

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC  
Form 10-Q  
February 09, 2011

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 December 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

Premises and equipment, net	14,045	13,836
Investment in LLCs	17,772	17,799
Mortgage servicing rights, net	271	263
Deferred income tax asset, net	13,222	14,758
Other assets	16,945	16,355
	-----	-----
	\$ 1,337,176	1,434,196
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 881,724	866,559
Brokered deposit accounts	16,922	66,894
Advances from Federal Home Loan Bank	228,000	286,000
Subordinated debentures	25,774	25,774
Escrows	5,039	11,149
Income taxes payable	310	504
Accrued expenses and other liabilities	9,598	9,554
	-----	-----
Total liabilities	1,167,367	1,266,434
	-----	-----
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	16,616	16,603
Retained earnings	189,686	187,674
Treasury stock, at cost;		
1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive income	446	424
	-----	-----
Total stockholders' equity	169,809	167,762
	-----	-----
	\$ 1,337,176	1,434,196
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

Three months ended	
December 31,	
-----	-----
2010	2009
-----	-----

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Interest on loans receivable	\$ 18,071	20,606
Interest on mortgage-backed securities	552	884
Interest and dividends on securities	623	472
Other interest income	4	3
	-----	-----
Total interest income	19,250	21,965
	-----	-----
Interest on customer and brokered deposit accounts	4,286	4,693
Interest on advances from FHLB	1,797	3,339
Interest on subordinated debentures	127	128
	-----	-----
Total interest expense	6,210	8,160
	-----	-----
Net interest income	13,040	13,805
Provision for loan losses	3,950	9,000
	-----	-----
Net interest income after provision for loan losses	9,090	4,805
	-----	-----
Other income (expense):		
Loan servicing fees, net	77	26
Impairment (loss) recovery on mortgage servicing rights	(1)	5
Customer service fees and charges	2,458	1,858
Provision for loss on real estate owned	(413)	--
Gain on sale of securities available for sale	280	3,088
Gain from loans receivable held for sale	7,335	6,967
Impairment loss on investment in LLCs	--	(2,000)
Other	980	256
	-----	-----
Total other income	10,716	10,200
	-----	-----
General and administrative expenses:		
Compensation and fringe benefits	5,115	4,501
Commission-based mortgage banking compensation	6,172	4,116
Premises and equipment	1,036	990
Advertising and business promotion	1,267	1,369
Federal deposit insurance premiums	437	1,238
Other	2,508	1,443
	-----	-----
Total general and administrative expenses	16,535	13,657
	-----	-----
Income before income tax expense	3,271	1,348
Income tax expense	1,259	19
	-----	-----
Net income	\$ 2,012	1,329
	=====	=====
Basic earnings per share	\$ 0.26	0.17
	=====	=====
Diluted earnings per share	\$ 0.26	0.17
	=====	=====
Basic weighted average shares outstanding	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, 2010	\$ 1,479	16,603	187,674	(38,418)	424	167,
Comprehensive income:						
Net income	--	--	2,012	--	--	2,
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	22	----
Total comprehensive income						2,
Stock based compensation expense	--	13	--	--	--	
Balance at December 31, 2010	\$ 1,479	16,616	189,686	(38,418)	446	169,

Three months ended  
 December 31, 2010

(Dollars in thousands)

Reclassification Disclosure:

Unrealized gain on available for sale securities, net of income taxes of \$122	\$	194
Reclassification adjustment for gain included in net income, net of income taxes of \$108		(172)
		-----
Change in unrealized gain on available for sale securities, net of income tax of \$14	\$	22
		=====

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)

	Three months ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 2,012	1,329
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	467	444
Amortization and accretion, net	(132)	(1,006)
Gain on sale of securities available for sale	(280)	(3,088)
Loss from investment in LLCs	31	35
Impairment loss on investment in LLCs	--	2,000
Impairment loss (recovery) on mortgage servicing rights	1	(5)
Gain from loans receivable held for sale	(7,335)	(6,967)
Provision for loan losses	3,950	9,000
Provision for loss on real estate owned	413	--
Origination of loans receivable held for sale	(648,980)	(435,609)
Sale of loans receivable held for sale	718,661	423,270
Stock based compensation - stock options	13	20
Changes in:		
Net fair value of loan-related commitments	(1,384)	(315)
Accrued interest receivable	473	247
Prepaid and accrued expenses, other liabilities and income taxes payable	2,359	(8,275)
Net cash provided by (used in) operating activities	70,269	(18,920)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	5,056	2,430
Available for sale	79	2,449
Principal repayments of mortgage loans receivable held for investment	62,798	62,342
Principal repayments of other loans receivable	1,541	1,661
Principal repayments of investment securities held to maturity	166	--
Loan origination - mortgage loans receivable held for investment	(62,189)	(30,591)
Loan origination - other loans receivable	(887)	(457)
Purchase of mortgage loans receivable held for investment	--	(753)
Proceeds from sale of Federal Home Loan Bank stock	2,670	4,851
Purchase of mortgage backed securities held to maturity	--	(35,796)
Purchase of investment securities available for sale	(10,390)	(15,080)
Proceeds from sale of investment securities available for sale	14,456	21,336
Proceeds from sale of real estate owned	12,546	3,454
Purchases of premises and equipment, net	(676)	(292)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Investment in LLCs	(5)	(5)
Other	(218)	(619)
	-----	
Net cash provided by investing activities	24,947	14,930

