

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC
Form 10-Q
June 14, 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 March 31, 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 June 4, 2010, was 7,867,614.

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

	March 31, 2010 (Unaudited)	September 30, 2009
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 6,887	63,250
Securities:		
Available for sale, at fair value	19,000	21,654
Held to maturity, at cost	1,258	1,290
Stock in Federal Home Loan Bank, at cost	19,169	26,640
Mortgage-backed securities:		
Available for sale, at fair value	1,021	46,549
Held to maturity, at cost	60,489	11,125
Loans receivable:		
Held for sale, at fair value	94,030	81,367
Held for investment, net	1,192,582	1,259,694
Allowance for loan losses	(25,886)	(20,699)
	-----	-----
Total loans receivable, net	1,260,726	1,320,362
	-----	-----
Accrued interest receivable	5,576	6,195
Foreclosed assets held for sale, net	23,977	10,140

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Premises and equipment, net	13,114	13,393
Investment in LLCs	19,021	21,045
Mortgage servicing rights, net	309	351
Deferred income tax asset, net	9,750	6,651
Income taxes receivable	2,238	--
Other assets	17,740	10,917
	-----	-----
	\$ 1,460,275	1,559,562
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 713,953	696,781
Brokered deposit accounts	155,315	207,844
Advances from Federal Home Loan Bank	386,000	441,026
Subordinated debentures	25,774	25,774
Escrows	6,367	10,178
Income taxes payable	--	4,210
Accrued expenses and other liabilities	6,880	7,361
	-----	-----
Total liabilities	1,294,289	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	16,564	16,525
Retained earnings	185,899	184,891
Treasury stock, at cost;		
1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive income	462	1,911
	-----	-----
Total stockholders' equity	165,986	166,388
	-----	-----
	\$ 1,460,275	1,559,562
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

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

Three months ended March 31,		Six months ended March 31,	
-----	-----	-----	-----
2010	2009	2010	2009

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Interest on loans receivable	\$ 19,261	20,898	39,867	43,117
Interest on mortgage-backed securities	779	498	1,663	1,043
Interest and dividends on securities	463	357	935	461
Other interest income	5	5	8	92
Total interest income	20,508	21,758	42,473	44,713
Interest on customer and brokered deposit accounts	4,186	6,398	8,879	13,297
Interest on advances from FHLB	3,084	4,131	6,423	9,292
Interest on subordinated debentures	119	223	247	536
Total interest expense	7,389	10,752	15,549	23,125
Net interest income	13,119	11,006	26,924	21,588
Provision for loan losses	5,000	1,000	14,000	1,250
Net interest income after provision for loan losses	8,119	10,006	12,924	20,338
Other income (expense):				
Loan servicing fees, net	53	(20)	79	(232)
Impairment recovery (loss) on mortgage servicing rights	(1)	18	4	41
Customer service fees and charges	1,573	1,740	3,431	3,137
Provision for loss on real estate owned	(208)	--	(208)	(250)
Gain on sale of securities available for sale	1,564	--	4,652	--
Gain from sale of loans receivable held for sale	7,117	5,502	14,084	10,245
Impairment loss on investments in LLCs	--	--	(2,000)	--
Other	(784)	1,990	(528)	1,488
Total other income	9,314	9,230	19,514	14,429
General and administrative expenses:				
Compensation and fringe benefits	4,477	4,266	8,978	8,127
Commission-based mortgage banking compensation	3,235	3,435	7,351	5,623
Premises and equipment	1,057	1,096	2,047	2,063
Advertising and business promotion	1,507	1,098	2,876	2,394
Federal deposit insurance premiums	434	37	1,672	71
Other	1,610	1,612	3,053	2,865
Total general and administrative expenses	12,320	11,544	25,977	21,143
Income before income tax expense	5,113	7,692	6,461	13,624
Income tax expense	1,894	2,961	1,913	5,245
Net income	\$ 3,219	4,731	4,548	8,379
Basic earnings per share	\$ 0.41	0.60	0.58	1.06
Diluted earnings per share	\$ 0.41	0.60	0.58	1.06
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	--	--	4,548	--	--	4,
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	(1,449)	(1,
Total comprehensive income						3,
Cash dividends paid (\$0.45 per share)	--	--	(3,540)	--	--	(3,
Stock based compensation expense	--	39	--	--	--	
Balance at March 31, 2010	\$ 1,479	16,564	185,899	(38,418)	462	165,

