NASB FINANCIAL INC
Form 10-Q
February 09, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the period ended December 31, 2005

or

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

For the transition period from to

Commission File Number 0-24033

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

Missouri	43-1805201
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

12498 South 71 Highway, Grandview, Missouri 64030
(Address of principal executive offices) (Zip Code)

(816) 765-2200
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   Accelerated filer X   Non-accelerated filer

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

Yes   No X

The number of shares of Common Stock of the Registrant outstanding as of February 6, 2006, was 8,417,442.

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

	December 31, 2005 (Unaudited)	September 30, 2005
ASSETS		
Cash and cash equivalents	$ 38,437	35,334
Securities available for sale	237	237
Stock in Federal Home Loan Bank, at cost	23,411	22,390
Mortgage-backed securities:		
Available for sale, at fair value	119,802	129,302
Held to maturity (fair value of $410 and $447 at December 31, 2005, and September 30, 2005, respectively)	396	431
Loans receivable:		
Held for sale	47,250	94,130
Held for investment, net	1,278,548	1,234,050
Allowance for loan losses	(7,312)	(7,536)
Accrued interest receivable	7,427	6,997
Foreclosed asset held for sale, net	8,410	7,760
Premises and equipment, net	11,058	10,558
Investment in LLC	14,559	12,206
Mortgage servicing rights, net	901	911
Deferred income tax asset	2,642	2,671
Other assets	7,120	6,903
	$ 1,552,886	1,556,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 721,374	707,892
Brokered deposit accounts	126,731	94,802
Advances from Federal Home Loan Bank	488,771	465,907
Securities sold under agreements to repurchase	52,500	122,000
Escrows	3,594	9,423
Income taxes payable	3,430	796
Accrued expenses and other liabilities	6,908	6,637
Total liabilities	1,403,308	1,407,457

Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,857,112 issued at December 31, 2005, and September 30, 2005	1,479	1,479
Serial preferred stock of $1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--
Additional paid-in capital	16,256	16,256
Retained earnings	152,744	151,331
Treasury stock, at cost; 1,439,670 shares and 1,419,670 shares at December 31, 2005, and September 30, 2005, respectively	(18,721)	(17,952)
Accumulated other comprehensive loss	(2,180)	(2,227)
Total stockholders' equity	149,578	148,887
	$ 1,552,886	1,556,344

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,	
	2005	2004
Interest on loans	$ 22,434	17,683
Interest on mortgage-backed securities	1,160	1,575
Interest and dividends on securities	277	134
Other interest income	121	46
Total interest income	23,992	19,438
Interest on customer and brokered deposit accounts	6,367	3,330
Interest on advances from FHLB	4,759	2,145
Interest on securities sold under agreements to repurchase	606	731

Total interest expense	11,732	6,206
Net interest income	12,260	13,232
Provision for loan losses	65	167
Net interest income after provision for loan losses	12,195	13,065
Other income (expense):		
Loan servicing fees, net	30	12
Impairment recovery on mortgage servicing rights	1	19
Customer service fees and charges	1,676	1,621
Recovery on real estate owned	--	681
Gain on sale of loans held for sale	3,852	3,654
Other	282	517
Total other income	5,841	6,504
General and administrative expenses:		
Compensation and fringe benefits	4,492	4,193
Commission-based mortgage banking compensation	1,871	1,529
Premises and equipment	874	793
Advertising and business promotion	1,108	845
Federal deposit insurance premiums	26	26
Other	1,526	1,287
Total general and administrative expenses	9,897	8,673
Income before income tax expense	8,139	10,896
Income tax expense	2,930	3,977
Net income	$ 5,209	6,919
Basic earnings per share	$ 0.62	0.82
Diluted earnings per share	$ 0.61	0.82
Basic weighted average shares outstanding	8,434,562	8,455,442

See accompanying notes to consolidated financial statements.

