

NASB FINANCIAL INC
Form 10-Q
February 11, 2013

Securities and Exchange Commission

Washington, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended December 31, 2012

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)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

(State or other jurisdiction of
incorporation or organization)
12498 South 71 Highway,
Grandview, Missouri
(Address of principal executive offices)

(IRS Employer
Identification No.)
64030
(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 No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, or a small reporting company. See definition of "accelerated filer", "large accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Small reporting Company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock of the Registrant outstanding as of February 4, 2013, was 7,867,614.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Balance Sheets*

	December 31, 2012 (Unaudited)	September 30, 2012
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents	\$ 11,908	8,716
Securities:		
Available for sale, at fair value	266,326	214,190
Stock in Federal Home Loan Bank, at cost	8,097	7,073
Mortgage-backed securities:		
Available for sale, at fair value	524	554
Held to maturity, at cost	23,669	25,921
Loans receivable:		
Held for sale, at fair value	164,635	163,834
Held for investment, net	722,654	766,601
Allowance for loan losses	(27,853)	(31,829)
Total loans receivable, net	859,436	898,606
Accrued interest receivable	4,169	4,402
Foreclosed assets held for sale, net	15,314	17,040
Premises and equipment, net	15,248	15,272
Investment in LLCs	17,137	17,222
Deferred income tax asset, net	15,523	17,199
Other assets	15,173	14,631
	\$ 1,252,524	1,240,826
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Customer deposit accounts	\$ 864,827	870,946
Brokered deposit accounts	9,997	21,367
Advances from Federal Home Loan Bank	150,000	127,000
Subordinated debentures	25,774	25,774
Escrows	4,330	8,760
Income taxes payable	4,953	3,490
Accrued expenses and other liabilities	12,783	11,986
Total liabilities	1,072,664	1,069,323
Stockholders equity:		
Common stock of \$0.15 par value: 20,000,000 shares authorized; 9,857,112 shares issued	1,479	1,479
Additional paid-in capital	16,657	16,657
Retained earnings	197,833	189,516
Treasury stock, at cost; 1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive loss	2,309	2,269
Total stockholders equity	179,860	171,503

\$ 1,252,524 1,240,826

See accompanying notes to condensed consolidated financial statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Operations (Unaudited)*

	Three months ended December 31,	
	2012	2011
	(Dollars in thousands, except share data)	
Interest on loans receivable	\$ 12,334	15,893
Interest on mortgage-backed securities	294	499
Interest and dividends on securities	963	968
Other interest income	2	2
Total interest income	13,593	17,362
Interest on customer and brokered deposit accounts	1,749	2,479
Interest on advances from Federal Home Loan Bank	531	635
Interest on subordinated debentures	129	129
Other interest expense	3	
Total interest expense	2,412	3,243
Net interest income	11,181	14,119
Provision for loan losses	(4,000)	2,500
Net interest income after provision for loan losses	15,181	11,619
Other income (expense):		
Loan servicing fees, net	26	47
Customer service fees and charges	1,474	1,410
Provision for loss on real estate owned	(575)	(1,354)
Loss on sale of securities available for sale		(343)
Gain from loans receivable held for sale	16,106	11,271
Other expense	(534)	(482)
Total other income	16,497	10,549
General and administrative expenses:		
Compensation and fringe benefits	6,356	5,348
Commission-based mortgage banking compensation	5,813	3,701
Premises and equipment	1,322	1,191
Advertising and business promotion	1,163	1,011
Federal deposit insurance premiums	586	387
Other	2,915	2,499
Total general and administrative expenses	18,155	14,137
Income before income tax expense	13,523	8,031
Income tax expense	5,206	3,092
Net income	\$ 8,317	4,939
Basic earnings per share	\$ 1.06	0.63
Diluted earnings per share	\$ 1.06	0.63

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Basic weighted average shares outstanding	7,867,614	7,867,614
---	-----------	-----------

See accompanying notes to condensed consolidated financial statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended December 31,	
	2012	2011
	(Dollars in thousands)	
Net income	\$ 8,317	4,939
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income taxes of \$25 and \$(113) at December 31, 2012 and 2011, respectively	40	(181)
Reclassification adjustment for loss included in net income, net of income taxes of \$132 at December 31, 2011		211
Change in unrealized gain on available for sale securities, net of income taxes of \$25 and \$19 at December 31, 2012 and 2011, respectively	40	30
Comprehensive income	\$ 8,357	4,969

See accompanying notes to condensed consolidated financial statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statement of Stockholders Equity (Unaudited)

	Common stock	Additional paid-in capital	Retained Earnings	Treasury stock	Accumulated other comprehensive Income	Total stockholders equity
	(Dollars in thousands)					
Balance at October 1, 2012	\$ 1,479	16,657	189,516	(38,418)	2,269	171,503
Comprehensive income:						
Net income			8,317			8,317
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale					40	40
Total comprehensive income						8,357
Balance at December 31, 2012	\$ 1,479	16,657	197,833	(38,418)	2,309	179,860

See accompanying notes to condensed consolidated financial statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows (Unaudited)*

	Three months ended December 31,	
	2012	2011
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 8,317	4,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	522	482
Amortization and accretion, net	212	(440)
Loss on sale of securities available for sale		343
Loss from investment in LLCs	90	13
Gain from loans receivable held for sale	(16,106)	(11,271)
Provision for loan losses	(4,000)	2,500
Provision for loss on real estate owned	575	1,354
Origination of loans receivable held for sale	(542,797)	(413,503)
Sale of loans receivable held for sale	558,103	424,076
Stock based compensation - stock options		2
Changes in:		
Net fair value of loan-related commitments	300	635
Accrued interest receivable	233	288
Prepaid and accrued expenses, other liabilities, and income taxes payable	2,940	1,531
Net cash provided by operating activities	8,389	10,949
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	2,248	3,366
Available for sale	28	53
Principal repayments of mortgage loans receivable held for investment	68,138	54,486
Principal repayments of other loans receivable	659	759
Principal repayments of investment securities available for sale		25,103
Loan origination - mortgage loans receivable held for investment	(24,930)	(19,019)
Loan origination - other loans receivable	(588)	(941)
Purchase of mortgage loans receivable held for investment	(647)	(378)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	(1,024)	5,246
Purchase of investment securities available for sale	(52,525)	(5,468)
Proceeds from sale of investment securities available for sale		19,678
Proceeds from sale of real estate owned	2,772	2,506
Purchases of premises and equipment, net	(499)	(889)
Investment in LLCs	(5)	(3)
Other	(319)	(380)
Net cash provided by (used in) investing activities	(6,692)	84,119

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows (Unaudited)*

	Three months ended December 31,	
	2012	2011
	(Dollars in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	(17,496)	72,895
Proceeds from advances from Federal Home Loan Bank	25,000	
Repayment on advances from Federal Home Loan Bank	(2,000)	(122,000)
Change in escrows	(4,431)	(5,297)
Proceeds from other borrowings	422	
Net cash provided by (used in) financing activities	1,495	(54,402)
Net increase in cash and cash equivalents	3,192	40,666
Cash and cash equivalents at beginning of the period	8,716	5,030
Cash and cash equivalents at end of period	\$ 11,908	45,696
 Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 2,093	
Cash paid for interest	2,378	3,332
 Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned, net of specific reserves	\$ 1,826	6,483
Conversion of real estate owned to loans receivable		42
See accompanying notes to condensed consolidated financial statements.		

NASB Financial, Inc.

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of NASB Financial, Inc. (the Company), its wholly-owned subsidiary, North American Savings Bank, F.S.B. (North American or the Bank), and the Bank's wholly-owned subsidiary, Nor-Am Service Corporation. All significant inter-company transactions have been eliminated in consolidation. The consolidated financial statements do not include the accounts of our wholly-owned statutory trust, NASB Preferred Trust I (the Trust). The Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of NASB Financial, Inc. The Trust Preferred Securities issued by the Trust are included in Tier I capital for regulatory capital purposes. See Footnote 8, Subordinated Debentures.

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 for the year ended September 30, 2012, filed with the Securities and Exchange Commission on December 14, 2012. Operating results for the three month period ended December 31, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013. The condensed consolidated balance sheet of the Company as of September 30, 2012, 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, valuation of foreclosed assets held for sale, accruals for loan recourse provisions, and fair values of financial instruments, among other items. Management believes that these estimates are adequate; however, future additions to the allowance or changes in the estimates may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the condensed consolidated financial statements as of December 31, 2012, have remained unchanged from September 30, 2012. These policies relate to the allowance for loan losses, the valuation of foreclosed assets held for sale, the valuation of derivative instruments, and the valuation of equity method investments. 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, 2012.

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

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

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

	Three months ended	
	12/31/12	12/31/11
Net income (in thousands)	\$ 8,317	4,939
Average common shares outstanding	7,867,614	7,867,614
Average common share stock options outstanding		
Average diluted common shares	7,867,614	7,867,614
Earnings per share:		
Basic	\$ 1.06	0.63
Diluted	1.06	0.63

At December 31, 2012 and 2011, options to purchase 47,538 shares of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

(3) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at December 31, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 69,464	3,310		72,774
U.S. government sponsored agency securities	192,710	580	166	193,124
Municipal securities	428			428
Total	\$ 262,602	3,890	166	266,326

The following table presents a summary of securities available for sale at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross Unrealized Losses	Estimated fair value
Corporate debt securities	\$ 57,983	3,035		61,018
U.S. government sponsored agency securities	152,546	624	4	153,166
Municipal securities	6			6
Total	\$ 210,535	3,659	4	214,190

There were no sales of securities available for sale during the three month period ended December 31, 2012. During the three month period ended December 31, 2011, the Company realized gross gains of \$227,000 and gross losses of \$570,000 on the sale of securities available for sale.

The following table presents a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at December 31, 2012. Dollar amounts are expressed in thousands.

