

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC  
Form 10-Q  
August 09, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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

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

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

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

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

Yes X No

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

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

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

Yes                      No

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

Large accelerated filer                      Accelerated filer                      X

Non-accelerated filer                      Smaller reporting Company

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

Yes                      No    X

The number of shares of Common Stock of the Registrant outstanding as of August 5, 2011, was 7,867,614.

### PART I - FINANCIAL INFORMATION

#### Item 1. Financial Statements.

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

	June 30, 2011 (Unaudited) -----	September 30, 2010 -----
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,149	14,033
<b>Securities:</b>		
Available for sale, at fair value	64,602	28,092
Held to maturity, at cost	--	1,232
Stock in Federal Home Loan Bank, at cost	9,991	15,873
<b>Mortgage-backed securities:</b>		
Available for sale, at fair value	736	911
Held to maturity, at cost	43,132	46,276
<b>Loans receivable:</b>		
Held for sale, at fair value	77,894	179,845
Held for investment, net	1,024,289	1,073,357
Allowance for loan losses	(71,864)	(32,316)
	-----	-----
Total loans receivable, net	1,030,319	1,220,886

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	-----	-----
Accrued interest receivable	5,253	5,520
Foreclosed assets held for sale, net	19,834	38,362
Premises and equipment, net	14,232	13,836
Investment in LLCs	17,748	17,799
Deferred income tax asset, net	17,236	14,758
Income taxes receivable	14,291	--
Other assets	12,475	16,618
	-----	-----
	\$ 1,256,998	1,434,196
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 881,987	866,559
Brokered deposit accounts	--	66,894
Advances from Federal Home Loan Bank	189,000	286,000
Subordinated debentures	25,774	25,774
Escrows	7,430	11,149
Income taxes payable	--	504
Accrued expenses and other liabilities	8,232	9,554
	-----	-----
Total liabilities	1,112,423	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	16,640	16,603
Retained earnings	164,521	187,674
Treasury stock, at cost;		
1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive income	353	424
	-----	-----
Total stockholders' equity	144,575	167,762
	-----	-----
	\$ 1,256,998	1,434,196
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

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

Three months ended  
June 30,

Nine months ended  
June 30,

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	2011	2010	2011	2010
Interest on loans receivable	\$ 16,339	19,804	50,605	59,671
Interest on mortgage-backed securities	601	829	1,730	2,492
Interest and dividends on securities	1,116	229	2,954	1,164
Other interest income	1	2	7	10
<b>Total interest income</b>	<b>18,057</b>	<b>20,864</b>	<b>55,296</b>	<b>63,337</b>
Interest on customer and brokered deposit accounts	3,755	4,342	11,903	13,221
Interest on advances from FHLB	1,004	2,468	4,111	8,891
Interest on subordinated debentures	122	124	371	371
<b>Total interest expense</b>	<b>4,881</b>	<b>6,934</b>	<b>16,385</b>	<b>22,483</b>
Net interest income	13,176	13,930	38,911	40,854
Provision for loan losses	68	11,500	49,394	25,500
<b>Net interest income (loss) after provision for loan losses</b>	<b>13,108</b>	<b>2,430</b>	<b>(10,483)</b>	<b>15,354</b>
Other income (loss):				
Loan servicing fees, net	(73)	21	(30)	100
Impairment recovery on mortgage servicing rights	25	6	42	10
Customer service fees and charges	1,256	1,923	5,016	5,354
Provision for loss on real estate owned	--	(1,486)	(11,731)	(1,694)
Gain on sale of securities available for sale	203	867	673	5,519
Gain on sale of securities held to maturity	--	--	411	--
Gain from sale of loans receivable held for sale	5,325	10,682	21,174	24,766
Impairment loss on investments in LLCs	--	--	--	(2,000)
Other	(351)	(491)	(1,837)	(1,019)
<b>Total other income (loss)</b>	<b>6,385</b>	<b>11,522</b>	<b>13,718</b>	<b>31,036</b>
General and administrative expenses:				
Compensation and fringe benefits	4,696	4,890	14,572	13,868
Commission-based mortgage banking compensation	2,364	4,494	10,756	11,845
Premises and equipment	1,082	1,081	3,195	3,128
Advertising and business promotion	1,628	1,316	4,229	4,192
Federal deposit insurance premiums	404	438	1,307	2,110
Other	2,182	2,690	6,823	5,743
<b>Total general and administrative expenses</b>	<b>12,356</b>	<b>14,909</b>	<b>40,882</b>	<b>40,886</b>
Income (loss) before income tax expense	7,137	(957)	(37,647)	5,504
Income tax expense (benefit)	2,748	(497)	(14,494)	1,416
<b>Net income (loss)</b>	<b>\$ 4,389</b>	<b>(460)</b>	<b>(23,153)</b>	<b>4,088</b>
Basic earnings (loss) per share	\$ 0.56	(0.06)	(2.94)	0.52
Diluted earnings (loss) per share	\$ 0.56	(0.06)	(2.94)	0.52

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Basic weighted average shares outstanding      7,867,614      7,867,614      7,867,614      7,867,614

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 loss	--	--	(23,153)	--	--	(23,
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	(71)	----
Total comprehensive loss						(23,
Stock based compensation expense	--	37	--	--	--	
Balance at June 30, 2011	\$ 1,479	16,640	164,521	(38,418)	353	144,

Nine months ended  
 June 30, 2011  
 -----  
 (Dollars in thousands)

Reclassification Disclosure:

Unrealized gain on available for sale securities, net of income taxes of \$215	\$      343
Reclassification adjustment for gain included in net income, net of income taxes of \$259	(414)
	-----
Change in unrealized gain (loss) on available for sale securities, net of income tax of \$(44)	\$      (71)
	=====

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

3

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

	Nine months ended June 30,	
	----- 2011	2010 -----
Cash flows from operating activities:		
Net income (loss)	\$(23,153)	4,088
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,390	1,426
Amortization and accretion, net	(116)	(1,076)
Gain on sale of securities available for sale	(673)	(5,519)
Gain on sale of securities held to maturity	(411)	--
Loss from investment in LLCs	57	60
Impairment loss on investment in LLCs	--	2,000
Impairment recovery on mortgage servicing rights	(42)	(10)
Gain from loans receivable held for sale	(21,174)	(24,766)
Provision for loan losses	49,394	25,500
Provision for loss on real estate owned	11,731	1,694
Origination of loans receivable held for sale	(1,229,443)	(1,183,591)
Sale of loans receivable held for sale	1,352,568	1,151,133
Stock based compensation - stock options	37	59
Changes in:		
Net fair value of loan-related commitments	1,354	451
Accrued interest receivable	267	952
Prepaid and accrued expenses, other liabilities and income taxes receivable and payable	(15,862)	(15,147)
Net cash provided by (used in) operating activities	----- 125,924	(42,746) -----
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	11,871	8,338
Available for sale	159	3,681
Principal repayments of investment securities		
Held to maturity	166	53
Available for sale	8,198	5
Principal repayments of mortgage loans receivable held for investment	131,596	176,391
Principal repayments of other loans receivable	4,222	4,297
Loan origination - mortgage loans receivable held for investment	(104,550)	(84,415)
Loan origination - other loans receivable	(2,346)	(1,969)
Purchase of mortgage loans receivable held for investment	(1,219)	(1,002)
Proceeds from sale of Federal Home Loan Bank stock	5,882	9,209

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Purchase of mortgage backed securities held to maturity	(8,768)	(54,806)
Purchase of investment securities available for sale	(71,259)	(28,923)
Proceeds from sale of investment securities held to maturity	1,491	--
Proceeds from sale of investment securities available for sale	26,916	46,379
Proceeds from sale of mortgage-backed securities available for sale	--	47,122
Proceeds from sale of real estate owned	18,983	8,707
Purchases of premises and equipment, net	(1,785)	(992)
Investment in LLCs	(6)	(6)
Other	(141)	(258)
	-----	-----
Net cash provided by investing activities	19,410	131,811

4

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

	Nine months ended June 30,	
	2011	2010
	-----	-----
Cash flows from financing activities:		
Net decrease in customer and brokered deposit accounts	(51,499)	(45,525)
Proceeds from advances from Federal Home Loan Bank	56,000	48,000
Repayment on advances from Federal Home Loan Bank	(153,000)	(140,000)
Cash dividends paid	--	(3,540)
Change in escrows	(3,719)	(1,740)
	-----	-----
Net cash used in financing activities	(152,218)	(142,805)
	-----	-----
Net decrease in cash and cash equivalents	(6,884)	(53,740)
Cash and cash equivalents at beginning of the period	14,033	63,250
	-----	-----
Cash and cash equivalents at end of period	\$ 7,149	9,510
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 2,728	12,221
Cash paid for interest	16,524	23,748
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 31,148	40,992
Conversion of real estate owned to loans receivable	4,220	344
Capitalization of originated mortgage servicing rights	--	5
Transfer of securities from held to maturity to		

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

available for sale

--

4,360

See accompanying notes to condensed consolidated financial statements.

5

### (1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature, except for the adoption of the amendments in Accounting Standards Update No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, and a change in methodology for valuing residential development real estate related assets, which are described in Footnote 2 and Footnote 8 to the condensed consolidated financial statements. 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 for the year ended September 30, 2010, filed with the Securities and Exchange Commission on December 14, 2010. Operating results for the nine month period ended June 30, 2011, 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, and valuation of mortgage servicing rights. Following the early adoption of Accounting Standards Update ("ASU") No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, and a change in methodology in valuing residential development real estate related assets, which are described more fully in Footnote 2 and Footnote 8 of the condensed consolidated financial statements, management believes that these allowances are adequate at June 30, 2011; however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involve the more significant judgments and assumptions used in the preparation of the condensed consolidated financial statements as of June 30, 2011. These policies relate to the allowance for loan losses, the valuation of derivative instruments, and the valuation of equity method investments.



