

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC
Form 10-Q
August 09, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended June 30, 2010

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 0-24033

NASB Financial, Inc.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

43-1805201
(IRS Employer
Identification No.)

12498 South 71 Highway, Grandview, Missouri 64030
(Address of principal executive offices) (Zip Code)

(816) 765-2200
(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, or a small reporting company. See definition of "accelerated filer", "large accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer X

Non-accelerated filer Small reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares of Common Stock of the Registrant outstanding as of August 6, 2010, was 7,867,614.

NASB FINANCIAL, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2010 (Unaudited) -----	September 30, 2009 -----
ASSETS		
Cash and cash equivalents	\$ 9,510	63,250
Securities:		
Available for sale, at fair value	6,303	21,654
Held to maturity, at cost	1,268	1,290
Stock in Federal Home Loan Bank, at cost	17,431	26,640
Mortgage-backed securities:		
Available for sale, at fair value	969	46,549
Held to maturity, at cost	53,376	11,125
Loans receivable:		
Held for sale, at fair value	138,591	81,367
Held for investment, net	1,129,884	1,259,694
Allowance for loan losses	(33,852)	(20,699)
	-----	-----
Total loans receivable, net	1,234,623	1,320,362
	-----	-----
Accrued interest receivable	5,243	6,195
Foreclosed assets held for sale, net	25,120	10,140

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Premises and equipment, net	12,939	13,393
Investment in LLCs	18,992	21,045
Mortgage servicing rights, net	277	351
Deferred income tax asset, net	13,546	6,651
Income taxes receivable	469	--
Other assets	15,862	10,917
	-----	-----
	\$ 1,415,928	1,559,562
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 811,800	696,781
Brokered deposit accounts	47,661	207,844
Advances from Federal Home Loan Bank	349,000	441,026
Subordinated debentures	25,774	25,774
Escrows	8,438	10,178
Income taxes payable	--	4,210
Accrued expenses and other liabilities	7,934	7,361
	-----	-----
Total liabilities	1,250,607	1,393,174
	-----	-----
Stockholders' equity:		
Common stock of \$0.15 par value:		
20,000,000 shares authorized;		
9,857,112 shares issued	1,479	1,479
Additional paid-in capital	16,584	16,525
Retained earnings	185,439	184,891
Treasury stock, at cost;		
1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive		
income	237	1,911
	-----	-----
Total stockholders' equity	165,321	166,388
	-----	-----
	\$ 1,415,928	1,559,562
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

NASB FINANCIAL, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (Loss) (Unaudited)
(In thousands, except share data)

Three months ended		Nine months ended	
June 30,		June 30,	
-----	-----	-----	-----
2010	2009	2010	2009

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Interest on loans receivable	\$ 19,804	20,993	59,671	64,110
Interest on mortgage-backed securities	829	451	2,492	1,494
Interest and dividends on securities	229	1,081	1,164	1,542
Other interest income	2	2	10	94
Total interest income	20,864	22,527	63,337	67,240
Interest on customer and brokered deposit accounts	4,342	6,246	13,221	19,543
Interest on advances from FHLB	2,468	3,920	8,891	13,212
Interest on subordinated debentures	124	173	371	709
Total interest expense	6,934	10,339	22,483	33,464
Net interest income	13,930	12,188	40,854	33,776
Provision for loan losses	11,500	4,000	25,500	5,250
Net interest income after provision for loan losses	2,430	8,188	15,354	28,526
Other income (expense):				
Loan servicing fees, net	21	112	100	(120)
Impairment recovery (loss) on mortgage servicing rights	6	(11)	10	30
Customer service fees and charges	1,923	2,127	5,354	5,264
Provision for loss on real estate owned	(1,486)	--	(1,694)	(250)
Gain on sale of securities available for sale	867	548	5,519	548
Gain from sale of loans receivable held for sale	10,682	9,170	24,766	19,415
Impairment loss on investments in LLCs	--	--	(2,000)	--
Other	(491)	796	(1,019)	2,284
Total other income	11,522	12,742	31,036	27,171
General and administrative expenses:				
Compensation and fringe benefits	4,890	5,094	13,868	13,221
Commission-based mortgage banking compensation	4,494	4,695	11,845	10,318
Premises and equipment	1,081	928	3,128	2,991
Advertising and business promotion	1,316	1,079	4,192	3,473
Federal deposit insurance premiums	438	843	2,110	914
Other	2,690	1,393	5,743	4,258
Total general and administrative expenses	14,909	14,032	40,886	35,175
Income (loss) before income tax expense	(957)	6,898	5,504	20,522
Income tax expense (benefit)	(497)	2,656	1,416	7,901
Net income (loss)	\$ (460)	4,242	4,088	12,621
Basic earnings (loss) per share	\$ (0.06)	0.54	0.52	1.60
Diluted earnings (loss) per share	\$ (0.06)	0.54	0.52	1.60
Basic weighted average shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

2

NASB FINANCIAL, INC. AND SUBSIDIARY
Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Tota stockho equit
(Dollars in thousands)						
Balance at October 1, 2009	\$ 1,479	16,525	184,891	(38,418)	1,911	166,
Comprehensive income:						
Net income	--	--	4,088	--	--	4,
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	(1,674)	(1,
Total comprehensive income						2,
Cash dividends paid (\$0.45 per share)	--	--	(3,540)	--	--	(3,
Stock based compensation expense	--	59	--	--	--	
Balance at June 30, 2010	\$ 1,479	16,584	185,439	(38,418)	237	165,

Nine months ended
June 30, 2010

(Dollars in thousands)

Reclassification Disclosure:

Unrealized gain on available for sale securities, net of income taxes of \$1,077	\$	1,720
Reclassification adjustment for gain included in net income, net of income taxes of \$2,125		(3,394)
Change in unrealized gain (loss) on available for sale securities, net of income tax of \$(1,048)	\$	(1,674)

See accompanying notes to condensed consolidated financial statements.

3

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL, INC. AND SUBSIDIARY
 Condensed Consolidated Statements of Cash Flows (Unaudited)
 (In thousands)

	Nine months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 4,088	12,621
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,426	1,322
Amortization and accretion, net	(1,076)	(3,520)
Gain on sale of securities available for sale	(5,519)	(548)
Loss from investment in LLCs	60	54
Impairment loss on investment in LLCs	2,000	--
Impairment recovery on mortgage servicing rights	(10)	(30)
Gain from loans receivable held for sale	(24,766)	(19,415)
Provision for loan losses	25,500	5,250
Provision for loss on real estate owned	1,694	250
Origination of loans receivable held for sale	(1,183,591)	(1,189,455)
Sale of loans receivable held for sale	1,151,133	1,154,301
Stock based compensation - stock options	59	73
Changes in:		
Net fair value of loan-related commitments	451	(2,123)
Accrued interest receivable	952	(100)
Prepaid and accrued expenses, other liabilities and income taxes payable	(15,147)	3,051
Net cash used in operating activities	(42,746)	(38,269)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	8,338	13
Available for sale	3,681	11,238
Principal repayments of investment securities:		
Held to maturity	53	--
Available for sale	5	5
Principal repayments of mortgage loans receivable held for investment	176,391	208,348
Principal repayments of other loans receivable	4,297	4,279
Loan origination - mortgage loans receivable held for investment	(84,415)	(199,295)
Loan origination - other loans receivable	(1,969)	(3,428)
Purchase of mortgage loans receivable held for investment	(1,002)	(1,049)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	9,209	(356)
Purchase of mortgage backed securities held to maturity	(54,806)	--
Purchase of investment securities available for sale	(28,923)	(104,412)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Proceeds from sale of investment securities available for sale	46,379	28,262
Proceeds from sale of mortgage-backed securities available for sale	47,122	--
Proceeds from sale of real estate owned	8,707	6,086
Purchases of premises and equipment, net	(992)	(374)
Investment in LLCs	(6)	(476)
Other	(258)	198
Net cash provided by (used in) investing activities	131,811	(50,961)

