NASB FINANCIAL INC
Form 10-Q
February 13, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the period ended December 31, 2003

or

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

For the transition period from to

Commission File Number 0-24033

NASB Financial, Inc.
(Exact name of registrant as specified in its charter)

Missouri	43-1805201
(State or other jurisdiction of incorporation or organization)	(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

The number of shares of Common Stock of the Registrant outstanding as of February 11, 2004, was 8,455,442.

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

	December 31, 2003 (Unaudited)	September 30, 2003
ASSETS		
Cash and cash equivalents	$ 15,426	24,321
Securities available for sale	5,496	5,564
Stock in Federal Home Loan Bank, at cost	16,220	15,006
Mortgage-backed securities:		
Available for sale	97,439	4,664
Held to maturity (market value of $909 and $987 at December 31, 2003, and September 30, 2003, respectively)	863	932
Loans receivable:		
Held for sale	183,786	168,292
Held for investment, net	867,109	861,400
Allowance for loan losses	(7,972)	(7,986)
Accrued interest receivable	4,983	4,707
Foreclosed assets held for sale, net	3,799	4,561
Premises and equipment, net	8,122	7,631
Investment in LLC	6,284	2,272
Mortgage servicing rights, net	1,178	1,191
Deferred income tax asset	4,447	4,477
Other assets	10,216	9,727
	$ 1,217,396	1,107,359
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 653,185	654,688
Advances from Federal Home Loan Bank	335,956	308,088
Repurchase agreements	85,000	--
Escrows	3,872	8,300
Income taxes payable	7,370	4,462
Accrued expenses and other liabilities	5,876	4,387
Total liabilities	1,091,259	979,925
Commitments and contingencies		
Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,852,112 issued at December 31, 2003, and 9,840,112 issued at September 30, 2003	1,478	1,476
Serial preferred stock of $1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--

Additional paid-in capital	16,211	16,116
Retained earnings	125,327	126,769
Treasury stock, at cost; 1,396,670 shares at December 31, 2003 and at September 30, 2003	(17,077)	(17,077)
Accumulated other comprehensive income	198	150
Total stockholders' equity	126,137	127,434
	$ 1,217,396	1,107,359

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,	
	2003	2002
Interest on loans	$ 16,512	17,730
Interest on mortgage-backed securities	766	89
Interest and dividends on securities	190	270
Other interest income	26	27
Total interest income	17,494	18,116
Interest on customer deposit accounts	3,269	3,564
Interest on advances from FHLB	1,148	2,801
Interest on repurchase agreements	195	--
Total interest expense	4,612	6,365
Net interest income	12,882	11,751
Provision for loan losses	--	18
Net interest income after provision for loan losses	12,882	11,733
Other income (expense):		
Loan servicing fees, net	193	(758)
Impairment(loss) recovery on mortgage servicing rights	(31)	247
Customer service fees and charges	1,329	1,346
Provision for loss on real estate owned	--	(1,200)

Loss on sale of securities available for sale	--	(13)
Gain on sale of loans held for sale	1,334	2,737
Other	744	(34)
Total other income	3,569	2,325
General and administrative expenses:		
Compensation and fringe benefits	3,676	2,513
Commission-based mortgage banking compensation	1,094	1,364
Premises and equipment	709	558
Advertising and business promotion	371	260
Federal deposit insurance premiums	26	26
Other	1,348	1,121
Total general and administrative expenses	7,224	5,842
Income before income tax expense	9,227	8,216
Income tax expense	3,483	3,161
Net income	$ 5,744	5,055
Basic earnings per share	$ 0.68	0.60
Diluted earnings per share	$ 0.68	0.60
Weighted average shares outstanding	8,452,312	8,425,299

See accompanying notes to consolidated financial statements.

