

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC
Form 10-Q
May 14, 2004

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 March 31, 2004

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 (IRS Employer
incorporation or organization) 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 No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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The number of shares of Common Stock of the Registrant outstanding as of May 11, 2004, was 8,457,942.

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

	March 31, 2004 (Unaudited)	September 30, 2003
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 26,703	24,321
Securities available for sale	244	5,564
Stock in Federal Home Loan Bank, at cost	17,463	15,606
Mortgage-backed securities:		
Available for sale, at market value	194,167	4,664
Held to maturity (market value of \$742 and \$987 at March 31, 2004, and September 30, 2003, respectively)	704	932
Loans receivable:		
Held for sale	197,656	168,292
Held for investment, net	860,938	861,400
Allowance for loan losses	(8,003)	(7,986)
Accrued interest receivable	5,256	4,707
Foreclosed asset held for sale, net	3,360	4,561
Premises and equipment, net	8,023	7,631
Investment in LLC	6,321	2,272
Mortgage servicing rights, net	939	1,191
Deferred income tax asset	4,231	4,477
Other assets	14,564	9,727
	-----	-----
	\$ 1,332,566	1,107,359
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 649,651	654,688
Advances from Federal Home Loan Bank	360,823	308,088
Repurchase agreements	172,500	--
Escrows	6,167	8,300
Income taxes payable	4,668	4,462
Accrued expenses and other liabilities	6,849	4,387
	-----	-----
Total liabilities	1,200,658	979,925
	-----	-----
Stockholders' equity:		
Common stock of \$0.15 par value:		
20,000,000 authorized; 9,854,612 issued at March 31, 2004, and 9,840,112 issued at September 30, 2003	1,478	1,476
Serial preferred stock of \$1.00 par		

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value: 7,500,000 shares authorized;		
none issued or outstanding	--	--
Additional paid-in capital	16,234	16,116
Retained earnings	130,730	126,769
Treasury stock, at cost; 1,396,670 shares		
at March 31, 2004 and September 30, 2003	(17,077)	(17,077)
Accumulated other comprehensive income	543	150
	-----	-----
Total stockholders' equity	131,908	127,434
	-----	-----
	\$ 1,332,566	1,107,359
	=====	=====

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 March 31,		Six months ended March 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Interest on loans	\$ 16,490	17,711	32,999	35,440
Interest on mortgage-backed securities	1,605	134	2,371	222
Interest and dividends on securities	106	258	296	528
Other interest income	20	87	47	114
	-----	-----	-----	-----
Total interest income	18,221	18,190	35,713	36,304
	-----	-----	-----	-----
Interest on customer deposit accounts	3,097	3,708	6,365	7,271
Interest on advances from FHLB	1,293	2,664	2,440	5,464
Interest on repurchase agreements	427	--	622	--
	-----	-----	-----	-----
Total interest expense	4,817	6,372	9,427	12,735
	-----	-----	-----	-----
Net interest income	13,404	11,818	26,286	23,569
Provision for loan losses	--	42	--	60
	-----	-----	-----	-----
Net interest income after provision for loan losses	13,404	11,776	26,286	23,509
	-----	-----	-----	-----
Other income (expense):				
Loan servicing fees, net	(154)	(257)	39	(1,015)
Impairment recovery on mortgage servicing rights	73	95	42	341
Customer service fees and charges	1,641	1,174	2,970	2,520

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Provision for losses on real estate owned	--	(784)	--	(1,984)
Gain on sale of securities available for sale	726	193	726	181
Gain on sale of loans held for sale	3,215	3,136	4,549	5,873
Other	1,001	535	1,745	500
	-----	-----	-----	-----
Total other income	6,502	4,092	10,071	6,416
	-----	-----	-----	-----
General and administrative expenses:				
Compensation and fringe benefits	3,900	3,086	7,808	5,599
Commission-based mortgage banking compensation	1,753	1,013	2,615	2,377
Premises and equipment	731	661	1,440	1,220
Advertising and business promotion	648	235	1,019	495
Federal deposit insurance premiums	25	26	51	52
Other	1,676	1,288	3,024	2,408
	-----	-----	-----	-----
Total general and administrative expenses	8,733	6,309	15,957	12,151
	-----	-----	-----	-----
Income before income tax expense	11,173	9,559	20,400	17,774
Income tax expense	4,078	3,680	7,561	6,840
	-----	-----	-----	-----
Net income	\$ 7,095	5,879	12,839	10,934
	=====	=====	=====	=====
Basic earnings per share	\$ 0.84	0.70	1.52	1.30
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.84	0.70	1.52	1.29
	=====	=====	=====	=====
Weighted average shares outstanding	8,455,469	8,438,653	8,453,882	8,433,041

See accompanying notes to consolidated financial statements.

