NASB FINANCIAL INC
Form 10-Q
May 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 March 31, 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 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 May 4, 2007, was 8,009,820.

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

	March 31, 2007 (Unaudited)	September 30, 2006
ASSETS		
Cash and cash equivalents	$ 32,552	11,442
Securities available for sale	46	50
Stock in Federal Home Loan Bank, at cost	24,406	24,043
Mortgage-backed securities:		
Available for sale, at fair value	90,407	97,259
Held to maturity	289	325
Loans receivable:		
Held for sale	41,961	50,462
Held for investment, net	1,300,394	1,295,700
Allowance for loan losses	(7,502)	(7,991)
Accrued interest receivable	8,119	8,205
Foreclosed asset held for sale, net	10,314	5,231
Premises and equipment, net	15,127	12,994
Investment in LLCs	18,652	16,737
Mortgage servicing rights, net	973	1,089
Deferred income tax asset	2,622	2,856
Other assets	7,537	6,394
	$ 1,545,897	1,524,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 686,259	722,799
Brokered deposit accounts	132,860	128,243
Advances from Federal Home Loan Bank	504,396	499,357
Subordinated debentures	25,774	--
Securities sold under agreements to repurchase	30,000	--
Escrows	6,505	8,910
Income taxes payable	2,238	2,602
Accrued expenses and other liabilities	6,941	6,313
Total liabilities	1,394,973	1,368,224

Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,857,112 issued at March 31, 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	16,347	16,311
Retained earnings	167,230	162,631
Treasury stock, at cost; 1,818,819 shares at March 31, 2007, and 1,538,470 shares at September 30, 2006	(32,718)	(22,061)
Accumulated other comprehensive loss	(1,414)	(1,788)
Total stockholders' equity	150,924	156,572
	$ 1,545,897	1,524,796

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2007	2006	2007	2006
Interest on loans	$ 24,601	23,061	49,531	45,495
Interest on mortgage-backed securities	828	1,097	1,682	2,257
Interest and dividends on securities	336	125	542	402
Other interest income	52	44	106	165
Total interest income	25,817	24,327	51,861	48,319
Interest on customer deposit accounts	7,885	7,259	16,130	13,626
Interest on advances from FHLB	6,868	5,269	13,876	10,028
Interest on subordinated debentures	439	--	531	--
Interest on securities sold under agreements to repurchase	324	178	324	784

Total interest expense	15,516	12,706	30,861	24,438
Net interest income	10,301	11,621	21,000	23,881
Provision for loan losses	633	93	759	158
Net interest income after provision for loan losses	9,668	11,528	20,241	23,723
Other income (expense):				
Loan servicing fees, net	(12)	75	22	105
Impairment recovery on mortgage servicing rights	18	5	26	6
Customer service fees and charges	1,429	1,478	2,843	3,154
Recovery on real estate owned	--	--	(105)	--
Gain on sale of loans held for sale	3,726	3,271	7,231	7,123
Other	250	492	889	774
Total other income	5,411	5,321	10,906	11,162
General and administrative expenses:				
Compensation and fringe benefits	3,799	4,308	7,696	8,800
Commission-based mortgage banking compensation	1,722	1,612	3,495	3,483
Premises and equipment	902	901	1,760	1,775
Advertising and business promotion	1,085	922	1,943	2,030
Federal deposit insurance premiums	26	26	54	52
Other	1,415	1,713	2,630	3,239
Total general and administrative expenses	8,949	9,482	17,578	19,379
Income before income tax expense	6,130	7,367	13,569	15,506
Income tax expense	2,361	2,652	5,226	5,582
Net income	$ 3,769	4,715	8,343	9,924
Basic earnings per share	$ 0.46	0.56	1.01	1.18
Diluted earnings per share	$ 0.45	0.56	1.00	1.17
Basic weighted average shares outstanding	8,202,120	8,417,442	8,261,021	8,426,096

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	--	--	8,343	--	--	8,
Other comprehensive income (loss), net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	374	----
Total comprehensive income						8,
Cash dividends paid	--	--	(3,744)	--	--	(3,
Stock based compensation expense	--	36	--	--	--	
Repurchase of common stock for treasury	--	--	--	(10,657)	--	(10,
Balance at March 31, 2007	$ 1,479	16,347	167,230	(32,718)	(1,414)	150,