Six months ended
March 31, 2010

(Dollars in thousands)

Reclassification Disclosure:

Unrealized gain on available for sale securities, net of income taxes of \$884	\$	1,412
Reclassification adjustment for gain included in net income, net of income taxes of \$1,791		(2,861)
Change in unrealized gain (loss) on available for sale securities, net of income tax of \$(907)	\$	(1,449)

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)

	Six months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 4,548	8,379
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	964	880
Amortization and accretion, net	(519)	(2,295)
Gain on sale of securities available for sale	(4,652)	--
Loss from investment in LLCs	30	19
Impairment loss on investment in LLCs	2,000	--
Impairment recovery on mortgage servicing rights	(4)	(41)
Gain from loans receivable held for sale	(14,084)	(10,245)
Provision for loan losses	14,000	1,250
Provision for loss on real estate owned	208	250
Origination of loans receivable held for sale	(773,468)	(649,904)
Sale of loans receivable held for sale	774,889	653,822
Stock based compensation - stock options	39	49
Changes in:		
Net fair value of loan-related commitments	216	(1,428)
Accrued interest receivable	619	283
Prepaid and accrued expenses, other liabilities and income taxes payable	(15,328)	3,933
Net cash provided by (used in) operating activities	(10,542)	4,952
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	5,539	9
Available for sale	3,630	8,133
Principal repayments of investment securities:		
Held to maturity	53	--
Available for sale	5	5
Principal repayments of mortgage loans receivable held for investment	94,776	142,283
Principal repayments of other loans receivable	2,998	2,971
Loan origination - mortgage loans receivable held for investment	(55,686)	(153,770)
Loan origination - other loans receivable	(1,104)	(2,299)
Purchase of mortgage loans receivable held for investment	(931)	(580)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	7,471	(356)
Purchase of mortgage backed securities held to maturity	(54,806)	--
Purchase of investment securities available for sale	(18,290)	(37,252)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Proceeds from sale of investment securities available for sale	22,538	--
Proceeds from sale of mortgage-backed securities available for sale	42,762	--
Proceeds from sale of real estate owned	4,771	3,935
Purchases of premises and equipment, net	(705)	(251)
Investment in LLCs	(6)	(395)
Other	(863)	183
Net cash provided by (used in) investing activities	52,152	(37,384)

4

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

	Six months ended March 31,	
	2010	2009
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	(35,622)	97,339
Proceeds from advances from Federal Home Loan Bank	10,000	193,000
Repayment on advances from Federal Home Loan Bank	(65,000)	(264,000)
Cash dividends paid	(3,540)	(3,540)
Change in escrows	(3,811)	(2,434)
Net cash provided by (used in) financing activities	(97,973)	20,365
Net decrease in cash and cash equivalents	(56,363)	(12,067)
Cash and cash equivalents at beginning of the period	63,250	21,735
Cash and cash equivalents at end of period	\$ 6,887	9,668
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 10,832	6,041
Cash paid for interest	15,614	21,446
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 27,809	10,736
Conversion of real estate owned to loans receivable	--	383
Capitalization of originated mortgage servicing rights	5	--

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 six month period ended March 31, 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 March 31, 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 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Three months ended		Six months ended	
	3/31/10	3/31/09	3/31/10	3/31/09
Net income (in thousands)	\$ 3,219	4,731	4,548	8,379
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 per share:				
Basic	\$ 0.41	0.60	0.58	1.06
Diluted	0.41	0.60	0.58	1.06

At March 31, 2010, options to purchase 62,038 shares of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share, as they were considered anti-dilutive.

6

(3) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at March 31, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 3,203	35	--	3,238
Trust preferred securities	15,075	663	--	15,738
Municipal securities	24	--	--	24
Total	\$ 18,302	698	--	19,000

The following table presents a summary of 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
--	----------------	------------------------	-------------------------	----------------------

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Corporate debt securities	\$ 19,099	2,526	--	21,625
Municipal securities	29	--	--	29

Total	\$ 19,128	2,526	--	21,654
=====				

During the six month period ended March 31, 2010, the Company realized gross gains of \$3.3 million and no gross losses on the sale of securities available for sale. There were no sales of securities available for sale during the six month period ended March 31, 2009.