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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	T sto

(Dollars in thousands)						
Balance at October 1, 2003	\$ 1,476	16,116	126,769	(17,077)	150	1
Comprehensive income:						
Net income	--	--	12,839	--	--	
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	393	--
Total comprehensive income	--	--	--	--	--	
Cash dividends paid	--	--	(8,878)	--	--	

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Stock options exercised	2	118	--	--	--
Purchase of common stock for treasury	--	--	--	--	--
Balance at March 31, 2004	\$ 1,478	16,234	130,730	(17,077)	543

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)

	Six months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 12,839	10,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	463	380
Amortization and accretion, net	209	540
Impairment recovery on mortgage servicing rights	(42)	(341)
Net fair value of loan related commitments	(702)	(103)
Gain on sale of loans receivable held for sale	(4,549)	(5,873)
Gain on sale of securities available for sale	(726)	(181)
Provision for loan losses	--	60
Provision for loss on real estate owned	--	1,984
Origination and purchase of loans held for sale	(326,079)	(331,318)
Sale of loans receivable held for sale	321,133	426,091
Changes in:		
Accrued interest receivable	(549)	271
Accrued expenses and other liabilities and income taxes payable	2,059	(332)
Net cash provided by operating activities	4,056	102,112
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	228	254
Available for sale	3,566	1,213
Principal repayments of mortgage loans held for investment and held for sale	190,620	266,396
Principal repayments of other loans receivable	9,530	22,009
Maturity of investment securities available for sale	3	3,514
Loan origination - mortgage loans held for investment	(216,770)	(381,438)
Loan origination - other loans receivable	(3,669)	(14,356)

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Purchase of mortgage loans held for investment	(1,056)	(1,942)
Purchase of mortgage-backed securities available for sale	(193,043)	--
Purchase of FHLB stock	(1,857)	(1,735)
Proceeds from sale of securities available for sale	5,369	6,040
Proceeds for sale of real estate owned	4,163	4,321
Purchases of premises and equipment, net of sales	(855)	149
Investment in LLC	(4,049)	(2,064)
Net cash acquired in merger	--	16,664
Other	(3,585)	(2,062)
	-----	-----
Net cash used in investing activities	(211,405)	(83,037)

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

	Six months ended March 31,	
	2004	2003
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in customer deposit accounts	(4,726)	24,968
Proceeds from advances from FHLB	228,000	145,000
Repayment on advances from FHLB	(175,152)	(126,144)
Proceeds from repurchase agreements	189,500	--
Repayment on repurchase agreements	(17,000)	--
Cash dividends paid	(8,878)	(2,699)
Stock options exercised	120	99
Change in checks outstanding in excess of bank balances	--	(7,764)
Change in escrows	(2,133)	(2,687)
	-----	-----
Net cash provided by financing activities	209,731	30,773
	-----	-----
Net increase in cash and cash equivalents	2,382	49,848
Cash and cash equivalents at beginning of the period	24,321	4,168
	-----	-----
Cash and cash equivalents at end of period	\$ 26,703	54,016
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 7,355	7,174
Cash paid for interest	9,099	12,751
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 2,217	2,714
Conversion of real estate owned to loans receivable	--	187
Capitalization of mortgage servicing rights	2	79

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In connection with the acquisition of CBES Bancorp, Inc. on December 19, 2002, the Company acquired assets of \$109.9 million, assumed liabilities of \$94.3 million, received cash of \$32.2 million, and paid cash of \$15.6 million.

See accompanying notes to consolidated financial statements.

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(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 six months ended March 31, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2004. The consolidated balance sheet of the Company as of September 30, 2003, 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, 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 March 31, 2004, have remained unchanged from September 30, 2003. 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, 2003.

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.

