NASB FINANCIAL INC
Form 10-Q
May 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the period ended March 31, 2002

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 incorporation or organization)	(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

The number of shares of Common Stock of the Registrant outstanding as of May 10, 2002, was 8,420,342.

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

	March 31, 2002 (Unaudited)	September 30, 2001
ASSETS		
Cash and cash equivalents	$ 21,159	$ 16,043
Securities available for sale	4,706	5,014
Stock in Federal Home Loan Bank, at cost	15,173	13,676
Mortgage-backed securities:		
Available for sale	1,852	2,406
Held to maturity (market value of $4,393 and $7,462 at March 31, 2002, and September 30, 2001, respectively)	4,259	6,864
Loans receivable:		
Held for sale	62,604	92,864
Held for investment, net	791,233	803,606
Accrued interest receivable	5,219	5,587
Real estate owned, net	6,335	8,043
Premises and equipment, net	6,771	6,872
Mortgage servicing rights, net	6,664	8,008
Other assets	4,668	2,479
	$ 930,643	$ 971,462
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 567,643	$ 576,040
Brokered deposit accounts	--	9,997
Advances from Federal Home Loan Bank	253,333	273,471
Escrows	4,057	7,116
Income taxes payable	2,769	6,427
Accrued expenses and other liabilities	2,061	2,914
Total liabilities	829,863	875,965
Commitments and contingencies		
Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,797,112 issued at March 31, 2002, and 9,773,612 issued at September 30, 2001	1,470	1,466
Serial preferred stock of $1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--
Additional paid-in capital	15,818	15,635
Retained earnings	100,202	93,340
Treasury stock, at cost; 1,381,770 shares		

at March 31, 2002 and 1,269,522 shares at September 30, 2001	(16,716)	(14,854)
Accumulated other comprehensive loss	6	(90)
Total stockholders' equity	100,780	95,497
	930,643	971,462

See accompanying notes to consolidated financial statements.

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,	
	2002	2001	2002	2001
Interest on loans	$ 17,580	21,138	36,303	42,276
Interest on mortgage-backed securities	114	251	291	555
Interest and dividends on securities	201	316	471	675
Other interest income	73	72	246	166
Total interest income	17,968	21,777	37,311	43,672
Interest on customer deposit accounts	4,972	7,982	11,166	16,346
Interest on advances from FHLB and other borrowings	3,371	5,074	7,380	9,755
Total interest expense	8,343	13,056	18,546	26,101
Net interest income	9,625	8,721	18,765	17,571
Provision for loan losses	150	150	491	300
Net interest income after provision for loan losses	9,475	8,571	18,274	17,271
Other income (expense):				
Loan servicing fees	(390)	(1,507)	(77)	(1,981)
Impairment (loss) recovery on mortgage servicing rights	86	67	(190)	(666)
Impairment loss on mortgage-backed securities	--	--	(170)	--
Customer service fees and charges	1,016	794	2,116	1,469
Provision for losses on real estate owned	--	--	(67)	--
Gain on sale of loans held for sale	1,552	1,446	5,292	2,777
Other	(2)	263	418	483

Total other income	2,262	1,063	7,322	2,082
General and administrative expenses:				
Compensation and fringe benefits	3,338	3,518	7,022	6,692
Premises and equipment	611	569	1,139	1,152
Advertising and business promotion	150	90	274	205
Federal deposit insurance premiums	27	31	57	62
Other	958	889	2,074	1,766
Total general and administrative expenses	5,084	5,097	10,566	9,877
Income before income tax expense	6,653	4,537	15,030	9,476
Income tax expense	2,627	1,746	5,843	3,676
Net income	$ 4,026	2,791	9,187	5,800
Basic earnings per share	$ 0.48	0.33	1.09	0.68
Diluted earnings per share	$ 0.48	0.32	1.08	0.67
Weighted average shares outstanding	8,412,887	8,556,995	8,460,142	8,548,574

See accompanying notes to consolidated financial statements.