	Less than 12 months Estimated fair value	Gross unrealized Losses	12 months or longer Estimated fair value	Gross unrealized losses
U.S. government sponsored agency securities	\$ 60,307	166	\$	
Total	\$ 60,307	166	\$	

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The scheduled maturities of securities available for sale at December 31, 2012 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	\$ 11,734	13		11,747
Due from one to five years	164,484	3,706	1	168,189
Due from five to ten years	35,095	147		35,242
Due after ten years	51,289	24	165	51,148
Total	\$ 262,602	3,890	166	266,326

(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at December 31, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 76	2		78
Pass-through certificates guaranteed by FNMA adjustable rate	137	7		144
FHLMC participation certificates:				
Fixed rate	161	13		174
Adjustable rate	120	8		128
Total	\$ 494	30		524

The following table presents a summary of mortgage-backed securities available for sale at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 78	3		81
Pass-through certificates guaranteed by FNMA adjustable rate	143	9		152
FHLMC participation certificates:				
Fixed rate	176	14		190
Adjustable rate	123	8		131
Total	\$ 520	34		554

There were no sales of mortgage-backed securities available for sale during the three month periods ended December 31, 2012 and 2011.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The scheduled maturities of mortgage-backed securities available for sale at December 31, 2012 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from five to ten years	\$ 161	13		174
Due after ten years	333	17		350
Total	\$ 494	30		524

Actual maturities and pay-downs of mortgage-backed securities available for sale will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at December 31, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 35	3		38
FNMA pass-through certificates:				
Fixed rate	3			3
Balloon maturity and adjustable rate	23	1		24
Collateralized mortgage obligations	23,608	370	327	23,651
Total	\$ 23,669	374	327	23,716

The following table presents a summary of mortgage-backed securities held to maturity at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 37	3		40
FNMA pass-through certificates:				
Fixed rate	3			3
Balloon maturity and adjustable rate	24	1		25
Collateralized mortgage obligations	25,857	390	198	26,049
Total	\$ 25,921	394	198	26,117

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

There were no sales of mortgage-backed securities held to maturity during the three month periods ended December 31, 2012 and 2011.

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities held to maturity which had unrealized losses at December 31, 2012. Dollar amounts are expressed in thousands.

	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Collateralized mortgage obligations	\$ 9,587	197	\$ 1,345	130
Total	\$ 9,587	197	\$ 1,345	130

Management monitors the securities portfolio for impairment on an ongoing basis by evaluating market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. The unrealized losses at December 31, 2012, are primarily the result of changes in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary. In addition, all scheduled payments for securities with unrealized losses at December 31, 2012, have been made, and it is anticipated that the Company will hold such securities to maturity and that the entire principal balance will be collected.

The scheduled maturities of mortgage-backed securities held to maturity at December 31, 2012, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 26	2		28
Due from five to ten years	1,115	2	28	1,089
Due after ten years	22,528	370	299	22,599
Total	\$ 23,669	374	327	23,716

Actual maturities and pay-downs of mortgage-backed securities held to maturity will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

(6) LOANS RECEIVABLE

The Bank has traditionally concentrated its lending activities on mortgage loans secured by residential and business property and, to a lesser extent, development lending. Residential mortgage loans have either long-term fixed or adjustable rates. The Bank also has a portfolio of mortgage loans that are secured by multifamily, construction, development, and commercial real estate properties. The remaining part of North American's loan portfolio consists of non-mortgage commercial loans and installment loans.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the Bank's total loans receivable. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12
HELD FOR INVESTMENT		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 329,436	331,310
Business properties	291,487	321,559
Partially guaranteed by VA or insured by FHA	4,447	3,950
Construction and development	97,684	110,718
Total mortgage loans	723,054	767,537
Commercial loans	14,986	17,570
Installment loans and lease financing to individuals	7,591	7,753
Total loans receivable held for investment	745,631	792,860
Less:		
Undisbursed loan funds	(18,013)	(21,014)
Unearned discounts and fees on loans, net of deferred costs	(4,964)	(5,245)
Net loans receivable held for investment	\$ 722,654	766,601
HELD FOR SALE		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 164,635	163,834

Included in the loans receivable balances at December 31, 2012, are participating interests in mortgage loans and wholly-owned mortgage loans serviced by other institutions in the amount of \$1.2 million. Loans and participations serviced for others amounted to approximately \$27.4 million at December 31, 2012. Loans serviced for others are not included in the accompanying condensed consolidated balance sheets.

Lending Practices and Underwriting Standards

Residential real estate loans - The Bank offers a range of residential loan programs, including programs offering loans guaranteed by the Veterans Administration (VA) and loans insured by the Federal Housing Administration (FHA). The Bank's residential loans come from several sources. The loans that the Bank originates are generally a result of direct solicitations of real estate brokers, builders, developers, or potential borrowers via the internet. North American periodically purchases real estate loans from other financial institutions or mortgage bankers.

The Bank's residential real estate loan underwriters are grouped into three different levels, based upon each underwriter's experience and proficiency. Underwriters within each level are authorized to approve loans up to prescribed dollar amounts. Any loan over \$1 million must also be approved by either the CEO or the EVP/Chief Credit Officer. Conventional residential real estate loans are underwritten using FNMA's Desktop Underwriter or FHLMC's Loan Prospector automated underwriting systems, which analyze credit history, employment and income information, qualifying ratios, asset reserves, and loan-to-value ratios. If a loan does not meet the automated underwriting standards, it is underwritten manually. Full documentation to support each applicant's credit history, income, and sufficient funds for closing is required on all loans. An appraisal report, performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser, is required for all loans. Typically, the Bank requires borrowers to purchase private mortgage insurance when the loan-to-value ratio exceeds 80%.

NASB originates Adjustable Rate Mortgages (ARMs), which fully amortize and typically have initial rates that are fixed for one to seven years before becoming adjustable. Such loans are underwritten based on the initial interest rate and the borrower's ability to repay based on the maximum first adjustment rate. Each underwriting decision takes into account the type of loan and the borrower's ability to pay at higher rates. While lifetime rate caps are taken into consideration, qualifying ratios may not be calculated at this level due to an extended number of years required to reach the fully-indexed rate. NASB does not originate any hybrid loans, such as payment option ARMs, nor does the Bank originate any subprime loans, generally defined as high risk or loans of substantially impaired quality.

At the time a potential borrower applies for a residential mortgage loan, it is designated as either a portfolio loan, which is held for investment and carried at amortized cost, or a loan held-for-sale in the secondary market and carried at fair value. All the loans on single family property that the Bank holds for sale conform to secondary market underwriting criteria established by various institutional investors. All loans originated, whether held for sale or held for investment, conform to internal underwriting guidelines, which consider, among other things, a property's value and the borrower's ability to repay the loan.

Construction and development loans Construction and land development loans are made primarily to builders/developers, who construct properties for resale. The Bank's requirements for a construction loan are similar to those of a mortgage on an existing residence. In addition, the borrower must submit accurate plans, specifications, and cost projections of the property to be constructed. All construction and development loans are manually underwritten using NASB's internal underwriting standards. All construction and development loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Construction Lending. Prior approval is required from the Bank's Board of Directors for newly originated construction and development loans with a proposed balance of \$2.5 million or greater. The bank has adopted internal loan-to-value limits consistent with regulations, which are 65% for raw land, 75% for land development, and 85% for residential and non-residential construction. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Generally, the Bank will commit to an initial term of 12 to 18 months on construction loans, and an initial term of 24 to 48 months on land acquisition and development loans, with six month renewals thereafter. Interest rates on construction loans typically adjust daily and are tied to a predetermined index. NASB's staff regularly performs inspections of each property during its construction phase to help ensure adequate progress is achieved before making scheduled loan disbursements.

When construction and development loans mature, the Bank typically considers extensions for short, six-month term periods. This allows the Bank to more frequently evaluate the loan, including creditworthiness and current market conditions and, if management believes it's in the best interest of the Company, to modify the terms accordingly. This portfolio consists primarily of assets with rates tied to the prime rate and, in most cases, the conditions for loan renewal include an interest rate floor in accordance with the market conditions that exist at the time of renewal.

During the three month period ended December 31, 2012, the Bank renewed nineteen loans within its construction and land development portfolio due to slower home and lot sales in the current economic environment. Such extensions were accounted for as Troubled Debt Restructurings (TDRs) if the restructuring was related to the borrower's financial difficulty, and if the Bank made concessions that it would not otherwise consider. In order to determine whether or not a renewal should be accounted for as a TDR, management reviewed the borrower's current financial information, including an analysis of income and liquidity in relation to debt service requirements. The large majority of these modifications did not result in a reduction in the contractual interest rate or a write-off of the principal balance (although the Bank does commonly require the borrower to make a principal reduction at renewal).

Commercial real estate loans - The Bank purchases and originates several different types of commercial real estate loans. Permanent multifamily mortgage loans on properties of 5 to 36 dwelling units have a 50% risk-weight for risk-based capital requirements if they have an initial loan-to-value ratio of not more than 80% and if their annual average occupancy rate exceeds 80%. All other performing commercial real estate loans have 100% risk-weights.

The Bank's commercial real estate loans are secured primarily by multi-family and nonresidential properties. Such loans are manually underwritten using NASB's internal underwriting standards, which evaluate the sources of repayment, including the ability of income producing property to generate sufficient cash flow to service the debt, the capacity of the borrower or guarantors to cover any shortfalls in operating income, and, as a last resort, the ability to liquidate the collateral in such a manner as to completely protect the Bank's investment. All commercial real estate loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Commercial Lending. Prior approval is required from the Bank's Board of Directors for newly originated commercial loans with a proposed balance of \$2.5 million or greater. Typically, loan-to-value ratios do not exceed 80%; however, exceptions may be made when it is determined that the safety of the loan is not compromised, and the rationale for exceeding this limit is clearly documented. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Interest rates on commercial loans may be either fixed or tied to a predetermined index and adjusted daily.

The Bank typically obtains full personal guarantees from the primary individuals involved in the transaction. Guarantor financial statements and tax returns are reviewed annually to determine their continuing ability to perform under such guarantees. The Bank typically pursues repayment from guarantors when the primary source of repayment is not sufficient to service the debt. However, the Bank may decide not to pursue a guarantor if, given the guarantor's financial condition, it is likely that the estimated legal fees would exceed the probable amount of any recovery. Although the Bank does not typically release guarantors from their obligation, the Bank may decide to delay the decision to pursue civil enforcement of a deficiency judgment.

At least once during each calendar year, a review is prepared for each borrower relationship in excess of \$5 million and for each individual loan over \$1 million. Collateral inspections are obtained on an annual basis for each loan over \$1 million, and on a triennial basis for each loan between \$500,000 and \$1 million. Financial information, such as tax returns, is requested annually for all commercial real estate loans over \$500,000, which is consistent with industry practice, and the Bank believes it has sufficient monitoring procedures in place to identify potential problem loans. A loan is deemed impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Any loans deemed impaired, regardless of their balance, are reviewed by management at the time of the impairment determination, and monitored on a quarterly basis thereafter, including calculation of specific valuation allowances, if applicable.

Installment Loans - These loans consist primarily of loans on savings accounts and consumer lines of credit that are secured by a customer's equity in their primary residence.

Allowance for Loan Losses

The Allowance for Loan and Lease Losses (ALLL) recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. ALLLs are established by charges to the provision for loan losses and carried as contra assets. Management analyzes the adequacy of the allowance on a quarterly basis and appropriate provisions are made to maintain the ALLLs at adequate levels. At any given time, the ALLL should be sufficient to absorb at least all estimated credit losses on outstanding balances over the next twelve months. While management uses information currently available to determine these allowances, they can fluctuate based on changes in economic conditions and changes in the information available to management. Also, regulatory agencies review the Bank's allowances for loan loss as part of their examination, and they may require the Bank to recognize additional loss provisions, within their regulatory filings, based on the information available at the time of their examinations.