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	Three months ended		Six months ended	
	3/31/04	3/31/03	3/31/04	3/31/03
Net income (in thousands)	\$ 7,095	5,879	12,839	10,934
Basic weighted average shares outstanding	8,455,469	8,438,653	8,453,882	8,433,041
Effect of stock options	1,128	13,817	1,474	14,602
Dilutive potential common shares	8,456,597	8,452,470	8,455,356	8,447,643
Net income per share:				
Basic	\$ 0.84	0.70	1.52	1.30
Diluted	0.84	0.70	1.52	1.29

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

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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.

	March 31, 2004			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Debt securities	\$ 180	--	--	180
Municipal securities	64	--	--	64
Total	\$ 244	--	--	244

(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.

	March 31, 2004			
	Amortized	Gross unrealized	Gross unrealized	Estimated market

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	cost	gains	losses	value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 664	17	--	681
Pass-through certificates guaranteed by FNMA				
- adjustable rate	30,047	60	--	30,107
FHLMC participation certificates				
- fixed rate	2,408	--	76	2,332
- adjustable rate	160,165	882	--	161,047
Total	\$ 193,284	959	76	194,167

(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.

	March 31, 2004			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	\$ 363	29	--	392
FNMA pass-through certificates:				
Fixed rate	90	--	--	90
Balloon maturity and adjustable rate	123	1	--	124
Pass-through certificates guaranteed by GNMA				
- fixed rate	102	8	--	110
Collateralized mortgage obligation bonds	26	--	--	26
Total	\$ 704	38	--	742

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(6) LOANS RECEIVABLE

Loans receivable are as follows:

March 31,
2004

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(Dollars in thousands)

LOANS HELD FOR INVESTMENT:

Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 175,253
Business properties	401,985
Partially guaranteed by VA or insured by FHA	17,511
Construction and development	326,669

Total mortgage loans	921,418
Commercial loans	30,046
Installment loans to individuals	23,227

Total loans held for investment	974,691
Less:	
Undisbursed loan funds	(108,333)
Unearned discounts and fees and costs on loans, net	(5,420)

Net loans held for investment	\$ 860,938
	=====

March 31,
2004

(Dollars in thousands)

LOANS HELD FOR SALE:

Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 265,063
Less:	
Undisbursed loan funds	(67,730)
Unearned discounts and fees and costs on loans, net	323

Net loans held for sale	\$ 197,656
	=====

Included in the loans receivable balances at March 31, 2004, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of \$461,000. Loans and participations serviced for others amounted to approximately \$145.3 million at March 31, 2004.

(7) FORECLOSED ASSETS HELD FOR SALE

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

	March 31, 2004

	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	\$ 4,531
Less: allowance for losses	(1,171)

Total	\$ 3,360
	=====

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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

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(8) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended March 31, 2004. Dollar amounts are expressed in thousands.

Balance at October 1, 2003	\$	1,191
Additions:		
Originated mortgage servicing rights		2
Impairment recovery		42
Reductions:		
Amortization		(296)

Balance at March 31, 2003	\$	939
		=====

(9) SEGMENT INFORMATION

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

The National Mortgage Banking segment originates mortgage loans 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.

		Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Three months ended March 31, 2004					

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Net interest income	\$ 13,404	--	--	--	13,404
Provision for loan losses	--	--	--	--	--
Other income	3,026	2,830	1,999	(1,353)	6,502
General and administrative expenses	3,756	3,321	2,046	(390)	8,733
Income tax expense (benefit)	4,626	(179)	(17)	(352)	4,078
Net income	\$ 8,048	(312)	(30)	(611)	7,095

Three months ended March 31, 2003	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,827	--	--	(9)	11,818
Provision for loan losses	42	--	--	--	42
Other income	3,911	4,582	--	(4,401)	4,092
General and administrative expenses	3,628	3,626	--	(945)	6,309
Income tax expense (benefit)	4,646	368	--	(1,334)	3,680
Net income	\$ 7,422	588	--	(2,131)	5,879

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Six months ended March 31, 2004	Banking	Local Mortgage Banking	National Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$26,286	--	--	--	26,286
Provision for loan losses	--	--	--	--	--
Other income	5,025	5,367	2,667	(2,988)	10,071
General and administrative expenses	7,298	6,332	3,203	(876)	15,957
Income tax expense	8,765	(352)	(196)	(656)	7,561
Net income	\$15,248	(613)	(340)	(1,456)	12,839