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

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	T sto e
		(Dollars in thousands)				
Balance at October 1, 2001	$ 1,466	15,635	93,340	(14,854)	(90)	
Comprehensive income:						
Net income	--	--	9,187	--	--	
Other comprehensive loss, net of tax						
Unrealized loss on securities	--	--	--	--	96	
						--
Total comprehensive income	--	--	--	--	--	
Cash dividends paid	--	--	(2,325)	--	--	
Stock options exercised	4	183	--	--	--	
Purchase of common stock for Treasury	--	--	--	(1,862)	--	
Balance at March 31, 2002	$ 1,470	15,818	100,202	(16,716)	6	1

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six month March
	2002	2001	2002
Cash flows from operating activities:			
Net income	$ 4,026	2,791	9,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	205	214	420
Amortization and accretion	(636)	1,854	(1,085)
Impairment (loss) recovery on mortgage servicing rights	(86)	(67)	190
Impairment loss on mortgage-backed securities	--	--	170
Gain on sale of loans receivable held for sale	(1,552)	(1,446)	(5,292)
Provision for loan losses	150	150	491
Provision for losses on real estate owned	--	--	67
Origination and purchase of loans held for sale	(95,644)	(120,999)	(245,828)
Sale of loans receivable held for sale	142,722	79,604	334,798
Changes in:			
Accrued interest receivable	(166)	521	368
Accrued expenses and other liabilities and income taxes payable	(6,203)	(782)	(4,739)
Net cash provided by (used in) operating activities	42,816	(38,160)	88,747
Cash flows from investing activities:			
Principal repayments of mortgage-backed securities:			
Held to maturity	1,367	584	2,343
Available for sale	250	1,430	539
Principal repayments of mortgage loans held for investment and held for sale	98,484	108,692	242,281
Principal repayments of other loans receivable	8,526	8,340	18,900
Principal repayments of securities available for sale	478	367	20,478
Loan origination - mortgage loans held for investment	(103,670)	(86,510)	(274,969)
Loan origination - other loans	(5,008)	(7,323)	(10,376)
Purchase of mortgage loans held for investment	(4,478)	(5,692)	(12,771)
Purchase of other loans receivable	(5,173)	--	(5,173)
Purchase of investment securities available for sale	--	--	(20,000)
Purchase of FHLB stock	--	(1,047)	(1,497)
Proceeds for sale of real estate owned	2,239	901	3,791
Purchases of premises and equipment, net	(96)	(1,093)	(319)
Other	(338)	(349)	(1,267)

Net cash provided by (used in) investing activities	(7,419)	18,300	(38,040)

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

	Three months ended March 31,		Six month March
	2002	2001	2002
Cash flows from financing activities:			
Net increase (decrease) in customer deposit accounts	(23,570)	11,113	(18,394)
Proceeds from advances from FHLB	10,000	68,000	55,000
Repayment on advances from FHLB	(45,069)	(53,066)	(75,138)
Repayment of notes payable	--	(50)	--
Cash dividends paid	(1,262)	(1,070)	(2,325)
Stock options exercised	93	--	187
Repurchase of common stock	(1,533)	--	(1,862)
Net increase (decrease) in escrows	1,201	2,370	(3,059)
Net cash provided by (used in) financing activities	(60,140)	27,297	(45,591)
Net increase (decrease) in cash and cash equivalents	(24,743)	7,437	5,116
Cash and cash equivalents at beginning of the period	45,902	9,759	16,043
Cash and cash equivalents at end of period	$ 21,159	17,196	21,159
Supplemental disclosure of cash flow information:			
Cash paid for income taxes (net of refunds)	$ 5,466	3,994	9,578
Cash paid for interest	8,334	13,001	18,780
Supplemental schedule of non-cash investing and financing activities:			
Conversion of loans receivable to real estate owned	$ 1,147	1,513	2,204
Conversion of real estate owned to loans receivable	--	78	57
Capitalization of mortgage servicing rights	7	--	44
Transfer of loans from held to maturity to held for sale	--	67,117	--

See accompanying notes to consolidated financial statements.

(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 three months and six months ended March 31, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2002.

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

The FASB recently issued SFAS No. 141, "Business Combinations," No. 142, "Goodwill and Other Intangible Assets," No. 143, "Accounting for Asset Retirement Obligations," and No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." These Statements are effective on various dates throughout the Company's 2003 fiscal year. Implementation of these Statements is not expected to have a material effect on the Company's consolidated financial statements.