The ALLL is determined based upon two components. The first is made up of specific reserves for loans which have been deemed impaired in accordance with GAAP. The second component is made up of general reserves for loans that are not impaired. A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent. Prior to the quarter ended March 31, 2012, the Bank recorded a specific allowance equal to the amount of measured impairment.

In July 2011, the Office of Thrift Supervision (OTS) merged with and into the Office of the Comptroller of the Currency (OCC), and the OCC became the Bank's primary regulator. Beginning with the quarter ended March 31, 2012, the Bank was required to file a Consolidated Report of Condition and Income (Call Report) instead of the previously required Thrift Financial Report (TFR). With the adoption of the Call Report, the Bank was required to discontinue using specific valuation allowances on loans deemed impaired. The TFR had allowed any measured impairments to be carried as specific valuation allowances, whereas the Call Report required any measured impairments that are deemed confirmed losses to be charged-off and netted from their respective loan balances. For impaired loans that are collateral dependent, a confirmed loss is generally the amount by which the loan's recorded investment exceeds the fair value of its collateral. If a loan is considered uncollectible, the entire balance is deemed a confirmed loss and is fully charged-off. During the quarter ended March 31, 2012, the Bank charged-off against ALLL the aggregate confirmed losses that were carried as specific valuation allowances in prior periods, and netted them against their respective loan balances for reporting purposes. This change had no impact on net loans receivable as presented in the consolidated balance sheet. In addition, this change did not materially impact the analysis of ALLL, which is described in more detail in the following paragraph, as specific valuation allowances were previously considered in the determination of historical loss ratios.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Loans that are not impaired are evaluated based upon the Bank's historical loss experience, as well as various subjective factors, to estimate potential unidentified losses within the various loan portfolios. These loans are categorized into pools based upon certain characteristics such as loan type, collateral type and repayment source. In addition to analyzing historical losses, the Bank also evaluates the following subjective factors for each loan pool to estimate future losses: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in management and other relevant staff, changes in the volume and severity of past due loans, changes in the quality of the Bank's loan review system, changes in the value of the underlying collateral for collateral dependent loans, changes in the level of lending concentrations, and changes in other external factors such as competition and legal and regulatory requirements. Historical loss ratios are adjusted accordingly, based upon the effect that the subjective factors have in estimated future losses. These adjusted ratios are applied to the balances of the loan pools to determine the adequacy of the ALLL each quarter. For purposes of calculating historical loss ratios, specific valuation allowances established prior to March 31, 2012, are considered charge-offs during the periods in which they are established.

The Bank does not routinely obtain updated appraisals for their collateral dependent loans that are not adversely classified. However, when analyzing the adequacy of its allowance for loan losses, the Bank considers potential changes in the value of the underlying collateral for such loans as one of the subjective factors used to estimate future losses in the various loan pools.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at December 31, 2012. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:							
Balance at October 1, 2012	\$ 6,941		7,086	16,590	513	699	31,829
Provision for loan losses	1,956		166	(5,698)	(448)	24	(4,000)
Losses charged off	(464)		(69)	(40)		(86)	(659)
Recoveries	60		246	353		24	683
Balance at December 31, 2012	\$ 8,493		7,429	11,205	65	661	27,853
Ending balance of allowance for loan losses related to loans at December 31, 2012:							
Individually evaluated for Impairment	\$ 605		25	191			821
Collectively evaluated for Impairment	\$ 7,888		7,404	11,014	65	661	27,032
Acquired with deteriorated credit quality	\$ 21						21
Loans:							
Balance at December 31, 2012	\$ 331,640	164,635	289,359	79,078	14,986	7,591	887,289
Ending balance:							
Loans individually evaluated for impairment	\$ 23,398		19,806	39,560	13,751	62	96,577
Loans collectively evaluated for impairment	\$ 308,242	164,635	269,553	39,518	1,235	7,529	790,712
Loans acquired with deteriorated credit quality	\$ 3,956						3,956

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at December 31, 2011. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:							
Balance at October 1, 2011	\$ 6,663	12	13,201	41,863	7,682	845	70,266
Provision for loan losses	(731)	6	9,640	(3,967)	(2,577)	129	2,500
Losses charged off	(587)		(1,437)	(10,246)	(2,569)	(19)	(14,858)
Recoveries	37						37
Balance at December 31, 2011	\$ 5,382	18	21,404	27,650	2,536	955	57,945
Ending balance of allowance for loan losses related to loans at December 31, 2011:							
Individually evaluated for Impairment	\$ 1,742	18	7,011	16,927	335	660	26,693
Collectively evaluated for Impairment	\$ 3,640		14,393	10,723	2,201	295	31,252
Acquired with deteriorated credit quality	\$ 51						51
Loans:							
Balance at December 31, 2011	\$ 325,417	116,133	378,585	144,434	73,970	9,185	1,047,724
Ending balance:							
Loans individually evaluated for impairment	\$ 13,614	18	33,771	89,244	800	722	138,169
Loans collectively evaluated for impairment	\$ 311,803	116,115	344,814	55,190	73,170	8,463	909,555
Loans acquired with deteriorated credit quality	\$ 2,504						2,504

Classified Assets, Delinquencies, and Non-accrual Loans

Classified assets - In accordance with the Bank's asset classification system, problem assets are classified with risk ratings of either substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the borrower's ability to repay, or the value of collateral. Substandard assets include those characterized by a possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have the same weaknesses of those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of little value. Prior to the quarter ended March 31, 2012, the Bank established a specific valuation allowance for such assets. In conjunction with the adoption of the Call Report during the quarter ended March 31, 2012, such assets are charged-off against the ALLL at the time they are deemed to be a confirmed loss.

In addition to the risk rating categories for problem assets noted above, loans may be assigned a risk rating of pass, pass-watch, or special mention. The pass category includes loans with borrowers and/or collateral that is of average quality or better. Loans in this category are considered average risk and satisfactory repayment is expected. Assets classified as pass-watch are those in which the borrower has the capacity to perform according to the terms and repayment is expected. However, one or more elements of uncertainty exist. Assets classified as special mention have a potential weakness that deserves management's close attention. If left undetected, the potential weakness may result in deterioration of repayment prospects.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Each quarter, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of December 31, 2012. Dollar amounts are expressed in thousands.

Rating:	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
	Pass	\$ 272,947	164,635	203,228	12,893		7,529
Pass Watch	24,253		57,868	20,048	1,235		103,404
Special Mention	229		4,749				4,978
Substandard	33,820		23,514	45,953	13,751	62	117,100
Doubtful	391			184			575
Loss							
Total	\$ 331,640	164,635	289,359	79,078	14,986	7,591	887,289

The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of September 30, 2012. Dollar amounts are expressed in thousands.

Rating:	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
	Pass	\$ 283,771	163,834	256,158	14,370	1,318	7,621
Pass Watch	11,076		28,439	19,054			58,569
Special Mention	4,689		323				5,012
Substandard	32,011		34,352	56,261	16,249	132	139,005
Doubtful	773			4			777
Loss							
Total	\$ 332,320	163,834	319,272	89,689	17,567	7,753	930,435

The following table presents the Company's loan portfolio aging analysis as of December 31, 2012. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	\$ 2,064	1,131	7,738	10,933	320,707	331,640	156
Residential held for sale					164,635	164,635	
Commercial real estate	536		6,008	6,544	282,815	289,359	213
Construction & development		962	4,167	5,129	73,949	79,078	566
Commercial					14,986	14,986	
Installment	15		75	90	7,501	7,591	11
Total	\$ 2,615	2,093	17,988	22,696	864,593	887,289	946

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the Company's loan portfolio aging analysis as of September 30, 2012. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	\$ 1,727	1,439	16,430	19,596	312,724	332,320	5,183
Residential held for sale					163,834	163,834	
Commercial real estate	217	714	6,082	7,013	312,259	319,272	
Construction & development	567	633	5,487	6,687	83,002	89,689	1,931
Commercial					17,567	17,567	
Installment	181	67	64	312	7,441	7,753	
Total	\$ 2,692	2,853	28,063	33,608	896,827	930,435	7,114

When a loan becomes 90 days past due, or when full payment of interest and principal is not expected, the Bank stops accruing interest and establishes a reserve for the unpaid interest accrued-to-date. In some instances, a loan may become 90 days past due if it has exceeded its maturity date but the Bank and borrower are still negotiating the terms of an extension agreement. In those instances, the Bank typically continues to accrue interest, provided the borrower has continued making interest payments after the maturity date and full payment of interest and principal is expected.

The following table presents the Company's loans meeting the regulatory definition of nonaccrual, which includes certain loans that are current and paying as agreed. This table does not include purchased impaired loans or troubled debt restructurings that are performing. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12
Residential	\$ 23,083	23,147
Residential held for sale		
Commercial real estate	14,711	20,952
Construction & development	23,220	30,606
Commercial		
Installment	62	62
Total	\$ 61,076	74,767

As of December 31, 2012, \$50.0 million (81.9%) of the loans classified as nonaccrual were current and paying as agreed.

During the quarter ended March 31, 2012, the Company's nonaccrual loans increased \$41.4 million. This increase resulted from management's decision to move certain impaired collateral dependent loans secured by land development properties to nonaccrual, even though the majority of such loans were current and paying in accordance with their contractual terms. Due to the continued deterioration in the real estate markets, further declines in the value of collateral securing these loans are possible. In accordance with GAAP, such loans have been charged-down to the fair value of their underlying collateral, and therefore, the recorded investment in the loan is deemed fully collectable at December 31, 2012. Interest income is recognized on a cash-basis as payments are received.

A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. A restructuring of debt is considered a TDR if, because of a debtor's financial difficulty, a creditor grants concessions that it would not otherwise consider. Loans modified in troubled debt restructurings are also considered impaired. Concessions granted in a TDR could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent.

During the quarter ended December 31, 2012, the Company modified five residential loans to a single borrower with a recorded investment of \$2.8 million prior to modification, which were deemed to be TDRs. These modifications extended the maturity date for four years and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. The loans were deemed collateral dependent, and the modification did not result in any measured impairment or specific allowances. In addition, the Company modified three residential loans to a single borrower with a total recorded investment of \$421,000 prior to modification, which were deemed to be TDRs. These modifications, which required a combined \$39,000 principal payment, extended the maturity date for three years and did not result in a reduction in the contractual interest rate. Prior to modification, the loans were deemed impaired and collateral dependent. Therefore, they were being carried at the fair value of the underlying collateral and no additional impairment of specific valuation allowances were required.