The scheduled maturities of securities available for sale at March 31, 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	3,203	35	--	3,238
Due after ten years	15,075	663	--	15,738

Total	\$ 18,302	698	--	19,000
=====				

(4) SECURITIES HELD TO MATURITY

The following table presents a summary of securities held to maturity at March 31, 2010. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value

Asset-backed securities	\$ 1,258	202	--	1,460

Total	\$ 1,258	202	--	1,460
=====				

The following table presents a summary of 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
--	-------------------	------------------------------	-------------------------------	----------------------------

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 March 31, 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	\$ 1,258	202	--	1,460
Total	\$ 1,258	202	--	1,460

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 six month periods ended March 31, 2010 and 2009.

(5) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at March 31, 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	\$ 104	1	--	105
Pass-through certificates guaranteed by FNMA				
- adjustable rate	200	5	--	205
FHLMC participation certificates:				
- fixed rate	483	40	--	523
- adjustable rate	181	7	--	188
Total	\$ 968	53	--	1,021

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 six month period ended March 31, 2010, the Company realized gross gains of \$1.4 million and no gross losses on the sale of mortgage-backed securities available for sale. There were no sales of mortgage-backed securities available for sale during the six month period ended March 31, 2009.

The scheduled maturities of mortgage-backed securities available for sale at March 31, 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	\$ 483	40	--	523
Due after ten years	485	13	--	498
Total	\$ 968	53	--	1,021

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.

(6) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at March 31, 2010. 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

FHLMC participation certificates:				
Fixed rate	\$ 56	--	--	56
FNMA pass-through certificates:				
Fixed rate	8	--	--	8
Balloon maturity and adjustable rate	41	--	--	41
Collateralized mortgage obligations	60,384	427	(154)	60,657

Total	\$ 60,489	427	(154)	60,762
=====				

9

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
=====				

There were no sales of mortgage-backed securities held to maturity during the six month periods ended March 31, 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 March 31, 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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Collateralized mortgage obligations	\$ 23,782	154	\$ --	--

Total	\$ 23,782	154	\$ --	--
=====				

The scheduled maturities of mortgage-backed securities held to maturity at March 31, 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	\$ 105	--	--	105
Due after ten years	60,384	427	(154)	60,657

Total	\$60,489	427	(154)	60,762
=====				

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.

10

(7) LOANS RECEIVABLE

Loans receivable are as follows at March 31, 2010. Dollar amounts are expressed in thousands.

LOANS HELD FOR INVESTMENT:

Mortgage loans:

Permanent loans on:

Residential properties	\$ 359,084
Business properties	460,800
Partially guaranteed by VA or insured by FHA	4,760
Construction and development	280,701

Total mortgage loans	1,105,345
Commercial loans	115,011
Installment loans to individuals	11,966

Total loans held for investment	1,232,322
Less:	
Undisbursed loan funds	(31,586)
Unearned discounts and fees and costs on loans, net	(8,154)

Net loans held for investment	\$1,192,582
=====	

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

LOANS HELD FOR SALE:

Mortgage loans:

Permanent loans on:

Residential properties	\$ 150,133
------------------------	------------

Less:

Undisbursed loan funds	(56,103)
------------------------	----------

Net loans held for sale	\$ 94,030
-------------------------	-----------

=====

Included in the loans receivable balances at March 31, 2010, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of \$21.4 million. Loans and participations serviced for others amounted to approximately \$83.5 million at March 31, 2010.

The following table presents the activity in the allowance for losses on loans for the period ended March 31, 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	14,000
Charge-offs	(8,814)
Recoveries	1

Balance at March 31, 2010	\$ 25,886
	=====

11

(8) FORECLOSED ASSETS HELD FOR SALE

Real estate owned and other repossessed property consisted of the following at March 31, 2010. Dollar amounts are expressed in thousands.

Real estate acquired through (or deed in lieu of) foreclosure	\$ 24,252
Less: allowance for losses	(275)

Total	\$ 23,977
	=====

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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

down payment and other requirements.