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

(2) SECURITIES AVAILABLE FOR SALE

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

	March 31, 2002			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
U.S. Government Obligations	$ 2,011	--	(5)	2,006
Equity securities	2,738	--	(38)	2,700
Total	$ 4,749	--	(43)	4,706

(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.

March 31, 2002

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 1,737	43	--	1,780
Mortgage-backed derivatives (including CMO residuals and interest-only securities)	62	10	--	72
Total	$ 1,799	53	--	1,852

6

(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.

	March 31, 2002			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Fixed rate	$ 581	14	--	595
Balloon maturity and adjustable rate	1,126	49	--	1,175
FNMA pass-through certificates:				
Fixed rate	134	--	(1)	133
Balloon maturity and adjustable rate	276	3	--	279
Pass-through certificates guaranteed by GNMA				
Fixed rate	298	15	--	313
Collateralized mortgage obligation bonds	142	--	(1)	141
Other asset-backed securities	1,702	55	--	1,757
Total	$ 4,259	136	(2)	4,393

(5) LOANS RECEIVABLE

Loans receivable are as follows:

	March 31, 2002 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 254,690
Business properties	344,287
Partially guaranteed by VA or insured by FHA	18,853
Construction and development	193,810
Total mortgage loans	811,640
Commercial loans	15,020
Installment loans to individuals	41,638
Total loans held for investment	868,298
Less:	
Undisbursed loan funds	(64,165)
Unearned discounts and fees and costs on loans, net	(6,673)
Allowance for losses on loans	(6,227)
Net loans held for investment	$ 791,233

	March 31, 2002 (Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 78,096
Less:	
Undisbursed loan funds	(15,425)
Unearned discounts and fees and costs on loans, net	(67)
Net loans held for sale	$ 62,604

7

Included in the loans receivable balances at March 31, 2002, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $2.2 million. Loans and participations serviced for others amounted to approximately $467.2 million at March 31, 2002.

(6) REAL ESTATE OWNED

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

March 31,
2002

	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 7,486
Less: allowance for losses	(1,151)
Total	$ 6,335

Real estate owned is carried at fair value as of the date of foreclosure minus any estimated disposal costs (the "new basis"), and is 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 March 31, 2002. Dollar amounts are expressed in thousands.

Balance at October 1, 2001	$ 8,008
Additions:	
Originated mortgage servicing rights	44
Reductions:	
Amortization	1,198
Sale of mortgage servicing rights	--
Impairment loss	190
Balance at March 31, 2002	$ 6,664

(8) 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	
	3/31/02	3/31/01	3/31/02	3/31/01
Net income (in thousands)	$ 4,026	2,791	9,187	5,800
Basic weighted average shares outstanding	8,412,887	8,556,995	8,460,142	8,548,574
Effect of stock options	27,824	57,030	32,943	64,950
Dilutive potential common shares	8,440,711	8,614,025	8,493,085	8,613,524
Net income per share:				
Basic	$ 0.48	0.33	1.09	0.68
Diluted	0.48	0.32	1.08	0.67

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.

(9) SEGMENT INFORMATION

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has identified two principal operating segments for purposes of financial reporting: Banking and Mortgage Banking. These segments were determined based on the Company's internal financial accounting and reporting processes and are consistent with the information that is used to make operating decisions and to assess the Company's performance by the Company's key decision makers.

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

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

Three months ended March 31, 2002	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 9,556	--	69	9,625
Provision for loan losses	150	--	--	150
Other income	2,200	2,590	(2,528)	2,262
General and administrative expenses	2,835	2,684	(435)	5,084
Income tax expense	3,238	(54)	(557)	2,627
Net income	$ 5,533	(40)	(1,467)	4,026

Three months ended March 31, 2001	Banking	Mortgage Banking	Other and Eliminations	Consolidated

Net interest income	$ 8,661	--	60	8,721
Provision for loan losses	150	--	--	150
Other income	(292)	3,546	(2,191)	1,063
General and administrative expenses	2,560	3,054	(517)	5,097
Income tax expense	2,178	189	(621)	1,746
Net income	$ 3,481	303	(993)	2,791

