 150 on July 2003 did not have a significant impact on our consolidated financial statements.

Note 6: Acquisitions and Sale or Disposition of Branches

On May 5, 2003, we closed our 2809 South 160th Street branch location in Omaha, Nebraska. We recorded a \$258,000 loss to terminate the building lease and dispose the assets of the facility. We intend to open a new branch in the Omaha, Nebraska market within the next 24 months.

On December 18, 2002, we completed the acquisition of The Quarles Agency, Inc., a 25-year old insurance agency. The name of the insurance agency was changed to Team Insurance Group in May of 2003. The total consideration paid to The Quarles Agency Inc. s shareholders was \$6.9 million in the form of \$5.0 million of cash at closing and the balance of the cash consideration of \$1.9 million plus interest thereon at the Prime Rate published in the Wall Street Journal minus one percent shall be paid in two annual contingent payments of \$925,000 each. The payment of such contingent consideration will be recorded as goodwill and agency expirations at the time of payment. During the six months ended June 30, 2003, there were no payments made related to the contingent consideration. The acquisition was accounted for using the purchase method of accounting, as required by SFAS 141 *Business Combinations*. The results of operations from the date of purchase have been included in the consolidated financial statements.

On June 21, 2002, our wholly owned subsidiary, Community Bank, sold its Chapman and Abilene, Kansas branch locations to First National Bank of Belleville, Kansas. We recorded a pre-tax gain on the sale of \$452,000 and an after tax loss on the sale of \$196,000. The after tax loss was due to a difference in the book versus tax basis on the reduction of \$1.3 million in goodwill with the sale.

Note 7: Goodwill and Intangible Assets

Goodwill and intangible assets: Effective July 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 141 *Business Combinations*. Effective January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*.

The following table summarizes our intangible assets as of June 30, 2003.

| | June 30, 2003 | |
|---------------------------|--------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization |
| (In Thousands) | | |
| Core deposit intangible | \$ 6,400 | \$ 2,387 |
| Agency Expirations | 1,349 | 72 |
| Non-Compete Agreements | 350 | 62 |
| Mortgage servicing rights | 2,050 | 1,579 |
| Total intangible assets | \$ 10,149 | \$ 4,100 |

The following table summarizes amortization expense on the intangible assets.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|--------------------------------|--------|------------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| (In Thousands) | | | | |
| Aggregate Amortization Expense | \$ 347 | \$ 199 | \$ 676 | \$ 335 |

| | Estimated Amortization Expense | | | | Total |
|--|--------------------------------|------------------------------|-----------------------|---------------------------|----------|
| | Core Deposit Intangible | Mortgage Servicing Rights | Agency Expirations | Non-Compete Agreements | |
| (In Thousands) | | | | | |
| For the year ending December 31, 2003 | \$ 487 | \$ 616 | \$ 135 | \$ 115 | \$ 1,353 |
| For the year ending December 31, 2004 | 468 | 240 | 135 | 112 | 955 |
| For the year ending December 31, 2005 | 463 | 126 | 135 | 40 | 763 |
| For the year ending December 31, 2006 | 463 | 126 | 135 | 40 | 763 |
| For the year ending December 31, 2007 | 463 | 126 | 135 | 39 | 762 |

Goodwill at June 30, 2003, was \$14.5 million, an increase of \$131,000 from December 31, 2002, due to additional goodwill related to the acquisition of The Quarles Agency, Inc. in December of 2002. There was no impairment to goodwill recorded for the three or six months ended June 30, 2003.

| Goodwill | |
|-------------------------------|-----------|
| Balance as of January 1, 2003 | \$ 14,407 |
| Goodwill acquired during year | 131 |
| Balance as of June 30, 2003 | \$ 14,538 |

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

OVERVIEW

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Team Financial, Inc. is a financial holding company incorporated in the State of Kansas. Our common stock is listed on the Nasdaq National Market (NASDAQ) under the symbol TFIN .

We offer full service community banking and financial services through 17 locations in the Kansas City metropolitan area, southeastern Kansas, western Missouri, the Omaha, Nebraska metropolitan area, the Tulsa, Oklahoma metropolitan area, and in Colorado Springs, Colorado. Our presence in Kansas consists of six locations in the Kansas City metro area and four locations in southeast Kansas. We operate two locations in western Missouri, three in the metropolitan area of Omaha, Nebraska, one in Colorado Springs, Colorado, and an insurance agency in the Tulsa, Oklahoma metropolitan area.

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Our operations are also affected by non-interest income, such as service charges, insurance agency revenue, loan fees, and gains and losses from the sale of mortgage loans. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, data processing expense and provisions for loan losses.

Critical Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Allowance for Loan Losses: We establish allowances for loan losses. The provision for loan losses charged to operations is based on management's judgment of current economic conditions and the credit risk of the loan portfolio. Management believes that this allowance is adequate for the losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on borrowers' conditions and changes in economic conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review this allowance and may require us to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. See non-performing assets and allowances for loan losses for additional discussion.

FINANCIAL CONDITION

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Total assets at June 30, 2003, were \$649.5 million compared to \$655.9 million at December 31, 2002, a decrease of \$6.4 million. Investment securities increased \$2.6 million to \$226.6 million at June 30, 2003, compared to \$224.1 million at December 31, 2002. Loans receivable increased \$1.8 million to \$342.8 million at June 30, 2003, from \$341.0 million at December 31, 2002. The increases in investment securities and loans receivable were funded with cash and cash equivalents, which decreased \$10.1 million to \$25.4 million at June 30, 2003, from \$35.6 million at December 31, 2002.

Total deposits at June 20, 2003, were \$450.7 million compared to \$455.6 million at December 31, 2002, a decrease of \$4.9 million.

Federal Home Loan Bank advances decreased \$1.1 million and notes payable decreased \$2.1 million.

Investment Securities: Total investment securities were \$226.6 million at June 30, 2003, compared to \$224.1 million at December 31, 2002, an increase of \$2.6 million, or 1.2%. The increase in investment securities was primarily related to the increase in U.S. Government agency securities.

The securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. The debt securities portfolio is comprised primarily of obligations collateralized by U.S. Government agencies (mainly in the form of mortgage-backed securities), U.S. Government agency securities, U.S. Treasury securities, and municipal obligations. With the exception of municipal obligations, the maturity structure of the debt securities portfolio is generally short-term in nature or indexed to variable rates.

Loans Receivable: Loans receivable increased \$1.8 million, or 1.0%, to \$342.8 million at June 30, 2003, compared to \$341.0 million at December 31, 2002.

The increase in total loans receivable was primarily due to the favorable results of our continued emphasis on small to mid-size business lending in our metropolitan markets. Our commitment to internal loan growth in the commercial, construction and land development, and commercial real estate portfolios in these metropolitan markets produced loan growth of \$12.0 million, a 6.3% increase in these loans to \$203.4 million at June 30, 2003, compared to \$191.4 million at December 31, 2002. At June 30, 2003, these loans comprised 59.3% of the total loan portfolio compared to 56.1% of the loan portfolio at December 31, 2002, and 45.9% of the loan portfolio at December 31, 2001.