(9) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended March 31, 2010. Dollar amounts are expressed in thousands.

Balance at October 1, 2009	\$	351
Additions:		
Originated mortgage servicing rights		5
Impairment recovery		4
Reductions:		
Amortization		(51)

Balance at March 31, 2010	\$	309
		=====

(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 pooled 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.

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.

12

(11) INCOME TAXES

During the six month period ended March 31, 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 2006 through 2009 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 March 31, 2010	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 13,228	--	(109)	13,119
Provision for loan losses	5,000	--	--	5,000
Other income	1,784	7,918	(388)	9,314
General and administrative expenses	5,711	6,835	(226)	12,320
Income tax expense (benefit)	1,656	417	(179)	1,894
Net income	\$ 2,645	666	(92)	3,219

Three months ended March 31, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,216	--	(210)	11,006
Provision for loan losses	1,000	--	--	1,000
Other income	1,702	7,876	(348)	9,230
General and administrative expenses	4,803	6,881	(140)	11,544
Income tax expense (benefit)	2,739	383	(161)	2,961

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Net income	\$ 4,376	612	(257)	4,731
------------	----------	-----	-------	-------

13

Six months ended March 31, 2010	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 27,150	--	(226)	26,924
Provision for loan losses	14,000	--	--	14,000
Other income	4,021	18,354	(2,861)	19,514
General and administrative expenses	11,985	14,420	(428)	25,977
Income tax expense (benefit)	1,497	1,515	(1,099)	1,913
Net income	\$ 3,689	2,419	(1,560)	4,548

Six months ended March 31, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 22,098	--	(510)	21,588
Provision for loan losses	1,250	--	--	1,250
Other income	1,674	13,847	(1,092)	14,429
General and administrative expenses	9,652	11,893	(402)	21,143
Income tax expense (benefit)	4,955	752	(462)	5,245
Net income	\$ 7,915	1,202	(738)	8,379

(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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$70,000, an increase in other liabilities of \$249,000, and a decrease in other income of \$179,000 for the quarter ended March 31, 2010. The Company recorded a decrease in other assets of \$938,000, an increase in other liabilities of \$936,000, and a decrease in other income of \$1.9 million for the six month period ended March 31, 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 \$292,000, an increase in other liabilities of \$60,000, and a decrease in other income of \$352,000 during the quarter ended March 31, 2010. The Company recorded an increase in other assets of \$1.2 million, a decrease in other liabilities of \$499,000, and an increase in other income of \$1.6 million during the six month period ended March 31, 2010.

The balance of derivative instruments related to commitments to originate and sell loans at March 31, 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.

GAAP establishes a fair value hierarchy and prioritizes the inputs 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:

14

- 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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 using broker dealer quotes for similar assets in markets that are not active. Such quotes are based on actual transactions for similar assets, and 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 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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.

15

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 March 31, 2010 (in thousands):

	Quoted Prices in Active Markets for Fair Value	Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
Corporate debt securities \$	3,238	3,238	--	--
Trust preferred securities	15,738	15,738	--	--
Municipal securities	24	24	--	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA - fixed rate	105	--	105	--
Pass through certificates guaranteed by FNMA - adjustable rate	205	--	205	--
FHLMC participation certificates:				
Fixed rate	523	--	523	--
Adjustable rate	188	--	188	--
Loans held for sale	94,030	--	94,030	--
Mortgage servicing rights	309	--	--	309
Commitments to originate loans	292	--	--	292
Forward sales commitments	1,418	--	--	1,418
Total assets	\$ 116,070	19,000	95,051	2,019
Liabilities:				
Commitments to originate loans	\$ 1,142	--	--	1,142
Forward sales commitments	139	--	--	139
Total liabilities	\$ 1,281	--	--	1,281

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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table is 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 (in thousands):

	Mortgage Servicing Rights	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2009	\$ 351	1,023	(378)
Total realized and unrealized gains (losses):			
Included in net income	(47)	(1,873)	1,657
Included in other comprehensive income	--	--	--
Purchases, issuances, and settlements	5	--	--
Transfers in (out) of Level 3	--	--	--
Balance at March 31, 2010	\$ 309	(850)	1,279

17

Realized and unrealized gains and losses noted in the table above and included in net income for the six month period ended March 31, 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)	\$ (51)	4	(216)
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:

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 six month period was \$36.7 million at March 31, 2010.

