NASB FINANCIAL INC
Form 10-Q
February 09, 2007

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 December 31, 2006

or

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

For the transition period from to

Commission File Number 0-24033

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

Missouri	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

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.

Large accelerated filer   Accelerated filer X   Non-accelerated filer

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

Yes   No X

The number of shares of Common Stock of the Registrant outstanding as of February 5, 2007, was 8,318,642.

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

	December 31, 2006 (Unaudited)	September 30, 2006
ASSETS		
Cash and cash equivalents	$ 18,653	11,442
Securities available for sale	50	50
Stock in Federal Home Loan Bank, at cost	26,053	24,043
Mortgage-backed securities:		
Available for sale, at fair value	93,505	97,259
Held to maturity	305	325
Loans receivable:		
Held for sale	62,970	50,462
Held for investment, net	1,304,328	1,295,700
Allowance for loan losses	(7,697)	(7,991)
Accrued interest receivable	8,408	8,205
Foreclosed asset held for sale, net	8,932	5,231
Premises and equipment, net	14,426	12,994
Investment in LLCs	18,303	16,737
Mortgage servicing rights, net	1,048	1,089
Deferred income tax asset	2,706	2,856
Other assets	7,664	6,394
	$ 1,559,654	1,524,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 692,368	722,799
Brokered deposit accounts	121,116	128,243
Advances from Federal Home Loan Bank	544,453	499,357
Subordinated debentures	25,774	--
Escrows	3,933	8,910
Income taxes payable	5,224	2,602
Accrued expenses and other liabilities	7,254	6,313
Total liabilities	1,400,122	1,368,224

Stockholders' equity:
Common stock of $0.15 par value:

20,000,000 authorized; 9,857,112 issued at December 31, 2006, 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	16,329	16,311
Retained earnings	165,333	162,631
Treasury stock, at cost; 1,538,470 shares at December 31, 2006, and September 30, 2006	(22,061)	(22,061)
Accumulated other comprehensive loss	(1,548)	(1,788)
Total stockholders' equity	159,532	156,572
	$ 1,559,654	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 December 31,	
	2006	2005
Interest on loans	$ 24,930	22,434
Interest on mortgage-backed securities	854	1,160
Interest and dividends on securities	206	277
Other interest income	54	121
Total interest income	26,044	23,992
Interest on customer and brokered deposit accounts	8,245	6,367
Interest on advances from FHLB	7,008	4,759
Interest on subordinated debentures	92	--
Interest on securities sold under agreements to repurchase	--	606
Total interest expense	15,345	11,732

Net interest income	10,699	12,260
Provision for loan losses	126	65
Net interest income after provision for loan losses	10,573	12,195
Other income (expense):		
Loan servicing fees, net	34	30
Impairment recovery on mortgage servicing rights	8	1
Customer service fees and charges	1,414	1,676
Provision fro loss on real estate owned	(105)	--
Gain on sale of loans held for sale	3,505	3,852
Other	639	282
Total other income	5,495	5,841
General and administrative expenses:		
Compensation and fringe benefits	3,897	4,492
Commission-based mortgage banking compensation	1,773	1,871
Premises and equipment	858	874
Advertising and business promotion	858	1,108
Federal deposit insurance premiums	28	26
Other	1,215	1,526
Total general and administrative expenses	8,629	9,897
Income before income tax expense	7,439	8,139
Income tax expense	2,865	2,930
Net income	$ 4,574	5,209
Basic earnings per share	$ 0.55	0.62
Diluted earnings per share	$ 0.55	0.61
Basic weighted average shares outstanding	8,318,642	8,434,562

See accompanying notes to condensed consolidated financial statements.