Offsetting this growth was a \$7.5 million, or 8.3%, decrease in our one to four family loan portfolio to \$83.0 million at June 30, 2003, compared to \$90.5 million at December 31, 2002. The decrease was due to increased customer refinancing as a result of the favorable fixed rate mortgage rates. We typically sell fixed rate one to four family loans to the secondary market instead of holding them in our portfolio.

Agricultural loans and farmland real estate loans decreased \$3.0 million, or 10.4%, to \$25.7 million at June 30, 2003, compared to \$28.7 million at December 31, 2002. The decrease was due to our continued reduction in exposure to the Kansas and Missouri agricultural markets.

Our installment loans were \$21.3 million at June 30, 2003 and December 31, 2002. Installment and other loans have been decreasing as a percentage of total loans over the past several years as we have placed less emphasis in this area as well as tightened our lending standards.

Most of our residential mortgage loan production is underwritten in compliance with the requirements for sale to or conversion to mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Government National Mortgage Association (GNMA). Most of our commercial loans include loans to service, retail, wholesale, and light manufacturing businesses. These loans are made at rates based on the prevailing national prime interest rate, as well as fixed rates for terms generally ranging from three to five years. Installment loans include automobile, residential, and other personal loans. The majority of the installment loans are loans with fixed interest rates.

Non-performing Assets: Non-performing assets consist of loans 90 days or more delinquent and still accruing interest,

non-accrual loans, and assets acquired through foreclosure. Assets acquired through foreclosure represent real estate properties acquired through foreclosure or by deed in lieu of foreclosure and are classified as assets acquired through foreclosure on our statement of financial condition until the property is sold. Commercial loans, residential real estate loans, and installment loans are generally placed on non-accrual status when principal or interest is 90 days or more past due, unless the loans are well-secured and in the process of collection. Loans may be placed on non-accrual status earlier when, in the opinion of management, reasonable doubt exists as to the full, timely collection of interest or principal. Classified assets are loans that are rated substandard or lower according to our internal credit review process.

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The following table summarizes our non-performing assets:

| | June 30, 2003 | December 31, 2002 |
|--|-----------------|-------------------|
| | (In Thousands) | |
| Non-performing assets: | | |
| Non-accrual loans | | |
| Real estate loans | \$ 3,714 | \$ 1,549 |
| Commercial, industrial, and agricultural | 3,093 | 1,665 |
| Installment loans | 118 | 199 |
| Lease financing receivables | 32 | |
| Total non-accrual loans | 6,957 | 3,413 |
| Loans past due 90 days or more still accruing | | |
| Real estate loans | \$ 251 | \$ 799 |
| Commercial, industrial, and agricultural | 548 | 362 |
| Installment loans | 26 | 2 |
| Total past due 90 days or more still accruing | 825 | 1,163 |
| Total non-performing loans | 7,782 | 4,576 |
| Assets acquired through foreclosure | 1,366 | 1,770 |
| Total non-performing assets | \$ 9,148 | \$ 6,346 |
| Non-performing loans to total loans | 2.27% | 1.34% |
| Non-performing assets to total assets | 1.41% | 0.97% |

Non-performing assets totaled \$9.1 million at June 30, 2003, compared to \$6.3 million at December 31, 2002, representing an increase of \$2.8 million or 44.2%. The increase in non-performing assets was comprised of an increase in non-performing loans of \$3.2 million and a decrease in assets acquired through foreclosure of \$404,000.

Non-performing loans increased \$3.2 million or 70.0% to \$7.8 million at June 30, 2003, from \$4.6 million at December 31, 2002. The increase in non-performing loans included three credit relationships. These relationships included \$2.7 million to a company that develops residential properties, \$639,000 to an aluminum manufacturing company in bankruptcy, and \$489,000 to a local grocery store chain in liquidation.

Included in our \$7.8 million of non-performing loans are five larger borrowing relationships aggregating \$5.4 million with specific reserves of \$800,000. The borrowing relationships include:

A \$2.7 million relationship with residential development properties in Kansas secured by real estate. The loans were placed on non-accrual status for payment delinquency beginning in February 2003. We are in foreclosure proceedings with respect to the properties and are working with potential buyers for the sale of the real estate. We do not anticipate a loss on the credits, if we are able to successfully sell the properties for their appraised value.

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A \$1.2 million agricultural relationship in Kansas, with \$200,000 in specific reserves. We began allocating specific reserves to the loans in December 2002. The loans were placed on non-accrual status for payment delinquency beginning in July 2002. The loans are secured by real estate and farm machinery, which management believes will be adequate to pay the loan. We are working with the borrower to liquidate a portion of the real estate and obtain financing for the borrower at another financial institution. We do not anticipate a loss on the credit in excess of our specific reserves.

A \$454,000 agricultural relationship in Kansas, with \$75,000 in specific reserves. We began allocating specific reserves to the loans in September 2002. The loans were placed on non-accrual status for payment delinquency beginning in March 2002. The loan is secured by real estate and farm machinery, which management believes will be adequate to pay the loan. We are working with the borrower to obtain a FSA guarantee and expect a resolution during the third quarter. We do not anticipate a loss on the credit in excess of our specific reserves.

A \$639,000 relationship with an aluminum extrusion company in Kansas with a 36.6% SBA guarantee. The loans were placed on non-accrual in April 2003 when the company filed for reorganization in bankruptcy court. The loan is secured by machinery and equipment. The aluminum extrusion company is currently in operation and seeking to be acquired as a going concern.

A \$489,000 participation with another bank for local grocery store chain in Kansas with \$400,000 in specific reserves. We began allocating specific reserves to the loans in June 2001. The loan was placed on non-accrual in May 2003 and the collateral is currently under liquidation. The loan is secured by equipment. We do not anticipate a loss on the credit in excess of our specific reserves.

Installment loans of \$144,000 were also included in non-performing loans. These loans have specific reserves allocated to them of \$28,800, which we believe is adequate.

Other real estate owned was \$1.4 million at June 30, 2003, compared to \$1.8 million at December 31, 2002. Other real estate owned consisted of 12 properties. The properties consisted of six commercial buildings totaling \$1.1 million, three one to four family properties totaling \$57,000, and three parcels of land totaling \$259,000. The properties are all located within our market areas. Management is working to sell the real estate as soon as practical.

Non-performing assets as a percent of total assets increased to 1.41% at June 30, 2003, compared to 0.97% at December 31, 2002, and 0.81% at December 31, 2001. Non-performing assets will generally increase in times of economic uncertainty or stress. Management believes the level of non-performing assets may increase if the economic weakness experienced in 2002 and the first quarter of 2003 continues in the remainder of 2003, although the magnitude of any increase in non-performing loans is not determinable.

Total classified assets, which are loans rated substandard or lower according to our internal credit review process, were \$17.1 million at June 30, 2003, an increase of \$3.4 million from \$13.7 million at December 31, 2002. The increase was primarily related to the increase in the non-performing loans discussed above. Also contributing to the increase in classified assets was the addition to a \$2.2 million substandard loan to a long-term care facility, which is a participation from another bank.

Allowance for loan losses: Management maintains its allowance for loan losses based on industry standards, historical experience, and an evaluation of economic conditions. We regularly review delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for probable loan losses based upon a percentage of the outstanding balances and for specific loans if their ultimate collectibility is considered questionable.