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

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. With the exception of the early adoption of ASU 2011-02 and the change in methodology in valuing residential development real estate related assets, noted above, these policies have remained unchanged from September 30, 2010.

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

### (2) RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which clarifies the guidance on how creditors evaluate whether a restructuring of debt qualifies as a Troubled Debt Restructuring ("TDR"). Examples of restructurings include an extension of a loan's maturity date, a reduction in the interest rate, forgiveness of a debt's face amount and/or accrued interest, and a deferral or decrease in payments for a period of time. The amendments clarify the definition of a TDR in ASC 310-40, which provides that a debt restructuring is considered a TDR if the creditor, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The framework for evaluating a restructuring requires that a creditor determine if both of the following conditions are met: 1) the borrower is experiencing financial difficulties, and 2) the restructuring includes a concession by the creditor to the borrower.

For public companies, this standard is effective for the first interim or annual period beginning on or after June 15, 2011. The Company early adopted the ASU in its second fiscal quarter, as permitted by the standard.

6

As a result of adopting the amendments in ASU 2011-02, the Company reassessed all restructurings that occurred on or after October 1, 2010, the beginning of the current fiscal year, for identification as TDRs. The Company identified as TDRs certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as TDRs, the Company identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of impairment measured in accordance with the guidance of ASC 310-10-35 for the receivables that are newly identified as impaired. The early adoption of the ASU resulted in a significant increase in the number of loans within its construction and land development portfolios that are considered TDRs and had a substantially material impact on the Company's financial statements for the periods ended March 31, 2011. At March 31, 2011, the period of adoption, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under ASC 310-10-35 was \$28.1 million, and the resulting allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$8.0 million. In addition, the Company identified loans with a recorded

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

investment of \$6.7 million which were previously deemed impaired under the guidance in ASC 310-10-35, but were not considered TDRs. As a result of adopting the amendments in ASU 2011-02, these loans were identified as TDRs and the resulting increase in the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$3.3 million.

### (3) RECONCILIATION OF BASIC EARNINGS (LOSS) PER SHARE TO DILUTED EARNINGS (LOSS) PER SHARE

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

	Three months ended		Nine months ended	
	6/30/11	6/30/10	6/30/11	6/30/10
Net income (loss) (in thousands)	\$ 4,389	(460)	(23,153)	4,088
Average common shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
Average common share stock options outstanding	--	--	--	--
Average diluted common shares	7,867,614	7,867,614	7,867,614	7,867,614
Earnings (loss) per share:				
Basic	\$ 0.56	(0.06)	(2.94)	0.52
Diluted	0.56	(0.06)	(2.94)	0.52

At June 30, 2011 and 2010, 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.

### (4) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at June 30, 2011. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 38,473	528	69	38,932
Trust preferred securities	25,572	470	390	25,652

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Municipal securities	18	--	--	18
	-----			
Total	\$ 64,063	995	459	64,602
	=====			

7

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

During the nine month period ended June 30, 2011, the Company realized gross gains of \$673,000 and no gross losses on the sale of securities available for sale. The Company realized gross gains of \$4.1 million and no gross losses on the sale of securities available for sale during the nine month period ended June 30, 2010.

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 June 30, 2011. 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	\$ 16,116	69	\$ --	--
Trust preferred securities	7,871	390	--	--
	-----			
Total	\$ 23,987	459	\$ --	--
	=====			

The scheduled maturities of securities available for sale at June 30, 2011, 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	\$ 6	--	--	6

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Due from one to five years	12	--	--	12
Due from five to ten years	38,473	528	69	38,932
Due after ten years	25,572	470	390	25,652
	-----			
Total	\$ 64,063	998	459	64,602
	=====			

(5) SECURITIES HELD TO MATURITY

There were no securities held to maturity at June 30, 2011. 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
	=====			

8

During the nine month period ended June 30, 2011, the Bank recognized a gain of \$411,000 on the sale of an asset backed security which was classified as held to maturity. The security, which was secured by a pool of trust preferred securities issued by various banks, had an amortized cost of \$1.1 million at the time of sale. The decision was made to sell the security after it was determined that there was significant deterioration in the issuer's creditworthiness. There were no dispositions of securities held to maturity during the nine month period ended June 30, 2010.

(6) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at June 30, 2011. 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	\$ 88	1	--	89
Pass-through certificates guaranteed by FNMA				
- adjustable rate	176	5	--	181
FHLMC participation certificates:				

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

- fixed rate	290	24	--	314
- adjustable rate	147	5	--	152
-----				
Total	\$ 701	35	--	736
=====				

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 nine month periods ended June 30, 2011 and 2010.

The scheduled maturities of mortgage-backed securities available for sale at June 30, 2011, 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	\$ 140	11	--	151
Due from five to ten years	150	13	--	163
Due after ten years	411	11	--	422
-----				
Total	\$ 701	35	--	736
=====				

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.

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

### (7) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at June 30, 2011. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 46	6	--	52
FNMA pass-through certificates:				
Fixed rate	6	--	--	6
Balloon maturity and adjustable rate	28	--	--	28
Collateralized mortgage obligations	43,052	15	518	42,549
Total	\$ 43,132	21	518	42,635

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

There were no sales of mortgage-backed securities held to maturity during the nine month periods ended June 30, 2011 and 2010.

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities held to maturity which had unrealized losses at June 30, 2011. Dollar amounts are expressed in thousands.

Less than 12 months		12 months or longer	
Estimated fair	Gross unrealized	Estimated fair	Gross unrealized

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	value	losses	value	losses
Collateralized mortgage obligations	\$ 36,132	518	\$ --	--
Total	\$ 36,132	518	\$ --	--

10

The scheduled maturities of mortgage-backed securities held to maturity at June 30, 2011, 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	\$ 6	--	--	6
Due from five to ten years	3,756	6	107	3,655
Due after ten years	39,370	15	411	38,974
Total	\$ 43,132	21	518	42,635

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

(8) LOANS RECEIVABLE

The Bank has traditionally concentrated its lending activities on mortgage loans secured by residential and business property and, to a lesser extent, development lending. The residential mortgage loans originated have predominantly long-term fixed and adjustable rates. The Bank also has a portfolio of mortgage loans that are secured by multifamily, construction, development, and commercial real estate properties. The remaining part of North American's loan portfolio consists of non-mortgage commercial loans and installment loans. The following table presents the Bank's total loans receivable at June 30, 2011. Dollar amounts are expressed in thousands.

LOANS HELD FOR INVESTMENT:

Mortgage loans:

Permanent loans on:

Residential properties	\$ 336,636
Business properties	427,428
Partially guaranteed by VA or insured by FHA	3,791
Construction and development	201,514
Total mortgage loans	969,369
Commercial loans	78,344
Installment loans to individuals	9,697

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

Total loans held for investment	1,057,410
Less:	
Undisbursed loan funds	(26,196)
Unearned discounts and fees and costs on loans, net	(6,925)
	-----
Net loans held for investment	\$1,024,289
	=====
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 116,256
Less:	
Undisbursed loan funds	(38,362)
	-----
Net loans held for sale	\$ 77,894
	=====

Included in the loans receivable balances at June 30, 2011, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of \$10.2 million. Loans and participations serviced for others amounted to approximately \$67.6 million at June 30, 2011.

11

### Lending Practices and Underwriting Standards

Residential real estate loans - The Bank offers a range of residential loan programs, including programs offering loans guaranteed by the Veterans Administration ("VA") and loans insured by the Federal Housing Administration ("FHA"). The Bank's residential loans come from several sources. The loans that the Bank originates are generally a result of direct solicitations of real estate brokers, builders, developers, or potential borrowers via the internet. North American periodically purchases real estate loans from other financial institutions or mortgage bankers.

The bank's residential real estate loan underwriters are grouped into three different levels, based upon each underwriter's experience and proficiency. Underwriters within each level are authorized to approve loans up to prescribed dollar amounts. Any loan over \$1 million must also be approved by either the CEO or the EVP/Chief Credit Officer. Conventional residential real estate loans are underwritten using FNMA's Desktop Underwriter or FHLMC's Loan Prospector automated underwriting systems, which analyze credit history, employment and income information, qualifying ratios, asset reserves, and loan-to-value ratios. If a loan does not meet the automated underwriting standards, it is underwritten manually. Full documentation to support each applicant's credit history, income, and sufficient funds for closing is required on all loans. An appraisal report, performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser, is required for all loans. Typically, the Bank requires borrowers to purchase private mortgage insurance when the loan-to-value ratio exceeds 80%.



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

NASB originates Adjustable Rate Mortgages (ARMs), which fully amortize and typically have initial rates that are fixed for one to seven years before becoming adjustable. Such loans are underwritten based on the initial interest rate and the borrower's ability to repay based on the maximum first adjustment rate. Each underwriting decision takes into account the type of loan and the borrower's ability to pay at higher rates. While lifetime rate caps are taken into consideration, qualifying ratios may not be calculated at this level due to an extended number of years required to reach the fully-indexed rate. NASB does not originate any hybrid loans, such as payment option ARMs, nor does the Bank originate any subprime loans, generally defined as high risk or loans of substantially impaired quality.

At the time a potential borrower applies for a residential mortgage loan, it is designated as either a portfolio loan, which is held for investment and carried at amortized cost, or a loan held-for-sale in the secondary market and carried at fair value. All the loans on single family property that the Bank holds for sale conform to secondary market underwriting criteria established by various institutional investors. All loans originated, whether held for sale or held for investment, conform to internal underwriting guidelines, which consider, among other things, a property's value and the borrower's ability to repay the loan.

Construction and development loans - Construction and land development loans are made primarily to builders/developers, who construct properties for resale. The Bank originates both fixed and variable rate construction loans, and most are due and payable within one year. In some cases, extensions are permitted if payments are current and construction has progressed satisfactorily.

