NASB FINANCIAL INC
Form 10-Q
August 09, 2006

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 June 30, 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 August 4, 2006, was 8,368,642.

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

	June 30, 2006 (Unaudited)	September 30, 2005
ASSETS		
Cash and cash equivalents	$ 11,686	35,334
Securities available for sale	233	237
Stock in Federal Home Loan Bank, at cost	24,062	22,390
Mortgage-backed securities:		
Available for sale, at fair value	103,568	129,302
Held to maturity (fair value of $359 and $447 at June 30, 2006, and September 30, 2005, respectively)	349	431
Loans receivable:		
Held for sale	67,765	94,130
Held for investment, net	1,298,562	1,234,050
Allowance for loan losses	(7,658)	(7,536)
Accrued interest receivable	7,947	6,997
Foreclosed asset held for sale, net	4,331	7,760
Premises and equipment, net	12,754	10,558
Investment in LLC	16,347	12,206
Mortgage servicing rights, net	937	911
Deferred income tax asset	3,080	2,671
Other assets	6,384	6,903
	$ 1,550,347	1,556,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 742,525	707,892
Brokered deposit accounts	144,374	94,802
Advances from Federal Home Loan Bank	495,496	465,907
Securities sold under agreements to repurchase	--	122,000
Escrows	6,319	9,423
Income taxes payable	1,663	796
Accrued expenses and other liabilities	6,588	6,637
Total liabilities	1,396,965	1,407,457

Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,857,112 issued at June 30, 2006, and September 30, 2005	1,479	1,479
Serial preferred stock of $1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--
Additional paid-in capital	16,294	16,256
Retained earnings	158,849	151,331
Treasury stock, at cost; 1,488,470 shares and 1,419,670 shares at June 30, 2006, and September 30, 2005, respectively	(20,361)	(17,952)
Accumulated other comprehensive loss	(2,879)	(2,227)
Total stockholders' equity	153,382	148,887
	$ 1,550,347	1,556,344

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 June 30,		Nine months ended June 30,	
	2006	2005	2006	2005
Interest on loans	$ 23,884	20,039	69,379	56,020
Interest on mortgage-backed securities	1,023	1,328	3,280	4,411
Interest and dividends on securities	175	231	577	492
Other interest income	39	66	204	179
Total interest income	25,121	21,664	73,440	61,102
Interest on customer deposit accounts	7,995	4,491	21,621	11,608
Interest on advances from FHLB	5,505	2,912	15,533	7,744
Interest on securities sold under agreements to repurchase	--	999	784	2,667

Total interest expense	13,500	8,402	37,938	22,019
Net interest income	11,621	13,262	35,502	39,083
Provision for loan losses	250	--	408	417
Net interest income after provision for loan losses	11,371	13,262	35,094	38,666
Other income (expense):				
Loan servicing fees, net	32	(53)	137	31
Impairment recovery on mortgage servicing rights	9	18	15	7
Customer service fees and charges	1,512	1,833	4,666	5,113
Recovery on foreclosed assets	277	--	277	899
Gain on sale of loans held for sale	3,950	4,814	11,073	12,250
Other	842	278	1,616	1,118
Total other income	6,622	6,890	17,784	19,418
General and administrative expenses:				
Compensation and fringe benefits	4,402	4,352	13,202	12,522
Commission-based mortgage banking compensation	1,827	2,414	5,310	5,931
Premises and equipment	869	778	2,644	2,326
Advertising and business promotion	821	1,079	2,851	2,748
Federal deposit insurance premiums	27	24	79	75
Other	1,625	1,503	4,864	4,104
Total general and administrative expenses	9,571	10,150	28,950	27,706
Income before income tax expense	8,422	10,002	23,928	30,378
Income tax expense	3,244	3,601	8,826	10,991
Net income	$ 5,178	6,401	15,102	19,387
Basic earnings per share	$ 0.61	0.75	1.79	2.29
Diluted earnings per share	$ 0.61	0.75	1.78	2.29
Basic weighted average shares outstanding	8,396,165	8,447,893	8,416,356	8,452,926