The following table summarizes our allowance for loan losses:

| | Six Months Ended June 30, | |
|--|---------------------------|---------------------|
| | 2003 (Unaudited) | 2002 (Unaudited) |
| (Dollars In Thousands) | | |
| Balance, beginning of period | \$ 4,611 | \$ 4,392 |
| Provision for estimated loan losses | 487 | 334 |
| Charge-offs | (663) | (478) |
| Recoveries | 209 | 171 |
| Allowance due to (sales) acquisitions | | (3) |
| Balance, end of period | \$ 4,644 | \$ 4,416 |
| Allowance for loan and lease losses as a percent of total loans | 1.35% | 1.35% |
| Allowance for loan and lease losses as a percent of non performing loans | 59.68% | 88.27% |
| Annualized net charge-offs as a percent of total loans | 0.26% | 0.15% |

Allowance for loan losses was 1.35% of total loans at June 30, 2003, December 31, 2002, and June 30, 2002. The allowance for loan losses as a percent of non-performing loans decreased to 59.68% at June 30, 2003, compared to 91.22% at December 31, 2002 and 88.27% at June 30, 2002. The decrease in the ratio was a result of the \$3.2 million increase in non-performing loans at June 30, 2003.

We experienced net charge-offs of \$454,000, or an annualized 0.26% of total loans, for the six months ended June 30, 2003, versus \$307,000, or an annualized 0.15% of total loans, for the corresponding period in 2002. The \$454,000 in net charge-offs was primarily comprised of \$119,000 in one to four family loan net charge-offs, \$177,000 in commercial loan net charge-offs, and \$240,000 in installment loan net charge-offs.

Deposits: Total deposits decreased \$4.9 million, or 1.1%, to \$450.7 million at June 30, 2003, from \$455.6 million at December 31, 2002. The decrease was primarily attributable to a cyclical decrease in tax deposits received from municipal organizations during December of each year. NOW accounts decreased \$13.1 million, resulting from a \$12.5 decrease in the cyclical wholesale public fund deposits. Time deposits increased \$4.5 million from an increase in wholesale public fund deposits. Non-interest bearing demand accounts increased \$4.5 million from an increase in retail and commercial deposit balances.

The following table summarizes our deposits:

| | June 30, 2003 | December 31, 2002 |
|--------------------------|-------------------|-------------------|
| | (In Thousands) | |
| Demand: | | |
| Noninterest bearing | \$ 67,410 | \$ 62,950 |
| Interest bearing: | | |
| NOW | 96,838 | 109,936 |
| Money market | 52,372 | 54,485 |
| | 149,210 | 164,421 |
| Total demand | 216,620 | 227,371 |
| Savings | 32,616 | 31,212 |
| Time | 201,504 | 197,022 |
| Total Deposits | \$ 450,740 | \$ 455,605 |

Federal funds purchased and securities sold under agreements to repurchase: Federal funds purchased and securities sold under agreements to repurchase increased \$1.3 million, to \$5.7 million at June 30, 2003. The increase is related to normal liquidity management operations.

Regulatory Capital: We are subject to regulatory capital requirements administered by Federal Reserve, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. Failure to meet the regulatory capital guidelines may result in the initiation by the Federal Reserve of appropriate supervisory or enforcement actions. As of June 30, 2003, we met all capital adequacy requirements to which we are subject and management does not anticipate any difficulty in meeting these requirements on an ongoing basis. Our ratios at June 30, 2003, were as follows:

| | At June 30, 2003 | |
|---------------------------------------|------------------|------------------|
| Ratio | Actual | Minimum Required |
| Total capital to risk weighted assets | 12.26% | 8.00% |
| Core capital to risk weighted assets | 11.10% | 4.00% |
| Core capital to average assets | 7.10% | 4.00% |

Liquidity

We continuously forecast and manage our liquidity in order to satisfy cash flow requirements of depositors and borrowers and allow us to meet our own cash flow needs. We have developed internal and external sources of liquidity to meet our continued growth needs. These include, but are not limited to, the ability to raise deposits through branch promotional campaigns, maturity of overnight funds, short term investment securities classified as available-for-sale and draws on credit facilities established through the Federal Home Loan Bank. Our most liquid assets are cash and cash equivalents and investment securities available-for-sale. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. At June 30, 2003, and December 31, 2002, these liquid assets totaled \$252.0 million and \$259.6 million, respectively. Management believes our sources of liquidity are adequate to meet expected cash needs for the foreseeable future.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before provision for loan losses for the three months ended June 30, 2003 totaled \$4.4 million compared to \$5.3 million for the same period in 2002, a decrease of \$964,000. Net interest income before provision for loan losses for the six months ended June 30, 2003, totaled \$9.0 million compared to \$10.6 million for the same period in 2002, a decrease of \$1.6 million.

Our net interest margin as a percent of average earning assets was 3.14% for the three months ended June 30, 2003, compared to 3.97% for the three months ended June 30, 2002. Net interest margin as a percent of average earning assets was 3.29% for the six months ended June 30, 2003, compared to 3.91% for the six months ended June 30, 2002. Favorably impacting net interest margin was a 57 and 59 basis point decrease in the average cost of interest bearing liabilities for the respective three and six months ended June 30, 2003, compared to the same periods in 2002. Offsetting the favorable decrease in the cost of interest bearing liabilities was an unfavorable decrease of 140 and 117 basis points in the average rate of interest earning assets for the respective three and six months ended June 30, 2003, compared to the same periods in 2002. The result was an unfavorable decrease in our net interest margin of 83 and 62 basis points for the respective three and six month comparisons for June 30, 2003 and 2002.

We are maintaining an asset sensitive balance sheet where our interest earning assets are expected to re-price at a faster rate than our interest paying liabilities. Accordingly, we expect net interest income to increase in a rising interest rate environment and decrease in a flat or decreasing interest rate environment. We believe short-term interest rates may stay relatively low for the next several quarters causing a continued unfavorable impact on our net interest income and net interest margin, but cannot estimate the magnitude of this impact.

Interest earning assets

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The average rate on interest earning assets was 5.48% for the three months ended June 30, 2003, representing a decrease of 140 basis points from 6.88% for the same three months ended 2002. The average rate on interest earning assets was 5.73% for the six months ended June 30, 2003, representing a decrease of 117 basis points from 6.90% for the same six months ended 2002. Interest earning assets are comprised of loans receivable, investment securities, and federal funds sold and interest-bearing deposits.

The average rate on loans receivable decreased 109 basis points to 6.84% for the three months ended June 30, 2003, compared to 7.93% for the three months ended June 30, 2002. The average rate on loans receivable decreased 103 basis points to 6.98% for the six months ended June 30, 2003, compared to 8.01% for the six months ended June 30, 2002. The decrease is primarily reflective of a decrease in the national prime rate of 550 basis points since January 1, 2001, decreasing the interest rate on our variable rate commercial loans tied to the prime interest rate index, decreasing the interest rate on newly originated commercial loans, and resulting in lower interest rates on loans re-financed by customers. In addition to the decrease in the prime interest rate was a decrease in our higher yielding one to four family mortgage loans as customers re-financed for lower fixed rate loans, which we primarily sell and do not hold as part of the one to four family mortgage portfolio. Favorably impacting the average rate on loans receivable was the increase of commercial loans as a percent of the total loan portfolio to 59% of the total loan portfolio at June 30, 2003, compared to 46% at June 30, 2002.