4

NASB FINANCIAL, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine months ended June 30,	
	2010	2009
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	(45,525)	170,369
Proceeds from advances from Federal Home Loan Bank	48,000	319,000
Repayment on advances from Federal Home Loan Bank	(140,000)	(402,000)
Cash dividends paid	(3,540)	(5,310)
Change in escrows	(1,740)	(1,702)
Net cash provided by (used in) financing activities	(142,805)	80,357
Net decrease in cash and cash equivalents	(53,740)	(8,873)
Cash and cash equivalents at beginning of the period	63,250	21,735
Cash and cash equivalents at end of period	\$ 9,510	12,862
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 12,221	9,336
Cash paid for interest	23,748	32,072
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 40,992	15,716
Conversion of real estate owned to loans receivable	344	391
Capitalization of originated mortgage servicing rights	5	--
Transfer of securities from held to maturity to available for sale	4,360	--

See accompanying notes to condensed consolidated financial statements.

5

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the nine month period ended June 30, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. The condensed consolidated balance sheet of the Company as of September 30, 2009, has been derived from the audited balance sheet of the Company as of that date.

In preparing the 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 balance sheet and revenues and expenses for the period. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowances for losses on loans, real estate owned, valuation of mortgage servicing rights, and unrecognized tax benefits. Management believes that these allowances are adequate, however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the condensed consolidated financial statements as of June 30, 2010, have remained unchanged from September 30, 2009. These policies relate to the allowance for loan losses, the valuation of derivative instruments, and the valuation of mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2009.

Certain quarterly amounts for previous periods have been reclassified to conform to the current quarter's presentation.

(2) RECONCILIATION OF BASIC EARNINGS (LOSS) PER SHARE TO DILUTED EARNINGS (LOSS) PER SHARE

The following table presents a reconciliation of basic earnings (loss) per share to diluted earnings (loss) per share for the periods indicated.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Three months ended		Nine months ended	
	6/30/10	6/30/09	6/30/10	6/30/09
Net income (loss) (in thousands)	\$ (460)	4,242	4,088	12,621
Average common shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
Average common share stock options outstanding	--	--	--	--
Average diluted common shares	7,867,614	7,867,614	7,867,614	7,867,614
Earnings (loss) per share:				
Basic	\$ (0.06)	0.54	0.52	1.60
Diluted	(0.06)	0.54	0.52	1.60

At June 30, 2010 and 2009, options to purchase 62,038 and 72,038 shares, respectively, of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

6

(3) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at June 30, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 3,187	175	--	3,362
Trust preferred securities	2,758	159	--	2,917
Municipal securities	24	--	--	24
Total	\$ 5,969	334	--	6,303

The following table presents a summary of securities available for sale at September 30, 2009. Dollar amounts are expressed in thousands.

	Amortized	Gross unrealized	Gross unrealized	Estimated fair
--	-----------	------------------	------------------	----------------

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	cost	gains	losses	value
Corporate debt securities	\$ 19,099	2,526	--	21,625
Municipal securities	29	--	--	29
Total	\$ 19,128	2,526	--	21,654

During the nine month period ended June 30, 2010, the Company realized gross gains of \$4.1 million and no gross losses on the sale of securities available for sale. The Company realized gross gains of \$548,000 and no gross losses on the sale of securities available for sale during the nine month period ended June 30, 2009.

The scheduled maturities of securities available for sale at June 30, 2010, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	\$ 5	--	--	5
Due from one to five years	19	--	--	19
Due from five to ten years	3,187	175	--	3,362
Due after ten years	2,758	159	--	2,917
Total	\$ 5,969	334	--	6,303

(4) SECURITIES HELD TO MATURITY

The following table presents a summary of securities held to maturity at June 30, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Asset-backed securities	\$ 1,268	228	--	1,496
Total	\$ 1,268	228	--	1,496

The following table presents a summary of securities held to maturity at September 30, 2009. Dollar amounts are expressed in thousands.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Asset-backed securities	\$ 1,290	85	--	1,375
Total	\$ 1,290	85	--	1,375

The scheduled maturities of securities held to maturity at June 30, 2010, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due after ten years	\$ 1,268	228	--	1,496
Total	\$ 1,268	228	--	1,496

Actual maturities of securities held to maturity may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments which are callable.

There were no dispositions of securities held to maturity during the nine month periods ended June 30, 2010 and 2009.

(5) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at June 30, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 101	1	--	102
Pass-through certificates guaranteed by FNMA				
- adjustable rate	198	6	--	204
FHLMC participation certificates:				
- fixed rate	443	39	--	482
- adjustable rate	175	6	--	181
Total	\$ 917	52	--	969

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

8

The following table presents a summary of mortgage-backed securities available for sale at September 30, 2009. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 114	--	--	114
Pass-through certificates guaranteed by FNMA				
- adjustable rate	5,924	67	--	5,991
FHLMC participation certificates:				
- fixed rate	546	33	--	579
- adjustable rate	39,384	481	--	39,865
Total	\$ 45,968	581	--	46,549

During nine month period ended June 30, 2010, the Company realized gross gains of \$1.4 million and gross losses of \$8,000 on the sale of mortgage-backed securities available for sale. There were no sales of mortgage-backed securities available for sale during the nine month period ended June 30, 2009.

During the quarter ended June 30, 2010, the Bank transferred a mortgage-backed security with an amortized cost of \$4.4 million from the held to maturity category to the available for sale category. The amortized cost of the security approximated its market value; thus, there were no unrealized gains or losses at the date of transfer. The decision was made to transfer the security after it was determined that there was a significant deterioration in the underlying credit. The mortgage-backed security was subsequently sold during the quarter ended June 30, 2010 and a loss of \$8,000 was recognized.

The scheduled maturities of mortgage-backed securities available for sale at June 30, 2010, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from five to ten years	\$ 443	39	--	482
Due after ten years	474	13	--	487
Total	\$ 917	52	--	969

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

=====

Actual maturities and pay-downs of mortgage-backed securities available for sale will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

9

(6) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at June 30, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value

FHLMC participation certificates:				
Fixed rate	\$ 54	--	--	54
FNMA pass-through certificates:				
Fixed rate	8	--	--	8
Balloon maturity and adjustable rate	36	--	--	36
Collateralized mortgage obligations	53,278	63	(327)	53,014

Total	\$ 53,376	63	(327)	53,112
=====				

The following table presents a summary of mortgage-backed securities held to maturity at September 30, 2009. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value

FHLMC participation certificates:				
Fixed rate	\$ 59	4	--	63
FNMA pass-through certificates:				
Fixed rate	10	--	--	10
Balloon maturity and adjustable rate	43	--	--	43
Collateralized mortgage obligations	11,013	214	--	11,227

Total	\$ 11,125	218	--	11,343
=====				

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

There were no sales of mortgage-backed securities held to maturity during the nine month periods ended June 30, 2010 and 2009.

