

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC
Form 10-Q
August 09, 2007

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 June 30, 2007

or

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

For the transition period from to

Commission File Number 0-24033

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

Missouri 43-1805201
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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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20,000,000 authorized; 9,857,112 issued at June 30, 2007, and September 30, 2006	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	16,366	16,311
Retained earnings	169,208	162,631
Treasury stock, at cost; 1,924,883 shares at June 30, 2007, and 1,538,470 shares at September 30, 2006	(36,468)	(22,061)
Accumulated other comprehensive loss	(1,394)	(1,788)
	-----	-----
Total stockholders' equity	149,191	156,572
	-----	-----
	\$ 1,535,846	1,524,796
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

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

	Three months ended June 30,		Nine months ended June 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Interest on loans	\$ 24,706	23,884	74,237	69,379
Interest on mortgage-backed securities	763	1,023	2,445	3,280
Interest and dividends on securities	452	175	994	577
Other interest income	133	39	239	204
	-----	-----	-----	-----
Total interest income	26,054	25,121	77,915	73,440
	-----	-----	-----	-----
Interest on customer deposit accounts	8,534	7,995	24,664	21,621
Interest on advances from FHLB	6,569	5,505	20,445	15,533
Interest on subordinated debentures	443	--	974	--
Interest on securities sold under agreements to repurchase	72	--	396	784
	-----	-----	-----	-----
Total interest expense	15,618	13,500	46,479	37,938
	-----	-----	-----	-----

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Net interest income	10,436	11,621	31,436	35,502
Provision for loan losses	175	250	934	408
	-----	-----	-----	-----
Net interest income after provision for loan losses	10,261	11,371	30,502	35,094
	-----	-----	-----	-----
Other income (expense):				
Loan servicing fees, net	138	32	160	137
Impairment recovery on mortgage servicing rights	(28)	9	(2)	15
Customer service fees and charges	1,582	1,512	4,425	4,666
Recovery on real estate owned	(340)	277	(445)	277
Gain on sale of loans held for sale	4,166	3,950	11,397	11,073
Other	340	842	1,229	1,616
	-----	-----	-----	-----
Total other income	5,858	6,622	16,764	17,784
	-----	-----	-----	-----
General and administrative expenses:				
Compensation and fringe benefits	4,122	4,402	11,818	13,202
Commission-based mortgage banking compensation	2,075	1,827	5,570	5,310
Premises and equipment	953	869	2,713	2,644
Advertising and business promotion	1,220	821	3,163	2,851
Federal deposit insurance premiums	25	27	79	79
Other	1,566	1,625	4,196	4,864
	-----	-----	-----	-----
Total general and administrative expenses	9,961	9,571	27,539	28,950
	-----	-----	-----	-----
Income before income tax expense	6,158	8,422	19,727	23,928
Income tax expense	2,372	3,244	7,598	8,826
	-----	-----	-----	-----
Net income	\$ 3,786	5,178	12,129	15,102
	=====	=====	=====	=====
Basic earnings per share	\$ 0.47	0.61	1.48	1.79
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.47	0.61	1.47	1.78
	=====	=====	=====	=====
Basic weighted average shares outstanding	7,986,967	8,396,165	8,169,670	8,416,356

See accompanying notes to condensed consolidated financial statements.

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

	Common	Additional paid-in	Retained	Treasury	Accumulated other comprehensive	Total stockholders'
--	--------	-----------------------	----------	----------	---------------------------------------	------------------------

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	stock	capital	earnings	stock	income (loss)	equi
(Dollars in thousands)						
Balance at October 1, 2006	\$ 1,479	16,311	162,631	(22,061)	(1,788)	156,
Comprehensive income:						
Net income	--	--	12,129	--	--	12,
Other comprehensive income (loss), net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	394	----
Total comprehensive income						12,
Cash dividends paid	--	--	(5,552)	--	--	(5,
Stock based compensation expense	--	55	--	--	--	
Repurchase of common stock for treasury	--	--	--	(14,407)	--	(14,
Balance at June 30, 2007	\$ 1,479	16,366	169,208	(36,468)	(1,394)	149,