4

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

	Three months ended December 31,	
	2010	2009
	-----	
Cash flows from financing activities:		
Net decrease in customer and brokered deposit accounts	(34,836)	(32,409)
Proceeds from advances from Federal Home Loan Bank	17,000	10,000
Repayment on advances from Federal Home Loan Bank	(75,000)	(2,000)
Cash dividends paid	--	(1,770)
Change in escrows	(6,110)	(5,279)
	-----	
Net cash used in financing activities	(98,946)	(31,458)
	-----	
Net decrease in cash and cash equivalents	(3,730)	(35,448)
Cash and cash equivalents at beginning of the period	14,033	63,250
	-----	
Cash and cash equivalents at end of period	\$ 10,303	27,802
	=====	
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ (68)	2,266
Cash paid for interest	6,200	8,459
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 17,528	7,831
Conversion of real estate owned to loans receivable	763	--
Capitalization of originated mortgage servicing rights	--	5

See accompanying notes to condensed consolidated financial statements.

5

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

### (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 three month period ended December 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011. The condensed consolidated balance sheet of the Company as of September 30, 2010, 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 December 31, 2010, have remained unchanged from September 30, 2010. These policies relate to the allowance for loan losses, the valuation of derivative instruments, and the valuation of equity method investments. 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, 2010.

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.

Three months ended	
-----	
12/31/10	12/31/09



Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	-----	
Net income (in thousands)	\$ 2,012	1,329
Average common shares outstanding	7,867,614	7,867,614
Average common share stock options outstanding	--	--
	-----	
Average diluted common shares	7,867,614	7,867,614
Earnings per share:		
Basic	\$ 0.26	0.17
Diluted	0.26	0.17

At December 31, 2010 and 2009, options to purchase 49,538 and 62,038 shares, respectively, of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

6

(3) SECURITIES AVAILABLE FOR SALE

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	-----			
Corporate debt securities	\$ 8,238	425	29	8,634
Trust preferred securities	15,461	302	11	15,752
Municipal securities	23	--	--	23
	-----			
Total	\$ 23,722	727	40	24,409
	=====			

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	-----			
Corporate debt securities	\$ 17,347	376	--	17,723
Trust preferred securities	10,084	282	20	10,346
Municipal securities	23	--	--	23

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Total	\$ 27,454	658	20	28,092
-------	-----------	-----	----	--------

During the three month period ended December 31, 2010, the Company realized gross gains of \$280,000 and no gross losses on the sale of securities available for sale. The Company realized gross gains of \$3.1 million and no gross losses on the sale of securities available for sale during the three month period ended December 31, 2009.

The following table presents a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at December 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
Corporate debt securities	\$ 3,056	29	\$ --	--
Trust preferred securities	5,289	11	--	--
Total	\$ 8,345	40	\$ --	--

7

The scheduled maturities of securities available for sale at December 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	18	--	--	18
Due from five to ten years	5,154	425	--	5,579
Due after ten years	18,545	302	40	18,807
Total	\$ 23,722	727	40	24,409

(4) SECURITIES HELD TO MATURITY

The following table presents a summary of securities held to maturity at December 31, 2010. 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

Asset-backed securities	\$ 1,076	399	--	1,475
Total	\$ 1,076	399	--	1,475

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Asset-backed securities	\$ 1,232	329	--	1,561
Total	\$ 1,232	329	--	1,561

The scheduled maturities of securities held to maturity at December 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	\$ 1,076	399	--	1,475
Total	\$ 1,076	399	--	1,475

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 three month periods ended December 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 December 31, 2010. Dollar amounts are expressed in thousands.

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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	cost	gains	losses	value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 94	2	--	96
Pass-through certificates guaranteed by FNMA				
- adjustable rate	180	5	--	185
FHLMC participation certificates:				
- fixed rate	345	21	--	366
- adjustable rate	163	10	--	173
Total	\$ 782	38	--	820

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 98	3	--	101
Pass-through certificates guaranteed by FNMA				
- adjustable rate	186	7	--	193
FHLMC participation certificates:				
- fixed rate	403	34	--	437
- adjustable rate	173	7	--	180
Total	\$ 860	51	--	911

There were no sales of mortgage-backed securities available for sale during the three month periods ended December 31, 2010 and 2009.

The scheduled maturities of mortgage-backed securities available for sale at December 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	\$ 345	21	--	366
Due after ten years	437	17	--	454
Total	\$ 782	38	--	820

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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

9

(6) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
-----				
FHLMC participation certificates:				
Fixed rate	\$ 50	1	--	51
FNMA pass-through certificates:				
Fixed rate	7	--	--	7
Balloon maturity and adjustable rate	31	--	--	31
Collateralized mortgage obligations	41,098	231	302	41,027
-----				
Total	\$ 41,186	232	302	41,116
=====				

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
-----				
FHLMC participation certificates:				
Fixed rate	\$ 52	2	--	54
FNMA pass-through certificates:				
Fixed rate	7	--	--	7
Balloon maturity and adjustable rate	32	1	--	33
Collateralized mortgage obligations	46,185	230	209	46,206
-----				
Total	\$ 46,276	233	209	46,300
=====				

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

There were no sales of mortgage-backed securities held to maturity during the three month periods ended December 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 December 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
Collateralized mortgage obligations	\$ 7,926	156	\$ 8,193	146
Total	\$ 7,926	156	\$ 8,193	146

10

Based upon available evidence at December 31, 2010, it is management's opinion that the decline in value of these securities is temporary. The decline in fair value resulted from increases in market yields that occurred after the securities were purchased. Management views changes in fair value caused solely by changes in interest rates as temporary. In addition, it is anticipated that the entire principal balance of these securities will be collected. Should the impairment of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified. The Company does not intend to sell these securities, and it is management's opinion that it is not more-likely-than-not that the Company will be required to sell the securities prior to recovery of the remaining amortized cost, which could be at maturity.