During the quarter ended December 31, 2012, the Company modified five construction and land development loans with a recorded investment of \$3.7 million prior to modification which had previously been deemed TDRs and continued to be TDRs following the current modification. These modifications were the result of extensions, typically for a six-month period, and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. Such loans are considered collateral dependent and were being carried at the fair value of the underlying collateral prior to modification. In addition, the Company modified three construction and land development loans with a recorded investment of \$2.3 million prior to modification, which were deemed to be TDRs during the current period. These modifications were the result of extensions, typically for a six-month period, and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. The loans were deemed collateral dependent, and the modification did not result in any measured impairment or specific allowances, based upon the fair value of the underlying collateral.

During the quarter ended December 31, 2012, the Company modified two commercial real estate loans with a recorded investment of \$746,000 prior to modification, which were deemed to be TDRs. The modifications restructured the payment terms and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. Prior to modification, such loans were considered impaired and collateral dependent. Therefore, they were being carried at the fair value of the underlying collateral and no additional impairment or specific valuation allowances were required. In addition, the Company agreed to modify one commercial loan with a recorded investment of \$16.3 million prior to modification, which was deemed to be a TDR. The modification extended the maturity date by eighteen months and required a \$2.5 million principal payment. The modification resulted in a measured impairment of \$25,000, based upon the present value of the estimated future cash flows discounted at the loan's effective rate.

TDRs secured by residential properties with a recorded investment of \$3.7 million, TDRs secured by commercial properties with a recorded investment of \$698,000, and TDRs secured by land development properties with a recorded investment of \$1.7 million defaulted during the period ended December 31, 2012. Management considers the level of defaults within the various portfolios when evaluating qualitative adjustments used to determine the adequacy of the Allowance for Loan and Lease Losses.

During the period ended December 31, 2011, the Company modified five land development loans, with a recorded investment of \$3.2 million prior to modification, which had previously been deemed TDRs and continued to be TDRs following the current modification. These modifications were the result of extensions, typically for a six-month period, and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. Such loans are considered collateral dependent, and the modifications resulted in specific loss allowances of \$418,000, based upon the fair value of the collateral. Specific loss allowances are included in the calculation of estimated future loss ratios, which are applied to the various loan portfolios for purposes of estimating future losses.

TDRs secured by residential properties with a recorded investment of \$3.1 million, TDRs secured by commercial properties with a recorded investment of \$3.8 million, and TDRs secured by land development properties with a recorded investment of \$4.7 million defaulted during the period ended December 31, 2011.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the recorded balance of troubled debt restructurings. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12
Troubled debt restructurings:		
Residential	\$ 9,084	6,156
Residential held for sale		
Commercial real estate	14,168	17,384
Construction & development	38,303	39,844
Commercial	13,751	
Installment		
Total	\$ 75,306	63,384
Performing troubled debt restructurings:		
Residential	\$ 825	593
Residential held for sale		
Commercial real estate	3,553	3,812
Construction & development	16,340	11,521
Commercial	13,751	
Installment		
Total	\$ 34,469	15,926

At December 31, 2012, the Bank had outstanding commitments of \$235,000 to be advanced in connection with TDRs.

The following table presents impaired loans, including troubled debt restructurings, as of December 31, 2012. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential	\$ 17,689	19,184		17,742	216
Residential held for sale					
Commercial real estate	19,806	28,384		20,023	462
Construction & development	35,988	40,109		37,170	553
Commercial					
Installment	62	519		70	5
Loans with a specific valuation allowance:					
Residential	\$ 5,709	6,670	605	5,725	89
Residential held for sale					
Commercial real estate					
Construction & development	3,572	3,988	191	3,577	59
Commercial	13,751	13,751	25	15,417	280
Installment					
Total:					
Residential	\$ 23,398	25,854	605	23,467	305
Residential held for sale					
Commercial real estate	19,806	28,384		20,023	462
Construction & development	39,560	44,097	191	40,747	612
Commercial	13,751	13,751	25	15,417	280
Installment	62	519		70	5

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents impaired loans, including troubled debt restructurings, as of September 30, 2012. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential	\$ 16,849	19,394		18,252	776
Residential held for sale					
Commercial real estate	21,574	30,652		24,961	1,796
Construction & development	40,633	45,873		46,820	2,658
Commercial					
Installment	68	570		69	17
Loans with a specific valuation allowance:					
Residential	\$ 4,836	4,910	974	4,836	260
Residential held for sale					
Commercial real estate	3,322	3,955	7	3,949	215
Construction & development	1,634	1,668	42	1,698	100
Commercial					
Installment					
Total:					
Residential	\$ 21,685	24,304	974	23,088	1,036
Residential held for sale					
Commercial real estate	24,896	34,607	7	28,910	2,011
Construction & development	42,267	47,541	42	48,518	2,758
Commercial					
Installment	68	570		69	17

(7) FORECLOSED ASSETS HELD FOR SALE

The following table presents real estate owned and other repossessed property. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12
Real estate acquired through (or deed in lieu of) foreclosure	\$ 15,314	17,040
Less: allowance for losses		
Total	\$ 15,314	17,040

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less 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. When foreclosed assets are acquired, any excess of the loan balance over the new basis of the foreclosed asset is charged to the allowance for loan losses. Subsequent adjustments for estimated losses are charged to operations when the fair value declines to an amount less than the carrying value. Costs and expenses related to major additions and improvements are capitalized, while maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. Applicable gains and losses on the sale of real estate owned are realized when the asset is disposed of, depending on the adequacy of the down payment and other requirements.

With the adoption of the Call Report during the quarter ended March 31, 2012, the Bank was required to begin following regulatory guidance related to the Call Report requirements. One such requirement resulted in a change in the treatment of specific loss reserves for foreclosed assets held for sale. Previous Thrift Financial Report guidance allowed banks to reduce an asset's carrying value through a specific allowance when the fair value declined to an amount less than its carrying value. Call Report guidance requires that the carrying value of foreclosed assets held for sale be written down to fair value through a charge to earnings. During the quarter ended March 31, 2012, the Bank charged-off the previously established specific allowances on such assets of \$9.4 million. This change had no impact on net foreclosed assets held for sale as presented in the consolidated balance sheet.

(8) SUBORDINATED DEBENTURES

On December 13, 2006, 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 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. In exchange for the capital contributions made to the Trust by the Company upon formation, the Company owns all the common securities of the Trust.

In accordance with Financial Accounting Standards Board ASC 810-10, the Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of the Company. The \$25.0 million Trust Preferred Securities issued by the Trust will remain on the records of the Trust. The Trust Preferred Securities are included in Tier I capital for regulatory capital purposes.

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

On July 11, 2012, the Company notified security holders that it was exercising its right to defer the payment of interest on its Trust Preferred Securities for a period of up to five years.

(9) INCOME TAXES

The Company's federal and state income tax returns for fiscal years 2009 through 2011 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(10) SEGMENT INFORMATION

The Company has identified two principal operating segments for purposes of financial reporting: Banking and Mortgage Banking. These segments were determined based on the Company's internal financial accounting and reporting processes and are consistent with the information that is used to make operating decisions and to assess the Company's performance by the Company's key decision makers.

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

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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

Three months ended December 31, 2012	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,310		(129)	11,181
Provision for loan losses	(4,000)			(4,000)
Other income	50	17,021	(574)	16,497
General and administrative expenses	6,750	11,688	(283)	18,155
Income tax expense	3,315	2,053	(162)	5,206
 Net income	 \$ 5,295	 3,280	 (258)	 8,317

Three months ended December 31, 2011	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 14,248		(129)	14,119
Provision for loan losses	2,500			2,500
Other income	(771)	11,685	(365)	10,549
General and administrative expenses	6,031	8,264	(158)	14,137
Income tax benefit	1,904	1,317	(129)	3,092
 Net loss	 \$ 3,042	 2,104	 (207)	 4,939

(11) DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. As the Company enters into commitments to originate loans, it also enters into commitments to sell the loans in the secondary market on a "best-efforts" basis. Such commitments to originate loans held for sale are considered derivative instruments in accordance with GAAP, which requires the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of marking to market commitments to originate loans, the Company recorded a decrease in other assets of \$2.2 million, an increase in other liabilities of \$623,000, and a decrease in other income of \$2.9 million for the three month period ended December 31, 2012. The Company recorded a decrease in other assets of \$662,000, a decrease in other liabilities of \$535,000, and a decrease in other income of \$127,000 for the three month period ended December 31, 2011.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded an increase in other assets of \$2.4 million, a decrease in other liabilities of \$117,000, and an increase in other income of \$2.6 million during the three month period ended December 31, 2012. The Company recorded a decrease in other assets of \$669,000, a decrease in other liabilities of \$161,000, and a decrease in other income of \$508,000 during the three month period ended December 31, 2011.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2012, is disclosed in Footnote 12, Fair Value Measurements.

(12) FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would likely be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. GAAP identifies three primary measurement techniques: the market approach, the income approach, and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuations or techniques to convert future amounts, such as cash flows or earnings, to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capability of an asset.

GAAP establishes a fair value hierarchy and prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required. Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Company's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Company measures certain financial assets and liabilities at fair value in accordance with GAAP. These measurements involve various valuation techniques and assume that the transactions would occur between market participants in the most advantageous market for the Company.

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Available for sale securities

Securities available for sale consist of corporate debt, trust preferred, U. S. government sponsored agency, and municipal securities. Such securities are valued using market prices in an active market, if available. This measurement is classified as Level 1 within the hierarchy. Less frequently traded securities are valued using industry standard models which utilize various assumptions such as historical prices of the same or similar securities, and observation of market prices of securities of the same issuer, market prices of same-sector issuers, and fixed income indexes. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. These measurements are classified as Level 2 within the hierarchy.

At December 31, 2011, mortgage-backed securities available for sale, which consist of agency pass-through and participation certificates issued by GNMA, FNMA, and FHLMC, were valued by using broker-dealer quotes for similar assets in markets that are not active. Although the Company did not validate these quotes, they were reviewed by management for reasonableness in relation to current market conditions. Additionally, they were obtained from experienced brokers who had an established relationship with the Bank and deal regularly with these types of securities. The Company did not make any adjustment to the quotes received from broker-dealers. These measurements are classified as Level 2. At December 31, 2012, mortgage-backed securities available for sale were valued by using industry standard models which utilize various inputs and assumptions such as historical prices of benchmark securities, prepayment estimates, loan type, and year of origination. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. These measurements are classified as Level 2 within the hierarchy.

Loans held for sale

Loans held for sale are valued using quoted market prices for loans with similar characteristics. This measurement is classified as Level 2 within the hierarchy.