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

Accumulated

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	other comprehensive income (loss)	Tota stockho equi
		(Dollars in thousands)				
Balance at October 1, 2006	$ 1,479	16,311	162,631	(22,061)	(1,788)	156,
Comprehensive income:						
Net income	--	--	4,574	--	--	4,
Other comprehensive income (loss), net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	240	
Total comprehensive income						4,
Cash dividends paid	--	--	(1,872)	--	--	(1,
Stock based compensation expense	--	18	--	--	--	
Balance at December 31, 2006	$ 1,479	16,329	165,333	(22,061)	(1,548)	159,

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31, 2006	Three months ended December 31, 2005 (Restated)
Cash flows from operating activities:		
Net income	$ 4,574	5,209
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	278	306
Amortization and accretion, net	(639)	(541)
Impairment recovery on mortgage servicing rights	(8)	(1)
Gain on sale of loans receivable held for sale	(3,505)	(3,852)
Provision for loan losses	126	65
Provision for loss on foreclosed assets	105	--
Principal repayments of mortgage loans receivable held for sale	--	7
Origination of loans receivable held for sale	(222,182)	(317,333)
Sale of loans receivable held for sale	213,179	365,383

Stock based compensation - stock options	18	--
Changes in:		
Net fair value of loan related commitments	(102)	52
Accrued interest receivable	(203)	(430)
Accrued expenses and other liabilities and income taxes payable	4,092	5,588
Net cash provided by (used in) operating activities	(4,267)	54,453
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	20	35
Available for sale	4,007	9,458
Principal repayments of mortgage loans receivable held for investment	64,725	93,728
Principal repayments of other loans receivable	2,098	1,941
Loan origination - mortgage loans held for investment	(79,634)	(141,023)
Loan origination - other loans receivable	(1,282)	(1,209)
Purchase of FHLB stock	(2,009)	(1,021)
Proceeds for sale of real estate owned	2,130	1,817
Purchases of premises and equipment, net	(1,710)	(805)
Investment in LLCs	(1,566)	(2,354)
Other	(1,724)	(373)
Net cash used in investing activities	(14,945)	(39,806)

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

	Three months ended December 31,	
	2006	2005 (Restated)
Cash flows from financing activities:		
Net (decrease) increase in customer and brokered deposit accounts	(37,654)	45,428
Proceeds from advances from FHLB	130,000	150,000
Repayment on advances from FHLB	(84,848)	(127,079)
Proceeds from subordinated debentures	25,774	--
Repayment of securities sold under agreements to repurchase	--	(69,500)
Cash dividends paid	(1,872)	(3,796)
Purchase of common stock for treasury	--	(769)
Change in escrows	(4,977)	(5,828)
Net cash provided by (used in) financing activities	26,423	(11,544)

Net increase in cash and cash equivalents	7,211	3,103
Cash and cash equivalents at beginning of the period	11,442	35,334
Cash and cash equivalents at end of period	$ 18,653	38,437
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 335	296
Cash paid for interest	14,016	11,682
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 5,723	887
Capitalization of mortgage servicing rights	--	68

See accompanying notes to condensed consolidated financial statements.

5

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature 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 ended December 31, 2006, 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 condensed consolidated financial statements as of December 31, 2006, 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	
	12/31/06	12/31/05
Net income (in thousands)	$ 4,574	5,209
Average common shares outstanding	8,318,642	8,434,562
Average common share stock options outstanding	53,151	42,303
Average diluted common shares	8,371,793	8,476,865
Earnings per share:		
Basic	$ 0.55	0.62
Diluted	0.55	0.61

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

(3) 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.

December 31, 2006		
Gross	Gross	Estimated

	Amortized cost	unrealized gains	unrealized losses	fair value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 242	5	--	247
Pass-through certificates guaranteed by FNMA - adjustable rate	13,023	--	345	12,678
FHLMC participation certificates				
- fixed rate	1,146	--	75	1,071
- adjustable rate	81,702	--	2,193	79,509
Total	$ 96,113	5	2,613	93,505

(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.