The Bank's requirements for a construction loan are similar to those of a mortgage on an existing residence. In addition, the borrower must submit accurate plans, specifications, and cost projections of the property to be constructed. All construction and development loans are manually underwritten using NASB's internal underwriting standards. All construction and development loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Construction Lending. The bank has adopted internal loan-to-value limits consistent with regulations, which are 65% for raw land, 75% for land development, and 85% for residential and non-residential construction. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Generally, the Bank will commit to an initial term of 12 to 18 months on construction loans, and an initial term of 24 to 48 months on land acquisition and development loans, with six month renewals thereafter. Interest rates on construction loans typically adjust daily and are tied to a predetermined index. NASB's staff regularly performs inspections of each property during its construction phase to ensure adequate progress is achieved before making scheduled loan disbursements.

When construction and development loans mature, the Bank typically considers extensions for short, six-month term periods. This allows the Bank to more frequently evaluate the loan, including creditworthiness and current market conditions and, if management believes it's in the best interest of the Company, to modify the terms accordingly. This portfolio consists primarily of assets with rates tied to the prime rate and, in most cases, the conditions for loan renewal include an interest

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

rate "floor" in accordance with the market conditions that exist at the time of renewal.

During the nine month period ended June 30, 2011, the Bank renewed a large number of loans within its construction and land development portfolio due to slower home and lot sales in the current economic environment. Such extensions were accounted for as Troubled Debt Restructurings ("TDRs") if the restructuring was related to the borrower's financial difficulty, and if the Bank made concessions that it would not otherwise consider. In order to determine whether or not a renewal should be accounted for as a TDR, management reviewed the borrower's current financial information, including an analysis of income and liquidity in relation to debt service requirements. The large majority of these modifications did not result in a reduction in the contractual interest rate or a write-off of the principal balance (although the Bank does commonly require the borrower to make a principal reduction at renewal).

Commercial real estate loans - The Bank purchases and originates several different types of commercial real estate loans. Permanent multifamily mortgage loans on properties of 5 to 36 dwelling units have a 50% risk-weight for risk-based capital requirements if they have an initial loan-to-value ratio of not more than 80% and if their annual average occupancy rate exceeds 80%. All other performing commercial real estate loans have 100% risk-weights.

The Bank's commercial real estate loans are secured primarily by multi-family and nonresidential properties. Such loans are manually underwritten using NASB's internal underwriting standards, which evaluate the sources of repayment, including the ability of income producing property to generate sufficient cash flow to service the debt, the capacity of the borrower or guarantors to cover any shortfalls in operating income, and, as a last resort, the ability to liquidate the collateral in such a manner as to completely protect the Bank's investment. All commercial real estate loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Commercial Lending. Typically, loan-to-value ratios do not exceed 80%; however, exceptions may be made when it is determined that the safety of the loan is not compromised, and the rationale for exceeding this limit is clearly documented. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Interest rates on commercial loans may be either fixed or tied to a predetermined index and adjusted daily.

The Bank typically obtains full personal guarantees from the primary individuals involved in the transaction. Guarantor's financial statements and tax returns are reviewed annually to determine their continuing ability to perform under such guarantees. The Bank typically pursues repayment from guarantors when the primary source of repayment is not sufficient to service the debt. However, the Bank may decide not to pursue a guarantor if, given the guarantor's financial condition, it is likely that the estimated legal fees would exceed the probable amount of any recovery. Although the Bank does not typically release guarantors from their obligation, the Bank may decide to delay the decision to pursue civil enforcement of a deficiency judgment.

At least once during each calendar year, a review is prepared for each loan included in a borrower relationship in excess of \$5 million and for each individual loan over \$1 million. Collateral inspections are obtained on an annual basis for each loan over \$1 million, and on a triennial basis for each loan between \$500 thousand and \$1 million.

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

Financial information, such as tax returns, is requested annually for all commercial real estate loans over \$500 thousand, which is consistent with industry practice, and the Bank believes it has sufficient monitoring procedures in place to identify potential problem loans. A loan is deemed impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Any loans deemed impaired, regardless of their balance, are reviewed by management at the time of the impairment determination, and monitored on a quarterly basis thereafter, including calculation of specific valuation allowances, if applicable.

Installment Loans - These loans consist primarily of loans on savings accounts and consumer lines of credit that are secured by a customer's equity in their primary residence.

13

### Allowance for Loan Losses

The Allowance for Loan and Lease Losses ("ALLL") recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. ALLLs are established by charges to the provision for loan losses and carried as contra assets. Management analyzes the adequacy of the allowance on a quarterly basis and appropriate provisions are made to maintain the ALLLs at adequate levels. At any given time, the ALLL should be sufficient to absorb at least all estimated credit losses on outstanding balances over the next twelve months. While management uses information currently available to determine these allowances, they can fluctuate based on changes in economic conditions and changes in the information available to management. Also, regulatory agencies review the Bank's allowances for loan loss as part of their examination, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

The ALLL is determined based upon two components. The first is made up of specific reserves for loans which have been deemed impaired in accordance with Generally Accepted Accounting Principles ("GAAP"). The second component is made up of general reserves for loans that are not impaired. 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. 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 allowance equal to the amount of measured impairment.

Loans that are not impaired are evaluated based upon the Bank's historical loss experience, as well as various subjective factors, to estimate potential unidentified losses within the various loan portfolios. These loans are categorized into pools based upon certain characteristics such as loan type, collateral type and repayment source. The Bank's loss history is analyzed in terms of loss frequency and loss severity. Loss frequency represents the likelihood of loans not repaying in accordance with their original terms, which would result in the foreclosure and subsequent liquidation of the property. Loss

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

severity represents any potential loss resulting from the loan's foreclosure and subsequent liquidation. Management calculates estimated loss frequency and loss severity ratios for each loan pool. In addition to analyzing historical losses, the Bank also evaluates the following subjective factors for each loan pool to estimate future losses: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in management and other relevant staff, changes in the volume and severity of past due loans, changes in the quality of the Bank's loan review system, changes in the value of the underlying collateral for collateral dependent loans, changes in the level of lending concentrations, and changes in other external factors such as competition and legal and regulatory requirements. Historical loss ratios are adjusted accordingly, based upon the effect that the subjective factors have in estimated future losses. These adjusted ratios are applied to the balances of the loan pools to determine the adequacy of the ALLL each quarter.

During the quarter ended March 31, 2011, the Company adopted ASU 2011-02, as more fully described in Footnote 2 of the condensed consolidated financial statements. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired. As a result of adopting ASU 2011-02, the Company reassessed all restructurings that occurred on or after October 1, 2010, the beginning of our current fiscal year, for identification as TDRs. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as TDRs, the Company identified them as impaired under the guidance in Section 310-10-35. At the end of March 31, 2011, the period of adoption, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under ASC 310-10-35 was \$28.1 million, and the resulting increase in the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$8.0 million. In addition, the Company identified loans with a recorded investment of \$6.7 million which were previously deemed impaired under the guidance in ASC 310-10-35, but were not considered TDRs. As a result of adopting the amendments in ASU 2011-02, these loans were identified as TDRs and the resulting increase in the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$3.3 million.

14

In addition to the adoption of ASU 2011-02, and in connection with the determination of impairment, the Company performed a review of 1) its historical residential development loan foreclosures since 2008; 2) the realized sale prices versus both original and subsequent appraisals; 3) the valuation trends in unsold foreclosed assets; and 4) factors affecting the current outlook for real estate development loans for the foreseeable future. Given the current adverse economic environment and negative outlook in the residential development real estate market, the Company reassessed its methodology for the valuation of loans in its real estate development portfolio and adopted a change in methodology for their valuation as of March 31, 2011, that applies downward "qualitative" adjustments to the real estate appraised values for residential development loans that are deemed impaired. We believe that these qualitative appraisal adjustments more accurately reflect real

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

estate values in light of the sales experience and economic conditions that we have recently observed. This change in methodology increased the provision for loan losses by \$18.3 million during the quarter ended March 31, 2011.

Based upon the significant increase in foreclosure frequency and loss severity ratios within the Bank's portfolios and other qualitative factors related to the current economic conditions, the Bank increased its general component of allowance for loan losses during the nine month period ended June 30, 2011. The balance of general reserves in the allowance for loan losses increased to \$30.2 million, from \$17.4 million at June 30, 2010. During the same time period, the balance of loans receivable held to maturity decreased from \$1,129.9 million at June 30, 2010, to \$1,024.3 million at June 30, 2011. The Bank does not routinely obtain updated appraisals for their collateral dependent loans that are not adversely classified. However, when analyzing the adequacy of its allowance for loan losses, the Bank considers potential changes in the value of the underlying collateral for such loans as one of the subjective factors used to estimate future losses in the various loan pools.

The following table presents the activity in the allowance for losses on loans for the period ended June 30, 2011. 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	49,394
Charge-offs	(10,182)
Recoveries	336
	-----
Balance at June 30, 2011	\$ 71,864
	=====

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 June 30, 2011. 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	3,535	1	5,255	33,750	5,721	1,132
Losses charged off	(1,290)	--	(1,510)	(6,949)	(91)	(342)
Recoveries	--	--	--	327	--	9
Balance at June 30, 2011	\$ 6,672	11	10,453	46,146	6,645	1,937
Balance at April 1, 2011	\$ 10,013	9	7,869	48,287	6,007	1,262

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Provision for loan losses	(2,775)	2	2,722	(1,285)	729	675
Losses charged off	(566)	--	(138)	(1,106)	(91)	--
Recoveries	--	--	--	250	--	--
Balance at June 30, 2011	\$ 6,672	11	10,453	46,146	6,645	1,937

15

Ending balance of allowance for loan losses related to loans:						
Individually evaluated for impairment	\$ 1,570	11	3,187	31,989	4,049	832
Collectively evaluated for impairment	\$ 5,102	--	7,266	14,158	2,596	1,104
Acquired with deteriorated credit quality	\$ 28	--	--	--	--	--

Loans:

Balance at June 30, 2011	\$ 336,368	77,894	422,993	177,325	77,937	9,666
--------------------------	------------	--------	---------	---------	--------	-------

Ending Balance:

Loans individually evaluated for impairment	\$ 11,353	11	11,297	114,981	8,725	893
Loans collectively evaluated for impairment	\$ 325,015	77,883	411,696	62,344	69,212	8,773
Loans acquired with deteriorated credit quality	\$ 2,701	--	--	--	--	--

Classified Assets, Delinquencies, and Non-accrual Loans

Classified assets - In accordance with the asset classification system outlined by the OTS, North American's problem assets are classified with risk ratings of either "substandard," "doubtful," or "loss." An asset is considered substandard if it is inadequately protected by the borrower's ability to repay, or the value of collateral. Substandard assets include those characterized by a possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have the same weaknesses of those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of such little value that their existence without establishing a specific loss allowance is

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

not warranted.