The scheduled maturities of mortgage-backed securities held to maturity at December 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 one to five years	\$ 7	--	--	7
Due from five to ten years	81	1	--	82
Due after ten years	41,098	231	302	41,027
Total	\$ 41,186	232	302	41,116

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

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

obligations.

### (7) LOANS RECEIVABLE

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

#### LOANS HELD FOR INVESTMENT:

##### Mortgage loans:

##### Permanent loans on:

Residential properties	\$ 337,892
Business properties	443,356
Partially guaranteed by VA or insured by FHA	3,839
Construction and development	201,754
	-----
Total mortgage loans	986,841
Commercial loans	90,938
Installment loans to individuals	10,919
	-----
Total loans held for investment	1,088,698
Less:	
Undisbursed loan funds	(21,726)
Unearned discounts and fees and costs on loans, net	(7,105)
	-----
Net loans held for investment	\$1,059,867
	=====

#### LOANS HELD FOR SALE:

##### Mortgage loans:

##### Permanent loans on:

Residential properties	\$ 204,069
Less:	
Undisbursed loan funds	(86,570)
	-----
Net loans held for sale	\$ 117,499
	=====

11

Included in the loans receivable balances at December 31, 2010, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of \$11.2 million. Loans and participations serviced for others amounted to approximately \$79.2 million at December 31, 2010.

The following table presents the activity in the allowance for losses on loans for the period ended December 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, 2010	\$ 32,316
Provisions	3,950

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Charge-offs	(3,801)
Recoveries	33
	-----
Balance at December 31, 2010	\$ 32,498
	=====

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at December 31, 2010. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Commercial Construction/ Development	Commercial	Commercial Installment
-----						
Allowance for loan losses:						
-----						
Balance at October 1, 2010	\$ 4,427	10	6,708	19,018	1,015	1,138
Provision for loan losses	(258)	12	162	2,644	1,262	128
Loans charged off	(273)	--	(1,372)	(1,887)	--	(269)
Recoveries	--	--	--	33	--	--
	-----					
Balance at December 31, 2010	\$ 3,896	22	5,498	19,808	2,277	997
	=====					
Ending Balance of allowance for loan losses related to loans:						
Individually evaluated for impairment	\$ 543	11	1,577	10,405	1,205	468
	=====					
Collectively evaluated for impairment	\$ --	--	--	--	--	--
	=====					
Acquired with deteriorated credit quality	\$ 127	--	--	--	--	--
	=====					
Loans:						
-----						
Balance at December 31, 2010	\$ 338,236	117,499	439,014	181,250	90,483	10,884
	=====					
Ending Balance:						
Loans individually evaluated for impairment	\$ 9,034	11	3,223	65,644	7,994	721
	=====					
Loans collectively evaluated for impairment	\$ --	--	--	--	--	--
	=====					
Loans acquired with deteriorated credit quality	\$ 1,626	--	--	--	--	--
	=====					



Edgar Filing: NASB FINANCIAL INC - Form 10-Q

12

The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of December 31, 2010. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Commercial Construction/ Development	Commercial	Commercial Installment
Rating:						
-----						
Pass	\$ 317,760	117,488	377,669	51,692	57,071	10,104
Pass - Watch	2,445	--	27,114	20,461	--	--
Special Mention	3,938	--	21,010	27,581	24,598	258
Substandard	13,550	--	11,644	71,111	7,609	54
Doubtful	--	--	--	--	--	--
Loss	543	11	1,577	10,405	1,205	468
Total	\$ 338,236	117,499	439,014	181,250	90,483	10,884

The following table presents the Company's loan portfolio aging analysis as of December 31, 2010. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Residential	\$ 3,407	2,383	11,963	17,753	320,483	338,236
Residential held for sale	39	26	37	102	117,397	117,499
Commercial real estate	744	251	2,972	3,967	435,047	439,014
Construction & development	--	183	25,176	25,359	155,891	181,250
Commercial	7,903	--	91	7,994	82,489	90,483
Installment	107	69	437	613	10,271	10,884
Total	\$ 12,200	2,912	40,676	55,788	1,121,578	1,177,366

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. Loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulty are also considered impaired. These concessions could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent. The Bank records a specific loss allowance equal to the amount of measured impairment, if applicable.

13

The following table presents impaired loans as of December 31, 2010. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	In I Rec
-----					
Loans without a specific valuation allowance:					
-----					
Residential	\$ 4,078	4,119	--	4,072	
Residential held for sale	--	--	--	--	
Commercial real estate	--	--	--	--	
Construction & development	22,589	22,598	--	22,397	
Commercial	--	--	--	--	
Installment	230	230	--	231	
Loans with a specific valuation allowance:					
-----					
Residential	\$ 4,413	5,027	543	4,425	
Residential held for sale	--	11	11	12	
Commercial real estate	1,646	3,230	1,577	1,696	
Construction & development	32,652	43,072	10,405	34,710	
Commercial	6,789	8,070	1,205	7,592	
Installment	23	491	468	38	
Total:					
-----					

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Residential	\$	8,491	9,146	543	8,497
Residential held for sale		--	11	11	12
Commercial real estate		1,646	3,230	1,577	1,696
Construction & development		55,241	65,670	10,405	57,107
Commercial		6,789	8,070	1,205	7,592
Installment		253	721	468	269

The following table presents the Company's nonaccrual loans at December 31, 2010. This table does not include purchased impaired loans or troubled debt restructurings that are performing. Dollar amounts are expressed in thousands.