The average rate on investment securities-taxable decreased 196 basis points to 3.49% for the three months ended June 30, 2003, compared to 5.45% for the three months ended June 30, 2002. The average rate on investment securities-taxable decreased 164 basis points to 3.76% for the six months ended June 30, 2003, compared to 5.40% for the six months ended June 30, 2002. The decrease in the average rate of investment securities is related to the decrease in market interest rates since January of 2001. The decrease has caused many of our portfolio's issuers of securities to retire or prepay their securities prior to maturity since they have been able to refinance at lower rates. Because of these early prepayments, we have re-invested the proceeds in new securities, which yield lower interest rates due to the decline in market interest rates. In addition, the early prepayments accelerate the amortization on premiums paid for investment securities, further decreasing the yield on the securities.

Interest bearing liabilities

The average rate paid on interest-bearing liabilities decreased 57 basis points to 2.64% for the three months ended June 30, 2003, compared to 3.21% for the same three months ended 2002. The average rate paid on interest-bearing liabilities decreased 59 basis points to 2.69% for the six months ended June 30, 2003, compared to 3.28% for the same six months ended 2002. Interest bearing liabilities are comprised of interest paid on savings and interest bearing checking deposits, time deposits, federal funds purchased and securities sold under agreements to repurchase, holding company notes payable, Federal Home Loan Bank Advances, and on our subordinated debentures held by our subsidiary trust which issued the 9.50% preferred securities.

The average rate paid on interest-bearing savings and interest bearing checking deposits decreased 62 basis points to 0.81% for the three months June 30, 2003, compared to 1.43% for the three months ended June 30, 2002, while the average rate paid on time deposits decreased 101 basis points to 2.72%, from 3.73% over the same respective periods. The average rate paid on interest-bearing savings and interest bearing checking deposits decreased 59 basis points to 0.86% for the six months June 30, 2003, compared to 1.45% for the six months ended June 30, 2002, while the average rate paid on time deposits decreased 106 basis points to 2.81%, from 3.87% over the same respective periods. We decreased the average rate paid on deposit accounts as interest rates decreased.

The average rate paid on federal funds purchased and securities sold under agreements to repurchase decreased 48 basis points to 0.88% for the three months ended June 30, 2003, from 1.36% for the same period a year ago. For the six months ended June 30, 2003, funds purchased and securities sold under agreements to repurchase decreased 45 basis points to .81%, from 1.36% for the six months ended June 30, 2002.

The average rate paid on notes payable and Federal Home Loan Bank advances decreased 21 basis points to 4.44% for the quarter ended June 30, 2003, compared to 4.65% for the same quarter ended a year ago, with an increase of \$34.1 million in the average balance over the corresponding time period. The average rate paid on notes payable and Federal Home Loan Bank advances decreased 22 basis points to 4.44% for the six months ended June 30, 2003, compared to 4.66% for the same period ended a year ago, with an increase of \$34.2 million in the average balance over the corresponding time period. The decrease was the result of the general decrease in market interest rates, while the increase in the average balance was the result of increased borrowing with the continuation of our balance sheet management strategy described below.

The average rate paid on our 9.50% subordinated debentures, which we issued in connection with the sale by our wholly-owned subsidiary, Team Financial Capital Trust I, of 9.50% trust preferred securities was 9.71% for the three and months ended June 30, 2003 and 2002. The difference between the contractual interest rate of 9.50% on the trust preferred securities and the 9.71% recorded interest rate, is the amortization of debt issuance costs. The debt issuance costs are being amortized over a 30 year period.

Balance sheet management strategy

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We initiated a long-term balance sheet management strategy to increase the asset sensitivity of our balance sheet with the expectation of benefiting from an anticipated increase in interest rates and to borrow long-term borrowings during the period of historically low interest rates. We initiated two separate transactions. These transactions were initiated in the fourth quarter of 2001 and the third quarter of 2002. These long-term transactions are currently having an unfavorable impact on our current net interest income and net interest margin.

Under the transactions we borrowed \$88.0 million in FHLB advances and purchased short-term mortgage backed investment securities, of which \$48.0 million was consummated in the fourth quarter of 2001 and \$40.0 million was consummated in the third quarter of 2002. The Federal Home Loan Bank borrowings, which carry an average rate of 4.05%, consisted of \$78.0 million in 10 year fixed rate advances convertible to floating rate advances if LIBOR increases to a range of 7.00% to 7.50% within the next 10 years and \$10.0 million in 5 year fixed rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the next 5 years.

The initial transaction generated a spread of approximately 167 basis points when initiated. The cumulative spread since the inception of the transactions through June 30, 2003, was approximately 53 basis points, or \$661,000. The spread for the three months ended June 30, 2003, was approximately a negative 97 basis points, or (\$212,000),

compared to a spread of 215 basis points for the three months ended June 30, 2002, or \$382,000, representing a total decrease for the three months ended June 30, 2003, of \$469,000 compared to the three months ended June 30, 2002. The spread for the six months ended June 30, 2003, was approximately a negative 60 basis points, or (\$262,000), compared to a spread of 197 basis points for the six months ended June 30, 2002, or \$469,000, representing a total decrease for the six months ended June 30, 2003, of \$731,000 compared to the six months ended June 30, 2002.

We believe short-term interest rates may stay relatively low for the next several quarters causing a continued unfavorable impact on our net interest income and net interest margin, but cannot estimate the magnitude of this impact. While we believe net interest income will be negatively affected by this transaction for the next several quarters, we anticipate the next major trend in interest rates to be one of rising interest rates enabling us to increase net interest income over the remaining borrowing period.

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The following tables present certain information relating to net interest income for the three and six months ended June 30, 2003 and 2002. The average rates are derived by dividing annualized interest income or expense by the average balance of assets and liabilities, respectively, for the periods shown.

| | Three Months Ended June 30, 2003 | | | Three Months Ended June 30, 2002 | | |
|--|----------------------------------|----------|--------------|----------------------------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| (Dollars In Thousands) | | | | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net (1) (2) (3) | \$ 340,074 | \$ 5,802 | 6.84% | \$ 335,154 | \$ 6,626 | 7.93% |
| Investment securities-taxable | 197,387 | 1,715 | 3.49% | 182,732 | 2,482 | 5.45% |
| Investment securities-nontaxable (4) | 28,214 | 485 | 6.90% | 25,332 | 452 | 7.16% |
| Federal funds sold and interest-bearing deposits | 22,121 | 34 | 0.62% | 19,199 | 89 | 1.86% |
| Total interest earning assets | \$ 587,796 | 8,036 | 5.48% | \$ 562,417 | 9,649 | 6.88% |
| Interest bearing liabilities: | | | | | | |
| Savings deposits and interest bearing checking | \$ 177,899 | 357 | 0.81% | \$ 183,785 | 653 | 1.43% |
| Time deposits | 206,636 | 1,402 | 2.72% | 223,405 | 2,080 | 3.73% |
| Federal funds purchased and securities sold under agreements to repurchase | 5,006 | 11 | 0.88% | 4,428 | 15 | 1.36% |
| Notes Payable and Federal Home Loan Bank Advances | 117,033 | 1,294 | 4.44% | 82,976 | 961 | 4.65% |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 15,525 | 377 | 9.71% | 15,525 | 377 | 9.71% |
| Total interest bearing liabilities | \$ 522,099 | 3,441 | 2.64% | \$ 510,119 | 4,086 | 3.21% |
| Net interest income (tax equivalent) | | \$ 4,595 | | | \$ 5,563 | |
| Interest rate spread | | | 2.84% | | | 3.67% |
| Net interest earning assets | \$ 65,697 | | | \$ 52,298 | | |
| Net interest margin | | | 3.14% | | | 3.97% |
| Ratio of average interest bearing liabilities to average interest earning assets | 88.82% | | | 90.70% | | |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the three months ended June 30, 2003 and 2002 were \$255,000 and \$281,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the three months ended June 30, 2003 and 2002 were \$220,000 and \$223,000, respectively.