In addition to the risk rating categories for problem assets noted above, loans may be assigned a risk rating of "pass," "pass-watch," or "special mention." The pass category includes loans with borrowers and/or collateral that is of average quality or better. Loans in this category are considered average risk and satisfactory repayment is expected. Assets classified as pass-watch are those in which the borrower has the capacity to perform according to the terms and repayment is expected. However, one or more elements of uncertainty exist. Assets classified as special mention have a potential weakness that deserves management's close attention. If left undetected, the potential weakness may result in deterioration of repayment prospects.

The early adoption of ASU 2011-02 during the quarter ended March 31, 2011, and the prospectively applied impairment caused an increase in loans considered TDRs, which also increased the assets classified as "substandard." The increase in TDRs, and related increase in loan loss provision, are discussed in Footnote 2 to the condensed consolidated financial statements.

16

Each quarter, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of June 30, 2011. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Commercial Construction/ Development	Commercial	Commercial Installment
Rating:						
Pass	\$ 318,500	77,883	362,856	37,982	43,158	8,772
Pass - Watch	2,392	--	16,708	14,866	--	--
Special Mention	1,272	--	26,099	1,771	26,055	--
Substandard	12,634	--	14,143	90,717	4,675	62
Doubtful	--	--	--	--	--	--
Loss	1,570	11	3,187	31,989	4,049	832
Total	\$ 336,368	77,894	422,993	177,325	77,937	9,666

The following table presents the Company's loan portfolio aging analysis as of June 30, 2011. Dollar amounts are expressed in thousands.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Residential	\$ 3,298	1,390	10,648	15,336	321,032	336,368
Residential held for sale	3	3	13	19	77,875	77,894
Commercial real estate	126	--	5,935	6,061	416,932	422,993
Construction & development	--	--	17,747	17,747	159,578	177,325
Commercial	--	--	7,903	7,903	70,034	77,937
Installment	30	26	242	298	9,368	9,666
<b>Total</b>	<b>\$ 3,457</b>	<b>1,419</b>	<b>42,488</b>	<b>47,364</b>	<b>1,054,819</b>	<b>1,102,183</b>

When a loan becomes 90 days past due, the Bank stops accruing interest and establishes a reserve for the interest accrued-to-date. The following table presents the Company's nonaccrual loans at June 30, 2011. This table does not include purchased impaired loans or troubled debt restructurings that are performing. Dollar amounts are expressed in thousands.

Residential	\$ 10,648
Residential held for sale	13
Commercial real estate	5,935
Construction & development	17,747
Commercial	7,903
Installment	242
<b>Total</b>	<b>\$ 42,488</b>

17

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.



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

During the nine month period ended June 30, 2011, the Company modified two residential loans, with a recorded investment of \$416,000 prior to modification, which were deemed TDRs. The modifications, which lowered the interest rate and extended the maturity date, resulted in specific loss allowances of \$21,000 based upon the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement. In addition, the Company modified one commercial real estate loan during the period, which had a recorded investment of \$3.2 million prior to modification and was deemed a TDR. The Bank lowered the interest rate, extended the maturity for five years, and disbursed additional funds for improvements to the property. Prior to modification, this loan was considered impaired and collateral dependant and had been written down to the fair value of the collateral, less costs to sell. Also during the period ended June 30, 2011, the Company modified ninety land development loans, with a recorded investment of \$97.6 million prior to modification, which were deemed TDRs. These modifications were the result of extensions, typically for a six-month period, and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. Such loans are considered collateral dependent, and the modifications resulted in specific loss allowances of \$24.6 million, based upon the fair value of the collateral. Specific loss allowances are included in the calculation of estimated future loss ratios, which are applied to the various loan portfolios for purposes of estimating future losses. TDRs secured by residential properties with a recorded investment of \$395,000, TDRs secured by commercial properties with a recorded investment of \$3.2 million, and TDRs secured by land development properties with a recorded investment of \$8.9 million defaulted during the period ended June 30, 2011. Management considers the level of defaults within the various portfolios when evaluating qualitative adjustments used to determine the adequacy of the Allowance for Loan and Lease Losses.

The following table presents the recorded balance of troubled debt restructurings as of June 30, 2011. Dollar amounts are expressed in thousands.

Troubled debt restructurings:	
Residential	\$ 4,192
Residential held for sale	--
Commercial real estate	3,794
Construction & development	74,213
Commercial	--
Installment	--
	-----
Total	\$ 82,199
	=====

Performing troubled debt restructurings:	
Residential	\$ 631
Residential held for sale	--
Commercial real estate	3,794
Construction & development	68,076
Commercial	--
Installment	--
	-----
Total	\$ 72,501
	=====

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

The following table presents impaired loans, including troubled debt restructurings, as of June 30, 2011. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	QTD Average Investment in Impaired Loans
-----					
Loans without a specific valuation allowance:					
-----					
Residential	\$ 5,751	5,804	--	5,743	5,755
Residential held for sale	--	--	--	--	--
Commercial real estate	--	--	--	--	--
Construction & development	27,608	27,610	--	26,744	25,998
Commercial	--	--	--	--	--
Installment	--	--	--	--	--
Loans with a specific valuation allowance:					
-----					
Residential	\$ 4,032	5,722	1,570	4,683	4,092
Residential held for sale	--	11	11	10	10
Commercial real estate	8,109	11,336	3,187	9,336	8,515
Construction & development	55,384	87,417	31,989	68,925	52,675
Commercial	4,675	8,801	4,049	6,525	4,676
Installment	62	896	832	272	71
Total:					
-----					
Residential	\$ 9,783	11,526	1,570	10,426	9,847
Residential held for sale	--	11	11	10	10
Commercial real estate	8,109	11,336	3,187	9,336	8,515
Construction & development	82,992	115,027	31,989	95,669	78,673
Commercial	4,675	8,801	4,049	6,525	4,676
Installment	62	896	832	272	71

### (9) FORECLOSED ASSETS HELD FOR SALE

Real estate owned and other repossessed property consisted of the following at June 30, 2011. Dollar amounts are expressed in thousands.

Real estate acquired through (or deed

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

in lieu of) foreclosure	\$ 31,622
Less: allowance for losses	(11,788)
	-----
Total	\$ 19,834
	=====

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

In determining fair values of foreclosed assets, the Company performed a review of 1) its historical residential development loan foreclosures since 2008; 2) the realized sale prices versus both original and subsequent appraisals; 3) the valuation trends in unsold foreclosed assets; and 4) factors affecting the current outlook for real estate development loans for the foreseeable future. Given the current adverse economic environment and negative outlook in the residential development real estate market, as of March 31, 2011, the Company reassessed its methodology for the valuation of assets in its real estate development portfolio and adopted a change in methodology for the valuation of the portfolio that applies downward "qualitative" adjustments to the real estate appraised values for foreclosed development properties. We believe that these qualitative appraisal adjustments more accurately reflect real estate values in light of the sales experience and economic conditions that we have recently observed. This change in methodology increased the provision for loss on REO by \$7.2 million during the quarter ended March 31, 2011.

19

(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.

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

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

### (11) INCOME TAXES

The Company's federal and state income tax returns for fiscal years 2008 through 2010 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

### (12) SEGMENT INFORMATION

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

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

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

Three months ended June 30, 2011	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 13,293	--	(117)	13,176
Provision for loan losses	--	--	68	68
Other income	901	5,908	(424)	6,385
General and administrative expenses	6,096	6,498	(238)	12,356
Income tax expense	3,118	(227)	(143)	2,748
Net income	\$ 4,980	(363)	(228)	4,389

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

20

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

Nine months ended June 30, 2011	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 39,256	--	(345)	38,911
Provision for loan losses	49,326	--	68	49,394
Other income	(9,047)	23,799	(1,034)	13,718
General and administrative expenses	17,443	23,941	(502)	40,882
Income tax expense (benefit)	(14,076)	(55)	(363)	(14,494)
Net income (loss)	\$ (22,484)	(87)	(582)	(23,153)

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

(13) DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. As the Company enters into commitments to originate loans, it also enters into commitments to sell the loans in the secondary market. Such commitments to originate loans held for sale are considered derivative instruments in accordance with GAAP, which requires the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$33,000, an increase in other liabilities of \$661,000, and a decrease in other income of \$627,000 for the quarter ended June 30, 2011. The Company recorded a decrease in other assets of \$1.9 million, an increase in other liabilities of \$553,000, and a decrease in other income of \$2.4 million for the nine month period ended June 30, 2011.

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 \$328,000, an increase in other liabilities of \$99,000, and an increase in other income of \$229,000 during the quarter ended June 30, 2011. The Company recorded an increase in other assets of \$90,000, a decrease in other liabilities of \$986,000, and an increase in other income of \$1.1 million during the nine month period ended June 30, 2011.