	December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 118	4	--	122
FNMA pass-through certificates:				
Fixed rate	86	--	--	86
Balloon maturity and adjustable rate	73	--	--	73
Pass-through certificates guaranteed by GNMA - fixed rate	28	1	--	29
Total	$ 305	5	--	310

(5) LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2006
	(Dollars in thousands)

LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 366,312
Business properties	483,809
Partially guaranteed by VA or insured by FHA	1,824
Construction and development	511,034
Total mortgage loans	1,362,979
Commercial loans	59,971
Installment loans to individuals	16,476
Total loans held for investment	1,439,426
Less:	
Undisbursed loan funds	(130,371)
Unearned discounts and fees and costs on loans, net	(4,727)
Net loans held for investment	$1,304,328

	December 31, 2006
	(Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 92,964
Less:	
Undisbursed loan funds	(29,991)
Unearned discounts and fees and costs on loans, net	(3)
Net loans held for sale	$ 62,970

Included in the loans receivable balances at December 31, 2006, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $109,000. Loans and participations serviced for others amounted to approximately $96.9 million at December 31, 2006.

The following table presents the activity in the allowance for losses on loans for the period ended December 31, 2006. 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	126
Charge-offs	(420)
Recoveries	--
Balance at December 31, 2006	$ 7,697

(6) FORECLOSED ASSETS HELD FOR SALE

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

	December 31, 2006
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 9,226
Less: allowance for losses	(294)
Total	$ 8,932

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 December 31, 2006. Dollar amounts are expressed in thousands.

Balance at October 1, 2006	$ 1,089
Additions:	
Originated mortgage servicing rights	--
Impairment recovery	8
Reductions:	
Amortization	(49)
Balance at December 31, 2006	$ 1,048

(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 dentures, or upon earlier redemption as provided in 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.

(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 December 31, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 10,773	--	--	(74)	10,699
Provision for loan losses	126	--	--	--	126
Other income	1,240	1,773	3,032	(550)	5,495
General and administrative expenses	3,922	1,829	2,955	(77)	8,629
Income tax expense (benefit)	3,066	(21)	30	(210)	2,865
Net income	$ 4,899	(35)	47	(337)	4,574

Three months ended December 31, 2005	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 12,242	--	--	18	12,260
Provision for loan losses	65	--	--	--	65
Other income	1,267	2,558	2,578	(562)	5,841
General and administrative expenses	3,860	2,686	3,443	(92)	9,897
Income tax expense (benefit)	3,450	(46)	(311)	(163)	2,930
Net income	$ 6,134	(82)	(554)	(289)	5,209

(10) RESTATEMENT

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

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

The following table illustrates the restatement made to the Condensed Consolidated Statement of Cash Flows for the three-month period ended December 31, 2005. Dollar amounts are expressed in thousands.

Net cash from operating activities, as previously reported	$ 54,510
Reclassification of principal repayments of loans receivable held for sale	7
Correction of origination and principal repayments of loans receivable held for sale	(64)

Reported net cash from operating activities	$	54,453
Net cash from investing activities, as previously reported	$	(39,863)
Reclassification of principal repayments of loans receivable held for sale		(7)
Correction of origination and principal repayments of loans receivable held for sale		64
Reported net cash from investing activities	$	(39,806)

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

The Company's total assets as of December 31, 2006, were $1,559.7 million, an increase of $34.9 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 three months ended December 31, 2006, the Bank originated $222.2 million in mortgage loans held for sale, $79.6 million in mortgage loans held for investment, and $1.3 million in other loans. This total of $303.1 million in loans originated compares to $459.5 million in loans originated and purchased during the three months ended December 31, 2005.

Included in the $63.0 million in loans held for sale as of December 31, 2006, are $62.5 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.

	12/31/06	9/30/06	12/31/05
Asset Classification:			
Substandard	$ 13,220	12,361	11,872
Doubtful	--	--	--
Loss	322	434	526
	13,542	12,795	12,398
Allowance for losses	(7,992)	(8,266)	(7,485)
	$ 5,550	4,529	4,913

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.

	12/31/06	9/30/06	12/31/05
Total Assets	$ 1,559,654	1,524,796	1,552,886
Non-accrual loans	$ 2,451	6,396	2,805
Troubled debt restructurings	71	3,477	3,479
Net real estate and other assets acquired through foreclosure	8,932	5,231	8,410
Total	$ 11,454	15,104	14,694
Percent of total assets	0.73%	0.99%	0.95%

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.

