

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC  
Form 10-Q  
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the period ended March 31, 2006

or

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

For the transition period from to

Commission File Number 0-24033

NASB Financial, Inc.

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction of  
incorporation or organization)

43-1805201  
(IRS Employer  
Identification No.)

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

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

N/A

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

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

Yes X No

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



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Stockholders' equity:

Common stock of \$0.15 par value: 20,000,000 authorized; 9,857,112 issued at March 31, 2006, and September 30, 2005	1,479	1,479
Serial preferred stock of \$1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--
Additional paid-in capital	16,281	16,256
Retained earnings	155,564	151,331
Treasury stock, at cost; 1,439,670 shares and 1,419,670 shares at March 31, 2006, and September 30, 2005, respectively	(18,721)	(17,952)
Accumulated other comprehensive loss	(2,637)	(2,227)
	-----	-----
Total stockholders' equity	151,966	148,887
	-----	-----
	\$ 1,550,342	1,556,344
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Interest on loans	\$ 23,061	18,298	45,495	35,981
Interest on mortgage-backed securities	1,097	1,508	2,257	3,083
Interest and dividends on securities	125	127	402	261
Other interest income	44	67	165	113
	-----	-----	-----	-----
Total interest income	24,327	20,000	48,319	39,438
	-----	-----	-----	-----
Interest on customer deposit accounts	7,259	3,787	13,626	7,117
Interest on advances from FHLB	5,269	2,687	10,028	4,832
Interest on securities sold under agreements to repurchase	178	937	784	1,668
	-----	-----	-----	-----

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Total interest expense	12,706	7,411	24,438	13,617
	-----	-----	-----	-----
Net interest income	11,621	12,589	23,881	25,821
Provision for loan losses	93	250	158	417
	-----	-----	-----	-----
Net interest income after provision for loan losses	11,528	12,339	23,723	25,404
	-----	-----	-----	-----
Other income (expense):				
Loan servicing fees, net	75	72	105	84
Impairment (loss) recovery on mortgage servicing rights	5	(30)	6	(11)
Customer service fees and charges	1,478	1,659	3,154	3,280
Recovery on real estate owned	--	218	--	899
Gain on sale of loans held for sale	3,271	3,782	7,123	7,436
Other	492	323	774	840
	-----	-----	-----	-----
Total other income	5,321	6,024	11,162	12,528
	-----	-----	-----	-----
General and administrative expenses:				
Compensation and fringe benefits	4,308	3,977	8,800	8,170
Commission-based mortgage banking compensation	1,612	1,988	3,483	3,517
Premises and equipment	901	755	1,775	1,548
Advertising and business promotion	922	824	2,030	1,669
Federal deposit insurance premiums	26	25	52	51
Other	1,713	1,314	3,239	2,601
	-----	-----	-----	-----
Total general and administrative expenses	9,482	8,883	19,379	17,556
	-----	-----	-----	-----
Income before income tax expense	7,367	9,480	15,506	20,376
Income tax expense	2,652	3,413	5,582	7,390
	-----	-----	-----	-----
Net income	\$ 4,715	6,067	9,924	12,986
	=====	=====	=====	=====
Basic earnings per share	\$ 0.56	0.72	1.18	1.54
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.56	0.71	1.17	1.53
	=====	=====	=====	=====
Basic weighted average shares outstanding	8,417,442	8,455,442	8,426,096	8,455,442

See accompanying notes to consolidated financial statements.

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

Accumulated

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	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	other comprehensive income (loss)	Tota stockho equi
(Dollars in thousands)						
Balance at October 1, 2005	\$ 1,479	16,256	151,331	(17,952)	(2,227)	148,
Comprehensive income:						
Net income	--	--	9,924	--	--	9,
Other comprehensive income (loss), net of tax:						
Unrealized loss on securities available for sale	--	--	--	--	(410)	(
Total comprehensive income	--	--	--	--	--	9,
Cash dividends paid	--	--	(5,691)	--	--	(5,
Stock based compensation expense	--	25	--	--	--	
Purchase of common stock for treasury	--	--	--	(769)	--	(
Balance at March 31, 2006	\$ 1,479	16,281	155,564	(18,721)	(2,637)	151,

See accompanying notes to consolidated financial statements.