Six months ended March 31, 2002	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$18,627	--	138	18,765
Provision for loan losses	491	--	--	491
Other income	5,758	7,132	(5,568)	7,322
General and administrative expenses	5,842	6,014	(1,290)	10,566
Income tax expense	6,950	430	(1,537)	5,843
Net income	$11,102	688	(2,603)	9,187

Six months ended March 31, 2001	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$17,442	--	129	17,571
Provision for loan losses	300	--	--	300
Other income	(207)	6,012	(3,723)	2,082
General and administrative expenses	5,226	5,462	(811)	9,877
Income tax expense	4,508	212	(1,044)	3,676
Net income	$ 7,201	338	(1,739)	5,800

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, and advances from the Federal Home Loan Bank ("FHLB"). 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 March 31, 2002, were $930.6 million, a decrease of $40.8 million from September 30, 2001, 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 six months ended March 31, 2002, the Bank originated and purchased $245.8 million in mortgage loans held for sale, $287.7 million in mortgage loans held for investment, and $15.5 million in other loans. This total of $549.1 million in loans originated compares to $397.1 million in loans originated during the six months ended March 31, 2001.

Included in the $62.6 million in loans held for sale as of March 31, 2002, are $13.5 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.

	3/31/02	9/30/01	3/31/01
Asset Classification:			
Substandard	$ 17,164	18,780	20,979
Doubtful	--	--	--
Loss	2,080	1,851	2,313
	19,244	20,631	23,292
Allowance for losses	(7,378)	(7,035)	(8,634)
	$ 11,866	13,596	14,658

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.

LIABILITIES AND EQUITY

Customer deposit accounts decreased $8.4 million during the six months ended March 31, 2002. The weighted average rate on customer deposits as of March 31, 2002, was 3.45%, a decrease from 5.24% as of March 31, 2001.

Advances from the FHLB were $253.3 million as of March 31, 2002, an decrease of $20.1 million from September 30, 2001. During the six-month period, the Bank borrowed $55.0 million of new advances and repaid $75.1 million. Management uses FHLB advances at various times as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Escrows were $4.1 million as of March 31, 2002, a decrease of $3.1 million from September 30, 2001. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2001.

Total stockholders' equity as of March 31, 2002, was $100.8 million (10.83% of total assets). This compares to $95.5 million (9.83% of total assets) at September 30, 2001. On a per share basis, stockholders' equity was $11.98 on March 31, 2002, compared to $11.23 on September 30, 2001.

The Company paid cash dividends on its common stock of $0.125 on November 30, 2001, and of $0.15 on February 22, 2002. Subsequent to the quarter ended March 31, 2002, the Company announced a cash dividend of $0.15 per share to be paid on May 24, 2002, to stockholders of record as of May 3, 2002.

Total stockholders' equity as of March 31, 2002, includes an unrealized gain of $6,000, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive income (loss)."

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 month ended	
	3/31/02	3/31/01
Return on assets	1.93%	1.14%
Return on equity	18.72%	13.53%
Equity-to-assets ratio	10.83%	8.42%
Dividend payout ratio	25.31%	32.67%

RESULTS OF OPERATIONS - Comparison of three months and six months ended March 31, 2002 and 2001.

For the three months ended March 31, 2002, the Company had net income of $4,026,000 or $0.48 per share. This compares to net income of $2,791,000 or $0.33 per share for the quarter ended March 31, 2001.

For the six months ended March 31, 2002, the Company had net income of $9,187,000 or $1.09 per share. This compares to net income of $5,800,000 or $0.68 per share for the six months ended March 31, 2001.