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)

	Six months ended March 31, 2007	Six months ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 8,343	9,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	564	620
Amortization and accretion, net	(1,327)	(804)
Impairment recovery on mortgage servicing rights	(26)	(6)
Gain on sale of loans receivable held for sale	(7,231)	(7,123)
Provision for loan losses	759	158
Provision for loss on real estate owned	105	--
Principal repayments of mortgage loans receivable held for sale	--	14
Origination of loans receivable held for sale	(471,310)	(503,943)

Sale of loans receivable held for sale	487,042	551,807
Stock based compensation - stock options	36	25
Changes in:		
Net fair value of loan related commitments	(105)	80
Accrued interest receivable	86	(749)
Accrued expenses and other liabilities and income taxes payable	793	125
Net cash provided by operating activities	17,729	50,128
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	37	56
Available for sale	7,195	17,501
Principal repayments of mortgage loans receivable held for investment	189,436	198,159
Principal repayments of other loans receivable	4,856	4,423
Maturity of investment securities available for sale	4	4
Loan origination - mortgage loans held for investment	(202,932)	(272,694)
Loan origination - other loans receivable	(3,764)	(2,498)
Purchase of FHLB stock	(363)	(662)
Proceeds for sale of real estate owned	3,119	3,147
Purchases of premises and equipment, net	(2,696)	(2,427)
Investment in LLCs	(1,915)	(4,074)
Other	(1,624)	(79)
Net cash used in investing activities	(8,647)	(59,144)

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

	Six months ended March 31,	
	2007	2006
Cash flows from financing activities:		
Net (decrease) increase in customer and brokered deposit accounts	(33,092)	104,500
Proceeds from advances from FHLB	130,000	174,000
Repayment on advances from FHLB	(124,848)	(162,160)
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	(900)	(122,000)
Cash dividends paid	(3,744)	(5,691)
Purchase of common stock for treasury	(10,657)	(769)
Change in escrows	(2,405)	(3,534)

Net cash provided by (used in) financing activities	12,028	(15,654)
Net increase (decrease) in cash and cash equivalents	21,110	(24,670)
Cash and cash equivalents at beginning of the period	11,442	35,334
Cash and cash equivalents at end of period	$ 32,552	10,664
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 5,590	5,670
Cash paid for interest	30,165	24,440
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 11,488	1,524
Conversion of real estate owned to loans receivable	3,513	--
Capitalization of mortgage servicing rights	6	118

See accompanying notes to condensed consolidated financial statements.

(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 six months ended March 31, 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 condensed consolidated financial statements as of March 31, 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		Six months ended	
	3/31/07	3/31/06	3/31/07	3/31/06
Net income (in thousands)	$ 3,769	4,715	8,343	9,924
Average common shares outstanding	8,202,120	8,417,442	8,261,021	8,426,096
Average common share stock options outstanding	58,729	43,026	55,755	42,312
Average diluted common shares	8,260,849	8,460,468	8,316,776	8,468,408
Earnings per share:				
Basic	$ 0.46	0.56	1.01	1.18
Diluted	0.45	0.56	1.00	1.17

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.

	March 31, 2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 224	5	--	229
Pass-through certificates guaranteed by FNMA - adjustable rate	12,571	--	321	12,250
FHLMC participation certificates				
- fixed rate	1,095	--	70	1,025
- adjustable rate	78,817	--	1,914	76,903
Total	$ 92,707	5	2,305	90,407

(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, 2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 110	3	--	113
FNMA pass-through certificates:				
Fixed rate	83	--	--	83
Balloon maturity and adjustable rate	72	--	--	72
Pass-through certificates guaranteed by GNMA - fixed rate	24	1	--	25
Total	$ 289	4	--	293

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(5) LOANS RECEIVABLE

Loans receivable are as follows:

March 31,

	2007 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 357,684
Business properties	504,787
Partially guaranteed by VA or insured by FHA	1,955
Construction and development	488,860
Total mortgage loans	1,353,286
Commercial loans	57,468
Installment loans to individuals	16,167
Total loans held for investment	1,426,921
Less:	
Undisbursed loan funds	(121,634)
Unearned discounts and fees and costs on loans, net	(4,893)
Net loans held for investment	$1,300,394

	March 31, 2007 (Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 76,730
Less:	
Undisbursed loan funds	(34,769)
Net loans held for sale	$ 41,961

Included in the loans receivable balances at March 31, 2007, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $91,000. Loans and participations serviced for others amounted to approximately $92.7 million at March 31, 2007.