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities held to maturity which had unrealized losses at June 30, 2010. Dollar amounts are expressed in thousands.

	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Collateralized mortgage obligations	\$ 43,057	327	\$ --	--
Total	\$ 43,057	327	\$ --	--

10

The scheduled maturities of mortgage-backed securities held to maturity at June 30, 2010, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 8	--	--	8
Due from five to ten years	90	--	--	90
Due after ten years	53,278	63	(327)	53,014
Total	\$53,376	63	(327)	53,112

Actual maturities and pay-downs of mortgage-backed securities held to maturity will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

(7) LOANS RECEIVABLE

Loans receivable are as follows at June 30, 2010. Dollar amounts are expressed in thousands.

LOANS HELD FOR INVESTMENT:

Mortgage loans:

Permanent loans on:

Residential properties	\$ 355,592
Business properties	455,834

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Partially guaranteed by VA or insured by FHA	3,988
Construction and development	241,026

Total mortgage loans	1,056,440
Commercial loans	94,015
Installment loans to individuals	11,533

Total loans held for investment	1,161,988
Less:	
Undisbursed loan funds	(24,777)
Unearned discounts and fees and costs on loans, net	(7,327)

Net loans held for investment	\$1,129,884
	=====
 LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 208,463
Less:	
Undisbursed loan funds	(69,872)

Net loans held for sale	\$ 138,591
	=====

Included in the loans receivable balances at June 30, 2010 are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of \$17.6 million. Loans and participations serviced for others amounted to approximately \$77.2 million at June 30, 2010.

11

The following table presents the activity in the allowance for losses on loans for the period ended June 30, 2010. Allowance for losses on mortgage loans includes specific valuation allowances and valuation allowances associated with homogenous pools of loans. Dollar amounts are expressed in thousands.

Balance at October 1, 2009	\$ 20,699
Provisions	25,500
Charge-offs	(12,348)
Recoveries	1

Balance at June 30, 2010	\$ 33,852
	=====

(8) FORECLOSED ASSETS HELD FOR SALE

Real estate owned and other repossessed property consisted of the following at June 30, 2010. Dollar amounts are expressed in thousands.

Real estate acquired through (or deed in lieu of) foreclosure	\$ 26,663
---	-----------

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Less: allowance for losses	(1,543)

Total	\$ 25,120
	=====

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less any estimated selling costs (the "new basis") and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date. When foreclosed assets are acquired any excess of the loan balance over the new basis of the foreclosed asset is charged to the allowance for loan losses. Subsequent adjustments for estimated losses are charged to operations when the fair value declines to an amount less than the carrying value. Costs and expenses related to major additions and improvements are capitalized, while maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. Applicable gains and losses on the sale of real estate owned are realized when the asset is disposed of, depending on the adequacy of the down payment and other requirements.

(9) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended June 30, 2010. Dollar amounts are expressed in thousands.

Balance at October 1, 2009	\$	351
Additions:		
Originated mortgage servicing rights		5
Impairment recovery		10
Reductions:		
Amortization		(89)

Balance at June 30, 2010	\$	277
		=====

(10) SUBORDINATED DEBENTURES

On December 13, 2006, NASB Financial, Inc. (the "Company"), through its wholly owned statutory trust, NASB Preferred Trust I (the "Trust"), issued \$25.0 million of Trust Preferred Securities. The Trust used the proceeds from the offering to purchase a like amount of NASB Financial Inc.'s subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust. In exchange for the capital contributions made to the Trust by NASB Financial, Inc. upon formation, NASB Financial, Inc. owns all the common securities of the Trust.

The Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of the Company. The \$25.0 million Trust Preferred Securities issued by the Trust will remain on the records of the Trust. The Trust Preferred Securities are included in Tier I capital for regulatory capital purposes.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The Trust Preferred Securities have a variable interest rate of 1.65% over the 3-month LIBOR, and are mandatorily redeemable upon the 30-year term of the debentures, or upon earlier redemption as provided in the Indenture. The debentures are callable, in whole or in part, after five years from the issuance date. The Company did not incur a placement or annual trustee fee related to the issuance. The securities are subordinate to all other debt of the Company and interest may be deferred up to five years.

(11) INCOME TAXES

During the nine month period ended June 30, 2010, the Company's liability for unrecognized tax benefit was eliminated as a result of the settlements with various taxing authorities.

The Company's federal and state income tax returns for fiscal years 2007 through 2010 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(12) SEGMENT INFORMATION

The Company has identified two principal operating segments for purposes of financial reporting: Banking and Mortgage Banking. These segments were determined based on the Company's internal financial accounting and reporting processes and are consistent with the information that is used to make operating decisions and to assess the Company's performance by the Company's key decision makers.

The Mortgage Banking segment originates mortgage loans for sale to investors and for the portfolio of the Banking segment. The Banking segment provides a full range of banking services through the Bank's branch network, exclusive of mortgage loan originations. A portion of the income presented in the Mortgage Banking segment is derived from sales of loans to the Banking segment based on a transfer pricing methodology that is designed to approximate economic reality. The Other and Eliminations segment includes financial information from the parent company plus inter-segment eliminations.

The following table presents financial information from the Company's operating segments for the periods indicated. Dollar amounts are expressed in thousands.

Three months ended June 30, 2010	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 14,043	--	(113)	13,930
Provision for loan losses	11,500	--	--	11,500
Other income	1,253	10,443	(174)	11,522
General and administrative expenses	6,184	8,692	33	14,909
Income tax expense (benefit)	(920)	674	(251)	(497)
Net income (loss)	\$ (1,468)	1,077	(69)	(460)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Three months ended June 30, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 12,349	--	(161)	12,188
Provision for loan losses	4,000	--	--	4,000
Other income	1,517	11,735	(510)	12,742
General and administrative expenses	5,772	8,522	(262)	14,032
Income tax expense (benefit)	1,576	1,237	(157)	2,656
Net income	\$ 2,518	1,976	(252)	4,242

13

Nine months ended June 30, 2010	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 41,193	--	(339)	40,854
Provision for loan losses	25,500	--	--	25,500
Other income	5,274	28,797	(3,035)	31,036
General and administrative expenses	18,170	23,112	(396)	40,886
Income tax expense (benefit)	577	2,189	(1,350)	1,416
Net income	\$ 2,220	3,496	(1,628)	4,088

Nine months ended June 30, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 34,447	--	(671)	33,776
Provision for loan losses	5,250	--	--	5,250
Other income	3,191	25,582	(1,602)	27,171
General and administrative expenses	15,424	20,415	(664)	35,175

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Income tax expense (benefit)	6,531	1,989	(619)	7,901
Net income	\$ 10,433	3,178	(990)	12,621

(13) DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. As the Company enters into commitments to originate loans, it also enters into commitments to sell the loans in the secondary market. Such commitments to originate loans held for sale are considered derivative instruments in accordance with GAAP, which requires the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$1.1 million, a decrease in other liabilities of \$344,000, and an increase in other income of \$1.4 million for the quarter ended June 30, 2010. The Company recorded an increase in other assets of \$118,000, an increase in other liabilities of \$592,000, and a decrease in other income of \$474,000 for the nine month period ended June 30, 2010.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded a decrease in other assets of \$949,000, an increase in other liabilities of \$687,000, and a decrease in other income of \$1.6 million during the quarter ended June 30, 2010. The Company recorded an increase in other assets of \$210,000, an increase in other liabilities of \$188,000, and an increase in other income of \$22,000 during the nine month period ended June 30, 2010.