The balance of derivative instruments related to commitments to originate and sell loans at June 30, 2011, is disclosed in Footnote 14, Fair Value Measurements.

21

(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

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

objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

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

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

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

### Available for sale securities

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

Mortgage-backed available for sale securities are valued by using broker dealer quotes for similar assets in markets that are not active. Such quotes are based on actual transactions for similar assets. Although the Company does not validate these quotes, they are reviewed by management for reasonableness in relation to current market conditions. Additionally, they are obtained from experienced brokers who have an established relationship with the Bank and deal regularly with these types of securities. The Company does not make any adjustment to the quotes received from broker dealers. These measurements are classified as Level 2.

### Loans held for sale

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

## Mortgage Servicing Rights

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

## 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 and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at June 30, 2011 (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 \$	38,932	38,932	--	--
Trust preferred securities	25,652	25,652	--	--
Municipal securities	18	18	--	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA - fixed rate	89	--	89	--
Pass through certificates guaranteed by FNMA - adjustable rate	181	--	181	--
FHLMC participation certificates:				
Fixed rate	314	--	314	--
Adjustable rate	152	--	152	--
Loans held for sale	77,894	--	77,894	--



Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Mortgage servicing rights	99	--	--	99
Commitments to originate loans	300	--	--	300
Forward sales commitments	993	--	--	993
Total assets	\$ 144,624	64,602	78,630	1,392
Liabilities:				
Commitments to originate loans	\$ 1,183	--	--	1,183
Forward sales commitments	156	--	--	156
Total liabilities	\$ 1,339	--	--	1,339

23

The following table presents the fair value measurements of assets and liabilities 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)
Assets:				
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
Total assets	\$ 212,190	28,092	180,756	3,342

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Liabilities:

Commitments to originate loans	\$ 630	--	--	630
Forward sales commitments	1,142	--	--	1,142
<hr/>				
Total liabilities	\$ 1,772	--	--	1,772
<hr/>				

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the nine month periods ended June 30, 2011 and 2010 (in thousands):

	Mortgage Servicing Rights	Commitments to Originate Loans	Forward Sales Commitments
<hr/>			
Balance at October 1, 2010	\$ 263	1,547	(240)
Total realized and unrealized gains (losses):			
Included in net income	(164)	(2,430)	1,077
<hr/>			
Balance at June 30, 2011	\$ 99	(883)	837
<hr/>			

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

## 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 nine month period ended June 30, 2011, 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)	\$ (206)	42	(1,354)
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	\$ --	--	--

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

### Impaired loans

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

The carrying value of impaired loans that were re-measured during the nine month period ended June 30, 2011, was \$102.3 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 \$19.8 million at June 30, 2011. Charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the nine month period ended June 30, 2011, totaled \$10.6

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

million.

### Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. These investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company 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 \$17.7 million at June 30, 2011.

25

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

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

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

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.

	June 30, 2011		September 30, 2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 7,149	7,149	14,033	14,033
Securities held to maturity	--	--	1,232	1,561
Stock in Federal Home Loan Bank	9,991	9,991	15,873	15,873
Mortgage-backed securities held to maturity	43,132	42,635	46,276	46,300
Loans receivable held for investment	952,425	963,511	1,041,041	1,043,886
<b>Financial Liabilities:</b>				
Customer deposit accounts	\$ 881,987	887,352	866,559	869,941
Brokered deposit accounts	--	--	66,894	66,797
Advances from FHLB	189,000	190,873	286,000	288,061
Subordinated debentures	25,774	10,000	25,774	10,310

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Contract or notional amount	Estimated unrealized gain	Contract or notional amount	Estimated unrealized gain (loss)
Unrecognized financial instruments:				
Lending commitments - fixed rate, net	\$ 10,525	38	6,127	(5)
Lending commitments - floating rate	--	--	417	6
Commitments to sell loans	--	--	--	--

The fair value estimates presented are based on pertinent information available to management as of June 30, 2011, 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 member 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

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

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). 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 June 30, 2011. Dollar amounts are expressed in thousands.

Method 1	\$	15,178
Method 2		16,465
Method 3		18,633
Average of methods 1, 2, and 3	\$	16,759
		=====
Carrying value of investment in Central Platte Holdings, LLC	\$	16,381
		=====

27

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 nine months ended June 30, 2011, 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 June 30, 2011.

### (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

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

date. The agreement requires, among other things, that the Bank revise its policies regarding internal asset review, obtain an independent assessment of its allowance for loan and lease losses methodology and conduct an independent third-party review of a portion of its commercial and construction loan portfolios. The agreement also directs the Bank to provide a plan to reduce its classified assets and its reliance on brokered deposits, and restricts the payment of dividends or other capital distributions by the Bank during the period of the agreement. 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 June 30, 2011, the Company and the subsidiary Bank are in compliance with these regulatory agreements.

28

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

### FORWARD-LOOKING STATEMENTS

We may from time to time make written or oral "forward-looking statements," including statements contained in our filings with the Securities and Exchange Commission ("SEC"). These forward-looking statements may be included in this quarterly report to shareholders and in other communications by the Company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;?
- the effects of, and changes in, foreign and military policy of the



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

United States Government; inflation, interest rate, market and monetary fluctuations;

- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;

- the willingness of users to substitute competitors' products and services for our products and services;

- our success in gaining regulatory approval of our products, services and branching locations, when required;

- the impact of changes in financial services' laws and regulations, including laws concerning taxes, banking, securities and insurance;

- technological changes;

- acquisitions and dispositions;

- changes in consumer spending and saving habits;

- our success at managing the risks involved in our business; and

- changes in the fair value or economic value of, impairments of, and risks associated with the Bank's investments in real estate owned, mortgage backed securities and other assets.

This list of important factors is not all-inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

### 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.

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

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make significant judgments and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has made its best estimates and assumptions that affect the reported assets and liabilities. The most significant assumptions and estimates relate to the allowance of loan losses, the valuation of derivative instruments and the valuation of equity method investments. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

In April 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which clarifies the guidance on how creditors evaluate whether a restructuring of debt qualifies as a Troubled Debt Restructuring ("TDR"). Examples of restructurings include an extension of a loan's maturity date, a reduction in the interest rate, forgiveness of a debt's face amount and/or accrued interest, and a deferral or decrease in payments for a period of time. The amendments clarify the definition of a TDR in ASC 310-40, which provides that a debt restructuring is considered a TDR if the creditor, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The framework for evaluating a restructuring requires that a creditor determine if both of the following conditions are met: 1) the borrower is experiencing financial difficulties, and 2) the restructuring includes a concession by the creditor to the borrower. For public companies, this standard is effective for the first interim or annual period beginning on or after June 15, 2011. The Company early adopted the ASU in its second fiscal quarter, as permitted by the standard.

In addition to the adoption of ASU 2011-02, and in connection with the determination of impairment, the Company performed a review of 1) its historical residential development loan foreclosures since 2008; 2) the realized sale prices versus both original and subsequent appraisals; 3) the valuation trends in unsold foreclosed assets; and 4) factors affecting the current outlook for real estate development loans for the foreseeable future. Given the current adverse economic environment and negative outlook in the residential development real estate market, the Company reassessed its methodology for the valuation of loans in its real estate development portfolio and adopted a change in methodology for their valuation as of March 31, 2011, that applies downward "qualitative" adjustments to the real estate appraised values for residential development loans that are deemed impaired. We believe that these qualitative appraisal adjustments more accurately reflect real estate values in light of the sales experience and economic conditions that we have recently observed.

Our Annual Report on Form 10-K for the year ended September 30, 2010 contains a description of our critical accounting policies. Except as described above, for the nine months ended June 30, 2011, there were no material changes to these policies.

### FINANCIAL CONDITION

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

### ASSETS

The Company's total assets as of June 30, 2011 were \$1,257.0 million, a decrease of \$177.2 million from September 30, 2010, the prior fiscal year end.

Loans receivable held for investment were \$1,024.3 million as of June 30, 2011, a decrease of \$49.1 million during the nine month period. The weighted average rate on such loans as of June 30, 2011, was 6.18%, a decrease from 6.29% as of June 30, 2010.

Loans receivable held for sale as of June 30, 2011, were \$77.9 million, a decrease of \$102.0 million from September 30, 2010, resulting primarily from a decrease in loan origination volume within the Bank's mortgage banking division. 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.

30

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the nine months ended June 30, 2011, the Bank originated and purchased \$1,229.4 million in mortgage loans held for sale, \$105.8 million in mortgage loans held for investment, and \$2.3 million in other loans. This total of \$1,337.5 million in loans compares to \$1,271.0 million in loans originated and purchased during the nine months ended June 30, 2010.

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.

	6/30/11	9/30/10	6/30/10
Asset Classification:			
Substandard	\$ 142,615	142,085	148,440
Doubtful	--	--	300
Loss*	52,876	16,965	18,041
Allowance for losses on loans and real estate	195,491	159,050	166,781

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

owned	(83,652)	(34,643)	(35,395)
	-----	-----	-----
	\$ 111,839	124,407	131,386
	=====	=====	=====

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

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.

	6/30/11	9/30/10	6/30/10
	-----	-----	-----
Total Assets	\$ 1,256,998	1,434,196	1,415,928
	=====	=====	=====
Non-accrual loans (excluding TDRs)	\$ 14,395	29,368	23,189
Troubled debt restructurings	82,199	23,730	18,479
Net real estate and other assets acquired through foreclosure	19,834	38,362	25,120
	-----	-----	-----
Total	\$ 116,428	91,460	66,788
	=====	=====	=====
Percent of total assets	9.26%	6.38%	4.72%
	=====	=====	=====

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 at June 30, 2011. 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 \$64.6 million as of June 30, 2011, an increase of \$35.3 million from September 30, 2010. During the nine month period, the Bank purchased securities of \$71.3 million and sold \$26.9 million of securities available for sale. In addition, the Bank sold \$1.5 million of securities held to maturity following a significant

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

deterioration in the issuer's creditworthiness. The Company realized gross gains of \$1.1 million and no gross losses on the sale of securities during the period.