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

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Tota stockho equi
	(Dollars in thousands)					
Balance at October 1, 2005	$ 1,479	16,256	151,331	(17,952)	(2,227)	148,
Comprehensive income:						
Net income	--	--	5,209	--	--	5,
Other comprehensive income (loss), net of tax:						
Unrealized loss on securities available for sale	--	--	--	--	47	
Total comprehensive income	--	--	--	--	--	5,
Cash dividends paid	--	--	(3,796)	--	--	(3,
Purchase of common stock for treasury	--	--	--	(769)	--	(
Balance at December 31, 2005	$ 1,479	16,256	152,744	(18,721)	(2,180)	149,

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31, 2005	Three months ended December 31, 2004
Cash flows from operating activities:		
Net income	$ 5,209	6,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	306	271
Amortization and accretion, net	(541)	(554)
Impairment recovery on mortgage servicing rights	(1)	(19)
Gain on sale of loans receivable held for sale	(3,852)	(3,654)
Provision for loan losses	65	167
Recovery on real estate owned	--	(681)
Origination of loans held for sale	(317,269)	(269,298)
Sale of loans receivable held for sale	365,383	260,190
Changes in:		

Net fair value of loan related commitments	52	(229)
Accrued interest receivable	(430)	(120)
Accrued expenses and other liabilities and income taxes payable	5,588	4,129
Net cash provided by (used in) operating activities	54,510	(2,879)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	35	51
Available for sale	9,458	9,174
Principal repayments of mortgage loans receivable	93,671	104,606
Principal repayments of other loans receivable	1,941	2,259
Loan origination - mortgage loans held for investment	(141,023)	(138,532)
Loan origination - other loans receivable	(1,209)	(2,921)
Purchase of mortgage loans held for investment	--	(1,207)
Purchase of FHLB stock	(1,021)	(4,086)
Proceeds for sale of real estate owned	1,817	3,722
Purchases of premises and equipment, net of sales	(805)	(876)
Investment in LLC	(2,354)	(271)
Other	(373)	(861)
Net cash used in investing activities	(39,863)	(28,942)

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

	Three months ended December 31,	
	2005	2004
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	45,428	(4,564)
Proceeds from advances from FHLB	150,000	185,000
Repayment on advances from FHLB	(127,079)	(117,075)
Proceeds from sale of securities under agreements to repurchase	--	189,900
Repayment of securities sold under agreements to repurchase	(69,500)	(195,900)
Cash dividends paid	(3,796)	(8,455)
Purchase of common stock for treasury	(769)	--
Change in escrows	(5,828)	(4,846)
Net cash provided by (used in) financing activities	(11,544)	44,060
Net increase in cash and cash equivalents	3,103	12,239
Cash and cash equivalents at beginning of the period	35,334	18,263

Cash and cash equivalents at end of period	$ 38,437	30,502
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 296	--
Cash paid for interest	11,682	5,919
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 887	1,017
Capitalization of mortgage servicing rights	68	--

See accompanying notes to consolidated financial statements.

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the three months ended December 31, 2005, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. The consolidated balance sheet of the Company as of September 30, 2005, has been derived from the audited balance sheet of the Company as of that date.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowances for losses on loans, real estate owned, and valuation of mortgage servicing rights. Management believes that these allowances are adequate, however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the consolidated financial statements as of December 31, 2005, have remained unchanged from September 30, 2005. These policies relate to provision for loan losses and mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8

"Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2005.

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

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

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

	Three months ended	
	12/31/05	12/31/04
Net income (in thousands)	$ 5,209	6,919
Average common share outstanding	8,434,562	8,455,442
Average common share stock options outstanding	42,303	12,148
Average diluted common shares	8,476,865	8,467,590
Earnings per share:		
Basic	$ 0.62	0.82
Diluted	0.61	0.82

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

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(3) SECURITIES AVAILABLE FOR SALE

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

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Equity securities	$ 180	--	--	180

Municipal securities	57	--	--	57
Total	$ 237	--	--	237

(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 327	--	1	326
Pass-through certificates guaranteed by FNMA - adjustable rate	17,568	--	519	17,049
FHLMC participation certificates				
- fixed rate	1,452	--	89	1,363
- adjustable rate	104,000	--	2,936	101,064
Total	$ 123,347	--	3,545	119,802

(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 171	11	--	182
FNMA pass-through certificates:				
Fixed rate	100	--	--	100
Balloon maturity and adjustable rate	78	--	--	78
Pass-through certificates guaranteed by GNMA - fixed rate	47	3	--	50
Total	$ 396	14	--	410

(6) LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2005 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 385,573
Business properties	453,154
Partially guaranteed by VA or insured by FHA	2,587
Construction and development	511,585
Total mortgage loans	1,352,899
Commercial loans	55,819
Installment loans to individuals	20,681
Total loans held for investment	1,429,399
Less:	
Undisbursed loan funds	(146,609)
Unearned discounts and fees and costs on loans, net	(4,242)
Net loans held for investment	$1,278,548

	December 31, 2005 (Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 64,651
Less:	
Undisbursed loan funds	(17,407)
Unearned discounts and fees and costs on loans, net	6
Net loans held for sale	$ 47,250

Included in the loans receivable balances at December 31, 2005, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $142,000. Loans and participations serviced for others amounted to approximately $104.3 million at December 31, 2005.