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Six months ended		Local	National	Other and	
March 31, 2003	Banking	Mortgage	Mortgage	Eliminations	Consolidated
		Banking	Banking		
Net interest income	\$23,600	--	--	(31)	23,569
Provision for loan losses	60	--	--	--	60
Other income	5,990	9,909	--	(9,483)	6,416
General and administrative expenses	6,699	7,345	--	(1,893)	12,151
Income tax expense	8,790	987	--	(2,937)	6,840
Net income	\$14,041	1,577	--	(4,684)	10,934

(10) MERGER

On December 19, 2002, the merger transaction with CBES Bancorp, Inc ("CBES") was completed. Pursuant to a definitive agreement dated September 5, 2002, CBES was merged with and into a wholly owned subsidiary of NASB Financial, Inc. formed solely to facilitate the transaction. The agreement provided that upon the effective date of the merger, each shareholder of CBES would receive \$17.50 in cash for each share of CBES common stock owned by such shareholder. The aggregate purchase price was \$15.6 million. The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition. Dollar amounts are expressed in thousands.

Cash and cash equivalents	\$ 32,251
Investments and mortgage backed securities	9,171
Loans receivable	58,624
Premises and equipment	955
Core deposits	1,499
Goodwill	1,846
Other assets	5,577
Total assets acquired	109,923
Customer deposit accounts	82,750
Advances from Federal Home Loan Bank	10,358
Other liabilities	1,228
Total liabilities assumed	94,336
Net assets acquired	\$ 15,587

The only significant identifiable intangible asset acquired was the core deposit base, which has a useful life of approximately 15 years and will be amortized using the straight-line method. The \$1.8 million of goodwill was assigned entirely to the banking segment of the business.

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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 March 31, 2004, were \$1,332.6 million, an increase of \$225.2 million from September 30, 2003, the prior fiscal year end. \$193.0 million of this increase was due to the purchase of mortgage-backed securities which were financed primarily with repurchase agreements.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the six months ended March 31, 2004, the Bank originated and purchased \$326.1 million in mortgage loans held for sale, \$217.8 million in mortgage loans held for investment, and \$3.7 million in other loans. This total of \$547.6 million in loans originated compares to \$729.1 million in loans originated during the six months ended March 31, 2003.

Included in the \$197.7 million in loans held for sale as of March 31, 2004, are \$92.6 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.

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

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

	3/31/04	9/30/03	3/31/03
Asset Classification:			
Substandard	\$ 13,917	15,932	16,428
Doubtful	--	--	--
Loss	1,800	2,325	3,872
	15,717	18,257	20,300
Allowance for losses	(9,174)	(9,348)	(10,499)
	\$ 6,543	8,909	9,801

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

	3/31/04	9/30/03	3/31/03
Total Assets	\$ 1,332,566	1,107,359	1,112,569
Non-accrual loans	\$ 9,310	6,924	6,275
Troubled debt restructurings	3,152	3,565	5,737
Net real estate and other assets acquired through foreclosure	3,360	4,561	3,346
	\$ 15,822	15,050	15,358
Percent of total assets	1.19%	1.36%	1.38%

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,

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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 six months ending March 31, 2004, and 2003. Dollar amounts are expressed in thousands.

		2004	2003
Balance at beginning of year	\$	7,986	5,865
Provision for loan losses		--	60
Acquired in merger		--	1,309
Recoveries		40	32
Charge-offs		(23)	(50)
Balance at March 31	\$	8,003	7,216

LIABILITIES AND EQUITY

Customer deposit accounts decreased \$5.0 million during the six months ended March 31, 2004. The weighted average rate on customer deposits as of March 31, 2004, was 1.94%, a decrease from 2.47% as of March 31, 2003.

Advances from the FHLB were \$360.8 million as of March 31, 2004, an increase of \$52.7 million from September 30, 2003. During the six-month period, the Bank borrowed \$228.0 million of new advances and repaid \$175.2 million. Management uses FHLB advances at various times as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

During the six months ended March 31, 2004, the Bank financed the purchase of mortgage-backed securities primarily with repurchase agreements. A total of \$189.5 million of mortgage-backed securities were sold under agreements to repurchase, and repurchase agreements of \$17.0 million were repaid.

Escrows were \$6.2 million as of March 31, 2004, a decrease of \$2.1 million from September 30, 2003. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2003.

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Total stockholders' equity as of March 31, 2004, was \$131.9 million (9.9% of total assets). This compares to \$127.4 million (11.5% of total assets) at September 30, 2003. On a per share basis, stockholders' equity was \$15.60 on March 31, 2004, compared to \$15.09 on September 30, 2003.