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

		2006	2005
Balance at beginning of year	$	7,991	7,536
Provision for loan losses		126	65
Recoveries		--	9
Charge-offs		(420)	(298)
Balance at December 31	$	7,697	7,312

LIABILITIES AND EQUITY

Customer and brokered deposit accounts decreased $37.6 million during the three months ended December 31, 2006. The weighted average rate on customer and brokered deposits as of December 31, 2006, was 4.06%, an increase from 3.20% as of December 31, 2005.

Advances from the FHLB were $544.5 million as of December 31, 2006, an increase of $45.1 million from September 30, 2006. During the three-month period, the Bank borrowed $130.0 million of new advances and repaid $84.8 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 December 31, 2006. Such debentures resulted from the issuance during the quarter 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 $3.9 million as of December 31, 2006, a decrease of $5.0 million from September 30, 2006. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2006.

Total stockholders' equity as of December 31, 2006, was $159.5

million (10.2% 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 $19.18 on December 31, 2006, 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. Subsequent to the quarter ended December 31, 2006, the Company announced a cash dividend of $0.225 per share to be paid on February 23, 2007, to stockholders of record as of February 2, 2007.

Total stockholders' equity as of December 31, 2006, includes an unrealized loss of $1.5 million, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive income."

RATIOS

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

	Three months ended	
	12/31/06	12/31/05
Return on assets	1.19%	1.34%
Return on equity	11.58%	13.96%
Equity-to-assets ratio	10.23%	9.63%
Dividend payout ratio	40.93%	72.87%

RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2006 and 2005.

For the three months ended December 31, 2006, the Company had net income of $4,574,000 or $0.55 per share. This compares to net income of $5,209,000 or $0.62 per share for the quarter ended December 31, 2005.

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

	Three months ended 12/31/06			As of 12/31/06
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,343,390	24,930	7.42%	7.19%
Mortgage-backed securities	95,433	854	3.58%	4.25%
Securities	25,979	206	3.17%	4.25%
Bank deposits	5,701	54	3.79%	4.80%
Total earning assets	1,470,503	26,044	7.08%	6.95%
Non-earning assets	62,333			
Total	$1,532,736			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 171,792	491	1.14%	1.00%
Customer and brokered certificates of deposit	655,512	7,754	4.73%	4.86%
FHLB Advances	525,908	7,008	5.33%	5.23%
Subordinated debentures	5,250	92	7.01%	7.01%
Total costing liabilities	1,358,462	15,345	4.52%	4.57%
Non-costing liabilities	16,246			
Stockholders' equity	158,028			
Total	$1,532,736			
Net earning balance	$ 112,041			
Earning yield less costing rate			2.56%	2.38%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,470,503	10,699	2.91%	

	Three months ended 12/31/05			As of 12/31/05
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,322,660	22,434	6.78%	6.73%
Mortgage-backed securities	124,803	1,160	3.72%	4.26%
Securities	22,982	277	4.82%	2.79%
Bank deposits	13,785	121	3.51%	3.72%
Total earning assets	1,484,230	23,992	6.47%	6.41%

Non-earning assets	59,245			
Total	$1,543,475			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 190,744	491	1.03%	1.04%
Customer and brokered certificates of deposit	644,522	5,876	3.65%	3.82%
FHLB Advances	474,028	4,759	4.02%	4.39%
Repurchase agreements	72,000	606	3.37%	3.49%
Total costing liabilities	1,381,294	11,732	3.40%	3.63%
Non-costing liabilities	12,853			
Stockholders' equity	149,328			
Total	$1,543,475			
Net earning balance	$ 102,936			
Earning yield less costing rate			3.07%	2.78%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,484,230	12,260	3.30%	

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

	Three months ended December 31, 2006, compared to three months ended December 31, 2005			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ 2,116	351	29	2,496

Mortgage-backed securities	(44)	(273)	11	(306)
Securities	(95)	36	(12)	(71)
Bank deposits	10	(71)	(6)	(67)
Net change in interest income	1,987	43	22	2,052
Components of interest expense:				
Customer and brokered deposit accounts	1,963	(61)	(24)	1,878
FHLB Advances	1,552	521	176	2,249
Subordinated debentures	--	--	92	92
Repurchase agreements	(606)	(606)	606	(606)
Net change in interest expense	2,909	(146)	850	3,613
Decrease in net interest margin	$ (922)	189	(828)	(1,561)