(7) FORECLOSED ASSETS HELD FOR SALE

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

	December 31, 2005
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 8,582
Less: allowance for losses	(172)
Total	$ 8,410

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

(8) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended December 31, 2005. Dollar amounts are expressed in thousands.

Balance at October 1, 2005	$ 911
Additions:	
Originated mortgage servicing rights	68
Impairment recovery	1
Reductions:	
Amortization	(79)
Balance at December 31, 2005	$ 901

(9) REPURCHASE AGREEMENTS

During the three-month period ended December 31, 2005, the Bank sold various adjustable-rate mortgage-backed securities under agreements to repurchase. The outstanding balance of such repurchase agreements was $52.5 million at December 31, 2005. These agreements have a weighted average rate of 3.49% and a weighted average maturity of 36 days.

(10) SEGMENT INFORMATION

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

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

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

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

Three months ended December 31, 2004	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 13,214	--	--	18	13,232
Provision for loan losses	167	--	--	--	167
Other income	2,266	3,073	2,071	(906)	6,504
General and administrative expenses	3,650	3,020	2,250	(247)	8,673
Income tax expense (benefit)	4,257	19	(65)	(234)	3,977
Net income	$ 7,406	34	(114)	(407)	6,919

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

The Company's total assets as of December 31, 2005, were $1,552.9 million, a decrease of $3.5 million from September 30, 2005, the prior fiscal year end.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the three months ended December 31, 2005, the Bank originated $317.3 million in mortgage loans held for sale, $141.0 million in mortgage loans held for investment, and $1.2 million in other loans. This total of $459.5 million in loans originated compares to $411.9 million in loans originated during the three months ended December 31, 2004.

Included in the $47.3 million in loans held for sale as of December 31, 2005, are $44.0 million in mortgage loans held for sale with servicing released. All loans held for sale are carried at the lower of cost or fair value.

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

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

	12/31/05	9/30/05	12/31/04
Asset Classification:			
Substandard	$ 11,872	13,346	16,511
Doubtful	--	--	--
Loss	526	595	1,700
	12,398	13,941	18,211
Allowance for losses	(7,485)	(7,731)	(9,379)
	$ 4,913	6,210	8,832

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

	12/31/05	9/30/05	12/31/04
Total Assets	$ 1,552,886	1,556,344	1,417,560
Non-accrual loans	$ 2,805	5,643	11,668
Troubled debt restructurings	3,479	74	3,602
Net real estate and other assets acquired through foreclosure	8,410	7,760	2,359
Total	$ 14,694	13,477	17,629
Percent of total assets	0.95%	0.87%	1.24%

Management records a provision for loan losses in amounts sufficient to cover current net charge-offs and an estimate of probable losses based on an analysis of risks that management believes to be inherent in the loan portfolio. The Allowance for Loan and Lease Losses ("ALLL") recognizes the inherent risks associated with lending activities but, unlike specific allowances, have not been allocated to particular problem assets but to a homogenous pool of loans. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future allowances may be necessary because of changes in economic conditions. Also, regulatory agencies (OTS and FDIC) review the Bank's allowance for losses as part of their examinations, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

The following table sets forth the activity in the allowance for loan losses for the three months ending December 31, 2005, and 2004. Dollar amounts are expressed in thousands.

		2005	2004
Balance at beginning of year	$	7,536	8,221
Provision for loan losses		65	167
Recoveries		9	13
Charge-offs		(298)	(13)
Balance at December 31	$	7,312	8,388

LIABILITIES AND EQUITY

Customer and brokered deposit accounts increased $45.4 million during the three months ended December 31, 2005. The weighted average rate on customer and brokered deposits as of December 31, 2005, was 3.20%, an increase from 1.03% as of December 31, 2004.

Advances from the FHLB were $488.8 million as of December 31, 2005, an increase of $22.9 million from September 30, 2005. During the three-month period, the Bank borrowed $150.0 million of new advances and repaid $127.1 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.

Securities sold under agreements to repurchase were $52.5 million as of December 31, 2005, a decrease of $69.5 million from September 30, 2005. This decrease was due to repayments of repurchase agreements during the three-month period ended December 31, 2005.