| | Six Months Ended June 30, 2003 | | | Six Months Ended June 30, 2002 | | |
|--|--------------------------------|-----------|--------------|--------------------------------|-----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| (Dollars In Thousands) | | | | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net (1) (2) (3) | \$ 340,087 | \$ 11,767 | 6.98% | \$ 342,194 | \$ 13,597 | 8.01% |
| Investment securities-taxable | 196,927 | 3,669 | 3.76% | 181,659 | 4,866 | 5.40% |
| Investment securities-nontaxable (4) | 27,220 | 951 | 7.05% | 24,818 | 893 | 7.26% |
| Federal funds sold and interest-bearing deposits | 15,566 | 82 | 1.06% | 22,942 | 198 | 1.74% |
| Total interest earning assets | \$ 579,800 | 16,469 | 5.73% | \$ 571,613 | 19,554 | 6.90% |
| Interest bearing liabilities: | | | | | | |
| Savings deposits and interest bearing checking | \$ 181,132 | 769 | 0.86% | 186,651 | 1,343 | 1.45% |
| Time deposits | 205,876 | 2,870 | 2.81% | 229,992 | 4,408 | 3.87% |
| Federal funds purchased and securities sold under agreements to repurchase | 4,897 | 22 | 0.91% | 4,303 | 29 | 1.36% |
| Notes payable and Federal Home Loan Bank advances | 117,706 | 2,589 | 4.44% | 83,492 | 1,930 | 4.66% |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 15,525 | 754 | 9.71% | 15,525 | 754 | 9.71% |
| Total interest bearing liabilities | \$ 525,136 | 7,004 | 2.69% | \$ 519,963 | 8,464 | 3.28% |
| Net interest income (tax equivalent) | | \$ 9,465 | | | \$ 11,090 | |
| Interest rate spread | | | 3.04% | | | 3.62% |
| Net interest earning assets | \$ 54,664 | | | \$ 51,650 | | |
| Net interest margin (4) | | | 3.29% | | | 3.91% |
| Ratio of average interest bearing liabilities to average interest earning assets | 90.57% | | | 90.96% | | |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the six months ended June 30, 2003, and 2002 were \$497,000 and \$514,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the years ended June 30, 2003, and 2002 were \$439,000 and \$449,000, respectively.

The following table presents the components of changes in net interest income, on a tax equivalent basis, attributed to volume and rate. Changes in interest income or interest expense attributable to volume changes are calculated by multiplying the change in volume by the prior fiscal year's average interest rate. The changes in interest income or interest expense attributable to change in interest rates are calculated by multiplying the change in interest rate by the prior fiscal year average volume. The changes in interest income or interest expense attributable to the combined impact of changes in volume and change in interest rate are calculated by multiplying the change in rate by the change in volume.

| | Three Months Ended June 30, 2003 Compared To Three Months Ended June 30, 2002 | | |
|--|--|-------------------|-----------------|
| | Increase (Decrease) Due To: | | |
| | Volume | Rate | Net |
| | (In Thousands) | | |
| Interest Income: | | | |
| Loans receivable, net (1) (2) (3) | \$ 97 | \$ (921) | \$ (824) |
| Investment securities-taxable | 199 | (966) | (767) |
| Investment securities-nontaxable (4) | 51 | (18) | 33 |
| Federal funds sold and interest-bearing deposits | 14 | (69) | (55) |
| Total Interest Income | 361 | (1,974) | (1,613) |
| Interest Expense: | | | |
| Savings deposits and interest bearing checking | (21) | (275) | (296) |
| Time deposits | (156) | (522) | (678) |
| Federal funds purchased and securities sold under agreements to repurchase | 2 | (6) | (4) |
| Notes Payable and Federal Home Loan Bank Advances | 394 | (61) | 333 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | | | |
| Total Interest Expense | 219 | (864) | (645) |
| Net change in net interest income | \$ 142 | \$ (1,110) | \$ (968) |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the three months ended June 30, 2003 and 2002 were \$255,000 and \$281,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the three months ended June 30, 2003 and 2002 were \$220,000 and \$223,000, respectively.

| | Six Months Ended June 30, 2003 | | |
|--|---------------------------------------|-------------------|-------------------|
| | Compared To | | |
| | Six Months Ended June 30, 2002 | | |
| | Increase (Decrease) Due To: | | |
| | Volume | Rate | Net |
| | (In Thousands) | | |
| Interest Income: | | | |
| Loans receivable, net (1) (2) (3) | \$ (84) | \$ (1,746) | \$ (1,830) |
| Investment securities-taxable | 409 | (1,606) | (1,197) |
| Investment securities-nontaxable (4) | 86 | (28) | 58 |
| Federal funds sold and interest-bearing deposits | (64) | (52) | (116) |
| Total Interest Income | 347 | (3,432) | (3,085) |
| Interest Expense: | | | |
| Savings deposits and interest bearing checking | (40) | (534) | (574) |
| Time deposits | (462) | (1,076) | (1,538) |
| Federal funds purchased and securities sold under agreements to repurchase | 4 | (11) | (7) |
| Notes Payable and Federal Home Loan Bank Advances | 791 | (132) | 659 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | | | |
| Total Interest Expense | 293 | (1,753) | (1,460) |
| Net change in net interest income | \$ 54 | \$ (1,679) | \$ (1,625) |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the six months ended June 30, 2003, and 2002 were \$497,000 and \$514,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the years ended June 30, 2003, and 2002 were \$439,000 and \$449,000, respectively.