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)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Tota stockho equi
	(Dollars in thousands)					
Balance at October 1, 2005	$ 1,479	16,256	151,331	(17,952)	(2,227)	148,
Comprehensive income:						
Net income	--	--	15,102	--	--	15,
Other comprehensive income (loss), net of tax:						
Unrealized loss on securities available for sale	--	--	--	--	(652)	(
Total comprehensive income						14,
Cash dividends paid	--	--	(7,584)	--	--	(7,
Stock based compensation expense	--	38	--	--	--	
Purchase of common stock for treasury	--	--	--	(2,409)	--	(2,
Balance at June 30, 2006	$ 1,479	16,294	158,849	(20,361)	(2,879)	153,

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)

	Nine months ended June 30, 2006	Nine months ended June 30, 2005 (Restated)
Cash flows from operating activities:		
Net income	$ 15,102	19,387
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	938	793
Amortization and accretion, net	(1,032)	(2,773)
Impairment recovery on mortgage servicing rights	(15)	(7)
Gain on sale of loans receivable held for sale	(11,073)	(12,250)
Provision for loan losses	408	417
Recovery on foreclosed assets	(277)	(899)

Principal repayments of mortgage loans receivable held for sale	19	22,090
Origination of loans receivable held for sale	(753,315)	(893,627)
Sale of loans receivable held for sale	790,634	820,161
Stock based compensation - stock options	38	--
Changes in:		
Net fair value of loan related commitments	(18)	(302)
Accrued interest receivable	(950)	(639)
Accrued expenses and other liabilities and income taxes payable	860	5,108
Net cash provided by (used in) operating activities	41,319	(42,541)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	82	138
Available for sale	24,373	28,560
Principal repayments of mortgage loans receivable held for investment	325,641	313,989
Principal repayments of other loans receivable	6,200	9,955
Maturity of investment securities available for sale	4	4
Loan origination - mortgage loans held for investment	(392,188)	(422,324)
Loan origination - other loans receivable	(4,093)	(10,698)
Purchase of mortgage loans receivable held for investment	--	(1,310)
Purchase of FHLB stock	(1,672)	(5,298)
Proceeds for sale of real estate owned	5,032	6,661
Purchases of premises and equipment, net of sales	(3,134)	(2,843)
Investment in LLC	(4,141)	(1,734)
Other	282	108
Net cash used in investing activities	(43,614)	(84,792)

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

	Nine months ended June 30,	
	2006	2005 (Restated)
Cash flows from financing activities:		
Net increase in customer and brokered deposit accounts	83,985	65,983
Proceeds from advances from FHLB	222,000	298,000
Repayment on advances from FHLB	(192,241)	(191,129)
Proceeds from sale of securities under agreements to repurchase	--	292,400

Repayment of securities sold under agreements to repurchase	(122,000)	(323,500)
Cash dividends paid	(7,584)	(12,258)
Purchase of common stock for treasury	(2,409)	(399)
Change in escrows	(3,104)	(1,784)
Net cash provided by (used in) financing activities	(21,353)	127,313
Net decrease in cash and cash equivalents	(23,648)	(20)
Cash and cash equivalents at beginning of the period	35,334	18,263
Cash and cash equivalents at end of period	$ 11,686	18,243
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 7,958	10,144
Cash paid for interest	38,951	20,752
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 2,382	8,003
Conversion of real estate owned to loans receivable	2,170	--
Capitalization of mortgage servicing rights	139	253

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 nine months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. The condensed consolidated balance sheet of the Company as of September 30, 2005, has been derived from the audited balance sheet of the Company as of that date.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowances for losses on loans, real estate owned, and valuation of mortgage servicing rights. Management believes that 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 June 30, 2006, have remained unchanged from September 30, 2005. These policies relate to provision for loan losses and mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2005.