The following table presents the activity in the allowance for losses on loans for the period ended March 31, 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	759
Charge-offs	(1,248)
Recoveries	--
Balance at March 31, 2007	$ 7,502

(6) FORECLOSED ASSETS HELD FOR SALE

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

	March 31, 2007
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 10,701
Less: allowance for losses	(387)
Total	$ 10,314

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 March 31, 2007. Dollar amounts are expressed in thousands.

Balance at October 1, 2006	$ 1,089
Additions:	
Originated mortgage servicing rights	6
Impairment recovery	26
Reductions:	
Amortization	(148)
Balance at March 31, 2007	$ 973

(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.

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(9) REPURCHASE AGREEMENTS

During the six-month period ended March 31, 2007, the Bank sold various adjustable-rate mortgage-backed securities under agreements to repurchase. The outstanding balance of such repurchase agreements was $30.0 million at March 31, 2007. These agreements have a weighted average rate of 5.37% and a weighted average maturity of 16 days.

(10) 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 March 31, 2007	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 10,721	--	--	(420)	10,301
Provision for loan losses	633	--	--	--	633
Other income	994	1,350	3,395	(328)	5,411
General and administrative expenses	4,005	1,609	3,343	(8)	8,949

Income tax expense (benefit)	2,725	(100)	20	(284)	2,361
Net income	$ 4,352	(159)	32	(456)	3,769

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

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Six months ended March 31, 2007	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 21,494	--	--	(494)	21,000
Provision for loan losses	759	--	--	--	759
Other income	2,234	3,123	6,428	(879)	10,906
General and administrative expenses	7,926	3,438	6,298	(84)	17,578
Income tax expense (benefit)	5,792	(122)	50	(494)	5,226
Net income	$ 9,251	(193)	80	(795)	8,343

Six months ended March 31, 2006	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated

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

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 March 31, 2007, were $1,545.9 million, an increase of $21.1 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 six months ended March 31, 2007, the Bank originated $471.3 million in mortgage loans held for sale, $202.9 million in mortgage loans held for investment, and $3.8 million in other loans. This total of $678.0 million in loans originated compares to $779.1 million in loans originated and purchased during the six months ended March 31, 2006.

Loans held for sale as of March 31, 2006 were $42.0 million, and 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.

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.

	3/31/07	9/30/06	3/31/06
Asset Classification:			
Substandard	$ 13,722	12,361	12,236
Doubtful	--	--	--
Loss	209	434	441
	13,931	12,795	12,677
Allowance for losses	(7,889)	(8,266)	(7,618)
	$ 6,042	4,529	5,059

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

	3/31/07	9/30/06	3/31/06
Total Assets	$ 1,545,897	1,524,796	1,550,342
Non-accrual loans	$ 2,453	6,396	2,603
Troubled debt restructurings	70	3,477	3,478
Net real estate and other assets acquired through foreclosure	10,314	5,231	7,566
Total	$ 12,837	15,104	13,647

Percent of total assets	0.83%	0.99%	0.88%

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 and brokered deposit accounts decreased $31.9 million during the six months ended March 31, 2007. The weighted average rate on customer and brokered deposits as of March 31, 2007, was 4.15%, an increase from 3.52% as of March 31, 2006.

Advances from the FHLB were $504.4 million as of March 31, 2007, an increase of $5.0 million from September 30, 2006. During the six-month period, the Bank borrowed $130.0 million of new advances and repaid $124.8 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 March 31, 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.

During the six-month period, the Bank sold $30.9 million of mortgage-backed securities sold under agreements to repurchase, and repurchase agreements of $900,000 were repaid.

Escrows were $6.5 million as of March 31, 2007, a decrease of $2.4 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 March 31, 2007, was $150.9 million (9.8% 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 $18.78 on March 31, 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, and February 23, 2007. Subsequent to the quarter ended March 31, 2007, the Company announced a cash dividend of $0.225 per share to be paid on May 25, 2007, to stockholders of record as of May 4, 2007.

Total stockholders' equity as of March 31, 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 equity (annualized net income divided by average total equity); equity-to-assets ratio (ending total equity divided by ending total assets); and dividend payout ratio (dividends paid divided by net income).