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 12,129	15,102
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	863	938
Amortization and accretion, net	(1,340)	(1,032)
Impairment (loss) recovery on mortgage servicing rights	2	(15)
Gain on sale of loans receivable held for sale	(11,397)	(11,073)
Provision for loan losses	934	408
Provision for loss (recovery) on real estate owned	445	(277)
Principal repayments of mortgage loans receivable held for sale	--	19
Origination of loans receivable held for sale	(754,225)	(753,315)
Sale of loans receivable held for sale	748,838	790,634
Stock based compensation - stock options	55	38

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Changes in:		
Net fair value of loan related commitments	(88)	(18)
Accrued interest receivable	105	(950)
Accrued expenses and other liabilities and income taxes payable	2,082	860

Net cash provided by (used in) operating activities	(1,597)	41,319
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	62	82
Available for sale	11,670	24,373
Principal repayments of mortgage loans receivable		
held for investment	321,184	325,641
Principal repayments of other loans receivable	7,097	6,200
Maturity of investment securities available for sale	4	4
Loan origination - mortgage loans held for investment	(307,631)	(392,188)
Loan origination - other loans receivable	(7,273)	(4,093)
Purchase of FHLB stock	(578)	(1,672)
Proceeds for sale of real estate owned	5,869	5,032
Purchases of premises and equipment, net	(3,744)	(3,134)
Investment in LLCs	(2,148)	(4,141)
Other	(1,857)	282

Net cash provided by (used in) investing activities	22,655	(43,614)

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

	Nine months ended June 30,	
	2007	2006

Cash flows from financing activities:		
Net (decrease) increase in customer and brokered deposit accounts	(1,941)	83,985
Proceeds from advances from FHLB	278,650	222,000
Repayment on advances from FHLB	(283,848)	(192,241)
Proceeds from subordinated debentures	25,774	--
Proceeds from sale of securities under agreements to repurchase	30,900	--
Repayment of securities sold under agreements to repurchase	(30,900)	(122,000)
Cash dividends paid	(5,552)	(7,584)
Purchase of common stock for treasury	(14,407)	(2,409)
Change in escrows	(1,878)	(3,104)

Net cash used in financing activities	(3,202)	(21,353)

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Net increase (decrease) in cash and cash equivalents	17,856	(23,648)
Cash and cash equivalents at beginning of the period	11,442	35,334
Cash and cash equivalents at end of period	\$ 29,298	11,686
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 8,812	7,958
Cash paid for interest	44,249	38,951
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 12,820	2,382
Conversion of real estate owned to loans receivable	4,461	2,170
Capitalization of mortgage servicing rights	6	139

See accompanying notes to condensed consolidated financial statements.

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(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the nine months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. The condensed consolidated balance sheet of the Company as of September 30, 2006, 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 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

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condensed consolidated financial statements as of June 30, 2007, have remained unchanged from September 30, 2006. These policies relate to the allowance for loan losses and the valuation of mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2006.

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		Nine months ended	
	6/30/07	6/30/06	6/30/07	6/30/06
Net income (in thousands)	\$ 3,786	5,178	12,129	15,102
Average common shares outstanding	7,986,967	8,396,165	8,169,670	8,416,356
Average common share stock options outstanding	63,293	46,292	58,086	43,568
Average diluted common shares	8,050,260	8,442,457	8,227,756	8,459,924
Earnings per share:				
Basic	\$ 0.47	0.61	1.48	1.79
Diluted	0.47	0.61	1.47	1.78

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.

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(3) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

June 30, 2007

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	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 204	6	--	210
Pass-through certificates guaranteed by FNMA				
- adjustable rate	12,028	--	310	11,718
FHLMC participation certificates				
- fixed rate	1,025	--	72	953
- adjustable rate	74,828	--	1,890	72,938
Total	\$ 88,085	6	2,272	85,819

(4) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	June 30, 2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	\$ 96	2	--	98
FNMA pass-through certificates:				
Fixed rate	80	1	--	81
Balloon maturity and adjustable rate	71	--	--	71
Pass-through certificates guaranteed by GNMA				
- fixed rate	16	1	--	17
Total	\$ 263	4	--	267

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(5) LOANS RECEIVABLE

Loans receivable are as follows:

June 30,
2007

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(Dollars in thousands)

LOANS HELD FOR INVESTMENT:

Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 346,448
Business properties	485,642
Partially guaranteed by VA or insured by FHA	1,609
Construction and development	493,366

Total mortgage loans	1,327,065
Commercial loans	65,048
Installment loans to individuals	17,404

Total loans held for investment	1,409,517
Less:	
Undisbursed loan funds	(129,785)
Unearned discounts and fees and costs on loans, net	(5,195)

Net loans held for investment	\$1,274,537
	=====

June 30,
2007

(Dollars in thousands)

LOANS HELD FOR SALE:

Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 101,761
Less:	
Undisbursed loan funds	(34,515)

Net loans held for sale	\$ 67,246
	=====

Included in the loans receivable balances at June 30, 2007, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of \$85,000. Loans and participations serviced for others amounted to approximately \$88.1 million at June 30, 2007.