Commitments to Originate Loans and Forward Sales Commitments

Commitments to originate loans and forward sales commitments are valued using a valuation model which considers differences between current market interest rates and committed rates. The model also includes assumptions, which estimate fall-out percentages, for commitments to originate loans, and average lives. Fall-out percentages, which range from ten to forty percent, are estimated based upon the difference between current market rates and committed rates. Average lives are based upon estimates for similar types of loans. These measurements use significant unobservable inputs and are classified as Level 3 within the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at December 31, 2012 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 193,124	156,850	36,274	
Corporate debt securities	72,774		72,774	
Municipal securities	428		428	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	78		78	
Pass through certificates guaranteed by FNMA adjustable rate	144		144	
FHLMC participation certificates:				
Fixed rate	174		174	
Adjustable rate	128		128	
Loans held for sale	164,635		164,635	
Commitments to originate loans	323			323
Forward sales commitments	4,636			4,636
Total assets	\$ 436,444	156,850	274,635	4,959
Liabilities:				
Commitments to originate loans	\$ 1,135			1,135
Forward sales commitments	16			16
Total liabilities	\$ 1,151			1,151

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2012 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 153,166	142,359	10,807	
Corporate debt securities	61,018		61,018	
Municipal securities	6		6	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	81		81	
Pass through certificates guaranteed by FNMA adjustable rate	152		152	
FHLMC participation certificates:				
Fixed rate	190		190	
Adjustable rate	131		131	
Loans held for sale	163,834		163,834	
Commitments to originate loans	2,559			2,559
Forward sales commitments	2,194			2,194
Total assets	\$ 383,331	142,359	236,219	4,753
Liabilities:				
Commitments to originate loans	\$ 512			512
Forward sales commitments	133			133
Total liabilities	\$ 645			645

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the three month periods ended December 31, 2012 and 2011 (in thousands):

	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2012	\$ 2,047	2,061
Total realized and unrealized gains (losses):		
Included in net income	(2,859)	2,559
Balance at December 31, 2012	\$ (812)	4,620
	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2011	\$ 360	1,328
Total realized and unrealized gains (losses):		
Included in net income	(127)	(508)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Balance at December 31, 2011	\$	233	820
------------------------------	----	-----	-----

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Realized and unrealized gains and losses noted in the table above and included in net income for the three month period ended December 31, 2012, are reported in the consolidated statements of income as follows (in thousands):

	Other Income
Total losses	\$ (300)
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

Realized and unrealized gains and losses noted in the table above and included in net income for the three month period ended December 31, 2011, are reported in the consolidated statements of income as follows (in thousands):

	Other Income
Total losses	\$ (635)
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Impaired loans

Loans for which it is probable that the Company will not collect principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and other internal assessments of value. Appraisals are obtained when an impaired loan is deemed to be collateral dependent and at least annually thereafter. Fair value is generally the appraised value less estimated selling costs and may be discounted further if management believes any other factors or events have affected the fair value. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans that were re-measured during the three month period ended December 31, 2012, was \$22.0 million. The carrying value of impaired loans that were re-measured during the three month period ended December 31, 2011, was \$74.2 million.

Foreclosed Assets Held For Sale

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less 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. Fair value is estimated through current appraisals, broker price opinions, or listing prices. Appraisals are obtained when the real estate is acquired and at least annually thereafter. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The carrying value of foreclosed assets held for sale was \$15.3 million at December 31, 2012. Charge-offs related to foreclosed assets held for sale that were re-measured during the three month period ended December 31, 2012, totaled \$570,000. Charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the three month period ended December 31, 2011, totaled \$1.3 million.

Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. These investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) an on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). Investment in LLCs is classified within Level 3 of the fair value hierarchy.

The carrying value of the Company's investment in LLCs was \$17.1 million at December 31, 2012, and \$17.2 million at September 30, 2012.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value:

Cash and cash equivalents

The carrying amount reported in the consolidated balance sheets is a reasonable estimate of fair value.

Securities and mortgage-backed securities held to maturity

Securities that trade in an active market are valued using market prices, if available. Securities that do not trade in an active market were valued by using industry standard models which utilize various inputs and assumptions such as historical prices of similar securities, estimated delinquencies, defaults, and loss severity.

Stock in Federal Home Loan Bank (FHLB)

The carrying value of stock in Federal Home Loan Bank approximates its fair value.

Loans receivable held for investment

Fair values are computed for each loan category using market spreads to treasury securities for similar existing loans in the portfolio and management's estimates of prepayments.

Customer and brokered deposit accounts

The estimated fair values of demand deposits and savings accounts are equal to the amount payable on demand at the reporting date. Fair values of certificates of deposit are computed at fixed spreads to treasury securities with similar maturities.

Advances from FHLB

The estimated fair values of advances from FHLB are determined by discounting the future cash flows of existing advances using rates currently available for new advances with similar terms and remaining maturities.

Subordinated debentures

Fair values are based on quotes from broker-dealers that reflect estimated offer prices.

Commitments to originate, purchase and sell loans

The estimated fair value of commitments to originate, purchase, or sell loans is based on the difference between current levels of interest rates and the committed rates.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 11,908	11,908		
Stock in Federal Home Loan Bank	8,097		8,097	
Mortgage-backed securities held to maturity	23,669		23,716	
Loans receivable held for investment	694,801			711,431
Financial Liabilities:				
Customer deposit accounts	864,827			866,266
Brokered deposit accounts	9,997			9,992
Advances from FHLB	150,000			153,203
Subordinated debentures	25,774			9,021

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 8,716	8,716		
Stock in Federal Home Loan Bank	7,073		7,073	
Mortgage-backed securities held to maturity	25,921		26,117	
Loans receivable held for investment	734,772			763,017
Financial Liabilities:				
Customer deposit accounts	870,946			872,160
Brokered deposit accounts	21,367			21,365
Advances from FHLB	127,000			130,393
Subordinated debentures	25,774			9,021

The following tables present the carrying values and fair values of the Company's unrecognized financial instruments. Dollar amounts are expressed in thousands.

	December 31, 2012		September 30, 2012	
	Contract or notional amount	Estimated unrealized gain (loss)	Contract or notional amount	Estimated unrealized gain
Unrecognized financial instruments:				
Lending commitments fixed rate, net	\$ 12,547	13	\$ 2,446	11
Lending commitments floating rate	215		926	9
Commitments to sell loans				

The fair value estimates presented are based on pertinent information available to management as of December 31, 2012, and September 30, 2012. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date. Therefore, current estimates of fair value may differ significantly from the amounts presented above.

(13) INVESTMENT IN LLCs

The Company is a partner in two limited liability companies, Central Platte Holdings LLC (Central Platte) and NBH, LLC (NBH), which were formed for the purpose of purchasing and developing vacant land in Platte County, Missouri. These investments are accounted for using the equity method of accounting.

The Company's investment in Central Platte consists of a 50% ownership interest in an entity that develops land for residential real estate sales. Sales of lots have not met previous expectations and, as a result, the Company evaluated its investment for impairment, in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) another on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The internal model also includes method 4, an on-going business method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the development and sale of lots from the property that is currently raw land. However, management does not feel the results from this method provide a reliable indication of value because the time to build-out the development exceeds 18 years. Because of this unreliability, the results from method 4 are given a zero weighting in the final impairment analysis. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). It is management's opinion that no one valuation method within the model is preferable to the other and that no one method is more likely to occur than the other. Therefore, the final estimate of value is determined by assigning an equal weight to the values derived from each of the first three methods described above.

As a result of this analysis, the Company determined that its investment in Central Platte was materially impaired and recorded an impairment charge of \$2.0 million (\$1.2 million, net of tax) during the year ended September 30, 2010. During the quarter ended March 31, 2012, list prices of fully-developed lots in Central Platte's residential development were reduced. The Company incorporated these lower prices into its internal valuation model, which resulted in an additional impairment charge of \$200,000 (\$123,000, net of tax) during the quarter ended March 31, 2012. No other events have occurred that would indicate any additional impairment of the Company's investment in Central Platte.

The following table displays the results derived from the Company's internal valuation model at December 31, 2012, and the carrying value of its investment in Central Platte at December 31, 2012. Dollar amounts are expressed in thousands.

Method 1	\$ 14,922
Method 2	15,611
Method 3	17,682
Average of methods 1, 2, and 3	\$ 16,072
Carrying value of investment in Central Platte Holdings, LLC	\$ 15,771

The Company's investment in NBH consists of a 50% ownership interest in an entity that holds raw land, which is currently zoned as agricultural. The general managers intend to rezone this property for commercial and/or residential development. The raw land was purchased in 2002. The Company accounts for its investment in NBH under the equity method. Due to the overall economic conditions surrounding real estate, the Company evaluated its investment for impairment in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. Potential impairment was measured based on liquidation or appraised values determined by an independent third party appraisal. As a result of this analysis, the Company determined that its investment in NBH was materially impaired and recorded an impairment charge of \$1.1 million (\$693,000, net of tax) during the year ended September 30, 2010. The results of this analysis as of September 30, 2012, did not indicate any additional impairment of the Company's investment in NBH. No events have occurred during the three month period ended December 31, 2012, that would indicate any additional impairment of the Company's investment. The carrying value of the Company's investment in NBH was \$1.4 million at December 31, 2012.

(14) REGULATORY AGREEMENTS

On April 30, 2010, the Board of Directors of North American Savings Bank, F.S.B. (the Bank), a wholly-owned subsidiary of the Company, entered into a Supervisory Agreement with the Office of Thrift Supervision (OTS), the Bank's primary regulator at that time. The agreement required, among other things, that the Bank revise its policies regarding internal asset review, obtain an independent assessment of its allowance for loan and lease losses methodology and conduct an independent third-party review of a portion of its commercial and construction loan portfolios. The agreement also directed the Bank to provide a plan to reduce its classified assets and its reliance on brokered deposits, and restricted the payment of dividends or other capital distributions by the Bank during the period of the agreement. The agreement did not direct the Bank to raise capital, make management or board changes, revise any loan policies or restrict lending growth.

On April 30, 2010, the Company's Board of Directors entered into an agreement with the OTS, the Company's primary regulator at that time. The agreement restricted the payment of dividends or other capital distributions by the Company and restricted the Company's ability to incur, issue or renew any debt during the period of the agreement.

The Bank's Supervisory Agreement and the Company's agreement with the OTS were assigned to their new primary regulators, the Office of the Comptroller of the Currency (OCC) and Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB), respectively, on July 21, 2011.

On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the OCC. This Consent Order replaces and terminates the previous Supervisory Agreement. The Consent Order requires that the Bank establish various plans and programs to improve its asset quality and to ensure the adequacy of allowances for loan and lease losses. It requires the Bank to obtain an independent third-party review of its non-homogenous loan portfolios and to enhance its credit administration systems. Among other items, it also requires a written capital maintenance plan to ensure that the Bank's Tier 1 leverage capital and total risk-based capital ratios remain equal to or greater than 10% and 13%, respectively. As of December 31, 2012, the Bank's actual Tier 1 leverage capital and total risk-based capital ratios were 14.6% and 19.0%, respectively. The Consent Order does not direct the Bank to raise capital, make management or board changes, or restrict lending.