Mortgage-backed securities were \$43.9 million as of June 30, 2011, a decrease of \$3.3 million from the prior year end. During the nine month period, the Bank purchased mortgage-backed securities of \$8.8 million. There were no sales of mortgage-backed securities available for sale during the nine month period ended June 30, 2011. The average yield on the mortgage-backed securities portfolio was 4.70% at June 30, 2011, a decrease from 4.88% at September 30, 2010.

The Company's investment in LLCs, which is accounted for using the equity method, was \$17.8 million at June 30, 2011, a decrease of \$51,000 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 or NBH, which were \$16.4 million and \$1.4 million at June 30, 2011, respectively.

### LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased \$51.5 million during the nine months ended June 30, 2011. Specifically, customer deposits increased \$15.4 million during the period, primarily due to an increase in retail certificates of deposits resulting from promotions during the period. Brokered deposits decreased \$66.9 million during the period, as a result of the Bank's effort to reduce its reliance on this funding source. The weighted average rate on customer and brokered deposits as of June 30, 2011, was 1.70%, a decrease from 1.98% as of June 30, 2010.

Advances from the FHLB were \$189.0 million as of June 30, 2011, a decrease of \$97.0 million from September 30, 2010. During the nine month period, the Bank borrowed \$56.0 million of new advances and repaid \$153.0 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Subordinated debentures were \$25.8 million as of June 30, 2011. 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 \$7.4 million as of June 30, 2011, a decrease of \$3.7 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 June 30, 2011, was \$144.6 million (11.5% 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 \$18.38 on June 30, 2011, compared to \$21.32 on September 30, 2010.

The Company did not pay any cash dividends to its stockholders during the nine month period ended June 30, 2011. In accordance with the April 2010 agreement with the OTS, the Company is restricted from

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

the payment of dividends or other capital distributions during the period of the agreement without prior written consent from the OTS.

Total stockholders' equity as of June 30, 2011, includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$353,000. 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).

32

	Nine months ended	
	6/30/11	6/30/10
Return on assets	(2.29)%	0.37%
Return on equity	(19.77)%	3.29%
Equity-to-assets ratio	11.50%	11.68%
Dividend payout ratio	--%	86.59%

RESULTS OF OPERATIONS - Comparison of three and nine months ended June 30, 2011 and 2010.

For the three months ended June 30, 2011, the Company had net income of \$4.4 million or \$0.56 per share. This compares to a net loss of \$(460,000) or \$(0.06) per share for the quarter ended June 30, 2010.

For the nine months ended June 30, 2011, the Company had a net loss of \$(23,153,000) or \$(2.94) per share. This compares to net income of \$4,088,000 or \$0.52 per share for the nine months ended June 30, 2010.

### NET INTEREST MARGIN

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

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the nine months ended June 30, 2011 and 2010. 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.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

	Nine months ended 6/30/11		As of 6/30/11	
	Average Balance	Interest	Yield/Rate	Yield/Rate
<b>Interest-earning assets</b>				
Loans	\$1,087,355	50,605	6.21%	6.05%
Mortgage-backed securities	45,111	1,730	5.11%	4.69%
Securities	64,211	2,954	6.13%	5.13%
Bank deposits	13,868	7	0.07%	0.01%
<b>Total earning assets</b>	<b>1,210,545</b>	<b>55,296</b>	<b>6.09%</b>	<b>5.93%</b>
<b>Non-earning assets</b>	<b>110,978</b>			
<b>Total</b>	<b>\$1,321,523</b>			
<b>Interest-costing liabilities</b>				
Customer checking and savings deposit accounts	\$ 200,213	826	0.55%	0.53%
Customer and brokered certificates of deposit	699,944	11,077	2.11%	2.06%
FHLB Advances	223,913	4,111	2.45%	1.73%
Subordinated debentures	25,000	371	1.98%	1.92%
<b>Total costing liabilities</b>	<b>1,149,070</b>	<b>16,385</b>	<b>1.90%</b>	<b>1.71%</b>
<b>Non-costing liabilities</b>	<b>14,447</b>			
<b>Stockholders' equity</b>	<b>158,006</b>			
<b>Total</b>	<b>\$1,321,523</b>			
<b>Net earning balance</b>	<b>\$ 61,475</b>			
<b>Earning yield less costing rate</b>			<b>4.19%</b>	<b>4.22%</b>
<b>Average interest-earning assets, net interest, and net yield spread on average interest-earning assets</b>	<b>\$1,210,545</b>	<b>38,911</b>	<b>4.29%</b>	

	Nine months ended 6/30/10		As of 6/30/10	
	Average Balance	Interest	Yield/Rate	Yield/Rate
<b>Interest-earning assets</b>				
Loans	\$1,272,452	59,671	6.25%	6.12%
Mortgage-backed securities	70,086	2,492	4.74%	5.03%
Securities	37,146	1,164	4.18%	3.83%
Bank deposits	24,262	10	0.05%	0.01%
<b>Total earning assets</b>	<b>1,403,946</b>	<b>63,337</b>	<b>6.02%</b>	<b>6.01%</b>
<b>Non-earning assets</b>	<b>75,744</b>			
<b>Total</b>	<b>\$1,479,690</b>			
<b>Interest-costing liabilities</b>				
Customer checking and savings				

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

deposit accounts	\$ 184,056	849	0.62%	0.50%
Customer and brokered				
certificates of deposit	696,535	12,372	2.37%	2.39%
FHLB Advances	399,738	8,891	2.97%	2.82%
Subordinated debentures	25,000	371	1.98%	1.98%
Total costing liabilities	1,305,329	22,483	2.30%	2.49%
Non-costing liabilities	6,406			
Stockholders' equity	167,955			
Total	\$1,479,690			
Net earning balance	\$ 98,617			
Earning yield less costing rate			3.72%	3.52%
Average interest-earning assets, net interest, and net yield spread on average interest- earning assets	\$1,403,946	40,854	3.88%	

33

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), (2) changes in volume (change in volume multiplied by the old rate), and (3) changes in rate and volume (change in rate multiplied by the change in volume). Average balances, yields and rates used in the preparation of this analysis come from the preceding table. Dollar amounts are expressed in thousands.

	Nine months ended June 30, 2011, compared to nine months ended June 30, 2010			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (382)	(8,676)	(8)	(9,066)
Mortgage-backed securities	194	(888)	(68)	(762)
Securities	543	848	399	1,790
Bank deposits	4	(4)	(3)	(3)
Net change in interest income	359	(8,720)	320	(8,041)
Components of interest expense:				
Customer and brokered deposit accounts	(1,585)	293	(26)	(1,318)



Edgar Filing: NASB FINANCIAL INC - Form 10-Q

FHLB Advances	(1,559)	(3,917)	696	(4,780)
Subordinated debentures	--	--	--	--
-----				
Net change in interest expense	(3,144)	(3,624)	670	(6,098)
-----				
Decrease in net interest margin	\$ 3,503	(5,096)	(350)	(1,943)
=====				

Net interest margin before loan loss provision for the nine months ended June 30, 2011, decreased \$1.9 million from the same period in the prior year. Specifically, interest income decreased \$8.0 million, which was offset by a \$6.1 million decrease in interest expense for the period. Interest on loans decreased \$9.1 million as the result of a \$185.1 million decrease in the average balance of loans receivable outstanding during the period and a 4 basis point decrease in the average rate earned on such loans during the period. Interest on mortgage-backed securities decreased \$762,000 due to a \$25.0 million decrease in the average balance of such securities, the effect of which was partially offset by a 37 basis point increase in average rate earned on mortgage-backed securities during the period. These decreases in interest income were partially offset by a \$1.8 million increase in interest on investment securities resulting from a \$27.1 million increase in the average balance and a 195 basis point increase in the average yield earned on such securities during the period. Interest expense on customer and brokered deposit accounts decreased \$1.3 million due to a 24 basis point decrease in the average rate paid on such interest-costing liabilities, the effect of which was partially offset by a \$19.6 million increase in the average balance of customer and brokered deposit accounts during the period. Interest expense on FHLB advances decreased \$4.8 million as the result of a \$175.8 million decrease in the average balance and a 52 basis point decrease in the average rate paid on such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$68,000 during the three month period ended June 30, 2011, which resulted from the partial charge-off of a commercial real estate loan held by the Bank's holding company, NASB Financial, Inc. During the period, the Bank revised the methodology for calculating of the adequacy of its allowance for loan and lease losses by incorporating multiple historical "look-back" periods from which loss data is used to formulate estimated future loss ratios. These ratios are applied to the various loan portfolios for purposes of estimating future losses and calculating adequate levels of allowance for loan and lease losses ("ALLL"). In addition, the Bank eliminated the use of the 2%, 10%, and 50% ALLL ratios which were applied to assets classified as special mention, substandard, and doubtful, respectively. The Company is now using historical loss severity and increased historical loss frequency ratios to calculate the ALLL associated with such classified assets, which resulted in a \$3.1 million increase in the ALLL during the quarter ended June 30, 2011. These changes were made at the request of the OTS during their recent examination, which concluded during the quarter ended June 30, 2011. Based upon the increase in foreclosure frequency and loss severity ratios within the Bank's portfolios and other qualitative factors related to the current economic conditions, the Bank increased its general component of allowance for loan losses during the quarter ended June 30, 2011 to \$30.2 million, from \$24.0 million at March 31, 2011.

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

This increase in general reserves was offset by decreases in specific reserves related to certain loans within the Company's land development portfolio, which resulted in no additional required provision for loan losses during the quarter ended June 30, 2011. The decrease in specific reserves for certain land development loans was the result of the Bank obtaining additional collateral during the quarter, which resulted in decreasing the measured impairment at June 30, 2011.