NASB FINANCIAL, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity (Unaudited)
(In thousands, except share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	T sto
	(Dollars in thousands)					
Balance at October 1, 2003	$ 1,476	16,116	126,769	(17,077)	150	1
Comprehensive income:						
Net income	--	--	5,744	--	--	
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	48	--
Total comprehensive income	--	--	--	--	--	
Cash dividends paid	--	--	(7,186)	--	--	

Stock options exercised		2	95	--	--	--	
Balance at December 31, 2003	$	1,478	16,211	125,327	(17,077)	198	1

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31, 2003	2002
Cash flows from operating activities:		
Net income	$ 5,744	5,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	221	179
Amortization and accretion, net	20	392
Impairment loss (recovery) on mortgage servicing rights	31	(247)
Net fair value of loan related commitments	(148)	248
Gain on sale of loans receivable held for sale	(1,334)	(2,737)
Provision for loan losses	--	18
Provision for loss on real estate owned	--	1,200
Origination and purchase of loans held for sale	(127,640)	(203,881)
Sale of loans receivable held for sale	131,444	208,028
Changes in:		
Accrued interest receivable	(276)	(347)
Accrued expenses and other liabilities and income taxes payable	4,803	3,695
Net cash provided by operating activities	12,865	11,603
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	69	163
Available for sale	578	227
Principal repayments of mortgage loans held for investment and held for sale	119,743	170,336
Principal repayments of other loans receivable	4,572	10,221
Loan origination - mortgage loans held for investment	(147,215)	(222,814)
Loan origination - other loans receivable	(2,220)	(6,578)
Purchase of mortgage loans held for investment	(225)	(1,260)
Purchase of mortgage-backed securities available for sale	(93,244)	--
Purchase of FHLB stock	(614)	(1,735)

Purchase from sale of securities available for sale	--	2,738
Proceeds for sale of real estate owned	2,232	1,102
Purchases of premises and equipment, net of sales	(712)	32
Investment in LLC	(4,012)	(2,063)
Net cash acquired in acquisition	--	16,664
Other	(773)	(1,028)
Net cash used in investing activities	(121,821)	(33,995)

NASB FINANCIAL, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows (continued)
(In thousands, except share data)

	Three months ended December 31,	
	2003	2002
Cash flows from financing activities:		
Net decrease in customer deposit accounts	(1,347)	(14,258)
Proceeds from advances from FHLB	143,000	145,000
Repayment on advances from FHLB	(115,075)	(101,072)
Proceeds from repurchase agreements	85,000	--
Cash dividends paid	(7,186)	(1,264)
Stock options exercised	97	63
Change in checks outstanding in excess of bank balances	--	1,494
Change in escrows	(4,428)	(3,903)
Net cash provided by financing activities	100,061	26,060
Net (decrease) increase in cash and cash equivalents	(8,895)	3,668
Cash and cash equivalents at beginning of the period	24,321	4,168
Cash and cash equivalents at end of period	$ 15,426	7,836
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 576	(12)
Cash paid for interest	4,469	6,343
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 1,425	1,034
Capitalization of mortgage servicing rights	2	41

In connection with the acquisition of CBES Bancorp, Inc. on December 19, 2002, the Company acquired assets of $109.9 million, assumed liabilities of $94.3 million, received cash of $32.2 m and paid cash of $15.6 million.

See accompanying notes to consolidated financial statements.

(1) BASIS OF PRESENTATION

The accompanying unaudited 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 three months ended December 31, 2003, are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2004. The consolidated balance sheet of the Company as of September 30, 2003, 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 and real estate owned and valuation of mortgage servicing rights. Management believes that these allowances and valuations are adequate. However, future additions to the allowances and changes in the valuations may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the consolidated financial statements as of December 31, 2003, have remained unchanged from September 30, 2003. These policies are provision for loan losses and 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, 2003.

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

(2) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale. Dollar amounts are expressed in thousands.

	December 31, 2003			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value

Debt securities	$ 4,990	259	--	5,249
Equity securities	180	--	--	180
Municipal securities	67	--	--	67
Total	$ 5,237	259	--	5,496

(3) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	December 31, 2003			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 737	14	--	751
FHLMC participation certificates				
- fixed rate	2,556	--	83	2,473
- adjustable rate	93,217	172	39	93,350
Other asset backed securities	860	--	--	860
Mortgage-backed derivatives (including CMO residuals and interest-only securities)	5	--	--	5
Total	$ 97,375	186	122	97,439

At December 31, 2003, the mortgage-backed securities available for sale portfolio had gross unrealized losses of $122,000, none of which were continuous losses exceeding twelve months. Based on evaluation of available evidence, including recent changes in market interest rates, management believes the declines in fair value of these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced, and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