Provision for Loan Losses

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical loss experience, the volume and type of lending conducted, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to our market areas, and other factors related to the collectibility of our loan portfolio. After considering the above factors, management recorded a provision for loan losses on loans

totaling \$142,000 for the three months ended June 30, 2003, and \$178,000 for the three months ended June 30, 2002. **The provision for loan losses for the six months ended June 30, 2003, was \$487,000, compared to \$334,000 for the six months ended June 30, 2002. The provision recorded for the three and six months ended 2003 was predicated upon the level of net charge-offs during the period of \$171,000, and \$454,000 for the respective three and six months, along with an increase in the commercial, construction and land development, and commercial real estate loans as a percent of total loans in the portfolio.**

Non-Interest Income

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The following table presents non-interest income for the three and six months ended June 30, 2003, compared to the same periods a year ago, netting out the effects of the insurance agency acquisition in December of 2002.

| | Three Months Ended | | Favorable | | Net | | Six Months Ended | | Favorable | | Net | |
|---|--------------------|----------|---------------|-------------|---------------|----|------------------|----------|---------------|-------------|---------------|----------|
| | June 30 | | (Unfavorable) | | (Unfavorable) | | June 30 | | (Unfavorable) | | (Unfavorable) | |
| | 2003 | 2002 | Variance | Acquisition | Variance | | 2003 | 2002 | Variance | Acquisition | Variance | |
| (In Thousands) | | | | | | | | | | | | |
| Non-Interest Income: | | | | | | | | | | | | |
| Service charges | \$ 896 | \$ 951 | \$ (55) | \$ | \$ (55) | \$ | \$ 1,701 | \$ 1,805 | \$ (104) | \$ | \$ | \$ (104) |
| Trust fees | 145 | 145 | | | | | 274 | 287 | (13) | | | (13) |
| Insurance agency commissions | 1,174 | | 1,174 | 1,174 | | | 2,310 | | 2,310 | 2,310 | | |
| Gain on sales of mortgage loans | 771 | 402 | 369 | | 369 | | 1,422 | 947 | 475 | | | 475 |
| Gain (loss) on sales of investment securities | 149 | 40 | 109 | | 109 | | 150 | 66 | 84 | | | 84 |
| Gain on sale of branch assets | | 452 | (452) | | (452) | | | 452 | (452) | | | (452) |
| Other | 652 | 643 | 9 | 26 | (17) | | 1,334 | 1,232 | 102 | 37 | | 65 |
| Total non-interest income | \$ 3,787 | \$ 2,633 | \$ 1,154 | \$ 1,200 | \$ (46) | \$ | \$ 7,191 | \$ 4,789 | \$ 2,402 | \$ 2,347 | \$ | \$ 55 |

Non-interest income for the three months ended June 30, 2003, was \$3.8 million, an increase of \$1.2 million, or 43.8%, from \$2.6 million for the three months ended June 30, 2002. Non-interest income for the six months ended June 30, 2003, was \$7.2 million, an increase of \$2.4 million, or 50.2%, from \$4.8 million for the six months ended June 30, 2002.

Contributing to the increase in non-interest income for the three and six months ended June 30, 2003, was \$1.2 million and \$2.3 million, respectively, of insurance revenue from the operations of the insurance agency acquired in December 2002.

Gain on sales of mortgage loans increased \$369,000, or 91.8%, for the three months ended June 30, 2003, and \$475,000, or 50.2% increase for the six months ended June 30, 2003, compared to the same periods in 2002. The increase in gain on sale of mortgage loans was the result of the increase in the volume of loans refinanced and originated and sold, due to a lower interest rate environment during the past two years. Management believes that the loans refinanced and originated in 2003 will not keep pace with that of the past two years, but cannot estimate the magnitude of the decreased volume.

Gain on sale of investment securities was \$149,000 for the three months ended June 30, 2003, an increase of \$109,000 from \$40,000 for the three months ended June 30, 2002. For the six months ended June 30, 2003, gain on sale of investment securities was \$150,000, an increase \$84,000 from \$66,000 for the six months ended June 30, 2002.

Gain on sale of branch assets decreased \$452,000 for the three and six months ended June 30, 2003, resulting from a \$452,000 gain on the sale of two branches for the three and six months ended June 30, 2002.

Non-Interest Expense

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The following table presents non-interest expense for the three and six months ended June 30, 2003, compared to the same periods a year ago, netting out the effects of the insurance agency acquisition in December of 2002.

| | Three Months Ended | | Favorable | Net | | Six Months Ended | | Favorable | Net | |
|------------------------------------|--------------------|-----------------|-------------------|-----------------|-----------------|------------------|------------------|-------------------|-----------------|-----------------|
| | June 30 | | (Unfavorable) | Favorable | | June 30 | | (Unfavorable) | Favorable | |
| | 2003 | 2002 | Variance | Acquisition | Variance | 2003 | 2002 | Variance | Acquisition | Variance |
| (In Thousands) | | | | | | | | | | |
| Non-Interest Expenses: | | | | | | | | | | |
| Salaries and employee benefits | \$ 3,539 | \$ 2,925 | \$ (614) | \$ 804 | \$ 190 | \$ 6,983 | \$ 5,864 | \$ (1,119) | \$ 1,496 | \$ 377 |
| Occupancy and equipment | 672 | 578 | (94) | 82 | (12) | 1,389 | 1,156 | (233) | 165 | (68) |
| Data processing | 511 | 512 | 1 | | 1 | 981 | 982 | 1 | | 1 |
| Professional fees | 304 | 241 | (63) | 13 | (50) | 615 | 564 | (51) | 17 | (34) |
| Marketing | 107 | 64 | (43) | 50 | 7 | 198 | 116 | (82) | 81 | (1) |
| Supplies | 102 | 92 | (10) | 29 | 19 | 210 | 181 | (29) | 29 | |
| Intangible asset amortization | 347 | 199 | (148) | 33 | (115) | 676 | 335 | (341) | 67 | (274) |
| Disposal of branch assets | 258 | | (258) | | (258) | 258 | | (258) | | (258) |
| Conversion | 50 | 2 | (48) | | (48) | 50 | 6 | (44) | | (44) |
| Other | 911 | 902 | (9) | 96 | 87 | 1,818 | 1,713 | (105) | 195 | 90 |
| Total non-interest expenses | \$ 6,801 | \$ 5,515 | \$ (1,286) | \$ 1,107 | \$ (179) | \$ 13,178 | \$ 10,917 | \$ (2,261) | \$ 2,050 | \$ (211) |

Non-interest expense increased \$1.3 million, or 23.3%, to \$6.8 million, for the three months ended June 30, 2003, compared to \$5.5 million for the three months ended June 30, 2002. Non-interest expense increased \$2.3 million, or 20.7% to \$13.2 million, for the six months ended June 30, 2003, compared to \$10.9 million for the six months ended June 30, 2002. The increases for the three and six months ended were attributable to non-interest expense of \$1.1 million and \$2.0 million, respectively, from the operations of the insurance agency acquired in December 2002. Also included in non-interest expense was a \$258,000 charge to terminate the building lease and dispose of the fixed assets of a branch facility. Net of the operations of the acquired insurance agency and the disposal of the branch facility, non-interest expense decreased \$79,000 for the three months ended June 30, 2003, and \$47,000 for the six months ended June 30, 2003, compared to the respective periods ended June 30, 2002.

Salary and employee benefits expense decreased \$190,000 and \$377,000 for the respective three and six months ended June 30, 2003, compared to the same periods for 2002, excluding the operations from the insurance agency. The decreases were primarily attributable to a decrease in bonus expense due to performance below the standards established under the bonus program.

Intangible asset amortization expense increased \$148,000 and \$341,000, respectively, for the three and six months ended June 30, 2003, compared to the same periods ended June 30, 2002. The insurance agency acquisition contributed \$33,000 and \$67,000 to the respective increases for the three and six months ended June 30, 2003, with the remaining increases of \$115,000 and \$274,000 attributable to increased amortization expense and valuation write-downs of the mortgage servicing rights.