Residential	\$	11,963
Residential held for sale		37
Commercial real estate		2,972
Construction & development		25,176
Commercial		91
Installment		437
		-----
Total	\$	40,676
		=====

(8) FORECLOSED ASSETS HELD FOR SALE

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

Real estate acquired through (or deed in lieu of) foreclosure	\$	36,055
Less: allowance for losses		(2,046)
		-----
Total	\$	34,009
		=====

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 December 31, 2010. Dollar amounts are expressed in thousands.

Balance at October 1, 2010	\$	263
Additions:		
Amortization		9
Reductions:		
Impairment loss		(1)
		-----
Balance at December 31, 2010	\$	271
		=====

### (10) SUBORDINATED DEBENTURES

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

In accordance with Financial Accounting Standards Board ASC 810-10, 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.

### (11) INCOME TAXES

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

### (12) SEGMENT INFORMATION

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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 December 31, 2010	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 13,157	--	(117)	13,040
Provision for loan losses	3,950	--	--	3,950
Other income	325	10,660	(269)	10,716
General and administrative expenses	5,517	11,132	(114)	16,535
Income tax expense (benefit)	1,546	(182)	(105)	1,259
Net income	\$ 2,469	(290)	(167)	2,012

Three months ended December 31, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 13,922	--	(117)	13,805
Provision for loan losses	9,000	--	--	9,000
Other income	2,237	10,436	(2,473)	10,200
General and administrative expenses	6,274	7,585	(202)	13,657
Income tax expense (benefit)	(159)	1,098	(920)	19
Net income	\$ 1,044	1,753	(1,468)	1,329

(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. The Company recorded a decrease in other assets of \$2.0 million, an increase in other liabilities of \$1.3 million, and a decrease in other income of \$3.3 million for the three month period ended December 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 an increase in other assets of \$3.5 million, a decrease in other liabilities of \$1.1 million, and an increase in other income of \$4.6 million during the three month period ended December 31, 2010.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2010, is disclosed in Footnote 14, Fair Value Measurements.

16

(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:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

measurement date.

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

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

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

### Available for sale securities

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

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

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

### 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.

### Commitments to Originate Loans and Forward Sales Commitments

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

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at December 31, 2010 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Securities, available for sale				
Corporate debt securities \$	8,634	8,634	--	--
Trust preferred securities	15,752	15,752	--	--
Municipal securities	23	23	--	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA - fixed rate	96	--	96	--
Pass through certificates guaranteed by FNMA - adjustable rate	185	--	185	--
FHLMC participation certificates:				
Fixed rate	366	--	366	--
Adjustable rate	173	--	173	--
Loans held for sale	117,499	--	117,499	--
Mortgage servicing rights	271	--	--	271
Commitments to originate loans	181	--	--	181
Forward sales commitments	4,441	--	--	4,441
<b>Total assets</b>	<b>\$ 147,621</b>	<b>24,409</b>	<b>118,319</b>	<b>4,893</b>



Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Liabilities:

Commitments to originate loans	\$ 1,916	--	--	1,916
Forward sales commitments	16	--	--	16
<hr/>				
Total liabilities	\$ 1,932	--	--	1,932
<hr/>				

18

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, 2010 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<hr/>				
<b>Assets:</b>				
Securities, available for sale				
Corporate debt securities	\$ 17,723	17,723	--	--
Trust preferred securities	10,346	10,346		
Municipal securities	23	23		
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA -				
fixed rate	101	--	101	--
Pass through certificates guaranteed by FNMA -				
adjustable rate	193	--	193	--
FHLMC participation certificates:				
Fixed rate	437	--	437	--
Adjustable rate	180	--	180	--
Loans held for sale	179,845	--	179,845	--
Mortgage servicing rights	263	--	--	263
Commitments to originate loans	2,177	--	--	2,177
Forward sales commitments	902	--	--	902
<hr/>				
Total assets	\$ 212,190	28,092	180,756	3,342
<hr/>				
<b>Liabilities:</b>				
Commitments to originate loans				
	\$ 630	--	--	630
Forward sales commitments	1,142	--	--	1,142
<hr/>				

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Total liabilities	\$ 1,772	--	--	1,772
	=====			

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the three month periods ended December 31, 2010 and 2009 (in thousands):

	Mortgage Servicing Rights	Commitments to Originate Loans	Forward Sales Commitments
	-----		
Balance at October 1, 2010	\$ 263	1,547	(240)
Total realized and unrealized gains (losses):			
Included in net income	8	(3,282)	4,665
	-----		
Balance at December 31, 2010	\$ 271	(1,735)	4,425
	=====		

	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	(36)	(1,695)	2,010
Issuances	5	--	--
	-----		
Balance at December 31, 2009	\$ 320	(672)	1,632
	=====		

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Realized and unrealized gains and losses noted in the table above and included in net income for the three month period ended December 31, 2010, are reported in the consolidated statements of income as follows (in thousands):

	Loan Servicing Fees	Impairment Loss on Mortgage Servicing Rights	Other Income
Total gains (losses)	\$ 9	(1)	1,384
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	\$ --	--	--

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

### Impaired loans

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

The carrying value of impaired loans that were re-measured during the three month period ended December 31, 2010, was \$41.6 million.

### 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 \$34.0 million at December 31, 2010. Charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the three month period ended December 31, 2010, totaled \$83,000.