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

	Six months ended March 31,	
	2006	2005 (Restated)
Cash flows from operating activities:		
Net income	\$ 9,924	12,986
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	620	523
Amortization and accretion, net	(804)	(2,340)
Impairment loss (recovery) on mortgage servicing rights	(6)	11
Gain on sale of loans receivable held for sale	(7,123)	(7,436)
Provision for loan losses	158	417
Recovery on real estate owned	--	(899)
Principal repayments of mortgage loans receivable	14	9,974

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held for sale		
Origination of loans receivable held for sale	(503,943)	(544,462)
Sale of loans receivable held for sale	551,807	495,216
Stock based compensation - stock options	25	--
Changes in:		
Net fair value of loan related commitments	80	(216)
Accrued interest receivable	(749)	(341)
Accrued expenses and other liabilities and income taxes payable	125	3,579
	-----	-----
Net cash provided by (used in) operating activities	50,128	(32,988)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	56	95
Available for sale	17,501	19,211
Principal repayments of mortgage loans receivable held for investment	198,159	188,285
Principal repayments of other loans receivable	4,423	5,919
Maturity of investment securities available for sale	4	4
Loan origination - mortgage loans held for investment	(272,694)	(261,213)
Loan origination - other loans receivable	(2,498)	(7,146)
Purchase of mortgage loans receivable held for investment	--	(1,207)
Purchase of FHLB stock	(662)	(3,770)
Proceeds for sale of real estate owned	3,147	5,517
Purchases of premises and equipment, net of sales	(2,427)	(2,144)
Investment in LLC	(4,074)	(486)
Other	(79)	(39)
	-----	-----
Net cash used in investing activities	(59,144)	(56,974)

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

	Six months ended March 31,	
	2006	2005 (Restated)
	-----	-----
Cash flows from financing activities:		
Net increase in customer and brokered deposit accounts	104,500	63,409
Proceeds from advances from FHLB	174,000	203,000
Repayment on advances from FHLB	(162,160)	(142,151)
Proceeds from sale of securities under agreements to repurchase	--	267,400
Repayment of securities sold under		

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agreements to repurchase	(122,000)	(288,000)
Cash dividends paid	(5,691)	(10,358)
Purchase of common stock for treasury	(769)	--
Change in escrows	(3,534)	(2,302)
	-----	-----
Net cash provided by (used in) financing activities	(15,654)	90,998
	-----	-----
Net increase (decrease) in cash and cash equivalents	(24,670)	1,036
Cash and cash equivalents at beginning of the period	35,334	18,263
	-----	-----
Cash and cash equivalents at end of period	\$ 10,664	19,299
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 5,670	5,372
Cash paid for interest	24,440	13,007
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 1,524	6,878
Capitalization of mortgage servicing rights	118	103

See accompanying notes to consolidated financial statements.

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### (1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the six months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. The consolidated balance sheet of the Company as of September 30, 2005, 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. Management believes that

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these allowances are adequate, however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the consolidated financial statements as of March 31, 2006, have remained unchanged from September 30, 2005. These policies relate to provision for loan losses and mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2005.

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

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

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

	Three months ended		Six months ended	
	3/31/06	3/31/05	3/31/06	3/31/05
Net income (in thousands)	\$ 4,715	6,067	9,924	12,986
Average common shares outstanding	8,417,442	8,455,442	8,426,096	8,455,442
Average common share stock options outstanding	43,026	12,434	42,312	12,167
Average diluted common shares	8,460,468	8,467,876	8,468,408	8,467,609
Earnings per share:				
Basic	\$ 0.56	0.72	1.18	1.54
Diluted	0.56	0.71	1.17	1.53

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

### (3) SECURITIES AVAILABLE FOR SALE



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

	March 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Equity securities	\$ 180	--	--	180
Municipal securities	53	--	--	53
<b>Total</b>	<b>\$ 233</b>	<b>--</b>	<b>--</b>	<b>233</b>