Escrows were $3.6 million as of December 31, 2005, a decrease of $5.8 million from September 30, 2005. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2005.

Total stockholders' equity as of December 31, 2005, was $149.6 million (9.6% of total assets). This compares to $148.9 million (9.6% of total assets) at September 30, 2005. On a per share basis, stockholders' equity was $17.77 on December 31, 2005, compared to $17.65 on September 30, 2005.

The Company paid cash dividends on its common stock of $0.45 per share on November 25, 2005. Subsequent to the quarter ended December 31, 2005, the Company announced a cash dividend of $0.225 per share to be paid on February 24, 2006, to stockholders of record as of February 3, 2006.

Total stockholders' equity as of December 31, 2005, includes an unrealized loss of $2.2 million, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive income."

RATIOS

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

	Three months ended	
	12/31/05	12/31/04
Return on assets	1.34%	1.99%
Return on equity	13.96%	19.99%
Equity-to-assets ratio	9.63%	9.73%
Dividend payout ratio	72.87%	122.20%

RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2005 and 2004.

For the three months ended December 31, 2005, the Company had net income of $5,209,000 or $0.62 per share. This compares to net income of $6,919,000 or $0.82 per share for the quarter ended December 31, 2004.

NET INTEREST MARGIN

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

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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, 2005 and 2004. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, any interest that has accrued up to that time is reserved and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Three months ended 12/31/05			As of 12/31/05
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,322,660	22,434	6.78%	6.73%
Mortgage-backed securities	124,803	1,160	3.72%	4.26%
Securities	22,982	277	4.82%	2.79%

Bank deposits	13,785	121	3.51%	3.72%
Total earning assets	1,484,230	23,992	6.47%	6.41%
Non-earning assets	59,245			
Total	$1,543,475			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 190,744	491	1.03%	1.04%
Customer and brokered certificates of deposit	644,522	5,876	3.65%	3.82%
FHLB Advances	474,028	4,759	4.02%	4.39%
Repurchase agreements	72,000	606	3.37%	3.49%
Total costing liabilities	1,381,294	11,732	3.40%	3.63%
Non-costing liabilities	12,853			
Stockholders' equity	149,328			
Total	$1,543,475			
Net earning balance	$ 102,936			
Earning yield less costing rate			3.07%	2.78%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,484,230	12,260	3.30%	

	Three months ended 12/31/04			As of 12/31/04
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,137,747	17,683	6.22%	5.95%
Mortgage-backed securities	167,252	1,575	3.77%	4.18%
Securities	20,288	134	2.64%	2.72%
Bank deposits	13,389	46	1.37%	1.82%
Total earning assets	1,338,676	19,438	5.81%	5.65%
Non-earning assets	42,867			
Total	$1,381,543			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 207,443	365	0.70%	0.68%
Customer and brokered certificates of deposit	469,912	2,965	2.52%	2.80%
FHLB Advances	401,650	2,145	2.14%	2.48%
Repurchase agreements	154,600	731	1.89%	2.03%
Total costing liabilities	1,233,605	6,206	2.01%	2.26%

Non-costing liabilities	9,452		
Stockholders' equity	138,486		
Total	$1,381,543		
Net earning balance	$ 105,071		
Earning yield less costing rate			3.80% 3.39%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,338,676	13,232	3.95%

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.

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	Three months ended December 31, 2005, compared to three months ended December 31, 2004			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ 1,593	2,875	283	4,751
Mortgage-backed securities	(21)	(400)	6	(415)
Securities	111	18	14	143
Bank deposits	72	1	2	75
Net change in interest income	1,755	2,494	305	4,554
Components of interest expense:				
Customer and brokered deposit accounts	1,829	778	430	3,037
FHLB Advances	1,888	387	339	2,614
Repurchase agreements	572	(390)	(307)	(125)
Net change in interest expense	4,289	775	462	5,526
Decrease in net interest margin	$ (2,534)	1,719	(157)	(972)

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Net interest margin before loan loss provision for the three months ended December 31, 2005, decreased $972,000 from the same period in the prior year. Specifically, interest income increased $4.6 million. This increase was the result of a $145.6 million increase in the average balance of interest-earning assets and a 66 basis point increase in the average rate earned on such assets. The increase in interest income was offset by a $5.5 million increase in interest expense, which resulted from a 139 basis point increase in the average rate paid on interest-costing liabilities and a $147.7 million increase in the average balance of such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of $65,000 during the quarter ended December 31, 2005, due to an increase in commercial real estate loans classified as "special mention." Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. On a consolidated basis, loan loss reserve was 60.4% of total classified assets at December 31, 2005, 55.5% at September 30, 2005, and 51.5% at December 31, 2004.