### Investment in LLCs

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Investments in LLCs are accounted for using the equity method of accounting. These investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) an on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). Investment in LLCs is classified within Level 3 of the fair value hierarchy.

The carrying value of the Company's investment in LLCs was \$17.8 million at December 31, 2010.

20

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value:

### Cash and cash equivalents

The carrying amount reported in the consolidated balance sheets is a reasonable estimate of fair value.

### Securities and mortgage-backed securities held to maturity

Securities that trade in an active market are valued using quoted market prices. Securities that do not trade in an active market are valued using quotes from broker-dealers that reflect estimated offer prices.

### Stock in Federal Home Loan Bank ("FHLB")

The carrying value of stock in Federal Home Loan Bank approximates its fair value.

### Loans receivable held for investment

Fair values are computed for each loan category using market spreads to treasury securities for similar existing loans in the portfolio and management's estimates of prepayments.

### Customer and brokered deposit accounts

The estimated fair values of demand deposits and savings accounts are equal to the amount payable on demand at the reporting date. Fair values of certificates of deposit are computed at fixed spreads to treasury securities with similar maturities.

### Advances from FHLB

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The estimated fair values of advances from FHLB are determined by discounting the future cash flows of existing advances using rates currently available for new advances with similar terms and remaining maturities.

### Subordinated debentures

Fair values are based on quotes from broker-dealers that reflect estimated offer prices.

### Commitments to originate, purchase and sell loans

The estimated fair value of commitments to originate, purchase, or sell loans is based on the difference between current levels of interest rates and the committed rates.

The following table presents the carrying values and fair values of the Company's financial instruments. Dollar amounts are expressed in thousands.

	December 31, 2010		September 30, 2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 10,303	10,303	14,033	14,033
Securities held to maturity	1,076	1,475	1,232	1,561
Stock in Federal Home Loan Bank	13,203	13,203	15,873	15,873
Mortgage-backed securities held to maturity	41,186	41,116	46,276	46,300
Loans receivable held for investment	1,027,369	1,037,564	1,041,041	1,043,886
<b>Financial Liabilities:</b>				
Customer deposit accounts	\$ 881,724	886,699	866,559	869,941
Brokered deposit accounts	16,922	16,927	66,894	66,797
Advances from FHLB	228,000	231,174	286,000	288,061
Subordinated debentures	25,774	10,000	25,774	10,310

21

	December 31, 2010		September 30, 2010	
	Contract or notional amount	Estimated unrealized gain	Contract or notional amount	Estimated unrealized gain (loss)

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Unrecognized financial instruments:

Lending commitments - fixed				
rate, net	\$ 10,112	25	6,127	(5)
Lending commitments - floating				
rate	937	12	417	6
Commitments to sell loans	--	--	--	--

The fair value estimates presented are based on pertinent information available to management as of December 31, 2010, and September 30, 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.

### (15) INVESTMENT IN LLCs

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

The Company's investment in Central Platte consists of a 50% ownership interest in an entity that develops land for residential real estate sales. Sales of lots had not met previous expectations and, as a result, the Company evaluated its investment for impairment, in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) another on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The internal model also includes an on-going business method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the development and sale of lots from the property that is currently raw land. However, management does not feel the results from this method provide a reliable indication of value because the time to "build-out" the development exceeds 18 years. Because of this unreliability the results from this method are given a zero weighting in the final impairment analysis. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

of distribution of assets upon potential liquidation). It is management's opinion that no one valuation method within the model is preferable to the other and that no one method is more likely to occur than the other. Therefore, the final estimate of value is determined by assigning an equal weight to the values derived from each of the first three methods described above.

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 year ended September 30, 2010.

The following table displays the results derived from the Company's internal valuation model and the carrying value of its investment in Central Platte at December 31, 2010. Dollar amounts are expressed in thousands.

Method 1	\$	17,064
Method 2		16,493
Method 3		18,621
Average of methods 1, 2, and 3	\$	17,393
		=====
Carrying value of investment in Central Platte Holdings, LLC	\$	16,405
		=====

22

The Company's investment in NBH consists of a 50% ownership interest in an entity that holds raw land, which is currently zoned as agricultural. The general managers intend to rezone this property for commercial and/or residential development. The raw land was purchased in 2002. The Company accounts for its investment in NBH under the equity method. Due to the overall economic conditions surrounding real estate, the Company evaluated its investment for impairment in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. Potential impairment was measured based on liquidation or appraised values determined by an independent third party appraisal. As a result of this analysis, the Company determined that its investment in NBH was materially impaired and recorded an impairment charge of \$1.1 million (\$693,000, net of tax) during the year ended September 30, 2010. No events have occurred during the three months ended December 31, 2010, that would indicate any additional impairment of the Company's investment in NBH. The carrying value of the Company's investment in NBH was \$1.4 million at December 31, 2010.

### (16) SUPERVISORY AGREEMENT

On April 30, 2010, the Board of Directors of North American Savings Bank, F.S.B. (the "Bank"), a wholly owned subsidiary of the Company, entered into a Supervisory Agreement with the Office of Thrift Supervision ("OTS"), the Bank's primary regulator, effective as of that date. The agreement requires, among other things, that the Bank revise its policies regarding internal asset review, obtain an independent assessment of its allowance for loan and lease losses methodology and

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

conduct an independent third-party review of a portion of its commercial and construction loan portfolios. The agreement also directs the Bank to provide a plan to reduce its classified assets and its reliance on brokered deposits, and restricts the payment of dividends or other capital distributions by the Bank during the period of the agreement. 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."

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

As of December 31, 2010, the Company and the subsidiary Bank are in compliance with these regulatory agreements.