The balance of derivative instruments related to commitments to originate and sell loans at June 30, 2010, is disclosed in Footnote 14, Fair Value Measurements.

(14) FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would likely be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. GAAP identifies three primary measurement techniques: the market approach, the income approach, and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuations or techniques to convert future amounts, such as cash flows or earnings, to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capability of an asset.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required. Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Company's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Company measures certain financial assets and liabilities at fair value in accordance with GAAP. These measurements involve various valuation techniques and assume that the transactions would occur between market participants in the most advantageous market for the Company.

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Available for sale securities

Securities available for sale consist of corporate debt, trust preferred and municipal securities and are valued using quoted market prices in an active market. This measurement is classified as Level 1 within the hierarchy.

Mortgage-backed available for sale securities are valued by using broker dealer quotes for similar assets in markets that are not active. Such quotes are based on actual transactions for similar assets. Although the Company does not validate these quotes, they are reviewed by management for reasonableness in relation to current market conditions. Additionally, they are obtained from experienced brokers who have an established relationship with the Bank and deal regularly with these types of securities. The Company does not make any adjustment to the quotes received from broker dealers. These

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

measurements are classified as Level 2.

Loans held for sale

Loans held for sale are valued using quoted market prices for loans with similar characteristics. This measurement is classified as Level 2 within the hierarchy.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market prices. Therefore, fair value is assessed using a valuation model that calculates the discounted cash flow using assumptions such as estimates of prepayment speeds, market discount rates, servicing fee income, and cost of servicing. These measurements are classified as Level 3. Mortgage servicing rights are initially recorded at amortized cost and are amortized over the period of net servicing income. They are evaluated for impairment monthly, and valuation adjustments are recorded as necessary to reduce the carrying value to fair value.

15

Commitments to Originate Loans and Forward Sales Commitments

Commitments to originate loans and forward sales commitments are valued using a valuation model which considers differences between current market interest rates and committed rates. The model also includes assumptions which estimate fall-out percentages for commitments to originate loans. These measurements use significant unobservable inputs and are classified as Level 3 within the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at June 30, 2010 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets:				
Securities, available for sale				
Corporate debt securities \$	3,362	3,362	--	--
Trust preferred securities	2,917	2,917	--	--
Municipal securities	24	24	--	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA - fixed rate	102	--	102	--

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Pass through certificates guaranteed by FNMA -				
adjustable rate	204	--	204	--
FHLMC participation certificates:				
Fixed rate	482	--	482	--
Adjustable rate	181	--	181	--
Loans held for sale	138,591	--	138,591	--
Mortgage servicing rights	277	--	--	277
Commitments to originate loans	1,348	--	--	1,348
Forward sales commitments	470	--	--	470

Total assets	\$ 147,958	6,303	139,560	2,095
	=====			
Liabilities:				
Commitments to originate loans	\$ 798	--	--	798
Forward sales commitments	826	--	--	826

Total liabilities	\$ 1,624	--	--	1,624
	=====			

16

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2009 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
Corporate debt securities	\$ 21,625	21,625	--	--
Municipal securities	29	29		
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA -				
fixed rate	114	--	114	--
Pass through certificates guaranteed by FNMA -				
adjustable rate	5,991	--	5,991	--
FHLMC participation certificates:				
Fixed rate	579	--	579	--
Adjustable rate	39,865	--	39,865	--
Loans held for sale	81,367	--	81,367	--

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Mortgage servicing rights	351	--	--	351
Commitments to originate loans	1,230	--	--	1,230
Forward sales commitments	260	--	--	260
<hr/>				
Total assets	\$ 151,411	21,654	127,916	1,841
<hr/>				
Liabilities:				
Commitments to originate loans	\$ 206	--	--	206
Forward sales commitments	638	--	--	638
<hr/>				
Total liabilities	\$ 844	--	--	844
<hr/>				

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the nine month periods ended June 30, 2010 and 2009 (in thousands):

	Mortgage Servicing Rights	Commitments to Originate Loans	Forward Sales Commitments
<hr/>			
Balance at October 1, 2009	\$ 351	1,023	(378)
Total realized and unrealized gains (losses):			
Included in net income	(79)	(473)	22
Included in other comprehensive income	--	--	--
Purchases, issuances, and settlements	5	--	--
Transfers in (out) of Level 3	--	--	--
<hr/>			
Balance at June 30, 2010	\$ 277	550	(356)
<hr/>			

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Rights	Loans	Commitments

Balance at October 1, 2008	\$ 716	327	(319)
Total realized and unrealized gains (losses):			
Included in net income	(271)	(125)	2,248
Included in other comprehensive income	--	--	--
Purchases, issuances, and settlements	--	--	--
Transfers in (out) of Level 3	--	--	--

Balance at June 30, 2009	\$ 445	202	1,929
=====			

Realized and unrealized gains and losses noted in the table above and included in net income for the nine month period ended June 30, 2010, are reported in the consolidated statements of income as follows (in thousands):

	Loan Servicing Fees	Impairment Recovery on Mortgage Servicing Rights	Other Income

Total gains (losses)	\$ (89)	10	(451)
=====			
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	\$ --	--	--
=====			

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Impaired loans

Loans for which it is probable that the Company will not collect principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and other internal assessments of value. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans that were re-measured during the nine month period was \$56.2 million at June 30, 2010.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Foreclosed Assets Held For Sale

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less any estimated selling costs (the "new basis") and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date. Fair value is estimated through current appraisals, broker price opinions, or listing prices. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The carrying value of foreclosed assets held for sale was \$25.1 million at June 30, 2010. During the nine month period ended June 30, 2010, charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the period totaled \$1.5 million.

18

Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. These investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company evaluates its investments in LLCs using a multi-faceted approach. The internal model utilizes liquidation or appraised values as determined by an independent third party appraiser; an on-going business or discounted cash flows value; and a combination of both the previous approaches. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). Investment in LLCs are classified within Level 3 of the fair value hierarchy

The carrying value of the Company's investment in LLCs was \$19.0 million at June 30, 2010. During the nine month period ended June 30, 2010, the Company recorded an impairment charge of \$2.0 million on its investment in LLCs (see Note 16).

The following table presents the carrying values and fair values of the Company's financial instruments at June 30, 2010, which have not been previously reported. Dollar amounts are expressed in thousands.

	Carrying value	Estimated fair value
Financial Assets:		
Cash and cash equivalents	\$ 9,510	9,510
Securities:		

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Held to maturity	1,268	1,496
Stock in Federal Home Loan Bank	17,431	17,431
Mortgage-backed securities:		
Held to maturity	53,376	53,112
Loans receivable:		
Held for investment	1,096,032	1,125,353
Financial Liabilities:		
Customer deposit accounts	811,800	816,203
Brokered deposit accounts	47,661	47,689
Advances from FHLB	349,000	353,983
Subordinated debentures	25,774	25,774

	Contract or notional amount	Estimated unrealized gain
	-----	-----
Unrecognized financial instruments:		
Lending commitments - fixed rate, net	\$ 6,972	21
Lending commitments - floating rate	120	(1)
Commitments to sell loans	--	--

19

The following table presents the carrying values and fair values of the Company's financial instruments at September 30, 2009, which have not been previously reported. Dollar amounts are expressed in thousands.