Net interest margin before loan loss provision for the three months ended December 31, 2006, decreased $1.6 million from the same period in the prior year. Specifically, interest income increased $2.0 million, which was offset by a $3.6 increase in interest expense for the period. Interest on loans increased $2.5 million as the result of a $20.7 million increase in the average balance of loans receivable and 64 basis point increase in the average rate earned on such loans. This increase in interest income was partially offset by a $306,000 decrease in interest on mortgage-backed securities due to a $29.4 million decrease in the average balance of mortgage-backed securities and a 14 basis point decrease in the average rate earned on such assets. Interest expense on customer and brokered deposits increased $1.9 million due to an 86 basis point increase in the average rate paid on such deposits. Interest expense on FHLB advances increased $2.2 million as the result of a $51.9 million increase in the average balance of FHLB advances and a 131 basis point increase in the average rate paid on such liabilities. These increases in interest expense were partially offset by a $606.000 decrease in interest expense on securities sold under agreements to repurchase, which were paid-off during the prior fiscal year.

PROVISION FOR LOAN LOSSES

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 59.0% of total classified assets at December 31, 2006, 64.6% at September 30, 2006, and 60.4% at December 31, 2005.

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 December 31, 2006, decreased $346,000 from the same period in the prior year. Gain on sale of loans held for sale decreased $347,000 due to a decrease in mortgage banking volume. Customer service fees and charges decreased $262,000 due to a $138,000 decrease in overdraft and return item charges, and a decrease in miscellaneous loan origination fees resulting from the decrease in mortgage banking volume. Provision for loss on real estate owned increased $105,000 due an increase in foreclosed assets held for sale during the period. These decreases were offset by a $357,000 increase in other income due primarily to a $115,000 increase in income received on foreclosed assets held for sale, a $54,000 increase in loan prepayment penalties, and a $154,000 increase in the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities."

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended December 31, 2006, decreased $1.3 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation decreased $693,000 due primarily to a reduction of staff in the local and national mortgage banking operations and a decrease in mortgage banking volume. Advertising and business promotion expense decreased $250,000 due primarily to a decrease in advertising costs related to the national mortgage banking operation. Other expense decreased $311,000 due primarily to a decrease in credit, appraisal, underwriting and other costs related to the local and national mortgage banking operations.

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.

16

REGULATORY CAPITAL REQUIREMENTS

At December 31, 2006, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of December 31, 2006, 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 December 31, 2006	Amount
GAAP capital (Bank only)	$ 161,695
Adjustment for regulatory capital:	
Intangible assets	(2,946)
Disallowed portion of servicing assets and deferred tax assets	(2,706)
Reverse the effect of SFAS No. 115	1,548
Tangible capital	157,591
Qualifying intangible assets	--
Tier 1 capital (core capital)	157,591
Qualifying general valuation allowance	7,376
Risk-based capital	$ 164,967

	As of December 31, 2006				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 164,967	13.1%	100,904	>=8%	126,13
Core capital to adjusted tangible assets	157,591	10.3%	61,450	>=4%	76,81
Tangible capital to tangible assets	157,591	10.3%	23,044	>=1.5%	-
Tier 1 capital to risk-weighted assets	157,591	12.5%	--	--	75,67

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 which increased it's loans-to-one-borrower limit to $30 million for loans secured by certain residential housing units. Such loans must, in the aggregate, not 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 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 December 31, 2006, there was $58.1 million available to the Bank in the form of FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At December 31, 2006, the Bank has $121.1 million in brokered deposits, and it could purchase up to $355.6 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

17

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a complete discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio, see the "Asset/Liability Management" section of the Company's Annual Report for the year ended September 30, 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-Q that have materially affected or are reasonable likely to materially affect our internal control over financial reporting.

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

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NASB Financial, Inc.
(Registrant)

February 9, 2007

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

February 9, 2007

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