The Company paid cash dividends on its common stock of \$0.85 on November 28, 2003, and \$0.20 on February 27, 2004. Subsequent to the quarter ended March 31, 2004, the Company announced a cash dividend of \$0.20 per share to be paid on May 28, 2004, to stockholders of record as of May 7, 2004.

Total stockholders' equity as of March 31, 2004, includes an unrealized gain of \$543,000, net of deferred income taxes, on available

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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).

	Six months ended	
	3/31/04	3/31/03
Return on assets	2.10%	2.09%
Return on equity	19.80%	19.27%
Equity-to-assets ratio	9.90%	10.57%
Dividend payout ratio	69.15%	24.68%

RESULTS OF OPERATIONS - Comparison of three months and six months ended March 31, 2004 and 2003.

For the three months ended March 31, 2004, the Company had net income of \$7,095,000 or \$0.84 per share. This compares to net income of \$5,879,000 or \$0.70 per share for the quarter ended March 31, 2003.

For the six months ended March 31, 2004, the Company had net income of \$12,839,000 or \$1.52 per share. This compares to net income of \$10,934,000 or \$1.30 per share for the six months ended March 31, 2003.

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.

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the six months ended March 31, 2004 and 2003. 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.

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Six months ended 3/31/04		As of
-----		3/31/04
Average	Yield/	Yield/
Balance	Interest	Rate
	Rate	Rate

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Interest-earning assets				
Loans	\$1,026,054	32,999	6.43%	5.91%
Mortgage-backed securities	122,945	2,371	3.86%	3.85%
Securities	20,015	296	2.96%	1.76%
Bank deposits	17,070	47	0.55%	0.57%

Total earning assets	1,186,084	35,713	6.02%	5.49%

Non-earning assets	44,514			

Total	\$1,230,598			
	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 209,429	754	0.72%	0.68%
Customer certificates of deposit	447,891	5,611	2.51%	2.64%
FHLB Advances	331,527	2,440	1.47%	1.53%
Repurchase agreements	106,500	622	1.17%	1.27%

Total costing liabilities	1,095,347	9,427	1.72%	1.76%

Non-costing liabilities	7,187			
Stockholders' equity	128,064			

Total	\$1,230,598			
	=====			
Net earning balance	\$ 90,737			
	=====			
Earning yield less costing rate			4.30%	3.73%
			=====	
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets				
	\$1,186,084	26,286	4.43%	
	=====			

	Six months ended 3/31/03		As of 3/31/03	
	Average Balance	Interest	Yield/Rate	Yield/Rate

Interest-earning assets				
Loans	\$ 954,764	35,440	7.42%	6.92%
Mortgage-backed securities	6,976	222	6.36%	6.51%
Securities	27,540	528	3.83%	3.77%
Bank deposits	23,019	114	0.99%	0.82%

Total earning assets	1,012,299	36,304	7.17%	6.56%

Non-earning assets	31,924			

Total	\$1,044,223			
	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 194,433	1,081	1.11%	1.08%
Customer certificates of deposit	394,315	6,190	3.14%	3.12%
FHLB Advances	322,776	5,464	3.39%	3.09%
Repurchase agreements	--	--	--	--

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Total costing liabilities	911,524	12,735	2.79%	2.68%
Non-costing liabilities	21,622			
Stockholders' equity	111,077			
Total	\$1,044,223			
Net earning balance	\$ 100,775			
Earning yield less costing rate			4.38%	3.88%
Average interest-earning assets, net interest, and net yield spread on average interest- earning assets	\$1,012,299	23,569	4.66%	

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

	Six months ended March 31, 2004, compared to six months ended March 31, 2003			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (4,726)	2,645	(360)	(2,441)
Mortgage-backed securities	(87)	3,688	(1,452)	2,149
Securities	(120)	(144)	32	(232)
Bank deposits	(51)	(29)	13	(67)
Net change in interest income	(4,984)	6,160	(1,767)	(591)
Components of interest expense:				
Customer deposit accounts	(1,560)	847	(193)	(906)
FHLB Advances	(3,099)	148	(73)	(3,024)
Repurchase agreements	--	--	622	622
Net change in interest expense	(4,659)	995	356	(3,308)
Increase in net interest margin	\$ (325)	5,165	(2,123)	2,717

Net interest margin before loan loss provision for the three months ended March 31, 2004, increased \$1.6 million from the same period in the prior year. This resulted from a decrease in total interest expense due primarily to a decrease in the interest rate paid on interest-costing liabilities.