	Carrying value	Estimated fair value
	-----	-----
Financial Assets:		
Cash and cash equivalents	\$ 63,250	63,250
Securities:		
Held to maturity	1,290	1,375
Stock in Federal Home Loan Bank	26,640	26,640
Mortgage-backed securities:		

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Held to maturity	11,125	11,343
Loans receivable:		
Held for investment	1,238,995	1,272,543
Financial Liabilities:		
Customer deposit accounts	696,781	706,330
Brokered deposit accounts	207,844	208,634
Advances from FHLB	441,026	449,613
Subordinated debentures	25,774	25,774

	Contract or notional amount	Estimated unrealized gain

Unrecognized financial instruments:		
Lending commitments - fixed rate, net	\$ 1,326	47
Lending commitments - floating rate	--	--
Commitments to sell loans	--	--

The fair value estimates presented are based on pertinent information available to management as of June 30, 2010 and September 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date. Therefore, current estimates of fair value may differ significantly from the amounts presented above. The method of estimating fair values does not incorporate the exit-price concept of fair value prescribed by ASC 820, Fair Value Measures and Disclosures.

(15) SUPERVISORY AGREEMENT

On April 30, 2010, the Board of Directors of North American Savings Bank, F.S.B. (the "Bank"), a wholly owned subsidiary of the Company, entered into a Supervisory Agreement with the Office of Thrift Supervision ("OTS"), the Bank's primary regulator, effective as of that date. The agreement requires, among other things, that the Bank revise its policies regarding internal asset review, obtain an independent assessment of its allowance for loan and lease losses methodology and conduct an independent third-party review of a portion of its commercial and construction loan portfolios. The agreement also directs the Bank to provide a plan to reduce its classified assets and its reliance on brokered deposits, and restricts the payment of dividends or other capital distributions by the Bank during the period of the agreement.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The agreement did not direct the Bank to raise capital, make management or board changes, revise any loan policies or restrict lending growth. The Bank received written communication from OTS that, notwithstanding the existence of the Supervisory Agreement, the Bank will not be deemed to be in "troubled condition."

20

On April 30, 2010, the Company's Board of Directors entered into an agreement with the Office of Thrift Supervision ("OTS"), the Company's primary regulator, effective as of that date. The agreement restricts the payment of dividends or other capital distributions by the Company and restricts the Company's ability to incur, issue or renew any debt during the period of the agreement.

As of June 30, 2010, the Company and the subsidiary Bank are in compliance with these regulatory agreements.

(16) IMPAIRMENT OF INVESTMENT IN LLC

The Company is a partner in two limited liability companies, Central Platte Holdings LLC ("Central Platte") and NBH, LLC ("NBH"), which were formed for the purpose of purchasing and developing vacant land in Platte County, Missouri. These investments are accounted for using the equity method of accounting.

The Company's investment in Central Platte consists of a 50% ownership interest in an entity that develops land for residential real estate sales. Sales of lots had not met previous expectations and, as a result, the Company evaluated its investment for impairment, in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes liquidation or appraised values determined by an independent third party appraisal; an on-going business, or discounted cash flows value; and a combination of both the previous approaches. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). As a result of this analysis, the Company determined that its investment in Central Platte was materially impaired and recorded an impairment charge of \$2.0 million (\$1.2 million, net of tax) during the quarter ended December 31, 2009. The Company applied the same methodology to Central Platte as of September 30, 2009, which indicated no impairment. Inputs utilized in the model that differed from September 30, 2009 to December 31, 2009, included slower estimates of lot sales and an approximately 8.5% decrease in raw land values, which was supported by comparable independent third-party appraisals prepared during that period. The Company's investment in Central Platte was \$16.5 million at June 30, 2010.

The Company's investment in NBH consists of a 50% ownership interest in an entity that holds raw land, which is currently zoned as agricultural. The land is generally located near the Central Platte development and the Company intends to rezone this property for commercial and/or residential development. The raw land was purchased

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

in 2002. The Company accounts for its investment in NBH under the equity method. Due to the overall economic conditions surrounding real estate, the Company evaluated its investment for impairment in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. Potential impairment was measured by utilizing comparable sales of raw land within the market area. As a result of this analysis, the Company determined that its investment in NBH was not materially impaired. The Company's investment in NBH was \$2.5 million at June 30, 2010.

21

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

The principal business of the Company is to provide banking services through the Bank. Specifically, the Bank obtains savings and checking deposits from the public, then uses those funds to originate and purchase real estate loans and other loans. The Bank also purchases mortgage-backed securities ("MBS") and other investment securities from time to time as conditions warrant. In addition to customer deposits, the Bank obtains funds from the sale of loans held-for-sale, the sale of securities available-for-sale, repayments of existing mortgage assets, advances from the Federal Home Loan Bank ("FHLB"), and the purchase of brokered deposit accounts. The Bank's primary sources of income are interest on loans, MBS, and investment securities plus customer service fees and income from mortgage banking activities. Expenses consist primarily of interest payments on customer deposits and other borrowings and general and administrative costs.

The Bank is regulated by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and is subject to periodic examination by both entities. The Bank is also subject to the regulations of the Board of Governors of the Federal Reserve System ("FRB"), which establishes rules regarding reserves that must be maintained against customer deposits.

FINANCIAL CONDITION

ASSETS

The Company's total assets as of June 30, 2010 were \$1,415.9 million, a decrease of \$143.6 million from September 30, 2009, the prior fiscal year end.

Loans receivable held for investment were \$1,129.9 million as of June 30, 2010, a decrease of \$129.8 million during the nine month period. This decrease resulted primarily from decreases in the Bank's commercial real estate and residential construction and land development portfolios. The weighted average rate on such loans as of June 30, 2010 was 6.29%, a decrease from 6.32% as of June 30, 2009.

Loans receivable held for sale as of June 30, 2010 were \$138.6 million, an increase of \$57.2 million from September 30, 2009. This portfolio consists of residential mortgage loans originated by the Bank's mortgage banking division that will be sold with servicing

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

released. The increase from the prior year end is the result of significant loan origination volumes during the nine month period. The Company has elected to carry loans held for sale at fair value, as permitted under GAAP.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the nine months ended June 30, 2010, the Bank originated and purchased \$1,183.6 million in mortgage loans held for sale, \$85.4 million in mortgage loans held for investment, and \$2.0 million in other loans. This total of \$1,271.0 million in loans compares to \$1,393.2 million in loans originated and purchased during the nine months ended June 30, 2009.

The Bank classifies problem assets as "substandard," "doubtful" or "loss." Substandard assets have one or more defined weaknesses, and it is possible that the Bank will sustain some loss unless the deficiencies are corrected. Doubtful assets have the same defects as substandard assets plus other weaknesses that make collection or full liquidation improbable. Assets classified as loss consist of the reserved portion of loans classified as impaired pursuant to ASC 310-10-35.

22

The following table summarizes the Bank's classified assets as reported to the OTS, plus any classified assets of the holding company. Dollar amounts are expressed in thousands.