#### (4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	March 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 307	--	2	305
Pass-through certificates guaranteed by FNMA				
- adjustable rate	15,667	--	596	15,071
FHLMC participation certificates				
- fixed rate	1,368	--	93	1,275
- adjustable rate	97,869	--	3,596	94,273
<b>Total</b>	<b>\$ 115,211</b>	<b>--</b>	<b>4,287</b>	<b>110,924</b>

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

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

	March 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	\$ 159	8	--	167
FNMA pass-through				

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certificates:				
Fixed rate	97	--	--	97
Balloon maturity and adjustable rate	77	--	--	77
Pass-through certificates guaranteed by GNMA				
- fixed rate	42	3	--	45
	-----			
Total	\$ 375	11	--	386
	=====			

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(6) LOANS RECEIVABLE

Loans receivable are as follows:

	March 31, 2006
	-----
	(Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 372,111
Business properties	477,794
Partially guaranteed by VA or insured by FHA	2,505
Construction and development	531,577
	-----
Total mortgage loans	1,383,987
Commercial loans	60,203
Installment loans to individuals	19,686
	-----
Total loans held for investment	1,463,876
Less:	
Undisbursed loan funds	(154,864)
Unearned discounts and fees and costs on loans, net	(4,439)
	-----
Net loans held for investment	\$1,304,573
	=====
	March 31, 2006
	-----
	(Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 69,168
Less:	
Undisbursed loan funds	(15,799)
Unearned discounts and fees and costs on loans, net	(8)
	-----
Net loans held for sale	\$ 53,361

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Included in the loans receivable balances at March 31, 2006, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of \$134,000. Loans and participations serviced for others amounted to approximately \$105.9 million at March 31, 2006.

(7) FORECLOSED ASSETS HELD FOR SALE

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

	March 31, 2006
	-----
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	\$ 7,776
Less: allowance for losses	(210)
	-----
Total	\$ 7,566
	=====

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Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure minus any estimated selling costs (the "new basis"), and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date.

(8) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended March 31, 2006. Dollar amounts are expressed in thousands.

Balance at October 1, 2005	\$ 911
Additions:	
Originated mortgage servicing rights	118
Impairment recovery	6
Reductions:	
Amortization	(95)
	-----
Balance at March 31, 2006	\$ 940
	=====

(9) SEGMENT INFORMATION

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has identified three principal operating segments for purposes of financial reporting: Banking, Local Mortgage Banking, and National 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.

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

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

Three months ended March 31, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,602	--	--	19	11,621
Provision for loan losses	93	--	--	--	93
Other income	1,336	2,338	1,999	(352)	5,321
General and administrative expenses	4,306	2,572	2,708	(104)	9,482
Income tax expense (benefit)	3,074	(84)	(255)	(83)	2,652
Net income	\$ 5,465	(150)	(454)	(146)	4,715

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Three months ended March 31, 2005	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 12,561	--	--	28	12,589
Provision for loan losses	250	--	--	--	250
Other income	1,733	2,870	2,200	(779)	6,024
General and administrative expenses	3,621	2,873	2,531	(142)	8,883
Income tax expense (benefit)	3,752	(1)	(119)	(219)	3,413
Net income	\$ 6,671	(2)	(212)	(390)	6,067

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Six months ended March 31, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 23,845	--	--	36	23,881
Provision for loan losses	158	--	--	--	158
Other income	2,603	4,895	4,577	(913)	11,162
General and administrative expenses	8,166	5,258	6,151	(196)	19,379
Income tax expense (benefit)	6,524	(131)	(567)	(244)	5,582
Net income	\$ 11,600	(232)	(1,007)	(437)	9,924

Six months ended March 31, 2005	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$25,775	--	--	46	25,821
Provision for loan losses	417	--	--	--	417
Other income	4,000	5,943	4,271	(1,686)	12,528
General and administrative expenses	7,272	5,893	4,782	(391)	17,556
Income tax expense	7,951	18	(184)	(395)	7,390
Net income	\$14,135	32	(327)	(854)	12,986

(10) RESTATEMENT

In connection with the preparation of the Company's Consolidated Statements of Cash Flows, management reconsidered the classification of repayments on its loans held for sale in accordance guidance under Statement of Financial Accounting Standard No. 95, "Statement of Cash Flows" ("SFAS 95").