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 \$24.0 million at March 31, 2010. During the six month period ended March 31, 2010, charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the period totaled \$278,000.

Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. Such 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 carrying value of the Company's investment in LLCs was \$19.0 million at March 31, 2010. During the six month period ended March 31, 2010, the Company recorded an impairment charge of \$2.0 million on its investment in LLCs.

18

The following table presents the carrying values and fair values of the Company's financial instruments at March 31, 2010, which have not been previously reported. Dollar amounts are expressed in thousands.

	Estimated fair
Carrying	

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	value	value

Financial Assets:		
Cash and cash equivalents	\$ 6,887	6,887
Securities:		
Held to maturity	1,258	1,460
Stock in Federal Home Loan Bank	19,169	19,169
Mortgage-backed securities:		
Held to maturity	60,489	60,762
Loans receivable:		
Held for investment	1,166,696	1,194,843
Financial Liabilities:		
Customer deposit accounts	713,953	719,984
Brokered deposit accounts	155,315	155,479
Advances from FHLB	386,000	391,527
Subordinated debentures	25,774	25,774

	Contract or notional amount	Estimated unrealized gain

Unrecognized financial instruments:		
Lending commitments - fixed rate, net	\$ 9,238	3
Lending commitments - floating rate	--	--
Commitments to sell loans	--	--

The fair value estimates presented are based on pertinent information available to management as of March 31, 2010. 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,

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 or the Company during the period of the agreement. 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."

(16) IMPAIRMENT OF INVESTMENT IN LLC

The Company's investment in Central Platte Holdings LLC ("Central Platte") consists of a 50% ownership interest in an entity that develops land for residential real estate sales. The Company accounts for its investment in Central Platte under the equity method. Sales of lots have not met previous expectations and, as a result, the Company evaluated its investment for impairment. The Company performed a valuation analysis of its investment in Central Platte in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. 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's investment in Central Platte, after the impairment charge, was \$16.5 million at March 31, 2010.

20

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")

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 March 31, 2010 were \$1,460.3 million, a decrease of \$99.3 million from September 30, 2009, the prior fiscal year end.

Loans receivable held for investment were \$1,192.6 million as of March 31, 2010, a decrease of \$67.1 million during the six month period. The weighted average rate on such loans as of March 31, 2010 was 6.35%, an increase from 6.30% as of March 31, 2009.

Loans receivable held for sale as of March 31, 2010 were \$94.0 million, an increase of \$12.7 million from September 30, 2009. 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 six months ended March 31, 2010, the Bank originated and purchased \$773.5 million in mortgage loans held for sale, \$56.6 million in mortgage loans held for investment, and \$1.1 million in other loans. This total of \$831.2 million in loans compares to \$806.7 million in loans originated and purchased during the six months ended March 31, 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.

21

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.

	3/31/10	9/30/09	3/31/09
--	---------	---------	---------

Asset Classification:

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Substandard	\$ 119,571	69,158	40,638
Doubtful	--	--	--
Loss	11,959	6,415	1,424
	-----	-----	-----
	131,530	75,573	42,062
Allowance for losses on loans and real estate owned	(26,161)	(20,699)	(13,513)
	-----	-----	-----
	\$ 105,369	54,874	28,549
	=====	=====	=====

The increase in classified assets during the six month period ended March 31, 2010, was primarily the result of an increase in impaired loans within the Bank's commercial real estate and residential construction and development loan portfolios.

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

	3/31/10	9/30/09	3/31/09
	-----	-----	-----
Total Assets	\$ 1,460,275	1,559,562	1,549,748
	=====	=====	=====
Non-accrual loans	\$ 31,758	29,618	18,249
Troubled debt restructurings	24,951	23,366	--
Net real estate and other assets acquired through foreclosure	23,977	10,140	9,901
	-----	-----	-----
Total	\$ 80,686	63,124	28,150
	=====	=====	=====
Percent of total assets	5.53%	4.05%	1.81%
	=====	=====	=====

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 is 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. The outcomes from

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

these reviews could result in changes to the Company's classified asset levels and ALLL methodology and, consequently, could necessitate additional loss provisions during the quarter ending June 30, 2010.