	Six months ended	
	3/31/07	3/31/06
Return on assets	1.09%	1.28%
Return on equity	10.85%	13.19%
Equity-to-assets ratio	9.76%	9.80%
Dividend payout ratio	44.88%	57.34%

RESULTS OF OPERATIONS - Comparison of three and six months ended March 31, 2007 and 2006.

For the three months ended March 31, 2007, the Company had net income of $3,769,000 or $0.46 per share. This compares to net income of $4,715,000 or $0.56 per share for the quarter ended March 31, 2006.

For the six months ended March 31, 2007, the Company had net income of $8,343,000 or $1.01 per share. This compares to net income of $9,924,000 or $1.18 per share for the six months ended March 31, 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 six months ended March 31, 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.

	Six months ended 3/31/07			As of 3/31/07
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,344,718	49,531	7.37%	7.21%
Mortgage-backed securities	93,880	1,682	3.58%	4.24%
Securities	25,765	542	4.21%	4.25%
Bank deposits	4,968	106	4.27%	4.82%
Total earning assets	1,469,331	51,861	7.06%	6.96%
Non-earning assets	62,780			
Total	$1,532,111			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 169,650	1,143	1.35%	0.99%
Customer and brokered certificates of deposit	640,169	14,987	4.68%	5.01%
FHLB Advances	526,922	13,876	5.27%	5.21%
Subordinated debentures	15,142	531	7.01%	7.01%
Repurchase agreements	12,986	324	4.99%	5.37%
Total costing liabilities	1,364,869	30,861	4.52%	4.62%
Non-costing liabilities	10,809			
Stockholders' equity	156,433			
Total	$1,532,111			
Net earning balance	$ 104,462			
Earning yield less costing rate			2.54%	2.34%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,469,331	21,000	2.86%	

	Six months ended 3/31/06			As of 3/31/06
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,330,120	45,495	6.84%	6.94%
Mortgage-backed securities	120,137	2,257	3.76%	4.30%
Securities	23,173	402	3.47%	2.99%
Bank deposits	9,945	165	3.32%	4.13%
Total earning assets	1,483,375	48,319	6.51%	6.67%
Non-earning assets	58,501			
Total	$1,541,876			

Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 186,873	985	1.05%	1.02%
Customer and brokered certificates of deposit	670,282	12,641	3.77%	4.17%
FHLB Advances	477,896	10,028	4.20%	4.59%
Repurchase agreements	45,000	784	3.48%	--%
Total costing liabilities	1,380,051	24,438	3.54%	3.89%
Non-costing liabilities	11,815			
Stockholders' equity	150,010			
Total	$1,541,876			
Net earning balance	$ 103,324			
Earning yield less costing rate			2.97%	2.78%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,483,375	23,881	3.22%	

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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.

	Six months ended March 31, 2007, compared to six months ended March 31, 2006			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ 3,525	499	12	4,036
Mortgage-backed securities	(108)	(494)	27	(575)
Securities	86	45	9	140
Bank deposits	47	(83)	(23)	(59)
Net change in interest income	3,550	(33)	25	3,542

Components of interest expense:				
Customer and brokered deposit accounts	3,429	(753)	(172)	2,504
FHLB Advances	2,557	1,030	261	3,848
Subordinated debentures	--	--	531	531
Repurchase agreements	340	(558)	(242)	(460)
Net change in interest expense	6,326	(281)	378	6,423
Decrease in net interest margin	$ (2,776)	248	(353)	(2,881)

Net interest margin before loan loss provision for the three months ended March 31, 2007, decreased $1.3 million from the same period in the prior year. Specifically, interest income increased $1.5 million due to both an increase in the average balance of interest-earning assets and an increase in the average rate earned on such assets. The increase in interest income was offset by a $2.8 million increase in interest expense, which resulted from both an increase in the average balance of interest-costing liabilities and an increase in the average rate paid on such liabilities.