The Company has historically classified principal repayments on its loans held for sale in the investing section of the statement of cash flows. The SEC has taken exception with this treatment, and informed the Company that principal repayments on loans held for sale should be classified in the operating section of the statement of cash flows in accordance with guidance under SFAS 95. Additionally, as a result of researching this classification issue, management discovered an error in

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its calculation of originations and principal repayments of loans held for sale reported in the statement of cash flows.

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The following table illustrates the restatement made to the Consolidated Statement of Cash Flows for the six month period ended March 31, 2005:

Net cash from operating activities, as previously reported	\$ (32,978)
Reclassification of principal repayments of loans receivable held for sale	9,974
Correction of origination and principal repayments of loans receivable held for sale	(9,984)
	-----
Reported net cash from operating activities	\$ (32,988) =====
Net cash from investing activities, as previously reported	\$ (56,984)
Reclassification of principal repayments of loans receivable held for sale	(9,974)
Correction of origination and principal repayments of loans receivable held for sale	9,984
	-----
Reported net cash from investing activities	\$ (56,974) =====

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

### GENERAL

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

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

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### FINANCIAL CONDITION

#### ASSETS

The Company's total assets as of March 31, 2006, were \$1,550.3 million, a decrease of \$6.0 million from September 30, 2005, the prior fiscal year end.

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As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the six months ended March 31, 2006, the Bank originated \$539.6 million in mortgage loans held for sale, \$272.7 million in mortgage loans held for investment, and \$2.5 million in other loans. This total of \$814.8 million in loans originated compares to \$803.1 million in loans originated during the six months ended March 31, 2005.

Included in the \$53.4 million in loans held for sale as of March 31, 2006, are \$50.9 million in mortgage loans held for sale with servicing released. All loans held for sale are carried at the lower of cost or fair value.

The Bank classifies problem assets as "substandard," "doubtful" or "loss." Substandard assets have one or more defined weaknesses, and it is possible that the Bank will sustain some loss unless the deficiencies are corrected. Doubtful assets have the same defects as substandard assets plus other weaknesses that make collection or full liquidation improbable. Assets classified as loss are considered uncollectible and of such little value that a specific loss allowance is warranted.

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

	3/31/06	9/30/05	3/31/05
Asset Classification:			
Substandard	\$ 12,236	13,346	15,110
Doubtful	--	--	--
Loss	441	595	495
Allowance for losses	12,677	13,941	15,605
	(7,618)	(7,731)	(7,558)
	\$ 5,059	6,210	8,047

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

	3/31/06	9/30/05	3/31/05
Total Assets	\$ 1,550,342	1,556,344	1,466,633
Non-accrual loans	\$ 2,603	5,643	10,387
Troubled debt restructurings	3,478	74	74
Net real estate and other assets acquired through foreclosure	7,566	7,760	8,468
Total	\$ 13,647	13,477	18,929
Percent of total assets	0.88%	0.87%	1.29%

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

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The following table sets forth the activity in the allowance for loan losses for the six months ending March 31, 2006, and 2005. Dollar amounts are expressed in thousands.

	2006	2005
Balance at beginning of year	\$ 7,536	8,221
Provision for loan losses	158	417
Recoveries	18	34
Charge-offs	(303)	(1,240)
Balance at March 31	\$ 7,409	7,432

### LIABILITIES AND EQUITY

Customer and brokered deposit accounts increased \$104.6 million during the six months ended March 31, 2006. The weighted average rate on customer and brokered deposits as of March 31, 2006, was 3.52%, an increase from 2.45% as of March 31, 2005.



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Advances from the FHLB were \$477.6 million as of March 31, 2006, an increase of \$11.7 million from September 30, 2005. During the six-month period, the Bank borrowed \$174.0 million of new advances and repaid \$162.2 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.

Escrows were \$5.9 million as of March 31, 2006, a decrease of \$3.5 million from September 30, 2005. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2005.