	6/30/10	9/30/09	6/30/09
Asset Classification:			
Substandard	\$ 148,440	69,158	48,906
Doubtful	300	--	--
Loss	18,041	6,415	2,900
	166,781	75,573	51,806
Allowance for losses on loans and real estate owned	(35,395)	(20,699)	(16,376)
	\$ 131,386	54,874	35,430

The following table summarizes non-performing assets, troubled debt restructurings, and real estate acquired through foreclosure. Dollar amounts are expressed in thousands.

	6/30/10	9/30/09	6/30/09
--	---------	---------	---------

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Total Assets	\$ 1,415,928	1,559,562	1,615,130
Non-accrual loans	\$ 23,189	29,618	30,377
Troubled debt restructurings	18,479	23,366	4,004
Net real estate and other assets acquired through foreclosure	25,120	10,140	12,037
Total	\$ 66,788	63,124	46,418
Percent of total assets	4.72%	4.05%	2.87%

Management records a provision for loan losses in amounts sufficient to cover current net charge-offs and an estimate of probable losses based on an analysis of risks that management believes to be inherent in the loan portfolio. The Allowance for Loan and Lease Losses ("ALLL") recognizes the inherent risks associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets but to a homogenous pool of loans. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future allowances may be necessary because of changes in economic conditions. Also, regulatory agencies (OTS and FDIC) review the Bank's allowance for losses as part of their examinations, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

In accordance with the Supervisory Agreement of April 30, 2010, with the Office of Thrift Supervision, the Bank was required to engage a third-party consultant to perform an independent review of a significant portion of its non-homogenous loan portfolios, an independent assessment of its internal asset review structure, and an independent assessment of its allowance for loan and lease losses methodology. This review was completed during the quarter ended June 30, 2010, and resulted in an increase in classified assets, primarily in the Bank's residential land development portfolio. As new home and lot sales continue to slow in the current economic environment, management determined that the primary source of repayment for such loans was weakened and that it was prudent to classify them, typically as substandard. It should be noted that, although they are adversely classified, many of these loans continue to perform according to their contractual terms and, as such, are not deemed impaired at June 30, 2010.

Investment securities were \$7.6 million as of June 30, 2010, a decrease of \$15.4 million from September 30, 2009. During the nine month period, the Bank purchased securities of \$28.9 million and sold \$46.4 million of securities available for sale. The Company realized gross gains of \$4.1 million and no gross losses on the sale of securities available for sale during the period. Funds resulting from the sale of these securities were used to reduce Company's reliance on brokered deposits.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Mortgage-backed securities were \$54.3 million as of June 30, 2010, a decrease of \$3.3 million from the prior year end. During the nine month period, the Bank purchased mortgage-backed securities of \$54.8 million and sold \$47.1 million of mortgage-backed securities available for sale. This activity was related to a restructuring of the Company's mortgage-backed securities portfolio which resulted in an increased yield on such assets. The average yield on the mortgage-backed securities portfolio was 5.03% at June 30, 2010, an increase from 4.48% at September 30, 2009.

The Company's investment in LLCs, which is accounted for using the equity method, was \$19.0 million at June 30, 2010, a decrease of \$2.0 million from September 30, 2009. During the quarter ended December 31, 2009, the Company recorded a \$2.0 million impairment charge related to its investment in Central Platte Holdings, LLC. There have been no events subsequent to December 31, 2009, that would indicate an additional impairment in value of the Company's investment in Central Platte, which was \$16.5 million at June 30, 2010. The Company's investment in NBH, LLC was also evaluated for impairment and no material impairment was identified. The Company's investment in NBH, LLC was \$2.5 million at June 30, 2010.

LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased \$45.2 million during the nine months ended June 30, 2010. Specifically, customer deposits increased \$115.0 million during the period, primarily due to an increase in retail certificates of deposits resulting from promotions during the period. Brokered deposits decreased \$160.2 million during the period, as a result of the Company's effort to reduce its reliance on this funding source. The weighted average rate on customer and brokered deposits as of June 30, 2010 was 1.98%, a decrease from 2.53% as of June 30, 2009.

Advances from the FHLB were \$349.0 million as of June 30, 2010, a decrease of \$92.0 million from September 30, 2009. During the nine month period, the Bank borrowed \$48.0 million of new advances and repaid \$140.0 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Subordinated debentures were \$25.8 million as of June 30, 2010. Such debentures resulted from the issuance of Trust Preferred Securities through the Company's wholly owned statutory trust, NASB Preferred Trust I. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust.

Escrows were \$8.4 million as of June 30, 2010, a decrease of \$1.7 million from September 30, 2009. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2009.

Total stockholders' equity as of June 30, 2010 was \$165.3 million (11.7% of total assets). This compares to \$166.4 million (10.7% of total assets) at September 30, 2009. On a per share basis, stockholders' equity was \$21.01 on June 30, 2010, compared to \$21.15 on September 30, 2009.

The Company paid cash dividends on its common stock of \$0.225 per share on November 27, 2009 and February 26, 2010. In accordance with the agreement with the Office of Thrift Supervision, the Company is

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

restricted from the payment of dividends or other capital distributions during the period of the agreement.

Total stockholders' equity as of June 30, 2010 includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$237,000. This amount is reflected in the line item "Accumulated other comprehensive income."

RATIOS

The following table illustrates the Company's return on assets (annualized net income divided by average total assets); return on equity (annualized net income divided by average total equity); equity-to-assets ratio (ending total equity divided by ending total assets); and dividend payout ratio (dividends paid divided by net income).

	Nine months ended	
	6/30/10	6/30/09
Return on assets	0.37%	1.07%
Return on equity	3.29%	10.71%
Equity-to-assets ratio	11.68%	10.03%
Dividend payout ratio	86.59%	42.07%

24

RESULTS OF OPERATIONS - Comparison of three and nine months ended June 30, 2010 and 2009.

For the three months ended June 30, 2010, the Company had a net loss of \$(460,000) or \$(0.06) per share. This compares to net income of \$4.2 million or \$0.54 per share for the quarter ended June 30, 2009.

For the nine months ended June 30 2010, the Company had net income of \$4.1 million or \$0.52 per share. This compares to net income of \$12.6 million or \$1.60 per share for the nine months ended June 30, 2009.

NET INTEREST MARGIN

The Company's net interest margin is comprised of the difference ("spread") between interest income on loans, MBS and investments and the interest cost of customer and brokered deposits and other borrowings. Management monitors net interest spreads and, although constrained by certain market, economic, and competition factors, it establishes loan rates and customer deposit rates that maximize net interest margin.

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the nine months ended June 30, 2010 and 2009. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, any interest that has accrued up to that time is reserved and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

thousands.