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 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, 2002 and 2001. 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 3/31/02 Average Balance	Interest	Yield/ Rate	As of 3/31/02 Yield/ Rate
Interest-earning assets				
Loans	$ 879,928	36,303	8.25%	7.75%
Mortgage-backed securities	7,761	291	7.50%	7.20%
Securities	22,637	471	4.16%	4.30%
Bank deposits	24,178	246	2.03%	1.31%
Total earning assets	934,504	37,311	7.99%	7.54%
Non-earning assets	31,744			
Total	$ 966,248			
Interest-costing liabilities				
Customer deposits accounts	$ 577,962	11,166	3.86%	3.45%
FHLB Advances	279,259	7,380	5.29%	4.97%
Other borrowings	--	--	--%	--
Total costing liabilities	857,221	18,546	4.33%	3.92%
Non-costing liabilities	10,931			
Stockholders' equity	98,096			
Total	$ 966,248			
Net earning balance	$ 77,283			
Earning yield less costing rate			3.66%	3.62%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 934,504	18,765	4.02%	

	Six months ended 3/31/01 Average Balance	Interest	Yield/ Rate	As of 3/31/01 Yield/ Rate
Interest-earning assets				
Loans	$ 933,333	42,276	9.06%	8.30%
Mortgage-backed securities	16,760	555	6.62%	6.19%
Securities	19,389	675	6.96%	6.27%
Bank deposits	5,926	166	5.60%	4.93%
Total earning assets	975,408	43,672	8.95%	8.19%
Non-earning assets	36,274			
Total	$1,011,682			

Interest-costing liabilities				
Customer deposits accounts	$ 617,136	16,346	5.30%	5.24%
FHLB Advances	293,771	9,752	6.64%	6.40%
Other borrowings	79	3	7.64%	7.50%
Total costing liabilities	910,986	26,101	5.73%	5.63%
Non-costing liabilities	14,997			
Stockholders' equity	85,699			
Total	$1,011,682			
Net earning balance	$ 64,422			
Earning yield less costing rate			3.22%	2.56%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 975,408	17,571	3.60%	

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

	Six months ended March 31, 2002, compared to six months ended March 31, 2001			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ (3,780)	(2,419)	226	(5,973)
Mortgage-backed securities	74	(298)	(40)	(264)
Securities	(271)	113	(46)	(204)
Other assets	(106)	511	(325)	80
Net change in interest income	(4,083)	(2,093)	(185)	(6,361)
Components of interest expense:				
Customer deposit accounts	(4,443)	(1,038)	301	(5,180)
FHLB Advances	(1,983)	(482)	93	(2,372)
Other borrowings	(3)	(3)	3	(3)
Net change in interest expense	(6,429)	(1,523)	397	(7,555)

Increase (decrease) in net interest margin	$ 2,346	(570)	(582)	1,194

Net interest margin before loan loss provision for the three months ended March 31, 2002, increased $904,000 from the same period in the prior year. Specifically, total interest expense decreased $4.7 million due to a decrease in interest rates paid on interest-costing liabilities. This was partially offset by a decrease in interest income of $3.8 million.

Net interest margin before loan loss provision for the six months ended March 31, 2002, increased $1.2 million from the same period in the prior year. Specifically, total interest expense decreased $7.6 million, due to a $53.8 million decrease in the average balances of interest-costing liabilities and a decrease in the interest rate cost of those liabilities of 1.4%. This was partially off set by a decrease in total interest income of $6.4 million, which resulted from a decrease in the average balance of interest-earning assets of $40.9 million and decrease in the average interest rates earned on those assets of 96 basis points.

PROVISION FOR LOAN LOSSES

The Company's provision for loan losses was $150,000 during the quarter ended March 31, 2002, and was $491,000 for the six months ended March 31, 2002. Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. An increase in delinquencies of the Bank's residential single-family sub-prime loan portfolio during the six months ended March 31, 2002, resulted in the increase in provision for loan losses. On a consolidated basis, loan loss reserve was 38.3% of total classified assets at March 31, 2002, 34.1% at September 30, 2001, and 37.1% at March 31, 2001.

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.

OTHER INCOME

Other income for the three months ended March 31, 2002, increased $1.2 million from the same period in the prior year. This increase was primarily the result of and increase in net loan servicing fees of $1.1 million, which was a result of decreases in actual and estimated future prepayment of the underlying mortgage loans.