Investment securities were \$20.3 million as of March 31, 2010, a decrease of \$2.7 million from September 30, 2009. During the six month period, the Bank purchased securities of \$18.3 million and sold \$22.5 million of securities available for sale.

22

Mortgage-backed securities were \$61.5 as of March 31, 2010, an increase of \$3.8 million from the prior year end. During the six month period, the Bank purchased mortgage-backed securities of \$54.8 million and sold \$42.8 million of mortgage-backed securities available for sale.

The Company's investment in LLCs, which is accounted for using the equity method, was \$19.0 million at March 31, 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. The Company and its independent audit firm, BKD, LLP, consulted with the U.S. Securities and Exchange Commission's Office of the Chief Accountant regarding their interpretation of accounting guidance for measuring impairment of an equity method investment. As a result, the Company evaluated its methodology for measuring impairment of its investment in Central Platte. The Company prepared an analysis of the value of its investment in Central Platte based upon various scenarios. As a result, the Company determined that an impairment charge of \$2.0 million (\$1.2 million, net of tax) was appropriate for the quarter ended December 31, 2009. 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 March 31, 2010.

LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased \$35.4 million during the six months ended March 31, 2010. The weighted average rate on customer and brokered deposits as of March 31, 2010 was 1.94%, a decrease from 2.99% as of March 31, 2009.

Advances from the FHLB were \$386.0 million as of March 31, 2010, a decrease of \$55.0 million from September 30, 2009. During the six month period, the Bank borrowed \$10.0 million of new advances and repaid \$65.0 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 March 31, 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 \$6.4 million as of March 31, 2010, a decrease of \$3.8 million from September 30, 2009. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2009.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Total stockholders' equity as of March 31, 2010 was \$166.0 million (11.4% 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 \$21.10 on March 31, 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 Supervisory Agreement of April 30, 2010, with the Office of Thrift Supervision, the Company is restricted from the payment of dividends or other capital distributions during the period of the agreement.

Total stockholders' equity as of March 31, 2010 includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$462,000. 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).

	Six months ended	
	3/31/10	3/31/09
Return on assets	0.60%	1.09%
Return on equity	5.47%	10.81%
Equity-to-assets ratio	11.37%	10.18%
Dividend payout ratio	77.84%	42.25%

23

RESULTS OF OPERATIONS - Comparison of three and six months ended March 31, 2010 and 2009.

For the three months ended March 31, 2010, the Company had net income of \$3,219,000 or \$0.41 per share. This compares to net income of \$4,731,000 or \$0.60 per share for the quarter ended March 31, 2009.

For the six months ended March 31 2010, the Company had net income of \$4,548,000 or \$0.58 per share. This compares to net income of \$8,379,000 or \$1.06 per share for the six months ended March 31, 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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

assets or interest-costing liabilities for the six months ended March 31, 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 thousands.

	Six months ended 3/31/10			As of
	Average Balance	Interest	Yield/ Rate	3/31/10 Yield/ Rate
Interest-earning assets				
Loans	\$1,287,490	39,867	6.19%	6.24%
Mortgage-backed securities	75,250	1,663	4.42%	5.25%
Securities	42,902	935	4.36%	4.67%
Bank deposits	27,541	8	0.06%	0.01%
Total earning assets	1,433,183	42,473	5.93%	6.13%
Non-earning assets	72,260			
Total	\$1,505,443			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 181,964	592	0.65%	0.51%
Customer and brokered certificates of deposit	691,897	8,287	2.40%	2.33%
FHLB Advances	430,187	6,423	2.99%	2.98%
Subordinated debentures	25,000	247	1.98%	1.90%
Total costing liabilities	1,329,048	15,549	2.34%	2.25%
Non-costing liabilities	8,422			
Stockholders' equity	167,973			
Total	\$1,505,443			
Net earning balance	\$ 104,135			
Earning yield less costing rate			3.59%	3.88%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$1,433,183	26,924	3.76%	
				As of
				3/31/09
	Average	Interest	Yield/ Rate	Yield/ Rate
	Balance			
Interest-earning assets				
Loans	\$1,352,788	43,117	6.37%	6.23%
Mortgage-backed securities	54,548	1,043	3.82%	4.25%