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

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

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

	Three months ended		Nine months ended	
	6/30/06	6/30/05	6/30/06	6/30/05
Net income (in thousands)	$ 5,178	6,401	15,102	19,387
Average common shares outstanding	8,396,165	8,447,893	8,416,356	8,452,926
Average common share stock options outstanding	46,292	12,256	43,568	12,242
Average diluted common shares	8,442,457	8,460,149	8,459,924	8,465,168
Earnings per share:				
Basic	$ 0.61	0.75	1.79	2.29
Diluted	0.61	0.75	1.78	2.29

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

(3) SECURITIES AVAILABLE FOR SALE

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

	June 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Equity securities	$ 180	--	--	180
Municipal securities	53	--	--	53
Total	$ 233	--	--	233

(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	June 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 281	--	4	277
Pass-through certificates guaranteed by FNMA - adjustable rate	14,366	--	621	13,745
FHLMC participation certificates				
- fixed rate	1,268	--	95	1,173
- adjustable rate	92,334	--	3,961	88,373
Total	$ 108,249	--	4,681	103,568

(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	June 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				

Balloon maturity and adjustable rate	$ 142	7	--	149
FNMA pass-through certificates:				
Fixed rate	93	1	--	94
Balloon maturity and adjustable rate	76	--	--	76
Pass-through certificates guaranteed by GNMA - fixed rate	38	2	--	40
Total	$ 349	10	--	359

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(6) LOANS RECEIVABLE

Loans receivable are as follows:

	June 30, 2006 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 364,513
Business properties	487,694
Partially guaranteed by VA or insured by FHA	2,301
Construction and development	520,607
Total mortgage loans	1,375,115
Commercial loans	57,720
Installment loans to individuals	19,364
Total loans held for investment	1,452,199
Less:	
Undisbursed loan funds	(149,125)
Unearned discounts and fees and costs on loans, net	(4,512)
Net loans held for investment	$1,298,562

	June 30, 2006 (Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 89,066
Less:	
Undisbursed loan funds	(21,297)
Unearned discounts and fees and costs	

on loans, net	(4)
Net loans held for sale	$ 67,765

Included in the loans receivable balances at June 30, 2006, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $126,000. Loans and participations serviced for others amounted to approximately $102.4 million at June 30, 2006.

The following table presents the activity in the allowance for losses on loans for the period ended June 30, 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, 2005	$ 7,536
Provisions	408
Charge-offs	(309)
Recoveries	23
Balance at June 30, 2006	$ 7,658

(7) FORECLOSED ASSETS HELD FOR SALE

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

	June 30, 2006 (Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 4,512
Less: allowance for losses	(181)
Total	$ 4,331

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

(8) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended June 30, 2006. Dollar amounts are expressed in thousands.

Balance at October 1, 2005	$ 911
Additions:	
Originated mortgage servicing rights	139
Impairment recovery	15

Reductions:	
Amortization	(128)
Balance at June 30, 2006	$ 937

(9) SEGMENT INFORMATION

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

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

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

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

Three months ended June 30, 2005	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 13,230	--	--	32	13,262
Provision for loan losses	--	--	--	--	--
Other income	1,133	3,757	2,940	(940)	6,890
General and administrative expenses	3,974	3,259	3,127	(210)	10,150
Income tax expense (benefit)	3,740	179	(67)	(251)	3,601
Net income	$ 6,649	319	(120)	(447)	6,401

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

Nine months ended June 30, 2005	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$39,004	--	--	79	39,083
Provision for loan losses	417	--	--	--	417
Other income	5,133	9,701	7,212	(2,628)	19,418
General and administrative expenses	11,245	9,153	7,910	(602)	27,706
Income tax expense (benefit)	11,691	197	(251)	(646)	10,991
Net income	$20,784	351	(447)	(1,301)	19,387