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

OTHER INCOME

Other income for the three months ended December 31, 2005, decreased $663,000 from the same period in the prior year. Recovery on real estate owned decreased $681,000 due to recoveries realized on the sale of foreclosed assets held for sale in the prior fiscal year. Other income decreased $235,000 due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." These decreases in other income were offset by an increase in gain on sale of loans held for sale of $198,000 due to an increase in mortgage banking volume.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended December 31, 2005, increased $1.2 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation increased $641,000 due primarily to increased mortgage banking volume, and continued growth of the local and national mortgage banking operations. Advertising increased $263,000 due to increased costs related to the national mortgage banking operation. Additionally, other expense increased $239,000 due to an increase in costs attributable to the increased loan origination volume, an increase in audit fees due to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, and costs related to the conversion of the Company's loan origination system.

REGULATION

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

INSURANCE OF ACCOUNTS

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

REGULATORY CAPITAL REQUIREMENTS

At December 31, 2005, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of December 31, 2005, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At December 31, 2005	Amount
GAAP capital (Bank only)	$ 131,086
Adjustment for regulatory capital:	
Intangible assets	(3,046)
Disallowed portion of servicing assets and deferred tax assets	(2,642)
Reverse the effect of SFAS No. 115	2,180
Tangible capital	127,578
Qualifying intangible assets	--
Tier 1 capital (core capital)	127,578
Qualifying general valuation allowance	6,786

Risk-based capital	$ 134,364

	As of December 31, 2005				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 134,364	11.1%	96,860	>=8%	121,07
Core capital to adjusted tangible assets	127,578	8.3%	61,399	>=4%	76,74
Tangible capital to tangible assets	127,578	8.3%	23,025	>=1.5%	-
Tier 1 capital to risk-weighted assets	127,578	10.5%	--	--	72,64

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has enrolled with the OTS to participate in the "Lending Limits Pilot Program." This program allows a federally chartered institution to increase it's loans-to-one-borrower limit by an additional amount equal to the lesser of: a) $10 million; b) 10% of its unimpaired capital and surplus; or c) the percentage of its capital and surplus, in excess of 15%, that a state institution is permitted to lend. Participation in this program increased North American's loans-to-one-borrower limit by $10 million. This pilot program is set to expire on September 10, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At December 31, 2005, there was $82.0 million available to the Bank in the form of FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At December 31, 2005, the Bank has $126.7 million in brokered deposits, and it could purchase up to $100.1 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Management recognizes that there are certain market risk factors present in the structure of the Bank's financial assets and liabilities. Since the Bank does not have material amounts of derivative securities, equity securities, or foreign currency positions, interest rate risk ("IRR") is the primary market risk that is inherent in the Bank's portfolio. On a quarterly basis, the Bank monitors the estimate of changes that would potentially occur to its net portfolio value ("NPV") of assets, liabilities, and off-balance sheet items assuming a sudden change in market interest rates. Management presents a NPV analysis to the Board of Directors each quarter and NPV policy limits are reviewed and approved. There have been no material changes in the market risk information provided in the Annual Report for the year ended September 30, 2005.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") within the 90-day period preceding the filing date of this quarterly report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective in ensuring that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) accumulated and communicated to management in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified by the SEC. Since the date of this evaluation, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect those controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There were no material proceedings pending other than ordinary and routine litigation incidental to the business of the Company.

Item 2. Changes in Securities
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Submission of Matters to a Vote of Security Holders
None.

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

(a)Exhibits

Exhibit 31.1 - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

Exhibit 32.2 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

(b) Reports of Form 8-K

A report on Form 8-K was filed on October 25, 2005, which announced a quarterly cash dividend of $0.225 per share and a special cash dividend of $0.225 per share payable on November 25, 2005 to shareholder's of record as of November 4, 2005.

A report on Form 8-K was filed on December 1, 2005, which announced financial results for the quarter ended September 30, 2005.

S I G N A T U R E S

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

NASB Financial, Inc.
(Registrant)

February 9, 2006 By: /s/David H. Hancock
David H. Hancock
Chairman and
Chief Executive Officer

February 9, 2006 By: /s/Rhonda Nyhus
Rhonda Nyhus
Vice President and
Treasurer