34

During the quarter ended March 31, 2011, the Company adopted Accounting Standards Update No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." This ASU clarifies the guidance on how creditors evaluate whether a restructuring of debt qualifies as a Troubled Debt Restructuring. The adoption of ASU 2011-02 increased the Company's provision for loan losses by approximately \$11.3 million. In addition to the early adoption of ASU 2011-02, and in connection with the prospective determination of impairment, the Company adopted a change in methodology for the valuation of loans in its development real estate portfolio. The revised methodology applies downward "qualitative" adjustments to recent real estate appraised values for residential development assets that the Company has deemed impaired. The Company believes these qualitative appraisal adjustments better reflect the continued uncertainty in real estate values in light of adverse economic conditions that prevail. This change in methodology increased the provision for loan losses by approximately \$18.3 million during the quarter ended March 31, 2011.

The Company recorded a provision for loan losses of \$10.5 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.

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 42.8% of total classified assets at June 30, 2011, 21.8% at September 30, 2010, and 21.2% at June 30, 2010.

Management believes that the allowance for losses on loans and real estate owned is adequate as of June 30, 2011. 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. The process for determining the amount of the ALLL includes various assumptions and subjective judgments about the collectability of the loan portfolio, including the creditworthiness of our borrowers and the value of real estate and other assets that serve as loan collateral. In determining the appropriate amount of the ALLL, management relies on loan quality reviews, past experience, an evaluation of economic conditions, and asset valuations and appraisals, among other factors. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process and they may require changes in loss provision amounts based on information available at the time of their examination.

OTHER INCOME

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

Other income for the three months ended June 30, 2011, decreased \$5.1 million from the same period in the prior year. Specifically, gain on sale of loans held for sale decreased \$5.4 million, due primarily to a decrease in the volume of residential mortgage loans originated and sold by the Bank's mortgage banking division during the period. Gain on sale of securities available for sale decreased \$664,000 due to a decline in the volume of such sales during the period. Customer service fees and charges decreased \$667,000 primarily due to a decrease in miscellaneous loan fees resulting from lower residential mortgage loan origination volume during the period. These decreases in other income were partially offset by a \$1.5 million decrease in provision for loss on real estate owned. The Company did not record a provision for loss on real estate owned in the June 30, 2011 quarter, as no events occurred during the quarter that would indicate additional declines in value of the Company's foreclosed assets held for sale. In addition, other income increased \$140,000 due primarily to a \$289,000 decrease in expenses related to foreclosed assets available for sale during the period. This decrease was partially offset by the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP.

Other income for the nine months ended June 30, 2011, decreased \$17.3 million from the same period in the prior year. Specifically, provision for loss on real estate owned increased \$10.0 million due to declines in value of foreclosed assets held for sale. During the quarter ended March 31, 2011, the Company adopted a change in methodology for the valuation of its residential development real estate portfolio that applied downward "qualitative" adjustments to the real estate appraised values for foreclosed development properties. Management believed that these qualitative appraisal adjustments more accurately reflect real estate values in light of the sales experience and economic conditions that have recently been observed. Gain on sale of securities available for sale decreased \$4.4 million due to a significant decline in the volume of such sales during the period. Gain on sale of loans held for sale decreased \$3.6 million, due primarily to a decrease in the volume of residential mortgage loans originated and sold by the Bank's mortgage banking division during the period. Customer service fees and charges decreased \$338,000 primarily due to a decrease in miscellaneous loan fees resulting from the decrease in residential mortgage loan origination volume as compared to the same period in the prior year. Other income decreased \$818,000 due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP. These decreases in other income were partially offset by a \$2.0 million decrease in impairment loss on investment in resulting from an impairment charge related to the Company's investment in Central Platte Holdings, LLC during the quarter ended December 31, 2009.

35

### GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended June 30, 2011, decreased \$2.5 million from the same period in the prior year. Specifically, commission-based mortgage banking compensation decreased \$2.1 million due primarily to the decrease in mortgage banking volume from the same period in the prior year. Other expense decreased \$508,000 due primarily to a decrease in legal fees related to Bank's construction and land development portfolio, the effect of which was partially offset by increases in data processing and consulting fees. These decreases in general and administrative expenses

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

were partially offset by a \$312,000 increase in advertising and business promotion expense during the period, due primarily to a increase in costs related to the mortgage banking operation.

Total general and administrative expenses for the nine months ended June 30, 2011, decreased \$4,000 from the same period in the prior year. Specifically, compensation and fringe benefits increased \$704,000 due primarily to the addition of personnel in the Company's mortgage banking, information technology, loan servicing, and internal asset review departments. 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 credit and appraisal fees, the effect of which was partially offset by a decrease in legal fees related to the Bank's construction and land development portfolio. These increases in general and administrative expenses were offset by a \$1.1 million decrease in commission-based mortgage banking compensation, due primarily to the decrease in mortgage banking volume from the same period in the prior year, and an \$803,000 decrease in federal deposit insurance premiums.

### REGULATION

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

### INSURANCE OF ACCOUNTS

The DIF insures the Bank's customer deposit accounts to a maximum of \$250,000 for each insured owner. 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. Based upon capital levels and supervisory evaluation, institutions are placed within one of four risk categories. North American is currently classified is risk category II.

Prior to April 1, 2011, annual deposit insurance premiums ranged from 7 to 77.5 basis points of insured deposits based upon where an institution fits on the RRPS. In addition to deposit insurance premiums, institutions are assessed a premium, which is used to service

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

the interest on the Financing Corporation ("FICO") debt. Effective April 1, 2011, deposit insurance premiums will be calculated based upon an institution's average consolidated total assets minus average tangible equity (tier I capital), as required by the Dodd-Frank Act. As a result, the assessment rate was lowered to a range from 2.5 to 45 basis points based upon where an institution fits on the RRPS.

### REGULATORY CAPITAL REQUIREMENTS

At June 30, 2011, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of June 30, 2011, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

36

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

At June 30, 2011	Amount
-----	-----
GAAP capital (Bank only)	\$ 147,574
Adjustment for regulatory capital:	
Intangible assets	(2,496)
Reverse the effect of SFAS No. 115	(353)
	-----
Tangible capital	144,725
Qualifying intangible assets	--
	-----
Tier 1 capital (core capital)	144,725
Qualifying general valuation allowance	13,671
	-----
Risk-based capital	\$ 158,396
	=====

	As of June 30, 2011				
	Actual		Minimum Required for Capital Adequacy		Minimum "Well"
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 158,396	14.7%	86,129	>=8%	107,66
Tier 1 capital to adjusted tangible assets	144,725	11.7%	49,322	>=4%	61,65
Tangible capital to tangible assets	144,725	11.7%	18,496	>=1.5%	-
Tier 1 capital to risk-weighted assets	144,725	13.4%	--	--	64,59

### LOANS TO ONE BORROWER

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

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. Under the Act, The Bank's primary federal regulator, the OTS, will be eliminated and existing federal thrifts will be subject to regulation and supervision by the Office of the Comptroller of the Currency, which 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.

37

### 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 June 30, 2011, the Bank had a total borrowing capacity at FHLB of \$301.3 million, and outstanding advances of \$189.0 million. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank may purchase brokered deposit accounts.

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

The Bank entered into a Supervisory Agreement with the OTS 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. The Bank had no brokered deposits as of June 30, 2011. Thus, the Bank could acquire an additional \$135.0 million in brokered deposits and still comply with the plan as of June 30, 2011.

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

### 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, filed with the Securities and Exchange Commission on December 14, 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, filed with the Securities and Exchange Commission on December 14, 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 the effectiveness of the design and operation 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 upon and as of the date of this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to

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

provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Securities and Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

38

Our disclosure controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

The Company's management and the Audit Committee of the Board of Directors concluded there were material weaknesses in the design of such internal controls as of December 31, 2010. The material weaknesses related to the identification and recognition of troubled debt restructurings and impaired loans and timely receipt of appraisals for participated loans. The Company's Board of Directors implemented several steps to improve the processes in June 2011, and thus remediated the material weaknesses. Included in these steps are the following:

- Revision of the Company's loan policy to more clearly define procedures to obtain appraisals on participated loans from lead banks.
- Revision of the Company's Internal Asset Review and Loan Classification policies related to troubled debt restructurings and other impaired loans and early adoption of ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring for the quarter ended March 31, 2011.

There were no other 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 reasonable likely to materially affect our internal control over financial reporting.

39



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

### Item 1. Legal Proceedings.

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

### Item 1A. Risk Factors.

The following is a summary of risk factors relating to the operations of the Bank and the Company. These risk factors are not necessarily presented in their order of significance. In addition to the list presented, below, there may be other risks and uncertainties that could have a material adverse effect on the Company, our financial condition and our results of operations, which could also impact the value or market price of our common stock. To the extent that any of the information contained in this report constitutes forward-looking statements, the risk factors set forth are additional cautionary statements that identify important factors that may cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

Difficult market conditions continue to adversely affect our industry. We are exposed to downturns in the U.S. real estate market, particularly related to existing residential homes, new residential construction, residential development properties, and commercial real estate. The housing market has experienced dramatic declines over the past three years, greatly affected by falling home prices, increasing foreclosures, and unemployment. All of these have impacted credit performance and resulted in a significant level of write-downs of asset values by the industry, in general, and by our Company, specifically. Because of the concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing credit to borrowers, including to other financial institutions. The weakened U.S. economy and tightening of credit have led to an increased level of commercial and consumer delinquencies, a lack of consumer confidence, increased market volatility and widespread reduction of overall business activity. A worsening of these conditions or prolonged economic stagnation would likely exacerbate the adverse effects of these difficult market conditions on our Company and others in the financial institution industry, and could further materially increase our loan losses and further negatively impact our financial condition and operating results.