(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 nine-month period ended June 30, 2005:

Net cash from operating activities, as previously reported	$	(51,307)
Reclassification of principal repayments of loans receivable held for sale		22,090
Correction of origination and principal repayments of loans receivable held for sale		(13,324)
Reported net cash from operating activities	$	(42,541)
Net cash from investing activities, as previously reported	$	(76,026)
Reclassification of principal repayments of loans receivable held for sale		(22,090)
Correction of origination and principal repayments of loans receivable held for sale		13,324
Reported net cash from investing activities	$	(84,792)

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

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

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the nine months ended June 30, 2006, the Bank originated $753.3 million in mortgage loans held for sale, $392.2 million in mortgage loans held for investment, and $4.1 million in other loans. This total of $1,149.6 million in loans originated compares to $1,328.0 million in loans originated and purchased during the nine months ended June 30, 2005.

Included in the $67.8 million in loans held for sale as of June 30, 2006, are $64.9 million in mortgage loans held for sale with servicing released. All loans held for sale are carried at the lower of cost or fair value.

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

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

	6/30/06	9/30/05	6/30/05
Asset Classification:			
Substandard	$ 8,665	13,346	11,305
Doubtful	--	--	--
Loss	435	595	490
	9,100	13,941	11,795
Allowance for losses	(7,839)	(7,731)	(7,687)
	$ 1,261	6,210	4,108

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

	6/30/06	9/30/05	6/30/05
Total Assets	$ 1,550,347	1,556,344	1,512,590
Non-accrual loans	$ 2,931	5,643	6,437
Troubled debt restructurings	3,477	74	74
Net real estate and other assets acquired through foreclosure	4,331	7,760	6,287
Total	$ 10,739	13,477	12,798
Percent of total assets	0.69%	0.87%	0.85%

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 nine months ending June 30, 2006, and 2005. Dollar amounts are expressed in thousands.

		2006	2005
Balance at beginning of year	$	7,536	8,221
Provision for loan losses		408	417
Recoveries		23	58
Charge-offs		(309)	(1,240)
Balance at June 30	$	7,658	7,456

LIABILITIES AND EQUITY

Customer and brokered deposit accounts increased $84.2 million during the nine months ended June 30, 2006. The weighted average rate on customer and brokered deposits as of June 30, 2006, was 3.71%, an increase from 2.67% as of June 30, 2005.

Advances from the FHLB were $495.5 million as of June 30, 2006, an increase of $29.6 million from September 30, 2005. During the nine-month period, the Bank borrowed $222.0 million of new advances and repaid $192.2 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Escrows were $6.3 million as of June 30, 2006, a decrease of $3.1 million from September 30, 2005. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2005.

Total stockholders' equity as of June 30, 2006, was $153.4 million (9.9% of total assets). This compares to $148.9 million (9.6% of total assets) at September 30, 2005. On a per share basis, stockholders' equity was $18.33 on June 30, 2006, compared to $17.65 on September 30, 2005.

The Company paid cash dividends on its common stock of $0.45 per share on November 25, 2005, and $0.225 on February 24, 2006, and May 26, 2006. Subsequent to the quarter ended June 30, 2006, the Company announced a cash dividend of $0.225 per share to be paid on August 25, 2006, to stockholders of record as of August 4, 2006.

Total stockholders' equity as of June 30, 2006, includes an unrealized loss of $2.9 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).

	Nine months ended	
	6/30/06	6/30/05
Return on assets	1.30%	1.80%
Return on equity	13.32%	18.19%
Equity-to-assets ratio	9.89%	9.60%

Dividend payout ratio	50.22%	63.23%

RESULTS OF OPERATIONS - Comparison of three and nine months ended June 30, 2006 and 2005.

For the three months ended June 30, 2006, the Company had net income of $5,178,000 or $0.61 per share. This compares to net income of $6,401,000 or $0.75 per share for the quarter ended June 30, 2005.