	Nine months ended 6/30/10		As of 6/30/10	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,272,452	59,671	6.25%	6.12%
Mortgage-backed securities	70,086	2,492	4.74%	5.03%
Securities	37,146	1,164	4.18%	3.83%
Bank deposits	24,262	10	0.05%	0.01%
Total earning assets	1,403,946	63,337	6.02%	6.01%
Non-earning assets				
	75,744			
Total	\$1,479,690			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 184,056	849	0.62%	0.50%
Customer and brokered certificates of deposit	696,535	12,372	2.37%	2.39%
FHLB Advances	399,738	8,891	2.97%	2.82%
Subordinated debentures	25,000	371	1.98%	1.98%
Total costing liabilities	1,305,329	22,483	2.30%	2.49%
Non-costing liabilities				
	6,406			
Stockholders' equity	167,955			
Total	\$1,479,690			
Net earning balance	\$ 98,617			
Earning yield less costing rate			3.72%	3.52%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets				
	\$1,403,946	40,854	3.88%	

	Nine months ended 6/30/09		As of 6/30/09	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,360,780	64,110	6.28%	6.19%
Mortgage-backed securities	53,183	1,494	3.75%	4.25%
Securities	53,231	1,542	3.86%	4.97%
Bank deposits	23,450	94	0.53%	0.01%
Total earning assets	1,490,644	67,240	6.01%	6.02%
Non-earning assets				
	64,720			
Total	\$1,555,364			

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 166,856	1,114	0.89%	0.80%
Customer and brokered certificates of deposit	685,973	18,429	3.58%	2.92%
FHLB Advances	508,432	13,212	3.46%	3.01%
Subordinated debentures	25,000	709	3.78%	2.69%

Total costing liabilities	1,386,261	33,464	3.22%	2.69%

Non-costing liabilities	12,817			
Stockholders' equity	156,286			

Total	\$1,555,364			
	=====			
Net earning balance	\$ 104,383			
	=====			
Earning yield less costing rate			2.79%	3.33%
			=====	
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$1,490,644	33,776	3.02%	
	=====			

25

The following table provides information regarding changes in interest income and interest expense. For each category of interest-earning asset and interest-costing liability, information is provided on changes attributable to (1) changes in rates (change in rate multiplied by the old volume), and (2) changes in volume (change in volume multiplied by the old rate), and (3) changes in rate and volume (change in rate multiplied by the change in volume). Average balances, yields and rates used in the preparation of this analysis come from the preceding table. Dollar amounts are expressed in thousands.

	Nine months ended June 30, 2010, compared to nine months ended June 30, 2009			

	Yield	Volume	Yield/ Volume	Total

Components of interest income:				
Loans	\$ (306)	(4,160)	27	(4,439)
Mortgage-backed securities	395	475	128	998
Securities	128	(466)	(40)	(378)
Bank deposits	(84)	3	(3)	(84)

Net change in interest income	133	(4,148)	112	(3,903)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Components of interest expense:

Customer and brokered deposit accounts	(6,780)	637	(179)	(6,322)
FHLB Advances	(1,868)	(2,821)	368	(4,321)
Subordinated debentures	(338)	--	--	(338)
Net change in interest expense	(8,986)	(2,184)	189	(10,981)
Increase in net interest margin	\$ 9,119	(1,964)	(77)	7,078

Net interest margin before loan loss provision for the nine months ended June 30, 2010 increased \$7.1 million from the same period in the prior year. Specifically, interest income decreased \$3.9 million, which was offset by an \$11.0 million decrease in interest expense for the period. Interest on loans decreased \$4.4 million primarily as the result of an \$88.3 million decrease in the average balance of loans receivable outstanding during the period. Interest on investment securities decreased \$378,000 due primarily to a \$16.1 million decrease in the average balance of such securities during the period. These decreases in interest income were partially offset by a \$998,000 increase in interest on mortgage-backed securities due to a \$16.9 million increase in the average balance and a 99 basis point increase in the average yield of such securities. Interest expense on customer and brokered deposit accounts decreased \$6.3 million due primarily to a 106 basis point decrease in the average rate paid on such interest-costing liabilities. Interest expense on FHLB advances decreased \$4.3 million as the result of a \$108.7 million decrease in the average balance and a 49 basis point decrease in the average rate paid on such liabilities. Interest expense on subordinated debentures decreased \$338,000 due to a 180 basis point decrease in the average rate paid on such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$11.5 million during the quarter ended June 30, 2010, due primarily to increases in loans classified as substandard or loss related to the commercial real estate, residential construction and land development portfolios. In addition, the Company enhanced its ALLL methodology during the quarter to incorporate a shorter historical loss "look-back" period, and to more formally document qualitative factors used to determine the appropriate level of allowance for losses on loans. The Company recorded a provision for loan losses of \$5.0 million during the quarter ended March 31, 2010, due primarily to a significant write-down of one loan within the Bank's land development portfolio. The property that collateralized this loan was acquired by the Bank by a deed in lieu of foreclosure during the quarter ended March 31, 2010. At that time, the Bank obtained an independent third-party appraisal of the property, resulting in a \$6.6 million write-down, of which \$1.4 million was specifically reserved in the prior quarter. The original plan for the property was a high-end residential development, which proved infeasible in the current market. Thus, the appraised value declined significantly due to longer estimated absorption periods, lower estimated lot prices, and the decline in demand for speculative development ground. The Company recorded a provision for loan losses of \$9.0 million during the quarter ended December 31, 2009 in response to a significant increase in loans

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

classified as substandard or loss. Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. On a consolidated basis, the allowance for losses on loans and real estate owned was 21.2% of total classified assets at June 30, 2010, 27.4% at September 30, 2009, and 31.6% at June 30, 2009. The decrease in this ratio at June 30, 2010, is the result of an increase in classified assets in the Bank's residential land development portfolio during the period. However, as noted above, although they are adversely classified, many of these loans continue to perform in accordance with their contractual terms and, as such, are not deemed impaired at June 30, 2010.

26

Management believes that the allowance for losses on loans and real estate owned is adequate. The provision can fluctuate based on changes in economic conditions, changes in the level of classified assets, changes in the amount of loan charge-offs and recoveries, or changes in other information available to management. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process and they may require changes in loss provision amounts based on information available at the time of their examination.

OTHER INCOME

Other income for the three months ended June 30, 2010 decreased \$1.2 million from the same period in the prior year. Specifically, provision for loss on real estate owned increased \$1.5 million due to deterioration in the value of foreclosed assets held for sale. Other income decreased \$1.3 million due to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP and an increase in expenses related to foreclosed assets held for sale. Customer service fees and charges decreased \$204,000 primarily due to decrease in miscellaneous loan fees resulting from lower mortgage loan origination volume during the period. These decreases in other income were partially offset by a \$1.5 million increase in gain on sale of loans held for sale due primarily to increased mortgage banking spreads during the period. In addition, gain on sale of securities available for sale increased \$319,000 due to the sale of securities available for sale during the period.

Other income for the nine months ended June 30, 2010 increased \$3.9 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$5.4 million due to increased mortgage banking spreads during the period. Gain on sale of securities available for sale increased \$5.0 million due to the sale of securities available for sale during the period. Loan servicing fees increased \$220,000 due primarily to a decrease in capitalized servicing amortization, which resulted from a decrease in actual prepayments and estimated future repayments of the underlying mortgage loans during the period. These increases were offset by a \$3.3 million decrease in other income, due to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP and an increase in expenses related to foreclosed assets held for sale. Provision for loss on real estate owned increased \$1.4 million due to deterioration in the value of foreclosed assets held for sale during the period. In addition, the Company recorded a \$2.0 million impairment charge related to the Company's investment in LLCs during the quarter ended December 31, 2009.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended June 30, 2010 increased \$877,000 from the same period in the prior year. Specifically, other expense increased \$1.3 million due primarily to increases in legal and consulting fees and other expenses related to the Company's lending operations. Advertising and business promotion expense increased \$237,000 due to costs related the Company's rebranding efforts and due to an increase in costs related to the mortgage banking operation. Premises and equipment expenses increased \$153,000 due primarily to software related maintenance cost. These increases were partially offset by a \$405,000 decrease in federal deposit insurance premium expense due to a special assessment that was accrued during the same period in the prior year. In addition, compensation and fringe benefits decreased \$204,000 due primarily to a decrease in accrued bonus expense in the period. Commission-based mortgage banking compensation decreased \$201,000 due primarily to a decrease in mortgage banking volume from the same period in the prior year.