The following table presents the activity in the allowance for losses on loans for the period ended June 30, 2007. 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, 2006	\$ 7,991
Provisions	934
Charge-offs	(1,252)
Recoveries	--

Balance at June 30, 2007	\$ 7,673
	=====

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(6) FORECLOSED ASSETS HELD FOR SALE

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

	June 30, 2007

(Dollars in thousands)	
Real estate acquired through (or deed in lieu of) foreclosure	\$ 8,081
Less: allowance for losses	(450)

Total	\$ 7,631
=====	

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.

(7) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended June 30, 2007. Dollar amounts are expressed in thousands.

Balance at October 1, 2006	\$ 1,089
Additions:	
Originated mortgage servicing rights	6
Reductions:	
Amortization	(88)
Impairment loss	(2)

Balance at June 30, 2007	\$ 1,005
=====	

(8) 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 million of pooled Trust Preferred Securities. The Trust used the proceeds from the offering to purchase a like amount of NASB Financial Inc.'s subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust. In exchange for the capital contributions made to the Trust by NASB Financial, Inc. upon formation, NASB Financial, Inc. owns all the common securities of the Trust.

In accordance with Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), the Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of the Company. The \$25.0 million Trust Preferred Securities issued by the Trust will remain on the records of the Trust. The Trust Preferred Securities are included in Tier I capital for regulatory capital purposes.

The Trust Preferred Securities have a variable interest rate of 1.65% over the 3-month LIBOR, and are mandatorily redeemable upon the 30-year term of the debentures, or upon earlier redemption as provided in

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the Indenture. The debentures are callable, in whole or in part, after five years of 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.

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(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.

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 June 30, 2007	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 10,862	--	--	(426)	10,436
Provision for loan losses	175	--	--	--	175
Other income	1,025	1,863	3,543	(573)	5,858
General and administrative expenses	4,354	2,037	3,627	(57)	9,961
Income tax expense (benefit)	2,833	(67)	(32)	(362)	2,372
Net income	\$ 4,525	(107)	(52)	(580)	3,786

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Three months ended June 30, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,602	--	--	19	11,621
Provision for loan losses	250	--	--	--	250
Other income	1,916	2,714	2,324	(332)	6,622
General and administrative expenses	4,174	2,775	2,747	(125)	9,571
Income tax expense (benefit)	3,601	(27)	(176)	(154)	3,244
Net income	\$ 5,493	(34)	(247)	(34)	5,178

Nine months ended June 30, 2007	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 32,356	--	--	(920)	31,436
Provision for loan losses	934	--	--	--	934
Other income	3,260	4,987	9,971	(1,454)	16,764
General and administrative expenses	12,282	5,476	9,925	(144)	27,539
Income tax expense (benefit)	8,624	(188)	18	(856)	7,598
Net income	\$ 13,776	(301)	28	(1,374)	12,129

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Nine months ended June 30, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 35,449	--	--	53	35,502
Provision for loan losses	408	--	--	--	408
Other income	4,519	7,610	6,901	(1,246)	17,784
General and administrative expenses	12,340	8,033	8,898	(321)	28,950
Income tax expense (benefit)	10,126	(157)	(743)	(400)	8,826
Net income	\$ 17,094	(266)	(1,254)	(472)	15,102

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

The Company's total assets as of June 30, 2007, were \$1,535.8 million, an increase of \$11.1 million from September 30, 2006, the prior fiscal year end.

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, 2007, the Bank originated \$754.2 million in mortgage loans held for sale, \$307.6 million in mortgage loans held for investment, and \$7.3 million in other loans. This total of \$1,069.1 million in loans originated compares to \$1,149.6 million in loans originated and purchased during the nine months ended June 30, 2006.