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

### GENERAL

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

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

### FINANCIAL CONDITION

#### ASSETS

The Company's total assets as of December 31, 2010, were \$1,337.2 million, a decrease of \$97.0 million from September 30, 2010, the prior fiscal year end.



## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Loans receivable held for investment were \$1,059.9 million as of December 31, 2010, a decrease of \$13.5 million during the three month period. The weighted average rate on such loans as of December 31, 2010, was 6.23%, a decrease from 6.35% as of December 31, 2009.

Loans receivable held for sale as of December 31, 2010, were \$117.5 million, a decrease of \$62.3 million from September 30, 2010. This portfolio consists of residential mortgage loans originated by the Bank's mortgage banking division that will be sold with servicing released. 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 three months ended December 31, 2010, the Bank originated and purchased \$649.0 million in mortgage loans held for sale, \$62.2 million in mortgage loans held for investment, and \$887,000 in other loans. This total of \$712.1 million in loans compares to \$467.4 million in loans originated and purchased during the three months ended December 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.

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.

	12/31/10	9/30/10	12/31/09
Asset Classification:			
Substandard	\$ 137,996	142,085	122,175
Doubtful	--	--	--
Loss*	16,254	16,965	10,977
	154,250	159,050	133,152
Allowance for losses on loans and real estate owned	(34,545)	(34,643)	(29,154)
	\$ 119,705	124,407	103,998

\*Assets classified as loss represent the amount of measured impairment related to loans and foreclosed assets held for sale that have been

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

deemed impaired. The Bank records a specific loss allowance equal to the amount of measured impairment. These specific allowances are included in the balance of the allowance for losses on loans and real estate owned above.

24

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

	12/31/10	9/30/10	12/31/09
Total Assets	\$ 1,337,176	1,434,196	1,527,170
Non-accrual loans	\$ 12,779	29,368	24,237
Troubled debt restructurings	24,643	23,730	24,609
Net real estate and other assets acquired through foreclosure	34,009	38,362	13,860
Total	\$ 71,431	91,460	62,706
Percent of total assets	5.34%	6.38%	4.11%

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.

Investment securities were \$25.5 million as of December 31, 2010, a decrease of \$3.8 million from September 30, 2010. During the three month period, the Bank purchased securities of \$10.2 million and sold \$13.9 million of securities available for sale. The Company realized gross gains of \$280,000 and no gross losses on the sale of securities available for sale during the period.

Mortgage-backed securities were \$42.0 million as of December 31, 2010, a decrease of \$5.2 million from the prior year end. There were no sales of mortgage-backed securities available for sale during the three month periods ended December 31, 2010. The average yield on the mortgage-backed securities portfolio was 4.90% at December 31, 2010, a slight increase from 4.88% at September 30, 2010.

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The Company's investment in LLCs, which is accounted for using the equity method, was \$17.8 million at December 31, 2010, a decrease of \$27,000 from September 30, 2010. During the fiscal year ended September 30, 2010, the Company recorded a \$2.0 million impairment charge related to its investment in Central Platte Holdings, LLC ("Central Platte") and a \$1.1 million impairment charge related to its investment in NBH, LLC ("NBH"). There have been no events subsequent to September 30, 2010, that would indicate an additional impairment in value of the Company's investments in Central Platte and NBH, which were \$16.4 million and \$1.4 million at December 31, 2010, respectively.

### LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased \$34.8 million during the three months ended December 31, 2010. Specifically, customer deposits increased \$15.2 million during the period, primarily due to an increase in retail certificates of deposits resulting from promotions during the period. Brokered deposits decreased \$50.0 million during the period, as a result of the Company's effort to reduce its reliance on this funding source. The weighted average rate on customer and brokered deposits as of December 31, 2010, was 1.83%, a decrease from 2.04% as of December 31, 2009.

Advances from the FHLB were \$228.0 million as of December 31, 2010, a decrease of \$58.0 million from September 30, 2010. During the three month period, the Bank borrowed \$17.0 million of new advances and repaid \$75.0 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.

25

Subordinated debentures were \$25.8 million as of December 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 \$5.0 million as of December 31, 2010, a decrease of \$6.1 million from September 30, 2010. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2010.

Total stockholders' equity as of December 31, 2010, was \$169.8 million (12.7% of total assets). This compares to \$167.8 million (11.7% of total assets) at September 30, 2010. On a per share basis, stockholders' equity was \$21.58 on December 31, 2010, compared to \$21.32 on September 30, 2010.

The Company did not pay any cash dividends to its stockholders during the three month period ended December 31, 2010. In accordance with the April 2010 agreement 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 without prior written consent from the Office of Thrift Supervision.

Total stockholders' equity as of December 31, 2010, includes an unrealized gain, net of deferred income taxes, on available for sale

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

securities of \$446,000. 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).

	Three months ended	
	12/31/10	12/31/09
Return on assets	0.58%	0.34%
Return on equity	4.77%	3.21%
Equity-to-assets ratio	12.70%	10.79%
Dividend payout ratio	--%	133.18%

### RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2010 and 2009.

For the three months ended December 31, 2010, the Company had net income of \$2.0 million or \$0.26 per share. This compares to net income of \$1.3 million or \$0.17 per share for the three month period ended December 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.

26

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, 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.