Total general and administrative expenses for the nine months ended June 30, 2010 increased \$5.7 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$647,000 due primarily to the addition of personnel in the Company's mortgage banking, information technology, and loan servicing departments. Commission-based mortgage banking compensation increased \$1.5 million due primarily to an increase in mortgage banking spreads from the same period in the prior year. Federal deposit insurance premium expense increased \$1.2 million related primarily to an increase in premium rates. Advertising and business promotion expense increased \$719,000 due to costs related the Company's rebranding efforts and due to an increase in costs related to the mortgage banking operation. Premises and equipment expenses increased \$137,000 due primarily to software related maintenance cost. Additionally, other expense increased \$1.5 million due primarily to increases in legal and consulting fees and other expenses related to the Company's lending operations.

27

REGULATION

The Bank is a member of the FHLB System and its customers' deposits are insured by the Deposit Insurance Fund ("DIF") of the FDIC. The Bank is subject to regulation by the OTS as its chartering authority. Since passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA" or the "Act"), the FDIC also has regulatory control over the Bank. The transactions of DIF-insured institutions are limited by statute and regulations that may require prior supervisory approval in certain instances. Institutions also must file reports with regulatory agencies regarding their activities and their financial condition. The OTS and FDIC make periodic examinations of the Bank to test compliance with the various regulatory requirements. The OTS can require an institution to re-value its assets based on appraisals and to establish specific valuation allowances. This supervision and regulation is intended primarily for the protection of depositors. Also, savings institutions are subject to certain reserve requirements under Federal Reserve Board regulations.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

INSURANCE OF ACCOUNTS

The DIF insures the Bank's customer deposit accounts to a maximum of \$100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of \$250,000. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit of federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. This legislation provided that the basic deposit insurance limit would return to \$100,000 after December 31, 2013. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act made permanent the maximum deposit insurance amount of \$250,000.

Deposit insurance premiums are determined using a Risk-Related Premium Schedule ("RRPS"), a matrix which places each insured institution into one of three capital groups and one of three supervisory groups. Currently, deposit insurance premiums range from 7 to 77.5 basis points of the institution's total deposit accounts, depending on the institution's risk classification. The Bank is currently considered "well capitalized," which is the most favorable capital group and supervisory subgroup. DIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

On May 22, 2009, the Federal Deposit Insurance Corporation (FDIC) adopted a rule imposing a five basis point special assessment on all insured financial institutions' assets minus its Tier I capital as of June 30, 2009, which was collected on September 30, 2009. On November 12, 2009, the FDIC adopted a rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth calendar quarter of 2009, and all of 2010, 2011, and 2012. The prepaid assessment for these periods was collected on December 31, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third calendar quarter of 2009.

REGULATORY CAPITAL REQUIREMENTS

At June 30, 2010, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of June 30, 2010, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

The following tables summarize the relationship between the Bank's capital and regulatory requirements. Dollar amounts are expressed in thousands.

At June 30, 2010	Amount
<hr style="border-top: 1px dashed black;"/>	
GAAP capital (Bank only)	\$ 167,181
Adjustment for regulatory capital:	
Intangible assets	(2,596)
Disallowed portion of servicing assets and deferred tax assets	(24)
Reverse the effect of SFAS No. 115	(237)
	<hr style="border-top: 1px dashed black;"/>
Tangible capital	164,324
Qualifying intangible assets	--
	<hr style="border-top: 1px dashed black;"/>
Tier 1 capital (core capital)	164,324

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Qualifying general valuation allowance	14,946

Risk-based capital	\$ 179,270
	=====

28

						As of June 30, 2010			
		Actual		Minimum Required for Capital Adequacy				Minimum "Well	
		Amount	Ratio	Amount	Ratio			Amount	
Total capital to risk-weighted assets	\$ 179,270	15.0%	95,464	>=8%	119,330			119,330	
Core capital to adjusted tangible assets	164,324	11.8%	55,665	>=4%	69,580			69,580	
Tangible capital to tangible assets	164,324	11.8%	20,874	>=1.5%	-			-	
Tier 1 capital to risk-weighted assets	164,324	13.7%	--	--	71,590			71,590	

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has received regulatory approval from the OTS under 12 CFR 560.93 to increase its loans-to-one-borrower limit to \$30 million for loans secured by certain residential housing units. Such loans must not, in the aggregate, exceed 150% of the Bank's unimpaired capital and surplus.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At June 30, 2010, the Bank had \$133.8 million available in the form of additional FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts.

The Bank entered into a Supervisory Agreement with the Office of Thrift Supervision on April 30, 2010, which, among other things, required the Bank to reduce its reliance on brokered deposits. The OTS subsequently approved the Bank's plan to reduce brokered deposits to \$145.0 million by June 30, 2010, \$135.0 million by June 30, 2011 and \$125.0 million by June 30, 2012. As of June 30, 2010, the Bank's brokered deposits totaled \$47.4 million. Thus, the Bank could acquire

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

an additional \$97.6 million in brokered deposits and still comply with the plan as of June 30, 2010.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and MBS. During periods of falling interest rates, these prepayments increase and a greater demand exists for new loans. The Bank's customer deposits are partially impacted by area competition. Management believes that the Bank will retain most of its maturing time deposits in the foreseeable future. However, any material funding needs that may arise in the future can be reasonably satisfied through the use of additional FHLB advances and/or brokered deposits. The Bank's contingency liquidity sources include the Federal Reserve discount window and sales of securities available for sale. Management is not aware of any other current market or economic conditions that could materially impact the Bank's future ability to meet obligations as they come due.

29

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a complete discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio, see the "Asset/Liability Management" section of the Company's Annual Report for the year ended September 30, 2009.

Management recognizes that there are certain market risk factors present in the structure of the Bank's financial assets and liabilities. Since the Bank does not have material amounts of derivative securities, equity securities, or foreign currency positions, interest rate risk ("IRR") is the primary market risk that is inherent in the Bank's portfolio. On a quarterly basis, the Bank monitors the estimate of changes that would potentially occur to its net portfolio value ("NPV") of assets, liabilities, and off-balance sheet items assuming a sudden change in market interest rates. Management presents a NPV analysis to the Board of Directors each quarter and NPV policy limits are reviewed and approved. There have been no material changes in the market risk information provided in the Annual Report for the year ended September 30, 2009.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this quarterly report. There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There were no material proceedings pending other than ordinary and routine litigation incidental to the business of the Company.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Rules 13a-15(e) and 15d-15(e)

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Rules 13a-15(e) and 15d-15(e)

Exhibit 32.1 - Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 - Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

S I G N A T U R E S

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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB Financial, Inc.
(Registrant)

August 9, 2010

By: /s/David H. Hancock
David H. Hancock
Chairman and
Chief Executive Officer

August 9, 2010

By: /s/Rhonda Nyhus
Rhonda Nyhus
Vice President and
Treasurer

32

19

19