Loans held for sale as of June 30, 2007, were \$67.2 million, and

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consisted entirely of 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.

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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.

	6/30/07	9/30/06	6/30/06
Asset Classification:			
Substandard	\$ 11,301	12,361	8,665
Doubtful	--	--	--
Loss	427	434	435
	11,728	12,795	9,100
Allowance for losses	(8,123)	(8,266)	(7,839)
	\$ 3,605	4,529	1,261

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.

	6/30/07	9/30/06	6/30/06
Total Assets	\$ 1,535,846	1,524,796	1,550,347
Non-accrual loans	\$ 2,036	6,396	2,931
Troubled debt restructurings	70	3,477	3,477
Net real estate and other assets acquired through foreclosure	7,631	5,231	4,331
Total	\$ 9,737	15,104	10,739
Percent of total assets	0.63%	0.99%	0.69%

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

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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.

LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased \$1.7 million during the nine months ended June 30, 2007. The weighted average rate on customer and brokered deposits as of June 30, 2007, was 4.22%, an increase from 3.71% as of June 30, 2006.

Advances from the FHLB were \$494.0 million as of June 30, 2007, a decrease of \$5.4 million from September 30, 2006. During the nine-month period, the Bank borrowed \$278.7 million of new advances and repaid \$283.8 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, 2007. Such debentures resulted from the issuance of pooled 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 \$7.0 million as of June 30, 2007, a decrease of \$1.9 million from September 30, 2006. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2006.

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Total stockholders' equity as of June 30, 2007, was \$149.2 million (9.7% of total assets). This compares to \$156.6 million (10.3% of total assets) at September 30, 2006. On a per share basis, stockholders' equity was \$18.81 on June 30, 2007, compared to \$18.82 on September 30, 2006.

The Company paid cash dividends on its common stock of \$0.225 per share on November 24, 2006, February 23, 2007, and May 25, 2007. Subsequent to the quarter ended June 30, 2007, the Company announced a cash dividend of \$0.225 per share to be paid on August 24, 2007, to stockholders of record as of August 3, 2007.

Total stockholders' equity as of June 30, 2007, includes an unrealized loss of \$1.4 million, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive loss."

RATIOS

The following table illustrates the Company's return on assets (annualized net income divided by average total assets); return on

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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).

	Nine months ended	
	6/30/07	6/30/06
Return on assets	1.06%	1.30%
Return on equity	10.58%	13.32%
Equity-to-assets ratio	9.71%	9.89%
Dividend payout ratio	45.78%	50.22%

RESULTS OF OPERATIONS - Comparison of three and nine months ended June 30, 2007 and 2006.

For the three months ended June 30, 2007, the Company had net income of \$3,786,000 or \$0.47 per share. This compares to net income of \$5,178,000 or \$0.61 per share for the quarter ended June 30, 2006.

For the nine months ended June 30, 2007, the Company had net income of \$12,129,000 or \$1.48 per share. This compares to net income of \$15,102,000 or \$1.79 per share for the nine months ended June 30, 2006.

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, 2007 and 2006. 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.

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	Nine months ended 6/30/07		As of 6/30/07	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,342,913	74,237	7.37%	7.25%
Mortgage-backed securities	92,042	2,445	3.54%	4.24%

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Securities	25,539	994	5.19%	4.25%
Bank deposits	6,955	239	4.58%	4.74%
Total earning assets	1,467,449	77,915	7.08%	7.01%
Non-earning assets	63,379			
Total	\$1,530,828			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 169,806	1,503	1.18%	1.03%
Customer and brokered certificates of deposit	644,628	23,161	4.79%	5.08%
FHLB Advances	521,642	20,445	5.23%	5.14%
Subordinated debentures	18,500	974	7.01%	7.01%
Repurchase agreements	9,810	396	5.37%	--%
Total costing liabilities	1,364,386	46,479	4.54%	4.61%
Non-costing liabilities	11,922			
Stockholders' equity	154,520			
Total	\$1,530,828			
Net earning balance	\$ 103,063			
Earning yield less costing rate			2.54%	2.40%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$1,467,449	31,436	2.86%	