Total stockholders' equity as of March 31, 2006, was \$152.0 million (9.8% of total assets). This compares to \$148.9 million (9.6% of total assets) at September 30, 2005. On a per share basis, stockholders' equity was \$18.05 on March 31, 2006, compared to \$17.65 on September 30, 2005.

The Company paid cash dividends on its common stock of \$0.45 per share on November 25, 2005, and \$0.225 on February 24, 2006. Subsequent to the quarter ended March 31, 2006, the Company announced a cash dividend of \$0.225 per share to be paid on May 26, 2006, to stockholders of record as of May 5, 2006.

Total stockholders' equity as of March 31, 2006, includes an unrealized loss of \$2.6 million, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive income."

### RATIOS

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

	Six months ended	
	3/31/06	3/31/05
Return on assets	1.28%	1.84%
Return on equity	13.19%	18.58%
Equity-to-assets ratio	9.80%	9.58%
Dividend payout ratio	57.34%	79.76%

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### RESULTS OF OPERATIONS - Comparison of three and six months ended March 31, 2006 and 2005.

For the three months ended March 31, 2006, the Company had net income of \$4,715,000 or \$0.56 per share. This compares to net income of \$6,067,000 or \$0.72 per share for the quarter ended March 31, 2005.

For the six months ended March 31, 2006, the Company had net income of \$9,924,000 or \$1.18 per share. This compares to net income of \$12,986,000 or \$1.54 per share for the six months ended March 31, 2005.

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### 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 six months ended March 31, 2006 and 2005. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, any interest that has accrued up to that time is reserved and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Six months ended 3/31/06		As of 3/31/06	
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
<b>Interest-earning assets</b>				
Loans	\$1,330,120	45,495	6.84%	6.94%
Mortgage-backed securities	120,137	2,257	3.76%	4.30%
Securities	23,173	402	3.47%	2.99%
Bank deposits	9,945	165	3.32%	4.13%
<b>Total earning assets</b>	<b>1,483,375</b>	<b>48,319</b>	<b>6.51%</b>	<b>6.67%</b>
<b>Non-earning assets</b>				
	58,501			
<b>Total</b>	<b>\$1,541,876</b>			
<b>Interest-costing liabilities</b>				
Customer checking and savings deposit accounts	\$ 186,873	985	1.05%	1.02%
Customer and brokered certificates of deposit	670,282	12,641	3.77%	4.17%
FHLB Advances	477,896	10,028	4.20%	4.59%
Repurchase agreements	45,000	784	3.48%	--%
<b>Total costing liabilities</b>	<b>1,380,051</b>	<b>24,438</b>	<b>3.54%</b>	<b>3.89%</b>
<b>Non-costing liabilities</b>				
	11,815			
Stockholders' equity	150,010			
<b>Total</b>	<b>\$1,541,876</b>			
<b>Net earning balance</b>	<b>\$ 103,324</b>			
<b>Earning yield less costing rate</b>			<b>2.97%</b>	<b>2.78%</b>
<b>Average interest-earning assets, net interest, and net yield spread on average interest-earning assets</b>				
	\$1,483,375	23,881	3.22%	

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	Six months ended 3/31/05		As of 3/31/05	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,160,060	35,981	6.20%	6.18%
Mortgage-backed securities	161,808	3,083	3.81%	4.24%
Securities	20,825	261	2.51%	3.28%
Bank deposits	11,228	113	2.01%	2.13%
Total earning assets	1,353,921	39,438	5.83%	5.89%
Non-earning assets				
	45,824			
Total	\$1,399,745			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 202,938	713	0.70%	0.71%
Customer and brokered certificates of deposit	491,166	6,404	2.61%	3.07%
FHLB Advances	413,709	4,832	2.34%	2.68%
Repurchase agreements	143,914	1,668	2.32%	2.87%
Total costing liabilities	1,251,727	13,617	2.18%	2.57%
Non-costing liabilities				
	9,005			
Stockholders' equity	139,013			
Total	\$1,399,745			
Net earning balance	\$ 102,194			
Earning yield less costing rate			3.65%	3.32%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets				
	\$1,353,921	25,821	3.81%	