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Securities	38,300	461	2.41%	3.81%
Bank deposits	28,075	92	0.66%	0.01%
<hr/>				
Total earning assets	1,473,711	44,713	6.07%	6.04%
<hr/>				
Non-earning assets	63,840			
<hr/>				
Total	\$1,537,551			
<hr/>				
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 164,315	755	0.92%	0.78%
Customer and brokered certificates of deposit	667,973	12,542	3.76%	3.53%
FHLB Advances	513,565	9,292	3.62%	3.41%
Subordinated debentures	25,000	536	4.29%	2.82%
<hr/>				
Total costing liabilities	1,370,853	23,125	3.37%	3.14%
<hr/>				
Non-costing liabilities	12,221			
Stockholders' equity	154,477			
<hr/>				
Total	\$1,537,551			
<hr/>				
Net earning balance	\$ 102,858			
<hr/>				
Earning yield less costing rate			2.70%	2.90%
<hr/>				
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$1,473,711	21,588	2.93%	
<hr/>				

24

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.

Six months ended March 31, 2010, compared to
six months ended March 31, 2009

Yield	Volume	Yield/ Volume	Total
<hr/>			

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Components of interest income:				
Loans	\$ (1,218)	(2,080)	48	(3,250)
Mortgage-backed securities	164	395	61	620
Securities	373	55	46	474
Bank deposits	(84)	(2)	2	(84)
<hr style="border-top: 1px dashed black;"/>				
Net change in interest income	(765)	(1,632)	157	(2,240)
<hr style="border-top: 1px dashed black;"/>				
Components of interest expense:				
Customer and brokered deposit accounts	(4,869)	665	(214)	(4,418)
FHLB Advances	(1,618)	(1,509)	258	(2,869)
Subordinated debentures	(289)	--	--	(289)
<hr style="border-top: 1px dashed black;"/>				
Net change in interest expense	(6,776)	(844)	44	(7,576)
<hr style="border-top: 1px dashed black;"/>				
Increase in net interest margin	\$ 6,011	(788)	113	5,336
<hr style="border-top: 3px double black;"/>				

Net interest margin before loan loss provision for the six months ended March 31, 2010 increased \$5.3 million from the same period in the prior year. Specifically, interest income decreased \$2.2 million, which was offset by a \$7.5 million decrease in interest expense for the period. Interest on loans decreased \$3.3 million primarily as the result of a \$65.3 million decrease in the average balance of loans receivable outstanding during the period. This decrease in interest income was partially offset by a \$620,000 increase in interest on mortgage-backed securities due to a \$20.7 million increase in the average balance and a 60 basis point increase in the average yield of such securities. In addition, interest on investment securities increased \$474,000 due to a \$4.6 million increase in the average balance and a 195 basis point increase in the average yield of such securities. Interest expense on customer and brokered deposit accounts decreased \$4.4 million due to a \$41.6 million decrease in the average balance and a 117 basis point decrease in the average rate paid on such interest-costing liabilities. Interest expense on FHLB advances decreased \$2.9 million as the result of an \$83.4 million decrease in the average balance and a 63 basis point decrease in the average rate paid on such liabilities. Interest expense on subordinated debentures decreased \$289,000 due to a 231 basis point decrease in the average rate paid on such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$5.0 million during the quarter ended March 31, 2010, due primarily to increases in loan charge-offs related to the residential construction and development portfolio. 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 classified as substandard or loss. Additionally, management determined that the increased provision was appropriate due to the continued uncertainty in the real estate market. 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 19.9% of total classified assets at March 31, 2010, 27.4% at

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

September 30, 2009, and 32.1% at March 31, 2009.

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.

25

OTHER INCOME

Other income for the three months ended March 31, 2010 increased \$84,000 from the same period in the prior year. Specifically, gain on sale of securities available for sale increased \$1.6 million due to the sale of securities available for sale during the period. Gain on sale of loans held for sale increased \$1.6 million due primarily to increased mortgage banking spreads during the period. These increases were offset by a \$2.8 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. In addition, provision for loss on real estate owned increased \$208,000 due to an increase in foreclosed assets held for sale. Customer service fees and charges decreased \$167,000 due to decrease in return item and overdraft charges on deposit accounts and a decrease in miscellaneous loan fees resulting from lower mortgage loan origination volume during the period.