	Nine months ended 6/30/06		As of 6/30/06	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,336,420	69,379	6.92%	7.12%
Mortgage-backed securities	115,997	3,280	3.77%	4.33%
Securities	23,262	577	3.31%	3.78%
Bank deposits	8,641	204	3.15%	4.57%
Total earning assets	1,484,320	73,440	6.60%	6.86%
Non-earning assets	57,612			
Total	\$1,541,932			
Interest-costing liabilities				
Customer checkings and savings deposit accounts	\$ 186,324	1,480	1.06%	1.04%
Customer and brokered certificates of deposit	683,409	20,141	3.93%	4.42%
FHLB Advances	478,079	15,533	4.33%	4.87%
Repurchase agreements	31,500	784	3.32%	--%

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Total costing liabilities	1,379,312	37,938	3.67%	4.12%
Non-costing liabilities	11,718			
Stockholders' equity	150,902			
Total	\$1,541,932			
Net earning balance	\$ 105,008			
Earning yield less costing rate			2.93%	2.74%
Average interest-earning assets, net interest, and net yield spread on average interest- earning assets	\$1,484,320	35,502	3.19%	

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.

	Nine months ended June 30, 2007, compared to nine months ended June 30, 2006			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ 4,510	337	11	4,858
Mortgage-backed securities	(200)	(677)	42	(835)
Securities	328	57	32	417
Bank deposits	93	(40)	(18)	35
Net change in interest income	4,731	(323)	67	4,475
Components of interest expense:				
Customer and brokered deposit accounts	4,762	(1,373)	(346)	3,043
FHLB Advances	3,227	1,415	270	4,912
Subordinated debentures	--	--	974	974
Repurchase agreements	484	(540)	(332)	(388)
Net change in interest expense	8,473	(498)	566	8,541
Decrease in net interest				

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margin	\$ (3,742)	175	(499)	(4,066)
	=====			

Net interest margin before loan loss provision for the three months ended June 30, 2007, decreased \$1.2 million from the same period in the prior year. Specifically, interest income increased \$933,000 due primarily to an increase in the average rate earned on such assets. The increase in interest income was offset by a \$2.1 million increase in interest expense, which resulted from an increase in the average rate paid on such liabilities.

Net interest margin before loan loss provision for the nine months ended June 30, 2007, decreased \$4.1 million from the same period in the prior year. Specifically, interest income increased \$4.5 million, which was offset by a \$8.5 million increase in interest expense for the period. Interest on loans increased \$4.9 million as the result of a \$6.5 million increase in the average balance of loans receivable and 45 basis point increase in the average rate earned on such loans. Interest on securities increased \$417,000 as the result of a \$2.3 million increase in the average balance of investment securities and 188 basis point increase in the average rate earned on securities. These increases in interest income were partially offset by an \$835,000 decrease in interest on mortgage-backed securities due to a \$24.0 million decrease in the average balance of mortgage-backed securities and an 23 basis point decrease in the average rate earned on such assets. Interest expense on customer and brokered deposits increased \$3.0 million due to a 51 basis point increase in the average rate paid on such deposits. Interest expense on FHLB advances increased \$4.9 million as the result of a \$43.6 million increase in the average balance of FHLB advances and a 90 basis point increase in the average rate paid on such liabilities. Interest on subordinated debentures increased \$974,000 due to a \$18.5 million increase in the average balance of such liabilities, which were issued in December 2006. These increases in interest expense were partially offset by a \$388,000 decrease in interest expense on securities sold under agreements to repurchase due to a \$21.7 million decrease in the average balance of securities sold under agreements to repurchase.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$175,000 during the quarter ended June 30, 2007, due primarily to increases in consumer loans classified as loss. The Company recorded a provision for loan losses of \$633,000 during the quarter ended March 31, 2007, due primarily to increases in construction and development loans classified as substandard, which were taken into the foreclosed assets held for sale portfolio prior to the end of the quarter. The Company recorded a provision for loan losses of \$126,000 during the quarter ended December 31, 2006, due primarily to increases in the residential and commercial real estate loan portfolios. 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 69.3% of total classified assets at June 30, 2007, 64.6% at September 30, 2006, and 86.1% at June 30, 2006.

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Management believes that the provisions for loan losses is adequate. The provision can fluctuate based on changes in economic conditions, changes in the level of classified assets, changes in the amount of loan charge-offs and recoveries, or changes in other information available to management. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process and they may require changes in loss provision amounts based on information available at the time of their examination.