On November 29, 2012 the Company's Board of Directors entered into a formal written agreement with the Federal Reserve Bank of Kansas City, which replaces and terminates the Company's previous agreement with the OTS. The agreement with FRB restricts the payment of dividends or other capital distributions by the Company, restricts the Company's ability to incur, increase, or guarantee any debt, and restricts the Company's ability to purchase or redeem any of its stock. In addition, the agreement restricts the Company and its wholly-owned statutory trust, NASB Preferred Trust I, from making distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities.

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

FORWARD-LOOKING STATEMENTS

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission (SEC). These forward-looking statements may be included in this quarterly report and in other communications by the Company, which are made in good faith by us pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, and similar expressions identify forward-looking statements. The following factors, as well as those discussed under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012, filed with the Securities and Exchange Commission, among others, could cause our financial performance to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;

the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;

the effects of, and changes in, foreign and military policy of the United States Government; inflation, interest rate, market and monetary fluctuations;

the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;

the willingness of users to substitute competitors' products and services for our products and services;

our success in gaining regulatory approval of our products, services and branching locations, when required;

the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance;

technological changes;

acquisitions and dispositions;

changes in consumer spending and saving habits;

our success at managing the risks involved in our business; and

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

changes in the fair value or economic value of, impairments of, and risks associated with the Bank's investments in real estate owned, mortgage backed securities and other assets.

This list of important factors is not all-inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank. For further discussion of these factors, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012, filed with the Securities and Exchange Commission, and in our Quarterly Reports, if applicable.

GENERAL

NASB Financial, Inc. was formed in 1998 as a unitary thrift holding company of North American Savings Bank, F.S.B. The Bank is a federally chartered stock savings bank, with its headquarters in the Kansas City area. The Bank began operating in 1927, and became a member of the Federal Home Loan Bank of Des Moines (FHLB) in 1940. Its customer deposit accounts are insured by the Deposit Insurance Fund (DIF), a division of the Federal Deposit Insurance Corporation (FDIC). The Bank converted to a stock form of ownership in September 1985.

The Bank's primary market area includes the counties of Jackson, Cass, Clay, Buchanan, Andrew, Platte, and Ray in Missouri, and Johnson and Wyandotte counties in Kansas. The Bank currently has nine retail deposit offices in Missouri including one each in Grandview, Lee's Summit, Independence, Harrisonville, Excelsior Springs, Platte City, and St. Joseph, and two in Kansas City. North American also operates loan production offices in Kansas City, Lee's Summit and Springfield in Missouri. The economy of the Kansas City area is diversified with major employers in agribusiness, greeting cards, automobile production, transportation, telecommunications, and government.

The Bank's principal business is to attract deposits from the general public and to originate real estate loans, other loans and short-term investments. The Bank obtains funds mainly from deposits received from the general public, sales of loans and loan participations, advances from the FHLB, and principal repayments on loans and mortgage-backed securities (MBS). The Bank's primary sources of income include interest on loans, interest on MBS, interest on investment securities, customer service fees, and mortgage banking fees. Its primary expenses are interest payments on customer deposit accounts and borrowings and normal operating costs.

FINANCIAL CONDITION

Assets

The Company's total assets as of December 31, 2012 were \$1,252.5 million, an increase of \$11.7 million from September 30, 2012, the prior fiscal year end.

Loans receivable held for investment were \$722.7 million as of December 31, 2012, a decrease of \$43.9 million during the three month period. The weighted average rate on such loans as of December 31, 2012, was 5.73%, a decrease from 5.97% as of December 31, 2011.

Loans receivable held for sale as of December 31, 2012, were \$164.6 million, an increase of \$801,000 from September 30, 2012. This portfolio consists of residential mortgage loans originated by the Bank's mortgage banking division that will be sold with servicing released. The Company has elected to carry loans held for sale at fair value, as permitted under GAAP.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the three months ended December 31, 2012, the Bank originated and purchased \$542.8 million in mortgage loans held for sale, \$25.6 million in mortgage loans held for investment, and \$588,000 in other loans. This total of \$569.0 million in loans compares to \$433.8 million in loans originated and purchased during the three months ended December 31, 2011.

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 little value.

The following table summarizes the Bank's classified assets, including foreclosed assets held for sale, as reported to their primary regulator, plus any classified assets of the holding company. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12	12/31/11
Asset Classification:			
Substandard	\$ 132,431	156,117	166,783
Doubtful	575	777	
Loss*			36,139
	133,006	156,894	202,922
Allowance for losses on loans and real estate owned	(27,853)	(31,829)	(67,392)
	\$ 105,153	125,065	135,530

* Assets classified as loss represent the amount of measured impairment related to loans and foreclosed assets held for sale that have been deemed impaired. Prior to quarter ended March, 31 2012, the Bank established a specific valuation allowance for such assets. In conjunction with the adoption of the Call Report during the quarter ended March 31, 2012, such assets are charged-off against the ALLL at the time they are deemed to be a confirmed loss.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table summarizes non-performing assets, troubled debt restructurings, and real estate acquired through foreclosure, net of specific loss allowances. Dollar amounts are expressed in thousands.

	12/31/12	9/30/12	12/31/11
Total Assets	\$ 1,252,524	1,240,826	1,205,525
Non-accrual loans	61,076	74,767	18,247
Performing troubled debt restructurings	34,469	15,926	72,331
Net real estate and other assets acquired through foreclosure	15,314	17,040	19,553
Total	110,859	107,733	110,131
Percent of total assets	\$ 8.85%	8.68%	9.14%

The significant decline in performing TDRs from December 31, 2011, noted in the table above, is primarily the result of management's decision to move certain impaired collateral dependent loans secured by land development properties to nonaccrual during the nine month period ended June 30, 2012, even though the majority of such loans are current and paying in accordance with their contractual terms. Due to the continued deterioration in the real estate markets, further declines in the value of collateral securing these loans are possible.

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 recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future provisions may be necessary because of changes in economic conditions or changes in the information available to management. Also, regulatory agencies 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.

Investment securities were \$266.3 million as of December 31, 2012, an increase of \$52.1 million from September 30, 2012. During the three month period, the Bank purchased \$52.5 million of securities available for sale. There were no sales of investment securities during the three month period ended December 31, 2012.

Mortgage-backed securities were \$24.2 million as of December 31, 2012, a decrease of \$2.3 million from the prior year end. There were no sales of mortgage-backed securities during the three month period ended December 31, 2012. The average yield on the mortgage-backed securities portfolio was 4.51% at December 31, 2012, a decrease from 4.72% at December 31, 2011.

The Company's investment in LLCs, which is accounted for using the equity method, was \$17.1 million at December 31, 2012, a decrease of \$85,000 from September 30, 2012. During the year ended September 30, 2012, the Company recorded a \$200,000 impairment charge related to its investment in LLCs. There have been no events subsequent to September 30, 2012, that would indicate an additional impairment in value of the Company's investment in LLCs at December 31, 2012.

Liabilities and Equity

Customer and brokered deposit accounts decreased \$17.5 million during the three months ended December 31, 2012, due primarily to a decrease in brokered certificates of deposits during the period. The weighted average rate on customer and brokered deposits as of December 31, 2012, was 0.76%, a decrease from 1.13% as of December 31, 2011.

Advances from the FHLB were \$150.0 million as of December 31, 2012, an increase of \$23.0 million from September 30, 2012. During the three month period, the Bank borrowed \$25.0 million of new advances and repaid \$2.0 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Subordinated debentures were \$25.8 million as of December 31, 2012. Such debentures resulted from the issuance of Trust Preferred Securities through the Company's wholly-owned statutory trust, NASB Preferred Trust I. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust.

Escrows were \$4.3 million as of December 31, 2012, a decrease of \$4.4 million from September 30, 2012. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2012.

Total stockholders' equity as of December 31, 2012, was \$179.9 million (14.4% of total assets). This compares to \$171.5 million (13.8% of total assets) at September 30, 2012. On a per share basis, stockholders' equity was \$22.86 on December 31, 2012, compared to \$21.80 on September 30, 2012.

The Company did not pay any cash dividends to its stockholders during the three month period ended December 31, 2012. In accordance with the agreement, which is described more fully in Footnote 14, Regulatory Agreements, the Company is restricted from the payment of dividends or other capital distributions during the period of the agreement without prior written consent from its primary regulator.

Total stockholders' equity as of December 31, 2012, includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$2.3 million. This amount is reflected in the line item Accumulated other comprehensive income.

Ratios

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

	Three months ended	
	12/31/12	12/31/11
Return on assets	2.67%	1.61%
Return on equity	18.94%	12.92%
Equity-to-assets ratio	14.36%	12.89%
Dividend payout ratio	%	%

RESULTS OF OPERATIONS Comparison of three months ended December 31, 2012 and 2011.

For the three months ended December 31, 2012, the Company had net income of \$8.3 million or \$1.06 per share. This compares to a net income of \$4.9 million or \$0.63 per share for the three month period ended December 31, 2011.

Net Interest Margin

The Company's net interest margin is comprised of the difference (spread) between interest income on loans, MBS and investments and the interest cost of customer and brokered deposits and other borrowings. Management monitors net interest spreads and, although constrained by certain market, economic, and competition factors, it establishes loan rates and customer deposit rates that maximize net interest margin.