Net interest margin before loan loss provision for the six months ended March 31, 2007, decreased $2.9 million from the same period in the prior year. Specifically, interest income increased $3.5 million, which was offset by a $6.4 million increase in interest expense for the period. Interest on loans increased $4.0 million as the result of a $14.6 million increase in the average balance of loans receivable and 53 basis point increase in the average rate earned on such loans. This increase in interest income was partially offset by a $575,000 decrease in interest on mortgage-backed securities due to a $26.3 million decrease in the average balance of mortgage-backed securities and an 18 basis point decrease in the average rate earned on such assets. Interest expense on customer and brokered deposits increased $2.5 million due to a 63 basis point increase in the average rate paid on such deposits. Interest expense on FHLB advances increased $3.8 million as the result of a $49.0 million increase in the average balance of FHLB advances and a 107 basis point increase in the average rate paid on such liabilities. Interest on subordinated debentures increased $531,000 due to a $15.1 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 $460,000 decrease in interest expense on securities sold under agreements to repurchase due to a $32.0 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 $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 56.6% of total classified assets at March 31, 2007, 64.6% at September 30, 2006, and 60.1% at March 31, 2006.

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 March 31, 2007, increased $90,000 from the same period in the prior year. Gain on sale of loans held for sale increased $455,000 due to a increase in mortgage banking volume for the quarter. This increase was offset by a $49,000 decrease in customer service fees and charges due primarily to a decrease in overdraft and return item charges. Additionally, loan servicing fees decreased $87,000 due to an increase in capitalized servicing amortization, which resulted from an increase in actual prepayments and estimated future repayments of the underlying mortgage loans during the quarter. Other income decreased $242,000 due primarily to decreases in income received on foreclosed assets held for sale and income received from the Company's investment in LLCs.

Other income for the six months ended March 31, 2007, decreased $256,000 from the same period in the prior year. Gain on sale of loans held for sale increased $108,000 due to increased spreads on residential mortgage loans sold to outside investors. Other income increased $115,000 due primarily to 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 increases were offset by a $311,000 decrease in customer service fees and charges due primarily to a decrease in overdraft and return item charges. Additionally, provision for loss on real estate owned increased $105,000 due to an increase in foreclosed assets held for sale during the period. Loan servicing fees decreased $83,000 due to an increase in capitalized servicing amortization, which resulted from an increase in actual prepayments and estimated future repayments of the underlying mortgage loans during the period.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended March 31, 2007, decreased $533,000 from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation decreased $399,000 due primarily to a decrease in employee benefit related costs during the quarter. Other expense decreased $298,000 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 $163,000 increase in advertising and business promotion expense due to an increased costs related to the national mortgage banking operation, and costs associated with the new retail branch in Platte City, Missouri, which opened in February 2007.

Total general and administrative expenses for the six months ended March 31, 2007, decreased $1.8 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation decreased $1.1 million due to a reduction of staff in the local and national mortgage banking operations, a decrease in mortgage banking volume, and a reduction in employee benefit related costs for the period. Advertising and business promotion expense decreased $87,000 due primarily to a decrease in advertising costs related to the national mortgage banking operation. Other expense decreased $609,000 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.

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 March 31, 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 March 31, 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 capital and regulatory requirements. Dollar amounts are expressed in thousands.

At March 31, 2007	Amount
GAAP capital (Bank only)	$ 144,924
Adjustment for regulatory capital:	
Intangible assets	(2,921)
Disallowed portion of servicing assets and deferred tax assets	(2,622)
Reverse the effect of SFAS No. 115	1,414
Tangible capital	140,795
Qualifying intangible assets	--
Tier 1 capital (core capital)	140,795
Qualifying general valuation allowance	7,293
Risk-based capital	$ 148,088

	As of March 31, 2007				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 148,088	11.9%	99,929	>=8%	124,91
Core capital to adjusted tangible assets	140,795	9.3%	60,881	>=4%	76,10
Tangible capital to tangible assets	140,795	9.3%	22,831	>=1.5%	-
Tier 1 capital to risk-weighted assets	140,795	11.3%	--	--	74,94

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 deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At March 31, 2007, there was $99.3 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 March 31, 2007, the Bank has $132.9 million in brokered deposits, and it could purchase up to $200.1 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The annual stockholder's meeting was held on January 23, 2007. The following persons were elected to NASB Financial Inc.'s Board of Directors for three year terms:

David H. Hancock
Linda S. Hancock
Paul L. Thomas

The firm of BKD, LLP was ratified for appointment as independent auditors for the fiscal year ended September 30, 2007.

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)

May 9, 2007

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

May 9, 2007

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