(4) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

December 31, 2003			
Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value

FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 415	31	--	446
FNMA pass-through certificates:				
Fixed rate	93	--	--	93
Balloon maturity and adjustable rate	135	1	--	136
Pass-through certificates guaranteed by GNMA - fixed rate	192	14	--	206
Collateralized mortgage obligation bonds	28	--	--	28
Total	$ 863	46	--	909

7

(5) LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2003
	(Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 184,799
Business properties	418,285
Partially guaranteed by VA or insured by FHA	12,861
Construction and development	278,536
Total mortgage loans	894,481
Commercial loans	29,795
Installment loans to individuals	24,949
Total loans held for investment	949,225
Less:	
Undisbursed loan funds	(76,480)
Unearned discounts and fees and costs on loans, net	(5,636)
Net loans held for investment	$ 867,109

	December 31, 2003
	(Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	

Residential properties	$ 195,602
Less:	
Undisbursed loan funds	(12,087)
Unearned discounts and fees and costs on loans, net	271
Net loans held for sale	$ 183,786

Included in the loans receivable balances at December 31, 2003, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of $550,000. Loans and participations serviced for others amounted to approximately $162.7 million at December 31, 2003.

(6) FORECLOSED ASSETS HELD FOR SALE

Real estate owned and other repossessed property consisted of the following:

	December 31, 2003
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 4,885
Less: allowance for losses	(1,086)
Total	$ 3,799

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure minus 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.

8

(7) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended December 31, 2003. Dollar amounts are expressed in thousands.

Balance at October 1, 2003	$ 1,191
Additions:	
Originated mortgage servicing rights	2
Amortization	16
Reductions:	
Impairment loss	(31)
Balance at December 31, 2003	$ 1,178

(8) RECONCILIATION OF BASIC EARNINGS PER SHARE TO DILUTED EARNINGS PER SHARE

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

	Three months ended	
	12/31/03	12/31/02
Net income (in thousands)	$ 5,744	5,055
Basic weighted average shares outstanding	8,452,312	8,425,299
Effect of stock options	1,825	15,340
Dilutive potential common shares	8,454,137	8,440,639
Net income per share:		
Basic	$ 0.68	0.60
Diluted	0.68	0.60

The dilutive securities included for each period presented above consist entirely of stock options granted to employees as incentive stock options under Section 442A of the Internal Revenue Code as amended.

(9) SEGMENT INFORMATION

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related 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.

9

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 December 31, 2003	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 12,882	--	--	12,882
Provision for loan losses	--	--	--	--
Other income	2,000	3,205	(1,636)	3,569
General and administrative expenses	3,544	4,168	(488)	7,224
Income tax expense (benefit)	4,138	(352)	(303)	3,483
Net income	$ 7,200	(611)	(845)	5,744

Three months ended December 31, 2002	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 11,772	--	(21)	11,751
Provision for loan losses	18	--	--	18
Other income	2,079	5,327	(5,081)	2,325
General and administrative expenses	3,070	3,719	(947)	5,842
Income tax expense	4,144	619	(1,602)	3,161
Net income	$ 6,619	989	(2,553)	5,055

(10) ACQUISITION

On December 19, 2002, the acquisition of CBES Bancorp, Inc ("CBES") was completed. Pursuant to a definitive agreement dated September 5, 2002, CBES was acquired by a wholly owned subsidiary of NASB Financial, Inc. formed solely to facilitate the transaction. The agreement provided that upon the effective date of the acquisition, each shareholder of CBES would receive $17.50 in cash for each share of CBES common stock owned by such shareholder. The aggregate purchase price was $15.6 million. The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition. Dollar amounts are expressed in thousands.

Cash and cash equivalents	$ 32,251
Investments and mortgage backed securities	9,171
Loans receivable	58,624
Premises and equipment	955
Core deposits	1,499
Goodwill	1,846
Other assets	5,577
Total assets acquired	109,923

Customer deposit accounts		82,750
Advances from Federal Home Loan Bank		10,358
Other liabilities		1,228
Total liabilities assumed		94,336
Net assets acquired	$	15,587

The only significant identifiable intangible asset acquired was the core deposit base, which has a useful life of approximately 15 years and will be amortized using the straight-line method. The $1.8 million of goodwill was assigned entirely to the banking segment of the business.