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the three months ended December 31, 2012 and 2011. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, or when full payment of interest and principal is not expected, any interest that has accrued up to that time is reversed and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Three months ended 12/31/12			As of 12/31/12		Three months ended 12/31/11			As of 12/31/11	
	Average Balance	Interest	Yield/ Rate	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Yield/ Rate	Yield/ Rate	
Interest-earning assets										
Loans	\$ 862,292	12,334	5.72%	5.28%	\$ 1,025,876	15,893	6.20%	5.74%		
Mortgage-backed securities	28,649	294	4.10%	4.51%	37,079	499	5.38%	4.72%		
Securities	244,369	963	1.58%	1.56%	66,876	968	5.79%	4.44%		
Bank deposits	19,766	2	0.04%	0.01%	12,765	2	0.06%	0.01%		
Total earning assets	1,155,076	13,593	4.71%	4.37%	1,142,596	17,362	6.08%	5.46%		
Non-earning assets	74,662				100,541					
Total	\$ 1,229,738				\$ 1,243,137					
Interest-costing liabilities										
Customer checking and savings deposit accounts	\$ 297,848	344	0.46%	0.41%	\$ 259,470	311	0.48%	0.44%		
Customer and brokered certificates of deposit	583,967	1,405	0.96%	0.94%	580,463	2,168	1.49%	1.40%		
FHLB Advances	131,755	531	1.61%	1.42%	208,758	635	1.22%	1.79%		
Subordinated debentures	25,000	129	2.06%	1.96%	25,000	129	2.06%	2.08%		
Other borrowings	210	3	5.71%	5.00%			%	%		
Total costing liabilities	1,038,780	2,412	0.93%	0.88%	1,073,691	3,243	1.21%	1.23%		
Non-costing liabilities	15,966				15,723					
Stockholders' equity	174,992				153,723					
Total	\$ 1,229,738				\$ 1,243,137					
Net earning balance	116,296				68,905					
Earning yield less costing rate			3.78%	3.49%			4.87%	4.23%		
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets										
	\$ 1,155,076	11,181	3.87%		\$ 1,142,596	14,119	4.94%			

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

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

	Three months ended December 31, 2012, compared to three months ended December 31, 2011			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (1,231)	(2,536)	208	(3,559)
Mortgage-backed securities	(119)	(113)	27	(205)
Securities	(704)	2,569	(1,870)	(5)
Bank deposits	(1)	1		
Net change in interest income	(2,055)	(79)	(1,635)	(3,769)
Components of interest expense:				
Customer and brokered deposit accounts	(819)	124	(35)	(730)
FHLB Advances	204	(235)	(73)	(104)
Subordinated debentures				
Other borrowings			3	3
Net change in interest expense	(615)	(111)	(105)	(831)
Increase in net interest margin	\$ (1,440)	32	(1,530)	(2,938)

Net interest margin before loan loss provision for the three months ended December 31, 2012, decreased \$2.9 million from the same period in the prior year. Specifically, interest income decreased \$3.8 million, which was offset by an \$831,000 decrease in interest expense for the period. Interest on loans decreased \$3.6 million as the result of a \$163.5 million decrease in the average balance of loans receivable outstanding during the period and a 48 basis point decrease in the average rate earned on such loans during the period. Interest on mortgage-backed securities decreased \$205,000 due to an \$8.4 million decrease in the average balance of mortgage-backed securities during the period and a 128 basis point decrease in the average rate earned on such securities during the period. Interest on investment securities decreased \$5,000 resulting from a 421 basis point decrease in the average rate earned on such securities, the effect of which was offset by a \$177.5 million increase in the average balance of such securities during the period. Interest expense on customer and brokered deposit accounts decreased \$730,000 due to a 39 basis point decrease in the average rate paid on such liabilities, the effect of which was partially offset by a \$41.9 million increase in the average balance of such interest-costing liabilities during the period. Interest expense on FHLB advances decreased \$104,000 as the result a \$77.0 million decrease in the average balance of advances outstanding during the period, the effect of which was partially offset by a 39 basis point decrease in the average rate paid of such liabilities.

Provision for Loan Losses

The Company recorded a negative provision for loan losses of \$4.0 million during the current quarter. Based upon management's analysis, the resulting allowance for loan losses of \$27.9 million is adequate at December 31, 2012.

The negative provision for loan loss for the current quarter was based upon the Bank's ALLL methodology, which contains both qualitative and quantitative factors. Specifically, activity during the quarter reflected in quantitative factors included the following:

The Bank's portfolio of loans held to maturity decreased \$43.9 million during the quarter ended December 31, 2012, to \$722.7 million. This decrease consisted almost entirely of declines within the Bank's commercial real estate and construction and land development portfolios, which historically have experienced higher credit losses than the Bank's other portfolios.

The level of criticized loans (those classified as special mention, substandard, or doubtful) decreased \$22.1 million during the three month period. Of this decline, \$16.5 million related to loans within the Bank's commercial real estate and construction and land development portfolios.

The Bank's loss experience during the current quarter was much better than the previous 36 months. During the three month period ended December 31, 2012, the Bank recorded net recoveries of \$24,000.

The level of nonperforming loans decreased \$13.7 million during the three month period. Similar to the decrease in gross loan balances, this decline consisted almost entirely of loans within the Bank's commercial real estate and construction and land development portfolios. In addition to the quantitative factors noted above, management observed the following qualitative factors when determining the appropriate level of the Bank's ALLL at December 31, 2012:

The housing market in the Kansas City metropolitan area, where all of the Bank's construction and land development lending is concentrated, has shown renewed strength during the current period. In terms of new building permits, the market experienced its best fourth calendar quarter since 2008, and the supply of new housing inventory has dropped below the equilibrium level, resulting in an increase in new housing starts.

During the current period, an independent third party review was completed, which included approximately 80% of the loans within the Bank's commercial real estate and construction and land development portfolios. This review resulted in no loan classification discrepancies, validating the effectiveness of the Bank's internal asset review process.

Prior to the quarter ended March 31, 2012, measured impairments were recorded as specific valuation allowances and carried as contra-assets to reduce a loan's carrying value to fair value. When the Bank adopted the Call Report, during the quarter ended March 31, 2012, the cumulative specific valuation allowances that were considered "confirmed losses" were charged-off and netted against their respective loans balances. For collateral dependent loans that are deemed impaired, a "confirmed loss" is defined as the amount by which the loan's recorded investment exceeds the fair value of its collateral. If a loan is considered uncollectible, the entire balance is deemed a "confirmed loss" and is fully charged-off. During the quarter ended March 31 2012, the Bank recorded net charge offs of \$26.2 million, primarily related to its elimination of the use of specific valuation allowances.

The Company recorded a provision for loan losses of \$2.5 million during the three month period ended December 31, 2011, due primarily to increases in specific reserves related to impaired commercial real estate loans. This increase in the ALLL, resulting from the provision for loan loss, was offset by net charge offs of \$14.8 million during the period, which primarily resulted from the foreclosure or sale of certain impaired collateral dependent commercial and land development loans which were being carried at the fair value of the collateral.

On a consolidated basis, the allowance for losses on loans and real estate owned was 20.9% of total classified assets at December 31, 2012, 20.3% at September 30, 2012, and 33.2% at December 31, 2011. The significant decrease during the year ended September 30, 2012 was a result of the Bank charging-off "confirmed losses" that were carried as specific valuation allowances in prior periods, as noted above.

Management believes that the allowance for losses on loans and real estate owned 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 based on information available at the time of their examination.

Other Income

Other income for the three months ended December 31, 2012, increased \$5.9 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$4.8 million from the same period in the prior year due primarily to increased mortgage banking volume and spreads. Provision for loss on real estate owned decreased \$779,000 due to fewer declines in the fair value of properties within the Bank's portfolio of foreclosed assets held for sale during the period. In addition, loss on sale of securities available for sale decreased \$343,000 as compared to the same period in the prior year, due to the fact that there were no securities sold during the current quarter.

General and Administrative Expenses

Total general and administrative expenses for the three months ended December 31, 2012, increased \$4.0 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$1.0 million due to the addition of personnel in the Company's residential lending, internal asset review, information technology, and loan servicing departments. Commission-based mortgage banking compensation increased \$2.1 million due to an increase in residential mortgage loan origination volume from the same period in the prior year. Premises and equipment expense increased \$131,000 from the same period in the prior year, primarily due to increased costs associated with the Bank's various software programs. Advertising and business promotion expense increased \$152,000 due primarily to the increase in advertising costs related to the mortgage banking operation. Federal deposit insurance premiums increased \$199,000, due primarily to an increase in premium rates from the same period in the prior year. Other expenses increased \$416,000 primarily due to costs related to the increase in residential origination volume and costs incurred to move the Bank's disaster recovery site during the current period.

REGULATION

Regulation of the Company

General

NASB Financial, Inc. is a unitary savings and loan holding company of North American Savings Bank, F.S.B. On July 21, 2011, supervisory responsibility for the Company was transferred from the Office of Thrift Supervision (the "OTS") to the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "FRB"), as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Accordingly, the Company is required to register and file reports with the Federal Reserve Board and is subject to regulation and examination by the Federal Reserve Board. In addition, the Federal Reserve Board has enforcement authority over the Company, which also permits the Federal Reserve Board to restrict or prohibit activities that are determined to present a serious risk to the Bank.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934, including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. The Dodd-Frank Act imposes additional disclosure and corporate government requirements and represents further federal involvement in matters historically addressed by state corporate law.

Federal Securities Law

The Company's securities are registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. As such, the Company is subject to the information, proxy solicitation, insider trading, and other requirements and restrictions of the Securities Exchange Act of 1934.

Missouri Corporation Law

The Company is incorporated under the laws of the State of Missouri, and is therefore subject to regulation by the State of Missouri. In addition, the rights of the Company's shareholders are governed by The General and Business Corporation Law of Missouri.

Regulation of the Bank

General

The Bank is a federally chartered stock savings bank, formed under the authority provided in the Home Owners Loan Act (as amended, HOLA). On July 21, 2011, supervisory responsibility for the Bank was transferred from the OTS to the Office of the Comptroller of the Currency (OCC), as required by the Dodd-Frank Act. Although the Bank remains subject to regulations previously promulgated by the OTS, in general, those regulations are now enforced by the OCC.

On April 30, 2010 the Bank entered into a Supervisory Agreement with the OTS, which, among other things, required the Bank to review and revise its internal asset review process, reduce its classified assets and reliance on brokered deposits, and to obtain regulatory approval prior to declaring or paying dividends or making other capital distributions. On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the OCC, which replaces and terminates the previous Supervisory Agreement the Bank had entered with the OTS. The Consent Order requires, like the Supervisory Agreement that it replaces, that the Bank establish various plans and programs to improve the asset quality of the Bank and to ensure the adequacy of allowances for loan and lease losses. The Consent Order also requires the Bank to obtain an independent assessment of its allowance for loan and lease losses methodology, to conduct independent third-party reviews of its commercial and construction loan portfolios and to enhance its credit administration systems. Among other items, it also requires that the Bank's written capital maintenance plan will contain objectives that ensure the Bank's Tier 1 leverage capital remains equal to or greater than 10% of adjusted total assets and that the Bank's risk-based capital remains equal to or greater than 13% of risk-weighted assets.

Activity Powers

The Bank derives its lending, investment and other activity powers primarily from HOLA, and the regulations issued thereunder. Under these laws and regulations, federal savings banks, including the Bank, generally may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities. These investment powers are subject to various limitations, including (1) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories, (2) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property, (3) a limit of 20% of an association's assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans, (4) a limit of 35% of an association's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, (5) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of HOLA), and (6) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

Recent Legislation

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

Centralize responsibility for consumer financial protection by creating the Bureau of Consumer Financial Protection, with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Smaller financial institutions, including the Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

Require new capital rules that apply the same leverage and risk-based capital requirements applicable to insured depository institutions to savings and loan holding companies.

Require the federal banking regulators to seek to make their capital requirements countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

Provide for new disclosure and other requirements relating to executive compensation and corporate governance.