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

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Six months ended March 31, 2006, compared to  
six months ended March 31, 2005

	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ 3,712	5,272	530	9,514
Mortgage-backed securities	(40)	(794)	8	(826)
Securities	100	29	12	141
Bank deposits	74	(13)	(9)	52
Net change in interest income	3,846	4,494	541	8,881
Components of interest expense:				
Customer and brokered deposit accounts	3,922	1,671	916	6,509
FHLB Advances	3,847	751	598	5,196
Repurchase agreements	835	(1,147)	(572)	(884)
Net change in interest expense	8,604	1,275	942	10,821
Decrease in net interest margin	\$ (4,758)	3,219	(401)	(1,940)

Net interest margin before loan loss provision for the three months ended March 31, 2006, decreased \$968,000 from the same period in the prior year. Specifically, interest income increased \$4.3 million due to both an increase in the average balance of interest-earning assets and an increase in the average rate earned on such assets. The increase in interest income was offset by a \$5.3 million increase in interest expense, which resulted from both an increase in the average balance of interest-costing liabilities and an increase in the average rate paid on such liabilities.

Net interest margin before loan loss provision for the six months ended March 31, 2006, decreased \$1.9 million from the same period in the prior year. Specifically, interest income increased \$8.9 million. This increase was the result of a \$129.5 million increase in the average balance of interest-earning assets and a 68 basis point increase in the average rate earned on such assets. The increase in interest income was offset by a \$10.8 million increase in interest expense, which resulted from a 136 basis point increase in the average rate paid on interest-costing liabilities and a \$128.3 million increase in the average balance of such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$93,000 during

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the quarter ended March 31, 2006, due to an increase in construction and commercial real estate loans classified as "substandard." The Company recorded a provision for loan losses of \$65,000 during the quarter ended December 31, 2005, due to an increase in commercial real estate loans classified as "special mention." Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. On a consolidated basis, loan loss reserve was 60.1% of total classified assets at March 31, 2006, 55.5% at September 30, 2005, and 48.4% at March 31, 2005.

As stated above, management believes that the provisions for loan losses is adequate. The provision can fluctuate based on changes in economic conditions or changes in the information available to management. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process and they may require changes in loss provision amounts based on information available at the time of their examination.

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### OTHER INCOME

Other income for the three months ended March 31, 2006, decreased \$703,000 from the same period in the prior year. Gain on sale of loans held for sale decreased \$511,000 due to a decrease in mortgage banking volume. Recovery on real estate owned decreased \$218,000 due to recoveries realized on the sale of foreclosed assets held for sale in the prior fiscal year. Customer service fees and charges decreased \$181,000 due primarily to a decrease in residential and commercial lending volumes. These decreases were offset by an increase in other income of \$169,000 due primarily to income recognized on the Company's investment in Central Platte Holdings, LLC.

Other income for the six months ended March 31, 2006, decreased \$1.4 million from the same period in the prior year. Recovery on real estate owned decreased \$899,000 due to recoveries realized on the sale of foreclosed assets held for sale in the prior fiscal year. Gain on sale of loans held for sale decreased \$313,000 due to a decrease in mortgage banking volume. Customer service fees and charges decreased \$126,000 due primarily to a decrease in residential and commercial lending volumes. Other income decreased \$66,000 due primarily to a \$375,000 decrease in the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was largely offset by increases in income recognized on foreclosed assets and on the Company's investment in Central Platte Holdings, LLC.

### GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended March 31, 2006, increased \$599,000 from the same period in the prior year. Advertising increased \$98,000 due to increased direct mail and newspaper advertising. Premises and equipment expense increased \$146,000 due primarily to costs related to the Company's new loan administration and construction lending building, which was completed in March 2005. Additionally, other expense increased \$399,000 due to an increase in credit, appraisal, and underwriting costs related to residential lending, an increase in audit fees due to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, and costs related to the conversion of the Company's loan origination system.