10

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, and advances from the Federal Home Loan Bank ("FHLB"). 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 December 31, 2003, were $1,217.4 million, an increase of $110.0 million from September 30, 2003, the prior fiscal year end. $93.2 million of this increase was due to the purchase of mortgage-backed securities which were financed primarily with repurchase agreements.

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 three months ended December 31, 2003, the Bank originated and purchased $127.6 million in mortgage loans held for sale, $147.4 million in mortgage loans held for investment, and $2.2 million in other loans. This total of $277.2 million in loans originated compares to $434.6 million in loans originated during the three months ended December 31, 2002.

Included in the $183.8 million in loans held for sale as of December 31, 2003, are $42.3 million in mortgage loans held for sale with servicing released. All loans held for sale are carried at the lower of cost or fair value.

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 are considered uncollectible and of such little value that a specific loss allowance is warranted.

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.

	12/31/03	9/30/03	12/31/02
Asset Classification:			
Substandard	$ 14,927	15,932	16,537
Doubtful	--	--	--
Loss	2,243	2,325	2,979
	17,170	18,257	19,516
Allowance for losses	(9,402)	(9,348)	(9,377)
	$ 7,768	8,909	10,139

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

	12/31/03	9/30/03	12/31/02
Total Assets	$ 1,217,396	1,107,359	1,106,750
Non-accrual loans	$ 6,920	6,924	7,861
Troubled debt restructurings	3,549	3,565	4,013
Net real estate and other assets acquired through foreclosure	3,799	4,561	5,821

Total	$ 14,268	15,050	17,695
Percent of total assets	1.17%	1.36%	1.60%

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.

The following table sets forth the activity in the allowance for loan losses for the three months ending December 31, 2003, and 2002. Dollar amounts are expressed in thousands.

	2003	2002
Balance at beginning of year	$ 7,986	5,865
Provision for loan losses	--	18
Acquired in merger	--	1,309
Recoveries	8	6
Charge-offs	(22)	(41)
Balance at December 31	$ 7,972	7,157

LIABILITIES AND EQUITY

Customer deposit accounts decreased $1.5 million during the three months ended December 31, 2003. The weighted average rate on customer deposits as of December 31, 2003, was 2.07%, a decrease from 2.52% as of December 31, 2002.

Advances from the FHLB were $336.0 million as of December 31, 2003, an increase of $27.9 million from September 30, 2003. During the three-month period, the Bank borrowed $143.0 million of new advances and repaid $115.1 million. Management uses FHLB advances at various times as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

During the three months ended December 31, 2003, the Bank financed the purchase of mortgage-backed securities primarily with repurchase agreements. A total of $85.0 million of mortgage-backed securities were sold under agreements to repurchase.

Escrows were $3.9 million as of December 31, 2003, a decrease of $4.4 million from September 30, 2003. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2003.

Total stockholders' equity as of December 31, 2003, was $126.1 million (10.4% of total assets). This compares to $127.4 million (11.5% of total assets) at September 30, 2003. On a per share basis, stockholders' equity was $14.92 on December 31, 2003, compared to $15.09 on September 30, 2003.

The Company paid cash dividends on its common stock of $0.85 on November 28, 2003. Subsequent to the quarter ended December 31, 2003, the Company announced a cash dividend of $0.20 per share to be paid on February 27, 2004, to stockholders of record as of February 6, 2004.

Total stockholders' equity as of December 31, 2003, includes an unrealized gain of $198,000, net of deferred income taxes, on available for sale securities. 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).

	Three months ended	
	12/31/03	12/31/02
Return on assets	1.98%	1.94%
Return on equity	18.12%	18.16%
Equity-to-assets ratio	10.38%	10.23%
Dividend payout ratio	125.12%	25.00%

RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2003 and 2002.

For the three months ended December 31, 2003, the Company had net income of $5,744,000 or $0.68 per share. This compares to net income of $5,055,000 or $0.60 per share for the quarter ended December 31, 2002.

NET INTEREST MARGIN

The Company's net interest margin is comprised of the difference ("spread") between interest income on loans, mortgage-backed securities and investments and the interest cost of customer 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 three months ended December 31, 2003 and 2002. 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 thousands.