OTHER INCOME

Other income for the three months ended June 30, 2007, decreased \$764,000 from the same period in the prior year. Provision for loss on real estate owned increased \$617,000 due to an increase in foreclosed assets held for sale during the period. Other income decreased \$502,000 due to a decrease in income received on foreclosed assets held for sale, a decrease in income received from the Company's investment in LLCs, and the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." These decreases were offset by a \$216,000 increase in gain on sale of loans held for sale resulting from an increase in mortgage banking volume for the quarter. Additionally, loan servicing fees increased \$106,000 due to a decrease in capitalized servicing amortization, which resulted from a decrease in actual prepayments and estimated future repayments of the underlying mortgage loans during the quarter.

Other income for the nine months ended June 30, 2007, decreased \$1.0 million from the same period in the prior year. Provision for loss on real estate owned increased \$722,000 due to an increase in foreclosed assets held for sale during the period. Customer service fees and charges decreased \$241,000 due primarily to a decrease in overdraft and return item charges. Other income decreased \$387,000 due to decreases in income received on foreclosed assets held for sale and income received from the Company's investment in LLCs. These decreases were offset by a \$324,000 increase in gain on sale of loans resulting from an increase in mortgage banking volume for the period.

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GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended June 30, 2007, increased \$390,000 from the same period in the prior year. Specifically, compensation and fringe benefits decreased \$280,000 due primarily to a decrease in employee benefit related costs and the closing of a residential loan origination office located in St. Louis, Missouri during the third quarter of fiscal 2006. This decrease was offset by a \$248,000 increase in commission-based mortgage banking compensations due primarily to an increase in mortgage-banking volume during the quarter. Additionally, advertising and business promotion expense increased \$399,000 due to increased costs related to the national mortgage banking operation and strategic direct marketing costs related to the retail banking operation.

Total general and administrative expenses for the nine months ended June 30, 2007, decreased \$1.4 million from the same period in the prior year. Specifically, compensation and fringe benefits decreased \$1.4 million due primarily to a decrease in employee benefit related costs

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and the closing of a residential loan origination office located in St. Louis, Missouri during the third quarter of fiscal 2006. Other expense decreased \$668,000 due primarily to a decrease in credit, appraisal, underwriting, legal and other costs related to the local and national mortgage banking operations and the construction and commercial real estate lending operations of the Bank. These decreases were offset by a \$260,000 increase in commission-based mortgage banking compensations due primarily to an increase in mortgage-banking volume during the period. Additionally, advertising and business promotion expense increased \$312,000 due to increased costs related to the national mortgage banking operation and strategic direct marketing costs related to the retail banking operation.

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 \$100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of \$250,000. 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. DIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

REGULATORY CAPITAL REQUIREMENTS

At June 30, 2007, 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, 2007, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

The following tables summarize the relationship between the Bank's

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capital and regulatory requirements. Dollar amounts are expressed in thousands.

At June 30, 2007	Amount
GAAP capital (Bank only)	\$ 149,032
Adjustment for regulatory capital:	
Intangible assets	(2,896)
Disallowed portion of servicing assets and deferred tax assets	(2,609)
Reverse the effect of SFAS No. 115	1,394
Tangible capital	144,921
Qualifying intangible assets	--
Tier 1 capital (core capital)	144,921
Qualifying general valuation allowance	7,246
Risk-based capital	\$ 152,167

	As of June 30, 2007				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 152,167	12.2%	99,991	>=8%	124,98
Core capital to adjusted tangible assets	144,921	9.6%	60,471	>=4%	75,58
Tangible capital to tangible assets	144,921	9.6%	22,677	>=1.5%	-
Tier 1 capital to risk-weighted assets	144,921	11.6%	--	--	74,99

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has received regulatory approval from the OTS under 12 CFR 560.93 to increase it's loans-to-one-borrower limit to \$30 million for loans secured by certain residential housing units. Such loans must not, in the aggregate, exceed 150% of the Bank's unimpaired capital and surplus.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail

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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 June 30, 2007, there was \$116.1 million available to the Bank in the form of additional FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At June 30, 2007, the Bank has \$146.5 million in brokered deposits, and it could purchase up to \$240.4 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.

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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, 2006.

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, 2006.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this quarterly report. There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report on Form 10-

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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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

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

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

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

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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

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behalf by the undersigned thereunto duly authorized.

NASB Financial, Inc.
(Registrant)

August 9, 2007

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

August 9, 2007

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

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