For the nine months ended June 30, 2006, the Company had net income of $15,102,000 or $1.79 per share. This compares to net income of $19,387,000 or $2.29 per share for the nine months ended June 30, 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 nine months ended June 30, 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.

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

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

	Nine months ended 6/30/05			As of 6/30/05
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,188,041	56,020	6.29%	6.24%
Mortgage-backed securities	156,888	4,411	3.75%	4.22%
Securities	21,017	492	3.12%	3.78%
Bank deposits	10,080	179	2.37%	2.38%
Total earning assets	1,376,026	61,102	5.92%	5.97%
Non-earning assets	47,118			
Total	$1,423,144			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 201,129	1,083	0.72%	0.90%
Customer and brokered certificates of deposit	512,280	10,525	2.74%	3.29%
FHLB Advances	420,336	7,744	2.46%	2.94%
Repurchase agreements	139,590	2,667	2.55%	3.03%
Total costing liabilities	1,273,335	22,019	2.31%	2.80%%
Non-costing liabilities	9,323			
Stockholders' equity	140,486			
Total	$1,423,144			
Net earning balance	$ 102,691			
Earning yield less costing rate			3.61%	3.17%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,376,026	39,083	3.79%	

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

	Nine months ended June 30, 2006, compared to nine months ended June 30, 2005			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ 5,613	7,000	746	13,359
Mortgage-backed securities	24	(1,150)	(5)	(1,131)
Securities	30	53	2	85
Bank deposits	59	(26)	(8)	25
Net change in interest income	5,726	5,877	735	12,338
Components of interest expense:				
Customer and brokered deposit accounts	6,100	2,544	1,369	10,013
FHLB Advances	5,895	1,065	829	7,789
Repurchase agreements	806	(2,067)	(622)	(1,883)
Net change in interest expense	12,801	1,542	1,576	15,919
Decrease in net interest margin	$ (7,075)	4,335	(841)	(3,581)

Net interest margin before loan loss provision for the three months ended June 30, 2006, decreased $1.6 million from the same period in the prior year. Specifically, interest income increased $3.5 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 $5.1 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 nine months ended June 30, 2006, decreased $3.6 million from the same period in the prior year. Specifically, interest income increased $12.3 million. This increase was the result of a $108.3 million increase in the average balance of interest-earning assets and a 68 basis point increase in the average rate earned on such assets. The increase in interest income was offset by a $15.9 million increase in interest expense, which resulted from a 136 basis point increase in the average rate paid on interest-costing liabilities and a $106.0 million increase in the average balance of such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of $250,000 during the quarter ended June 30, 2006, and $408,000 for the nine months ended June 30, 2006, due primarily to an increase in the construction 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 86.1% of total classified assets at June 30, 2006, 55.5% at September 30, 2005, and 65.2% at June 30, 2005.

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

OTHER INCOME

Other income for the three months ended June 30, 2006, decreased $268,000 from the same period in the prior year. Gain on sale of loans held for sale and customer service fees and charges decreased $864,000 and $321,000, respectively, due primarily to a decrease in mortgage banking volume. These decreases were offset by a $277,000 increase in recoveries realized on the sale of foreclosed assets held for sale. Additionally, other income increased $564,000 due primarily to a $206,000 increase in income received on foreclosed assets held for sale, a $161,000 increase in loan prepayment penalties, a $91,000 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," and $67,000 recognized on the Company's investment in Central Platte Holdings, LLC.