	Three months ended 12/31/03 Average Balance	Interest	Yield/ Rate	As of 12/31/03 Yield/ Rate
Interest-earning assets				
Loans	$ 1,018,443	16,512	6.49%	6.17%
Mortgage-backed securities	75,811	766	4.04%	4.98%
Securities	20,619	190	3.69%	3.53%
Bank deposits	18,469	26	0.56%	0.55%
Total earning assets	1,133,342	17,494	6.18%	5.96%
Non-earning assets	37,523			
Total	$ 1,170,865			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 208,095	394	0.76%	0.68%
Customer certificates of deposit	448,779	2,875	2.56%	2.70%
FHLB advances	310,772	1,148	1.48%	1.55%
Repurchase agreements	63,750	195	1.22%	1.23%
Total costing liabilities	1,031,396	4,612	1.79%	1.84%
Non-costing liabilities	12,683			
Stockholders' equity	126,786			
Total	$ 1,170,865			
Net earning balance	$ 101,946			
Earning yield less costing rate			4.39%	4.12%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 1,133,342	12,882	4.55%	

	Three months ended 12/31/02 Average Balance	Interest	Yield/ Rate	As of 12/31/02 Yield/ Rate
Interest-earning assets				
Loans	$ 926,802	17,730	7.65%	7.02%
Mortgage-backed securities	5,382	89	6.61%	6.33%
Securities	28,678	270	3.77%	4.19%
Bank deposits	10,576	27	1.02%	0.81%
Total earning assets	971,438	18,116	7.46%	6.93%
Non-earning assets	26,846			

Total	$ 998,284			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 181,501	533	1.17%	1.13%
Customer certificates of deposit	365,333	3,031	3.32%	3.23%
FHLB advances	312,813	2,801	3.58%	3.30%
Repurchase agreements	--	--	--%	--
Total costing liabilities	859,647	6,365	2.96%	2.80%
Non-costing liabilities	31,358			
Stockholders' equity	107,279			
Total	$ 998,284			
Net earning balance	$ 111,791			
Earning yield less costing rate			4.50%	4.13%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 971,438	11,751	4.84%	

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 volume (change in volume multiplied by the old rate), (2) changes in rates (change in rate multiplied by the old volume), 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.

	Three months ended December 31, 2003, compared to three months ended December 31, 2002			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ (2,688)	1,753	(283)	(1,218)
Mortgage-backed securities	(35)	1,164	(452)	677
Securities	(6)	(76)	2	(80)
Bank deposits	(12)	21	(10)	(1)
Net change in interest income	(2,741)	2,862	(743)	(622)
Components of interest expense:				
Customer deposit accounts	(848)	718	(165)	(295)
FHLB advances	(1,642)	(18)	7	(1,653)
Repurchase agreements	--	--	195	195

Net change in interest expense	(2,490)	700	37	(1,753)
Increase in net interest margin	$ (251)	2,162	(780)	1,131

14

Net interest margin before loan loss provision for the three months ended December 31, 2003, increased $1.1 million from the same period in the prior year. Specifically, total interest expense decreased $1.8 million due to a decrease in the interest rate cost of those liabilities of 1.2%. This was partially offset by a decrease in total interest income of $622,000 from the same period in the prior year. A decrease in interest income of $2.7 million resulted from a 128 basis point decrease in the average rate earned on interest-earning assets, which was largely offset by $161.9 million increase in the average balance of interest-earning assets.

PROVISION FOR LOAN LOSSES

The Company recorded no provision for loan losses during the quarter ended December 31, 2003. A provision of $18,000 was recorded for the three months ended December 31, 2002. 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 loan and real estate owned losses was 54.8% of total classified assets at December 31, 2003, 51.2% at September 30, 2003, and 48.0% at December 31, 2002.

As stated above, management believes that the provisions for loan losses is adequate. The provision can fluctuate based on changes in economic conditions or changes in the 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 December 31, 2003, increased $1.2 million from the same period in the prior year. Provision for loss on real estate owned decreased $1.2 million to a reserve recorded during the quarter ended December 31, 2002, on a hotel property in the Southeast area of Kansas City, Missouri. This property was subsequently sold in April 2003. Net loan servicing fees increased $951,000 due to a decrease in the amortization of capitalized servicing. Other income increased $710,000 due to an increase in loan prepayment penalties and the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." These increases in other income were offset by a $1.4 million decrease in gain on sale of loans held for sale due to a decrease in mortgage banking volume.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended December 31, 2003, increased $1.4 million from the same period in the prior year. Specifically, compensation and fringe benefits increased $1.2 million due primarily to the addition of an internet loan origination office and the acquisition of CBES Bancorp, Inc. on December 19, 2002. The number of full time equivalent employees increased from 307 at December 31, 2002, to 388 at December 31, 2003. The increase compensation and fringe benefits was partially offset by a decrease of $270,000 in commission-based mortgage banking compensation due to a decrease in mortgage banking volume. Advertising increased $111,000, premises and equipment expense increased $151,000, and other expenses increased $227,000 due primarily to the addition of the internet loan origination office and the acquisition of CBES Bancorp, Inc.