Other income for the six months ended March 31, 2010 increased \$5.1 million from the same period in the prior year. Specifically, gain on sale of securities available for sale increased \$4.7 million due to the sale of securities available for sale during the period. Gain on sale of loans held for sale increased \$3.8 million due to increased mortgage banking volume during the period. Customer service fees and charges increased \$294,000. Loan servicing fees increased \$311,000 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 \$2.0 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. In addition, the Company recorded a \$2.0 million impairment charge related the Company's investment in LLCs during the quarter ended December 31, 2009.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended March 31, 2010 increased \$776,000 from the same period in the prior year. Specifically, compensation and fringe benefits increased \$211,000 due primarily to the addition of personnel in the Company's mortgage banking, information technology, and loan servicing departments. Federal deposit insurance premium expense increased \$397,000 related to an increase in premium rates from the prior year. Additionally, advertising and business promotion expense increased \$409,000 due to costs related the Company's rebranding efforts and due to an increase in costs related to the mortgage banking operation.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

These increases were offset by a \$200,000 decrease in commission-based mortgage banking compensation due primarily to a decrease in mortgage banking volume for the period.

Total general and administrative expenses for the six months ended March 31, 2010 increased \$4.8 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$851,000 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 \$1.7 million due primarily to an increase in mortgage banking volume for the period. Federal deposit insurance premium expense increased \$1.6 million related primarily to an increase in premium rates. Advertising and business promotion expense increased \$482,000 due to costs related the Company's rebranding efforts and due to an increase in costs related to the mortgage banking operation. Additionally, other expense increased \$188,000 due primarily to increases in consulting fees and credit, appraisal, and other fees related to the Company's lending operations.

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.

26

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 provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2013. 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 March 31, 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 March 31, 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 March 31, 2010	Amount
-----	-----
GAAP capital (Bank only)	\$ 167,747
Adjustment for regulatory capital:	
Intangible assets	(2,621)
Disallowed portion of servicing assets and deferred tax assets	(24)
Reverse the effect of SFAS No. 115	(462)

Tangible capital	164,640
Qualifying intangible assets	--

Tier 1 capital (core capital)	164,640
Qualifying general valuation allowance	14,202

Risk-based capital	\$ 178,842
	=====

	As of March 31, 2010				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 178,842	14.9%	96,221	>=8%	120,27
Core capital to adjusted tangible assets	164,640	11.5%	57,379	>=4%	71,72
Tangible capital to tangible assets	164,640	11.5%	21,517	>=1.5%	-
Tier 1 capital to risk-weighted assets	164,640	13.7%	--	--	72,16

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 March 31, 2010, the Bank had \$114.0 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.

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.

SUBSEQUENT EVENT

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 or the Company during the period of the agreement. 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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

will not be deemed to be in "troubled condition."

On April 14, 2010, the audit committee of the board of directors of NASB Financial, Inc. recommended and the board of directors subsequently approved the dismissal of the Company's independent accountant, KPMG LLP ("KPMG"), who was engaged on September 22, 2009, as the principal accountant to audit the consolidated financial statements of the Company for the fiscal year ending September 30, 2010. On April 14, 2010, the Company re-engaged BKD to serve as its principal independent accountant to review the Company's consolidated financial statements for the quarter ended December 31, 2009, and for the duration of the year ending September 30, 2010. BKD previously served as the Company's independent accountant prior to the Company's engagement of KPMG. The Company filed a Form 8-K with the Securities and Exchange Commission on April 20, 2010, which fully describes the change in independent accountants.

28

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

The annual stockholder's meeting was held on January 26, 2010. The following persons were elected to NASB Financial Inc.'s Board of Directors for three-year terms:

David H. Hancock
Linda S. Hancock
Paul L. Thomas

The firm of KPMG LLP was ratified for appointment as independent auditors for the fiscal year ended September 30, 2010.

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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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)

June 14, 2010

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

June 14, 2010

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

31

19

19