Other income for the nine months ended June 30, 2006, decreased $1.6 million from the same period in the prior year. Gain on sale of loans held for sale and customer service fees and charges decreased $1.2 million and $447,000, respectively, due primarily to a decrease in mortgage banking volume. Recoveries on real estate owned decreased $622,000 due recoveries realized on the sale of foreclosed assets held for sale in the prior year. These decreases were offset by a $498,000 increase in other income due primarily to a $285,000 increase in income received on foreclosed assets held for sale, a $154,000 increase in loan prepayment penalties, and $140,000 recognized on the Company's investment in Central Platte Holdings, LLC, which were partially offset by 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 June 30, 2006, decreased $579,000 from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation decreased $537,000 due primarily to a decrease in commission-based mortgage banking compensation resulting from a decrease in mortgage banking volume. Advertising and business promotion expense decreased $258,000 due primarily to a decrease in advertising costs related to the national mortgage banking operation. These decreases were offset by a $122,000 increase in other expense due primarily to an increase in credit, appraisal, and underwriting costs related to residential lending and an increase in audit fees due to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

Total general and administrative expenses for the nine months ended June 30, 2006, increased $1.2 million from the same period in the prior year. Specifically, premises and equipment expense increased $318,000 due primarily to costs related to the Company's new loan administration and construction lending building, which was completed in March 2005, and increased costs related to the national mortgage banking operation. Advertising and business promotion expense increased $103,000 due primarily to increased costs related to the national mortgage banking operation in the first and second quarters of the fiscal year. Additionally, other expense increased $760,000 due to an increase in credit, appraisal, and underwriting costs related to residential lending, an increase in audit fees due to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, and costs related to the conversion of the Company's loan origination system.

REGULATION

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

INSURANCE OF ACCOUNTS

The DIF insures the Bank's customer deposit accounts to a maximum of $100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of $250,000. Deposit insurance premiums are determined using a Risk-Related Premium Schedule ("RRPS"), a matrix which places each insured institution into one of three capital groups and one of three supervisory groups. Currently, deposit insurance premiums range from 0 to 27 basis points of the institution's total deposit accounts, depending on the institution's risk classification. The Bank is currently considered "well capitalized", which is the most favorable capital group and supervisory subgroup. DIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

REGULATORY CAPITAL REQUIREMENTS

At June 30, 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 June 30, 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 June 30, 2006	Amount
GAAP capital (Bank only)	$ 132,825
Adjustment for regulatory capital:	
Intangible assets	(2,996)
Disallowed portion of servicing assets and deferred tax assets	(3,080)
Reverse the effect of SFAS No. 115	2,879
Tangible capital	129,628
Qualifying intangible assets	--
Tier 1 capital (core capital)	129,628
Qualifying general valuation allowance	7,224
Risk-based capital	$ 136,852

	As of June 30, 2006				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 136,852	10.9%	100,757	>=8%	125,94
Core capital to adjusted tangible assets	129,628	8.5%	61,256	>=4%	76,57
Tangible capital to tangible assets	129,628	8.5%	22,971	>=1.5%	-
Tier 1 capital to risk-weighted assets	129,628	10.3%	--	--	75,56

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. Certain exceptions are permitted with prior approval from the OTS, which limit institutions from lending to any one borrower in excess of the lesser of 30% of the Bank's unimpaired capital or $30 million. As of June 30, 2006, the Bank has obtained one such exception to the loans-to-one-borrower limit from the OTS.

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 June 30, 2006, there was $92.6 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 June 30, 2006, the Bank has $144.4 million in brokered deposits, and it could purchase up to $68.8 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Management recognizes that there are certain market risk factors present in the structure of the Bank's financial assets and liabilities. Since the Bank does not have material amounts of derivative securities, equity securities, or foreign currency positions, interest rate risk

("IRR") is the primary market risk that is inherent in the Bank's portfolio. On a quarterly basis, the Bank monitors the estimate of changes that would potentially occur to its net portfolio value ("NPV") of assets, liabilities, and off-balance sheet items assuming a sudden change in market interest rates. Management presents a NPV analysis to the Board of Directors each quarter and NPV policy limits are reviewed and approved. There have been no material changes in the market risk information provided in the Annual Report for the year ended September 30, 2005.

Item 4. Controls and Procedures

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

August 9, 2006

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

August 9, 2006

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