REGULATION

The Bank is a member of the FHLB System and its customers' deposits are insured by the Savings Association Insurance Fund ("SAIF") 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 SAIF-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.

INSURANCE OF ACCOUNTS

The SAIF insures the Bank's customer deposit accounts to a maximum of $100,000 for each insured member. 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 0 to 27 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. SAIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

REGULATORY CAPITAL REQUIREMENTS

At December 31, 2003, 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 December 31, 2003, 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 December 31, 2003	Amount

GAAP capital (Bank only)	$ 118,953
Adjustment for regulatory capital:	
Intangible assets	(3,246)
Disallowed portion of servicing assets and deferred tax assets	(4,538)
Reverse the effect of SFAS No. 115	(198)
Tangible capital	110,971
Qualifying intangible assets	--
Tier 1 capital (core capital)	110,971
Qualifying general valuation allowance	6,073
Risk-based capital	$ 117,044

As of December 31, 2003

	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 117,044	12.4%	$ 75,751	>=8%	$ 94,68
Core capital to adjusted tangible assets	110,971	9.2%	48,121	>=4%	60,15
Tangible capital to tangible assets	110,971	9.2%	18,045	>=1.5%	-
Tier 1 capital to risk-weighted assets	110,971	11.7%	--	--	56,81

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. As of December 31, 2003, the Bank had no loans that exceeded the loans to one borrower limit.

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 December 31, 2003, there was $82.3 million available to the Bank in the form of FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank may purchase brokered deposit accounts. Although the Bank does not have any brokered deposits at December 31, 2003, it could purchase up to $223.6 million and remain "well capitalized" as defined by the OTS.

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. 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.

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, 2003.

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, 2003.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") within the 90-day period preceding the filing date of this quarterly report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective in ensuring that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) accumulated and communicated to management in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified by the SEC. Since the date of this evaluation, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect those controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

During the quarter ended June 30, 2002, a class of plaintiffs filed a lawsuit against the Bank and eleven other financial institution defendants in the Circuit Court of St. Louis County, Missouri. The suit alleged that all the defendants, including the Bank, who had charged fees to their customers for the preparation of mortgage documents had engaged in the practice of law without a license. The Bank was dismissed as a defendant early in this case on the basis that, as a federally chartered institution, federal law preempts state law with regard to the action. This case continues with regard to other defendants and, although North American was named in the plaintiff's amended petitions, the Bank was dismissed each time on the basis of federal preemption. Management believes that the Bank will also prevail in any subsequent appeal.

There were no other 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 and Reports on Form 8-K

(a)Exhibits

Exhibit 99.1 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

Exhibit 99.2 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

(b) Reports of Form 8-K

A report on Form 8-K was filed on October 28, 2003, which announced a quarterly cash dividend of $0.17 per share and a special one-time cash dividend of $0.68 per share payable on November 28, 2003 to shareholder's of record as of November 7, 2003.

A report on Form 8-K was filed on December 18, 2003, which announced financial results for the quarter ended September 30, 2003.

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.

NASB Financial, Inc.
(Registrant)

February 13, 2004 By: /s/David H. Hancock
David H. Hancock
Chairman and
Chief Executive Officer

February 13, 2004 By: /s/Rhonda Nyhus
Rhonda Nyhus
Vice President and
Treasurer

I, David Hancock, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NASB 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 statement were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's 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 registrant's ability to record, process, summarize and report financial data and have identified for the registrant's 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 registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether 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: February 13, 2004

I, Rhonda Nyhus, Vice President and Treasurer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NASB 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 statement were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's 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 registrant's ability to record, process, summarize and report financial data and have identified for the registrant's 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 registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether 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: February 13, 2004