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Total general and administrative expenses for the six months ended March 31, 2006, increased \$1.8 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation increased \$596,000 due primarily to the continued growth of the local and national mortgage banking operations, and staffing increases in the Company's technology, audit, and compliance departments. Advertising increased \$361,000 due to increased costs related to the national mortgage banking operation. Premises and equipment expense increased \$227,000 due primarily to costs related to the Company's new loan administration and construction lending building, which was completed in March 2005. Additionally, other expense increased \$638,000 due to an increase in credit, appraisal, and underwriting costs related to residential lending, an increase in audit fees due to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, and costs related to the conversion of the Company's loan origination system.

### REGULATION

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

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### INSURANCE OF ACCOUNTS

The SAIF insures the Bank's customer deposit accounts to a maximum of \$100,000 for each insured member. Deposit insurance premiums are determined using a Risk-Related Premium Schedule ("RRPS"), a matrix which places each insured institution into one of three capital groups and one of three supervisory groups. Currently, deposit insurance premiums range from 0 to 27 basis points of the institution's total deposit accounts, depending on the institution's risk classification. The Bank is currently considered "well capitalized", which is the most favorable capital group and supervisory subgroup. SAIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

### REGULATORY CAPITAL REQUIREMENTS

At March 31, 2006, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of March 31, 2006, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At March 31, 2006	Amount
-----	-----
GAAP capital (Bank only)	\$ 133,314
Adjustment for regulatory capital:	
Intangible assets	(3,021)
Disallowed portion of servicing assets and deferred tax assets	(2,928)
Reverse the effect of SFAS No. 115	2,637
	-----
Tangible capital	130,002
Qualifying intangible assets	--
	-----
Tier 1 capital (core capital)	130,002
Qualifying general valuation allowance	6,969
	-----
Risk-based capital	\$ 136,971
	=====

	As of March 31, 2006				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 136,971	11.0%	99,917	>=8%	124,89
Core capital to adjusted tangible assets	130,002	8.5%	61,248	>=4%	76,56
Tangible capital to tangible assets	130,002	8.5%	22,968	>=1.5%	-
Tier 1 capital to risk-weighted assets	130,002	10.4%	--	--	74,93

### LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has enrolled with the OTS to participate in the "Lending Limits Pilot Program." This program allows a federally chartered institution to increase its loans-to-one-borrower limit by an additional amount equal to the lesser of: a) \$10 million; b) 10% of its unimpaired capital and surplus; or c) the percentage of its capital and surplus, in excess of 15%, that a state institution is permitted to lend. Participation in this program increased the Company's loans-to-one-borrower limit by \$10 million with regard to certain borrowers that meet prescribed loan-to-value and property type specifications. This pilot program is set to expire on September 10, 2007.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At March 31, 2006, there was \$111.1 million available to the Bank in the form of FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At March 31, 2006, the Bank has \$162.3 million in brokered deposits, and it could purchase up to \$84.2 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

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

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a complete discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio, see the "Asset/Liability Management" section of the Company's Annual Report for the year ended September 30, 2005.

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, 2005.

#### Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and



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

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### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

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

#### Item 2. Changes in Securities

None.

#### Item 3. Defaults Upon Senior Securities

None.

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

The annual stockholder's meeting was held on January 24, 2006. The following persons were elected to NASB Financial Inc.'s Board of Directors for three year terms:

	Frederick V. Arbanas
W. Russell Welsh	Fletcher M. Lamkin

The following person was elected to NASB Financial Inc.'s Board of Directors for a three year term:

Paul L. Thomas

The firm of BKD, LLP was ratified for appointment as independent auditors for the fiscal year ended September 30, 2006.

#### Item 5. Other Information

None.

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

Exhibit 31.1 - Certification pursuant to Section 302 of the

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Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

Exhibit 32.2 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

(b) Reports of Form 8-K

A report on Form 8-K was filed on January 24, 2006, which announced a quarterly cash dividend of \$0.225 per share payable on February 24, 2006 to shareholder's of record as of February 3, 2006.

A report on Form 8-K was filed on February 6, 2006, which announced financial results for the quarter ended December 31, 2005.

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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)

May 10, 2006

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

May 10, 2006

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

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