Other income for the six months ended March 31, 2002, increased $5.2 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased $2.5 million due to the increased volume of mortgage banking. Customer service fees increased $647,000 from the prior year, primarily due to the implementation of an overdraft privilege program, which increased the level of overdraft fees collected from demand deposit customers. Loan servicing fees increased $1.9 million and impairment loss on mortgage servicing rights decreased $476,000, which were both a result of a decrease in the actual and estimated future prepayments of the underlying mortgage loans. This was partially offset by a provision for loss on real estate owned of $67,000, and an impairment loss on a particular mortgage-backed security held for investment of $170,000, which represented its full carrying value.

Income from loan servicing fees are net of amortization of mortgage servicing rights. Such amortization is greatly affected by the level of actual prepayments and estimated future prepayments on the underlying mortgage loans. Management performs an ongoing analysis of mortgage servicing rights to determine to what extent, if any, it may be impaired. Changes in the trend of mortgage interest rates can occur quickly and may have a significant impact on future mortgage prepayments and amortization of mortgage servicing rights.

GENREAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the quarter ended March 31, 2002, was nearly unchanged from the same period in the previous year. General and administrative expenses for the six months ended March 31, 2002, increased $0.7 million from the same period in the prior year. This was due primarily to an increase in compensation and other expenses attributable to the increased loan origination volume.

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.

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, 2002, 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, 2002, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At March 31, 2002	Amount
GAAP capital (Bank only)	$ 93,077
Adjustment for regulatory capital:	
Intangible assets	(128)
Disallowed portion of servicing assets	(569)
Reverse the effect of SFAS No. 115	(30)
Tangible capital	92,350
Qualifying intangible assets	--
Tier 1 capital (core capital)	92,350
Qualifying general valuation allowance	4,669
Risk-based capital	$ 97,019

	As of March 31, 2002				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 97,019	13.5%	57,565	>=8%	71,95
Core capital to adjusted tangible assets	92,350	10.0%	36,970	>=4%	46,21
Tangible capital to tangible assets	92,350	10.0%	13,864	>=1.5%	-
Tier 1 capital to risk-weighted assets	92,350	12.8%	--	--	43,17

INTEREST RATE RISK COMPONENT

The OTS has adopted a rule which requires savings institutions with a "greater than normal" level of interest rate exposure to deduct amounts from their total capital for the purpose of calculating the risk-based capital requirement. The deduction is an amount equal to one-half of the difference between the institution's measured exposure and the "normal" exposure level (i.e., 2% of the estimated economic value of the institution's assets). The rule measures interest rate risk as the decline in Net Portfolio Value that would result from a sharp increase or decrease in market interest rates. The rule sets forth a description of valuation methodologies for assets, liabilities, and off-balance sheet items. Subsidiaries that are deemed to be controlled by an institution under accounting principles generally accepted in the United States of America will be consolidated for purposes of calculating interest rate risk. Although the interest rate component was originally

scheduled to become effective by December 31, 1994, the OTS has notified institutions to delay implementation until further notice.

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. As of March 31, 2002, the Bank had no loans that exceeded the loans to one borrower limit.

INVESTMENT IN SUBSIDIARIES

Investments in and extensions of credit to subsidiaries not engaged in activities permissible for national banks must generally be deducted from capital. As of March 31, 2002, the Bank did not have any investments in or advances to subsidiaries engaged in activities not permissible for national banks.

LIQUIDITY AND CAPITAL RESOURCES

The Bank generates liquidity primarily from savings deposits and repayments on loans, investments, and MBS. Liquidity measures the ability to meet deposit withdrawals and lending commitments. For secondary sources of liquidity, the Bank has the ability to sell assets held for sale, can borrow from primary securities dealers on a collateralized basis, and can use the FHLB of Des Moines' credit facility.

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 is not currently aware of any other market or economic conditions that could materially impact the Bank's future ability to meet obligations as they come due.

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 stockholders' meeting was held on January 22, 2002. The following persons were elected to NASB Financial Inc.'s Board of Directors for three-year terms:

Barrett Brady
James A. Watson
Keith B. Cox

The firm of Deloitte & Touche LLP was ratified for appointment as independent auditors for the fiscal year ended September 30, 2002.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

None.

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 13, 2002

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

May 13, 2002

By: /s/Keith B. Cox

Keith B. Cox
Vice President and
Treasurer