	Three months ended 12/31/10		As of
	-----		12/31/10
	Average	Yield/	Yield/
	Balance	Interest	Rate
	-----		
Interest-earning assets			

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Loans	\$1,184,717	18,071	6.10%	6.02%
Mortgage-backed securities	45,078	552	4.90%	4.90%
Securities	40,569	623	6.14%	5.74%
Bank deposits	19,721	4	0.08%	0.01%
	-----			
Total earning assets	1,290,085	19,250	5.97%	5.94%
	-----			
Non-earning assets	95,631			
	-----			
Total	\$1,385,716			
	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 191,525	263	0.55%	0.50%
Customer and brokered certificates of deposit	739,120	4,023	2.18%	2.20%
FHLB Advances	253,769	1,797	2.83%	2.31%
Subordinated debentures	25,000	127	2.03%	1.94%
	-----			
Total costing liabilities	1,209,414	6,210	2.05%	1.93%
	-----			
Non-costing liabilities	6,283			
Stockholders' equity	170,019			
	-----			
Total	\$1,385,716			
	=====			
Net earning balance	\$ 80,671			
	=====			
Earning yield less costing rate			3.92%	4.01%
			=====	
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets				
	\$1,290,085	13,040	4.04%	
	=====			

	Three months ended 12/31/09		As of 12/31/09	
	Average Balance	Interest	Yield/Rate	Yield/Rate
	-----			
Interest-earning assets				
Loans	\$1,311,849	20,606	6.28%	6.24%
Mortgage-backed securities	81,295	884	4.35%	4.41%
Securities	45,115	472	4.18%	4.45%
Bank deposits	26,649	3	0.05%	0.01%
	-----			
Total earning assets	1,464,908	21,965	5.99%	6.00%
	-----			
Non-earning assets	68,841			
	-----			
Total	\$1,533,749			
	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 181,511	346	0.76%	0.49%
Customer and brokered certificates of deposit	702,941	4,347	2.47%	2.46%
FHLB Advances	443,052	3,339	3.01%	2.92%
Subordinated debentures	25,000	128	2.05%	1.93%

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Total costing liabilities	1,352,504	8,160	2.41%	2.33%
Non-costing liabilities	13,084			
Stockholders' equity	168,161			
Total	\$1,533,749			
Net earning balance	\$ 112,404			
Earning yield less costing rate			3.58%	3.67%
Average interest-earning assets, net interest, and net yield spread on average interest- earning assets	\$1,464,908	13,805	3.77%	

27

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.

Three months ended December 31, 2010, compared to  
three months ended December 31, 2009

	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (590)	(1,996)	51	(2,535)
Mortgage-backed securities	112	(394)	(50)	(332)
Securities	221	(48)	(22)	151
Bank deposits	2	(1)	--	1
Net change in interest income	(255)	(2,439)	(21)	(2,715)
Components of interest expense:				
Customer and brokered deposit accounts	(619)	245	(33)	(407)
FHLB Advances	(199)	(1,424)	81	(1,542)
Subordinated debentures	(1)	--	--	(1)
Net change in interest expense	(819)	(1,179)	48	(1,950)

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Decrease in net interest margin	\$	564	(1,260)	(69)	(765)
---------------------------------	----	-----	---------	------	-------

Net interest margin before loan loss provision for the three months ended December 31, 2010, decreased \$765,000 from the same period in the prior year. Specifically, interest income decreased \$2.7 million, which was offset by a \$2.0 million decrease in interest expense for the period. Interest on loans decreased \$2.5 million as the result of a \$127.0 million decrease in the average balance of loans receivable outstanding during the period and an 18 basis point decrease in the average rate earned on such loans during the period. Interest on mortgage-backed securities decreased \$332,000 due primarily to a \$36.2 million decrease in the average balance of such securities during the period. These decreases in interest income were partially offset by a \$151,000 increase in interest on investment securities resulting from a 196 basis point increase in the average yield of such securities. Interest expense on customer and brokered deposit accounts decreased \$407,000 due to a 28 basis point decrease in the average rate paid on such interest-costing liabilities, the effect of which was partially offset by a \$46.2 million increase in the average balance of customer and brokered deposit accounts during the period. Interest expense on FHLB advances decreased \$1.5 million as the result of a \$189.3 million decrease in the average balance and an 18 basis point decrease in the average rate paid on such liabilities.

### PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$4.0 million during the three month period ended December 31, 2010, due primarily to increases in specific reserves related to impaired construction and land development loans. In addition, the Bank increased its general reserves related to the commercial real estate and land development portfolios based primarily upon its historical losses and other relevant qualitative factors such as economic and business conditions. 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 markets. 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 22.4% of total classified assets at December 31, 2010, 21.8% at September 30, 2010, and 21.9% at December 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.

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

### OTHER INCOME

Other income for the three months ended December 31, 2010, decreased \$516,000 from the same period in the prior year. Specifically, impairment loss on investment in LLCs increased \$2.0 million due to an impairment charge related to the Company's investment in Central Platte Holdings, LLC during the quarter ended December 31, 2009. Other income increased \$724,000 due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP, which was partially offset by an increase in expenses related to foreclosed assets held for sale. Customer service fees and charges increased \$600,000 primarily due to an increase in miscellaneous loan fees resulting from higher residential mortgage loan origination volume during the period. The increase in gain on sale of loans held for sale resulting from a significant increase in mortgage banking volume for the period was largely offset by a \$4.9 million decrease in the adjustment to mark these loans to market value, resulting in only a \$368,000 increase from the same period in the prior year. These increases were offset by a \$2.8 million decrease in gain on sale of securities available for sale due to a significant decrease in the volume of such sales during the period. Additionally, provision for loss on real estate owned increased \$413,000 due primarily to charge-offs resulting from the sale of foreclosed assets held for sale.

### GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended December 31, 2010, increased \$2.9 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$614,000 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 \$2.1 million due primarily the significant increase in mortgage banking spreads from the same period in the prior year. Other expense increased \$1.1 million due primarily to increases in data processing fees, consulting fees, and other expenses related to the Company's lending operations such as underwriting, credit, appraisal, and processing fees. These increases in general and administrative expenses were offset by an \$801,000 decrease in federal deposit insurance premiums and a \$102,000 decrease in advertising and business promotion expense from the same period in the prior year.

### 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



## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

under Federal Reserve Board regulations.

### INSURANCE OF ACCOUNTS

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

Deposit 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 subgroups. The capital groups are an objective measure of risk based on regulatory capital calculations and include well capitalized, adequately capitalized, and undercapitalized. The supervisory subgroups (A, B, and C) are more subjective and are determined by the FDIC based on recent regulatory examinations. Member institutions are eligible for reclassification every six months. On March 25, 2010, North American was moved from supervisory category A to category B, based upon the results of the Bank's OTS examination.

29

Annual deposit insurance premiums range from 7 to 77.5 basis points of insured deposits based on where an institution fits on the RRPS. In addition to deposit insurance premiums, institutions are assessed a premium, which is used to service the interest on the Financing Corporation ("FICO") debt.

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

### REGULATORY CAPITAL REQUIREMENTS

At December 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 December 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

At December 31, 2010	Amount
GAAP capital (Bank only)	\$ 172,569
Adjustment for regulatory capital:	
Intangible assets	(2,546)
Disallowed portion of servicing assets and deferred tax assets	(24)
Reverse the effect of SFAS No. 115	(446)
	-----
Tangible capital	169,553
Qualifying intangible assets	--
	-----
Tier 1 capital (core capital)	169,553
Qualifying general valuation allowance	15,946
	-----
Risk-based capital	\$ 185,499
	=====

	As of December 31, 2010				
	Actual		Minimum Required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 185,499	14.6%	101,869	>=8%	127,33
Core capital to adjusted tangible assets	169,553	12.9%	52,550	>=4%	65,68
Tangible capital to tangible assets	169,553	12.9%	19,706	>=1.5%	--
Tier 1 capital to risk-weighted assets	169,553	13.3%	--	--	76,40

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.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("The Dodd-Frank Act" or "The Act") was signed into law on July 21, 2010. The Bank's primary federal regulator, the Office of Thrift Supervision, will be eliminated and existing federal thrifts will be subject to regulation and supervision by the Office of the Comptroller of the Currency, which

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

supervises and regulates all national banks. Existing savings and loan holding companies will be subject to regulation and supervision by the Federal Reserve Board. The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to enforce consumer protection laws and ensure that markets for consumer financial products and services are fair, transparent, and competitive. The Act restricts the ability of banks to apply trust preferred securities toward regulatory capital requirements. However, Tier 1 capital treatment for trust preferred securities issued before May 19, 2010 is grandfathered for bank holding companies with assets under \$15 billion. The Dodd-Frank Act will require publically traded companies to give stockholders a non-binding vote on executive compensation and so called "golden parachute" payments. The Act authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act also broadens the base for FDIC insurance assessments, which will be based on average consolidated total assets less tangible equity capital, rather than deposits. The Act also makes permanent the maximum deposit insurance amount of \$250,000 per depositor. The federal agencies are given significant discretion in drafting the rules and regulations required by The Dodd-Frank Act. Consequently, the full impact of this legislation will not be known for some time.

### 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. FHLB advances are secured by a blanket pledge agreement of the loan and securities portfolio, as collateral, supported by quarterly reporting of eligible collateral to FHLB. Available FHLB borrowings are limited based upon a percentage of the Bank's assets and eligible collateral, as adjusted by appropriate eligibility and maintenance levels. Management continually monitors the balance of eligible collateral relative to the amount of advances outstanding. At December 31, 2010, the Bank had a total borrowing capacity at FHLB of \$457.3 million, and outstanding advances of \$228.0 million. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank may purchase brokered deposit accounts.

The Bank entered into a Supervisory Agreement with the Office of Thrift Supervision on April 30, 2010, which, among other things, required the Bank to reduce its reliance on brokered deposits. The OTS subsequently approved the Bank's plan to reduce brokered deposits to \$145.0 million by June 30, 2010, \$135.0 million by June 30, 2011 and \$125.0 million by June 30, 2012. As of December 31, 2010, the Bank's brokered deposits totaled \$16.9 million. Thus, the Bank could acquire an additional \$128.1 million in brokered deposits and still comply with the plan as of December 31, 2010.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and MBS. During periods of falling interest rates, these prepayments increase and a greater demand exists for new loans. The Bank's customer deposits are partially impacted by area competition. Management believes that the Bank will retain most of its maturing time deposits in the foreseeable future. However, any material funding needs that may arise in the future can be reasonably satisfied through the use of additional FHLB advances and/or brokered deposits. The Bank's contingency liquidity sources include the Federal

## Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Reserve discount window and sales of securities available for sale. Management is not aware of any other current market or economic conditions that could materially impact the Bank's future ability to meet obligations as they come due.

31

### 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, 2010.

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, 2010.

### 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.

32

## 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Item 2. Changes in Securities  
None.

Item 3. Defaults Upon Senior Securities  
None.

Item 4. Submission of Matters to a Vote of Security Holders  
None.

Item 5. Other Information  
None.

Item 6. Exhibits

(a) Exhibits

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

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

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

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

33

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 9, 2011

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

February 9, 2011

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

34

19

19