Make permanent the \$250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Effective July 21, 2011, repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Require all depository institution holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company and the financial services industry more generally. The elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on how the marketplace responds. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

Insurance of Accounts and Regulation by the FDIC

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

As a result of a decline in the reserve ratio (the ratio of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which was due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of three basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 30, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. The rule includes a process for exemption from the prepayment for institutions whose safety and soundness would be affected adversely. In December 2009, the Bank paid the prepaid assessment of \$6.3 million, and as of December 31, 2012, the outstanding prepaid assessment was \$269,000.

As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity (defined as Tier 1 capital) instead of its deposits. Under these rules, an institution with total assets of less than \$10 billion will be assigned one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. A range of initial base assessment rates will apply to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates range from 2.5 to nine basis points for Risk Category I, nine to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FDIC-insured institution. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than \$10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this

offset. In addition to the statutory minimum ratio the FDIC must designate a reserve ratio, known as the designated reserve ratio (DRR), which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, an agency of the Federal government established to fund the costs of failed thrifts in the 1980s. For the quarterly period ended September 30, 2012, the Financing Corporation assessment equaled .64 basis points. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019.

Under the Dodd-Frank Act, beginning on January 1, 2011, all non-interest bearing transaction accounts and IOLTA accounts qualify for unlimited deposit insurance by the FDIC through December 31, 2012. NOW accounts, which were previously fully insured under the Transaction Account Guarantee Program, are no longer eligible for an unlimited guarantee due to the expiration of this program on December 31, 2010. NOW accounts, along with all other deposits maintained at the Bank, are now insured by the FDIC up to \$250,000 per account owner.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against banks and savings associations.

Federal Home Loan Bank System

The Bank is a member of the FHLB-Des Moines, which is one of 12 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. As a member, the Bank is required to purchase and maintain stock in the FHLB-Des Moines. At December 31, 2012, the Bank had \$8.1 million in FHLB-Des Moines stock, which was in compliance with this requirement.

Safety and Soundness Standards

Pursuant to the requirements of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder.

Prompt Corrective Action

Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures, which include a risk-based capital measure, a leverage ratio capital measure and certain other factors. The federal banking agencies have adopted regulations that implement this statutory framework. Under these regulations, an institution is treated as well capitalized if its ratio of total capital to risk-weighted assets is 10% or more, its ratio of core capital to risk-weighted assets is 6% or more, its ratio of core capital to adjusted total assets (leverage ratio) is 5% or more, and it is not subject to any federal supervisory order or directive to meet a specific capital level. In order to be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8%, a Tier 1 risk-based capital ratio of not less than 4%, and a leverage ratio of not less than 4%. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions which become more extensive as an institution becomes more severely undercapitalized. Failure by institutions to comply with applicable capital requirements would, if not remedied, result in progressively more severe restrictions on their respective activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the appointment of the FDIC as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for their review may be dependent on compliance with capital requirements.

Qualified Thrift Lender Test

All savings associations, including the Bank, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings association may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code of 1986, as amended (Code). Under either test, such assets primarily consist of residential housing related loans and investments. A savings association that fails to meet the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a national bank charter. At December 31, 2012, the Bank meets the qualified thrift lender test.

Capital Requirements

Regulations require that thrifts meet three minimum capital ratios.

Leverage Limit. The leverage limit requires that thrift maintain core capital of at least 4% of its adjusted tangible assets. Core capital includes (i) common stockholders equity, including retained earnings; non-cumulative preferred stock and related earnings; and minority interest in the equity accounts of consolidated subsidiaries, minus (ii) those intangibles (including goodwill) and investments in and loans to subsidiaries not permitted in computing capital for national banks, plus (iii) certain purchased mortgage servicing rights and certain qualifying supervisory goodwill.

Tangible Capital Requirement. The tangible capital requirement mandates that a thrift maintain tangible capital of at least 1.5% of tangible assets. For the purposes of this requirement, adjusted total assets are generally calculated on the same basis as for the leverage ratio requirement. Tangible capital is defined in the same manner as core capital, except that all goodwill and certain other intangible assets must be deducted.

Risk-Based Capital Requirement. OCC standards require that institutions maintain risk-based capital equal to at least 8% of risk-weighted assets. Total risk-based capital includes core capital plus supplementary capital. In determining risk-weighted assets, all assets including certain off-balance-sheet items are multiplied by a risk weight factor from 0% to 100%, based on risk categories assigned by the OCC. Banking regulations categorize banks with risk-based capital ratios over 10% as well capitalized, 8% to 10% as adequately capitalized, and under 8% as undercapitalized.

At December 31, 2012, the Bank exceeds all capital requirements prescribed by the OCC. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of December 31, 2012, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the OCC, which is described more fully in Footnote 14, Regulatory Agreements. Among other items, the Consent Order requires that the Bank maintain a Tier 1 leverage capital ratio equal to or greater than 10% and a risk-based capital ratio equal to or greater than 13%. As of December 31, 2012, the Bank's actual Tier 1 leverage capital and total risk-based capital ratios were 14.6% and 19.0%, respectively. The existence of individual minimum capital requirements means that the Bank may not be deemed well capitalized.

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

At December 31, 2012	Amount
GAAP capital (Bank only)	\$ 183,873
Adjustment for regulatory capital:	
Intangible assets	(2,346)
Reverse the effect of SFAS No. 115	(2,309)
Tangible capital	179,218
Qualifying intangible assets	
Tier 1 capital (core capital)	179,218
Qualifying general valuation allowance	12,825

Risk-based capital

\$ 192,043

	Actual		As of December 31, 2012		Minimum Required to be Well Capitalized	
			Minimum Required for Capital Adequacy			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 192,043	19.0%	80,875	38%	101,094	310%
Tier 1 capital to adjusted tangible assets	179,218	14.6%	49,045	34%	61,306	35%
Tangible capital to tangible assets	179,218	14.6%	18,392	31.5%		
Tier 1 capital to risk-weighted assets	179,218	17.7%			60,656	36%

Possible Changes to Capital Requirements

The Dodd-Frank Act contains a number of provisions that will affect the capital requirements applicable to the Company and the Bank. In addition, on September 12, 2010, the Basel Committee adopted the Basel III capital rules. These rules, which may be phased in over a period of years in the United States, set new standards for common equity, tier 1 and total capital, determined on a risk-weighted basis. The impact on the Company and the Bank of the Basel III rules cannot be determined at this time.

Limitations on Capital Distributions

OCC regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision or in troubled condition by the OCC may have its dividend authority restricted by the OCC.

Generally, savings institutions proposing to make any capital distribution need not submit written notice to the FDIC prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OCC approval prior to making such distribution. The OCC may object to the distribution during that 30-day period based on safety and soundness concerns.

Loans to One Borrower

Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by specified readily-marketable collateral.

Transactions with Affiliates

The Bank's authority to engage in transactions with affiliates is limited by FDIC regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Company and its non-savings institution subsidiaries would be affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary. Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service. An institution deemed to be in troubled condition must file a notice with the OCC and obtain its non-objection to any transaction with an affiliate (subject to certain exemptions).

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) generally prohibits a company from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders (insiders), as well as entities which such person's control, is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Federal Reserve System

The Federal Reserve Board requires that all depository institutions maintain reserves on transaction accounts or non-personal time deposits. These reserves may be in the form of cash or non-interest-bearing deposits with the regional Federal Reserve Bank. Negotiable order of withdrawal (NOW) accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to the reserve requirements, as are any non-personal time deposits at a savings bank. As of December 31, 2012, the Bank's deposit with the Federal Reserve Bank and vault cash exceeded its reserve requirements.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. The FDIC may use an unsatisfactory rating as the basis for the denial of an application. The Bank received a rating of satisfactory in its latest examination.

Privacy Standards

The Bank is subject to OCC regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Act (Gramm-Leach). These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the Bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, the Bank is required to provide its customers with the ability to opt-out of having the Bank share their non-public personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions. The Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of Gramm-Leach. The guidelines describe the Agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Regulatory and Criminal Enforcement Provisions

The OCC has primary enforcement responsibility over savings institutions and has the authority to bring action against all institution-affiliated parties, including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to the removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties may be issued for a wide range of violations. Federal law also establishes criminal penalties for certain violations.

LIQUIDITY AND CAPITAL RESOURCES

The Bank maintains sufficient liquidity to ensure safe and sound operation. North American maintains a level of liquid assets adequate to meet the requirements of normal banking activities, including the repayment of maturing debt and potential deposit withdrawals. The Bank's primary sources of liquidity are cash and cash equivalents, the sale and repayment of loans, the retention of existing or newly acquired retail deposits, and FHLB advances. Additional sources of liquidity include the sale of investment securities available for sale, reverse repurchase agreements, FRB advances, and the acquisition of deposits through a nationwide internet listing service.

Management continues to use FHLB advances as a primary source of short-term funding. FHLB advances are secured by a blanket pledge agreement covering portions of the loan and securities portfolio as collateral, supported by quarterly reporting of eligible collateral to FHLB. FHLB borrowings are limited based upon a percentage of the Bank's assets and eligible collateral, as adjusted by collateral eligibility and maintenance levels. Management continually monitors the balance of eligible collateral relative to the amount of advances outstanding to determine the availability of additional FHLB advances. At December 31, 2012, the Bank had a total borrowing capacity at FHLB of \$244.1 million, and outstanding advances of \$150.0 million. As an additional source of liquidity, the Bank has \$111.7 million of highly liquid short term U.S. Government sponsored agency securities in its portfolio at December 31, 2012.

In accordance with the Consent Order with the OCC, which is described more fully in Footnote 14, Regulatory Agreements, the Bank is required to meet and maintain specific capital levels. This requirement prohibits the Bank from accepting, renewing, or rolling over any brokered deposits. As of December 31, 2012, the Bank's brokered deposits totaled \$10.0 million. The Bank believes it will have adequate alternate funding sources available to replace such deposits upon their maturity.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and mortgage related securities. During periods of falling rates, these prepayments increase and a greater demand exists for new loans. The Bank's ability to attract and retain customer deposits is partially impacted by area competition and by other alternative investment sources that may be available to the Bank's customers in various interest rate environments. 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 the Bank's primary and additional liquidity sources, described above. Management is not currently aware of any other trends, market conditions, or other economic factors that could materially impact the Bank's primary sources of funding or affect its future ability to meet obligations as they come due. Although future changes to the level of market interest rates are uncertain, management believes its sources of funding will continue to remain stable during upward and downward interest rate environments.

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, 2012.

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, 2012.

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 reasonably 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 1A. Risk Factors

There were no material changes during the period from the risk factors previously discussed in Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. 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

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

NASB Financial, Inc.
(Registrant)

February 11, 2013

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

February 11, 2013

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