Recent changes in banking regulations could materially affect the Company's business. The current political environment is demanding increased regulation of the banking industry. Various new regulations have been imposed over the past year, with much additional regulation that has been proposed. Such changing regulation, along with possible changes in tax laws and accounting rules, may have a significant impact on the ways that financial institutions conduct their businesses, implement strategic initiatives, engage in tax planning and make financial disclosures. Complying with increased regulations may increase our costs and limit the availability of our business opportunities.

On July 21, 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Some of the provisions may have consequences of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The specific impact of the Dodd-Frank Act on our current activities and our financial performance will depend on the manner in which relevant agencies develop

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

and implement required rules.

The Company's performance is dependent on the economic conditions in the market in which it operates. The Company operates primarily within the greater Kansas City area and is influenced by the general economic conditions in Kansas City. Any further adverse changes in economic conditions in our market area could impair our ability to collect loans, obtain and retain customer deposits, and negatively impact our overall financial condition.

40

The current real estate market makes our concentrations in real estate lending susceptible to credit losses. Our loan portfolios are concentrated in real estate lending, which has made, and will continue to make, our loan portfolios susceptible to credit losses in the current real estate market, particularly because of continuing declines in the new home real estate market. Specifically, we have a concentration of residential real estate construction loans and residential land development, most of which are located within the metropolitan Kansas City market area. Additionally, we have a concentration of commercial real estate loans that are located around the country. Because of our heightened exposure to credit losses in these concentrations, the downturns in the real estate market and the general economy have resulted in a significant increase in classified assets over the past year. If the current economic environment continues for a prolonged additional period, or deteriorates even further, the asset collateral values may further decline and may result in increased credit losses and foreclosures in these portfolios.

If our allowance for loan and lease losses ("ALLL") is not sufficient to cover actual loan losses, our provision for losses could increase in future periods, causing a negative impact on operating results. Our borrowers may not repay their loans according to the terms of the loans and, as a result of the declines in home prices, the collateral securing the payment of these loans may be insufficient to pay remaining loan balances. We may experience significant loan losses, which could have a material adverse impact on our operating results. When determining the adequacy of the ALLL, we make various assumptions and subjective judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of real estate and other assets that serve as collateral for the repayment of many of our loans. In determining the adequacy of the ALLL, we rely on our loan quality reviews, our experience, our evaluation of economic conditions, and asset valuations and appraisals, among other factors. If our assumptions prove to be incorrect, our ALLL may not be sufficient to cover the losses inherent in our loan portfolio, which could result in additions to our allowance through provisions for loan losses. Material additions to our allowance would have a material adverse impact on our operating results.

The OTS (soon to be merged into the Office of the Comptroller of the Currency), as an integral part of the regulatory examination process, periodically reviews our loan portfolio. Regulators may require us to add to the allowance for loan losses based on their judgments and interpretations of information available to them at the time of their examinations. Any increase that the regulators require in our allowance for loan losses would negatively impact our operating results in the period in which the increase occurs.

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

The Company uses valuation methodologies, estimations and assumptions for certain assets and loan collateral which are subject to differing interpretations and could result in changes to asset or collateral valuations that could have an adverse material impact on the Company's financial condition or operating results. The Company uses estimates, assumptions and judgments when measuring the fair value of financial assets, liabilities and loan collateral. Fair values and the information used to record valuation adjustments are based on quoted market prices, third-party appraisals and/or other observable inputs provided by third-party sources, when available. Any changes in underlying factors, assumptions or estimates in any of these areas could materially impact the Company's future financial condition and operating results.

During periods of market disruption, it may be difficult to value certain assets if comparable sales become less frequent and/or market data becomes less observable. Certain classes of assets or loan collateral that were in active markets with significant observable data may become illiquid due to the current financial environment. In such cases, asset valuations may require more estimation and subjective judgment. The rapidly changing real estate market conditions could materially impact the valuation of assets and loan collateral as reported within the Company's financial statements and changes in estimated values could vary significantly from one period to the next. Decreases in value may have a material adverse impact on the Company's future financial condition or operating results.

The Company is subject to interest rate risk. Our results of operations are largely dependent on net interest income, which is the difference between the interest we earn on our earning-asset portfolios and the interest paid on our cost of liability portfolios. Market interest rates are beyond the Company's control, and they can fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, will influence market rates and prices for loan originations, purchases of investment securities, and customer deposit accounts. Any substantial or prolonged change in market interest rates could have a materially adverse effect on the Company's financial condition or results from operations.

41

Changes in income tax laws or interpretations or in accounting standards could materially affect our financial condition or results of operations. Changes in income tax laws could be enacted or interpretations of existing income tax laws could change causing an adverse effect to our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are imposed or existing standards are revised, changing the methods for preparing our financial statements. Such changes are not within our control and could significantly impact our financial condition and results of operations.

The Company is subject to liquidity risk that could impair our ability to fund operations. Liquidity is essential to our business and we rely on a number of different sources in order to meet our potential

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

liquidity demands. Our primary sources of liquidity are our retail and wholesale customer deposit accounts, cash flows from payments and sales of loans and securities, and advances from the Federal Home Loan Bank. Any inability to raise or retain funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or by factors affecting the financial services industry in general. Even if funding remains available, issues of liquidity pricing could raise the Company's cost of funds and have an adverse material impact on the Company's financial condition and operating results.

Any loss of key personnel could adversely affect our operations. The Company's success is, in large part, dependent on its ability to attract and retain key employees. Management believes it has implemented effective succession planning strategies to reduce the potential impact of the loss of certain key personnel; however, because of their skill-level and experience, the unexpected loss of key personnel could have an adverse material impact on the Company's business.

We are subject to various legal claims and litigation. We are periodically involved in routine litigation incidental to our business. Regardless of whether these claims and legal actions are founded or unfounded, if such legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the Company's reputation. In addition, litigation can be costly. Any financial liability, litigation costs or reputational damage caused by these legal claims could have a material adverse impact on our business, financial condition and results of operations.

The Company operates in a competitive industry and market area. The financial services industry in which the Company operates is rapidly changing with numerous types of competitors including banks, thrifts, insurance companies, and mortgage bankers. Consolidation in the industry is accelerating and there are many new changes in technology, products, and regulations. We believe the competition for retail deposit accounts is especially significant in our market area. The Company must continue to invest in products and delivery systems in order to remain competitive or its financial performance may be impacted negatively.

Any electronic system failure or breach to our network security could increase our operating costs or impair the Company's reputation. The Bank provides customers with electronic banking options, including online banking, bill payment services, online account opening and online loan applications. Management has implemented all reasonable means of protection for its electronic services; however, there can be no absolute assurances that failures, interruptions, or electronic security breaches will not occur. Should any of our electronic systems be compromised, the Company's reputation could be damaged and/or relationships with customers impaired. A loss of business could result and the Company could incur significant expenses in remedying the security breach.

The FDIC's Changes in the Calculation of Deposit Insurance Premiums and Ability to Levy Special Assessments Could Increase Our Non-Interest Expense And May Reduce Our Profitability. The range of base assessment

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

rates currently varies from 12 to 45 basis points depending on an institution's risk category, with newly added financial measures resulting in increased assessment rates for institutions heavily relying on brokered deposits to support rapid asset growth. However, the Dodd-Frank Act requires the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. On February 9, 2011, the FDIC adopted a final rule that defines the assessment base as the average consolidated total assets during the assessment period minus the average tangible equity of the insured depository institution during the assessment period. The FDIC also imposed a new assessment rate scale. Under the new system, banks will pay assessments at a rate between 5 and 35 basis points per assets minus tangible equity, depending upon an institution's risk category (the final rule also includes progressively lower assessment rate schedules when the FDIC's reserve ratio reaches certain levels). The rulemaking changes the current assessment rate schedule so the schedule will result in the collection of assessment revenue that is approximately the same as generated under the current rate schedule and current assessment base. Nearly all banks with assets less than \$10 billion will pay smaller deposit insurance assessments as a result of the new rule. The majority of the changes in the FDIC's final rule became effective on April 1, 2011. The FDIC has the statutory authority to impose special assessments on insured depository institutions in an amount, and for such purposes, as the FDIC may deem necessary. The change in the calculation methodology for deposit insurance premiums and the possible emergency special assessments could increase our non-interest expense and may adversely affect our profitability.

We May Elect Or Be Compelled To Seek Additional Capital In The Future, But That Capital May Not Be Available When It Is Needed. We are required by our regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support the growth of our business or to finance acquisitions, if any, or we may elect to raise additional capital for other reasons. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of a deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors. Although we are not aware of any requests for additional capital at this time, should we elect or be required by regulatory authorities to raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or securities convertible into our common stock, which could dilute your ownership interest in the Company. The future cost and availability of capital may be adversely affected by illiquid credit markets, economic conditions and a number of other factors, many of which are outside of our control. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed or on terms acceptable to us, it may have a material adverse effect on our financial condition and results of operations.

A downgrade of the United States' credit rating could have a material adverse effect on our business, financial condition and results of operations. In recent months, each of Moody's Investors Service, Standard & Poor's Corp. and Fitch Ratings has publicly warned of the possibility of a downgrade to the United States' credit rating. On August 5, 2011, S&P downgraded its rating of the United States' debt to AA+. Each of Moody's and Fitch has maintained its rating of U.S. debt at AAA. Any credit downgrade (whether by S&P, Moody's, or Fitch), and the attendant perceived risk that the United States may not pay its debt obligations when due, could have a material adverse effect on financial

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

markets and economic conditions in the United States and throughout the world. In turn, this could have a material adverse effect on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.  
None.

Item 3. Defaults Upon Senior Securities.  
None.

Item 4. (Removed and Reserved).

Item 5. Other Information.  
None.

Item 6. Exhibits.

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a)

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a)

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

43

### 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)

August 9, 2011

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

August 9, 2011

By: /s/Rhonda Nyhus

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Rhonda Nyhus  
Vice President and  
Treasurer