Conversion expense increased \$48,000 and \$44,000 for the respective three and six months ended June 30, 2003, compared to the three and six months ended June 30, 2002, as we converted the data processing systems of Colorado National Bank to our core processor for the company.

Income Tax Expense

We recorded income tax expense of \$974,000 for the three months ended June 30, 2003, a decrease of \$157,000 compared to an income tax expense of \$1.1 million for the three months ended June 30, 2002. Income tax expense for the six months ended June 30, 2003 was \$587,000, a decrease of \$1.1 million from \$1.7 million recorded for the six months ended June 30, 2002. Included in income tax expense for the three and six month periods ended June 30, 2002, was \$648,000 of income tax expense related to the sale of the branches during the second quarter of 2002.

The effective tax rate for the three months ended June 30, 2003, was 20.1%, compared to 50.4% for the three months ended June 30, 2002. The effective tax rate for the six months ended June 30, 2003, was 23.0%, compared to 40.4% for the six months ended June 30, 2002. The higher effective tax rate for 2002 was the result of the book

versus tax basis on the related \$1.3 million in goodwill related to the branch sale in 2002 as summarized with the following table:

| | Book Basis | Tax Basis |
|-------------------------------------|-------------------|------------------|
| Proceeds from sale | \$ 1,762,000 | \$ 1,762,000 |
| Goodwill, net | (1,310,000) | |
| Gain on sale before tax | 452,000 | 1,762,000 |
| Income tax expense | (648,000) | (648,000) |
| Net (loss) gain on sale of branches | \$ (196,000) | \$ 1,114,000 |

Our effective tax rate is less than the statutory federal rate of 34.0% due primarily to municipal interest income and the income tax benefit resulting from dividends passed through the ESOP to the ESOP participants and non-taxable income from our investment in bank owned life insurance.

**Item 3: QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK**

Asset and Liability Management

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Asset and liability management refers to management's efforts to minimize fluctuations in net interest income caused by interest rate changes. This is accomplished by managing the repricing of interest rate sensitive interest-bearing assets and interest-bearing liabilities. Controlling the maturity of repricing of an institution's liabilities and assets in order to minimize interest rate risk is commonly referred to as gap management. Close matching of repricing assets and liabilities will normally result in little change in net interest income when interest rates change.

The following table indicates that at June 30, 2003, if there had been a sudden and sustained increase in prevailing market interest rates, our 2003 interest income would be expected to increase, while a decrease in rates would indicate a decrease in income.

| Change in Interest Rates | Net Interest Income | (Decrease) Increase | Percent Change |
|--------------------------|------------------------|------------------------|-------------------|
| | (Dollars In Thousands) | | |
| 200 basis point rise | \$ 21,333 | \$ 1,388 | 6.96% |
| 100 basis point rise | 20,639 | 694 | 3.48 |
| base rate scenario | 19,945 | | |
| 100 basis point decline | 18,125 | (1,820) | (9.12) |
| 200 basis point decline | 15,481 | (4,464) | (22.38) |

Item 4: CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting pursuant to Rule 13a-15 and 15d-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures over financial reporting are adequate and effective in timely alerting them to material information required to be included in this quarterly report on Form 10-Q.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or because of intentional circumvention of the established process.

During the period covered by this report, there have been no significant changes in our internal controls over financial reporting or in other factors, which could significantly affect internal controls over financial reporting, including any corrective actions with regard to significant deficiencies or material weaknesses.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no pending litigation to which we are a party will have a material adverse effect on our liquidity, financial condition, or results of operations.

Item 4. Submission Of Matters To A Vote Of Security Holders

- a) The annual meeting of Stockholders was held on June 17, 2003.
- b) The following individuals were elected as Directors for the term of three years each.

| Name | For | Against |
|----------------------|-----------|---------|
| R.G. (Gary) Kilkenny | 3,511,853 | 90,758 |
| Neil Blakeman | 3,315,015 | 284,298 |

The following directors continued in office after the annual meeting:

- Robert J. Weatherbie
- Michael L. Gibson
- Montie K. Taylor
- Keith B. Edquist
- Carolyn S. Jacobs
- Denis A. Kurtenbach

- c) The shareholders ratified the appointment of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2003. Shareholders voted on this proposal as follows:

| For | Against | Abstain |
|-----------|---------|---------|
| 3,536,963 | 9,699 | 53,750 |

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Restated and Amended Articles of Incorporation of Team Financial, Inc. (1) |
| 3.2 | Amended Bylaws of Team Financial, Inc. (1) |
| 4.1 | Form of Indenture. (5) |
| 4.2 | Form of Subordinated Debenture (included as Exhibit A to Exhibit 4.1). (5) |
| 4.3 | Certificate of Trust. (5) |
| 4.4 | Trust Agreement. (5) |

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- 4.5 Form of Amended and Restated Trust Agreement. (5)
- 4.6 Form of Preferred Securities Certificate (included as Exhibit D to Exhibit 4.5). (5)
- 4.7 Form of Preferred Securities Guarantee Agreement. (5)
- 4.8 Form of Agreement as to Expenses and Liabilities (included as Exhibit C to Exhibit 4.5). (5)
- 10.1 Employment Agreement between Team Financial, Inc. and Robert J. Weatherbie dated January 1, 2002. (6)
- 10.2 Employment Agreement between Team Financial, Inc. and Michael L. Gibson dated January 1, 2003. (7)
- 10.3 Employment Agreement between Team Financial, Inc. and Rick P. Bartley dated January 1, 2001. (5)

- 10.5 Data Processing Services Agreement between Team Financial, Inc. and Metavante Corporation dated March 1, 2001. (5)
- 10.6 401K Plan of Team Financial, Inc. 401(k) Trust, effective January 1, 1999 and administered by Nationwide Life Insurance Company. (1)
- 10.7-10.10 Exhibit numbers intentionally not used.
- 10.11 Team Financial, Inc. Employee Stock Ownership Plan Summary. (1)
- 10.12 Team Financial, Inc. 1999 Stock Incentive Plan. (1)
- 10.13 Rights Agreement between Team Financial, Inc. and American Securities Transfer & Trust, Inc. dated June 3, 1999. (1)
- 10.14 Team Financial, Inc. Employee Stock Purchase Plan. (1)
- 10.15 Loan agreement between Team Financial, Inc. and US Bank dated December 3, 1999. (4)
- 10.16 Acquisition Agreement and Plan of Merger by and among Team Financial, Inc., Team Financial, Inc. Acquisition Subsidiary II and Post Bancorp, Inc. date April 30, 2001 and amendment dated July 25, 2001 (1)
- 10.17 Acquisition Agreement and Plan of Merger dated December 18, 2002 among Team Financial, Inc. and The Quarles Agency, Inc. (2)

- 10.18 Deferred Compensation Agreement between TeamBank, N.A. and Robert J. Weatherbie dated February 1, 2002. (6)
- 10.19 Salary Continuation Agreement between TeamBank, N.A. and Robert J. Weatherbie dated July 1, 2001. (6)
- 10.20 Split Dollar Agreement between TeamBank, N.A. and Robert J. Weatherbie dated January 25, 2002. (6)
- 10.21 Deferred Compensation Agreement between TeamBank, N.A. and Michael L. Gibson dated February 1, 2002. (6)
- 10.22 Salary Continuation Agreement between TeamBank, N.A. and Michael L. Gibson dated July 1, 2001. (6)
- 10.23 Split Dollar Agreement between TeamBank, N.A. and Michael L. Gibson dated January 25, 2002. (6)
- 10.24 Deferred Compensation Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated February 1, 2002. (6)
- 10.25 Salary Continuation Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated July 1, 2001. (6)
- 10.26 Split Dollar Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated January 25, 2002. (6)
- 10.27 Deferred Compensation Agreement between TeamBank, N.A. and Rick P. Bartley dated February 1, 2002. (6)

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- 10.28 Salary Continuation Agreement between TeamBank, N.A. and Rick P. Bartley dated July 1, 2001. (6)
- 10.29 Employment Agreement between Team Financial, Inc. and Carolyn S. Jacobs dated January 1, 2003. (7)
- 11.1 Statement regarding Computation of per share earnings see consolidated financial statements. (3)
- 31.1 Certification of Chief Executive Officer under section 302 under Sarbanes-Oxley Act of 2002 (3).
- 31.2 Certification of Chief Financial Officer under section 302 under Sarbanes-Oxley Act of 2002 (3).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (3)
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350 (3)

(1) Filed with Registration Statement on Form S-1 dated August 6, 2001, as amended, (Registration Statement No. 333-76163) and incorporated herein by reference.

(2) Filed with the amended Form 8-K dated December 30, 1999 and incorporated herein by reference.

(3) Filed herewith.

(4) Filed with quarterly report on form 10-Q for the period ended September 30, 2000 and incorporated herein by reference.

(5) Filed with Registration Statement on Form S-1 dated July 12, 2001, as amended, (Registration Statement No. 333-64934) and are incorporated herein by reference.

(6) Filed with annual report on Form 10-K for the year end December 31, 2003, and incorporated herein by reference

(7) Filed with quarterly report on form 10-Q for the period ended March 31, 2003 and incorporated herein by reference.

(b) Reports on Form 8-K Filed.

1. Filed on Form 8-K dated April 28, 2003, under item 9 (including item 12 information) the registrants first quarter 2003 earnings press release dated April 24, 2003.

SIGNATURES

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Pursuant to the requirements 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.

Date: August 12, 2003

By: /s/ Robert J. Weatherbie
Robert J. Weatherbie
Chairman and
Chief Executive Officer

Date: August 12, 2003

By: /s/ Michael L. Gibson
Michael L. Gibson
President of Investments and
Chief Financial Officer

I, Robert J. Weatherbie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Team Financial, Inc.;

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

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

4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - (b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

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

5. The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of registrants board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

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

Date: August 12, 2003

/s/ Robert J. Weatherbie

Robert J. Weatherbie
Chairman and
Chief Exectutive Officer

I, Michael L. Gibson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Team Financial, Inc.;

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

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

4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - (b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

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

5. The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of registrants board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the

SIGNATURES

registrants auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

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

Date: August 12, 2003

/s/ Michael L. Gibson

Michael L. Gibson
President of Investments and
Chief Financial Officer

Exhibit Index

| Exhibit Number | Description |
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| 10.6 | 401K Plan of Team Financial, Inc. 401(k) Trust, effective January 1, 1999 and administered by Nationwide Life Insurance Company. (1) |
| 10.7-10.10 | Exhibit numbers intentionally not used. |
| 10.11 | Team Financial, Inc. Employee Stock Ownership Plan Summary. (1) |
| 10.12 | Team Financial, Inc. 1999 Stock Incentive Plan. (1) |
| 10.13 | Rights Agreement between Team Financial, Inc. and American Securities Transfer & Trust, Inc. dated June 3, 1999. (1) |
| 10.14 | Team Financial, Inc. Employee Stock Purchase Plan. (1) |
| 10.15 | Loan agreement between Team Financial, Inc. and US Bank dated December 3, 1999. (4) |
| 10.16 | Acquisition Agreement and Plan of Merger by and among Team Financial, Inc., Team Financial, Inc. Acquisition Subsidiary II and Post Bancorp, Inc. date April 30, 2001 and amendment dated July 25, 2001 (1) |
| 10.17 | Acquisition Agreement and Plan of Merger dated December 18, 2002 among Team Financial, Inc. and The Quarles Agency, Inc. (2) |
| 10.18 | Deferred Compensation Agreement between TeamBank, N.A. and Robert J. Weatherbie dated February 1, 2002. (6) |
| 10.19 | Salary Continuation Agreement between TeamBank, N.A. and Robert J. Weatherbie dated July 1, 2001. (6) |
| 10.20 | Split Dollar Agreement between TeamBank, N.A. and Robert J. Weatherbie dated January 25, 2002. (6) |

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| 10.21 | Deferred Compensation Agreement between TeamBank, N.A. and Michael L. Gibson dated February 1, 2002. (6) |
| 10.22 | Salary Continuation Agreement between TeamBank, N.A. and Michael L. Gibson dated July 1, 2001. (6) |
| 10.23 | Split Dollar Agreement between TeamBank, N.A. and Michael L. Gibson dated January 25, 2002. (6) |
| 10.24 | Deferred Compensation Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated February 1, 2002. (6) |
| 10.25 | Salary Continuation Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated July 1, 2001. (6) |
| 10.26 | Split Dollar Agreement between TeamBank, N.A. and Carolyn S. Jacobs dated January 25, 2002. (6) |
| 10.27 | Deferred Compensation Agreement between TeamBank, N.A. and Rick P. Bartley dated February 1, 2002. (6) |
| 10.28 | Salary Continuation Agreement between TeamBank, N.A. and Rick P. Bartley dated July 1, 2001. (6) |
| 10.29 | Employment Agreement between Team Financial, Inc. and Carolyn S. Jacobs dated January 1, 2003. (7) |
| 11.1 | Statement regarding Computation of per share earnings see consolidated financial statements. (3) |
| 31.1 | Certification of Chief Executive Officer under section 302 under Sarbanes-Oxley Act of 2002 (3). |
| 31.2 | Certification of Chief Financial Officer under section 302 under Sarbanes-Oxley Act of 2002 (3). |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (3) |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350 (3) |

(1) Filed with Registration Statement on Form S-1 dated August 6, 2001, as amended, (Registration Statement No. 333-76163) and incorporated herein by reference.

(2) Filed with the amended Form 8-K dated December 30, 1999 and incorporated herein by reference.

(3) Filed herewith.

(4) Filed with quarterly report on form 10-Q for the period ended September 30, 2000 and incorporated herein by reference.

(5) Filed with Registration Statement on Form S-1 dated July 12, 2001, as amended, (Registration Statement No. 333-64934) and are incorporated herein by reference.

(6) Filed with annual report on Form 10-K for the year end December 31, 2003, and incorporated herein by reference

(7) Filed with quarterly report on form 10-Q for the period ended March 31, 2003 and incorporated herein by reference.