Net interest margin before loan loss provision for the six months ended March 31, 2004, increased \$2.7 million from the same period in the prior year. Specifically, total interest expense decreased \$3.3 million due to a decrease in the interest rate paid on interest-costing liabilities of 1.1%. Total interest income decreased \$591,000 from the same period in the prior year. This decrease resulted from a 115 basis point decrease in the average rate earned on interest-earning assets, largely offset by a \$173.8 million increase in the average balance of interest-earning assets.

PROVISION FOR LOAN LOSSES

The Company recorded no provision for loan losses during the six months ended March 31, 2004. 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 58.4% of total classified assets at March 31, 2004, 51.2% at September 30, 2003, and 51.7% at March 31, 2003.

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 March 31, 2004, increased \$2.4 million from the same period in the prior year. Provision for loss on real estate owned decreased \$784,000 due to a reserve recorded during the quarter ended March 31, 2003, on a hotel property in the Southeast area of Kansas City, Missouri. This property was subsequently sold in April 2003. Additionally, gain on sale of securities available for sale increased \$543,000 due to the sale of corporate debt securities and the sale of an asset-backed security which the Company had previously deemed impaired. Customer service fees and charges increased \$467,000 due primarily to fee income earned by the Company's national mortgage banking operation. Other income increased \$466,000 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," and a decrease in expenses on foreclosed assets held for sale.

Other income for the six months ended March 31, 2004, increased \$3.7 million from the same period in the prior year. Provision for losses on real estate owned decreased \$1.9 million due to the aforementioned hotel property. Net loan servicing fees increased \$1.1 million due to an decrease in the amortization of capitalized servicing. This resulted from decreases in actual prepayments and estimated future prepayments of the underlying mortgage loans during the quarter. Customer service fees and charges increased \$450,000 due primarily to fee income earned by the Company's national mortgage banking operation.

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Gain on sale of securities available for sale increased \$545,000 due to the aforementioned sale of corporate debt securities and the sale of an asset-backed security which the Company had previously deemed impaired. Other income increased \$1.2 million 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," an increase in mortgage loan prepayment penalties, and a decrease in expenses on foreclosed assets held for sale. These increases in other income were partially offset by a decrease in the gain on sale of loans held for sale of \$1.3 million, which was due to decrease in mortgage banking volume for the six months ended March 31, 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended March 31, 2004, increased \$2.4 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation increased \$1.6 million due primarily to the addition of the national mortgage banking operation. Advertising increased \$413,000, and other expenses increased \$388,000 due primarily due to an increase in data processing and other charges related to the addition of the national mortgage banking operation.

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Total general and administrative expenses for the six months ended March 31, 2004, increased \$3.8 million from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation increased \$2.4 million due primarily to the addition of the national mortgage banking operation. The number of full time equivalent employees increased from 310 at March 31, 2003, to 419 at March 31, 2004. Advertising increased \$524,000, and other expenses increased \$616,000 due primarily due to an increase in data processing and other charges related to the addition of the national mortgage banking operation.

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

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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 March 31, 2004, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of March 31, 2004, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At March 31, 2004	Amount
-----	-----
GAAP capital (Bank only)	\$ 123,670
Adjustment for regulatory capital:	
Intangible assets	(3,221)
Disallowed portion of servicing assets and deferred tax assets	(4,299)
Reverse the effect of SFAS No. 115	(543)

Tangible capital	115,607
Qualifying intangible assets	--

Tier 1 capital (core capital)	115,607
Qualifying general valuation allowance	6,203

Risk-based capital	\$ 121,810
	=====

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	As of March 31, 2004				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 121,810	12.7%	76,754	>=8%	95,94
Core capital to adjusted tangible assets	115,607	8.8%	52,664	>=4%	65,83
Tangible capital to tangible assets	115,607	8.8%	19,749	>=1.5%	-
Tier 1 capital to risk-weighted assets	115,607	12.1%	--	--	57,56

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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. As of March 31, 2004, the Bank had no loans that exceeded the loans to one borrower limit.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At March 31, 2004, there was \$69.1 million available to the Bank in the form of FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank may purchase brokered deposit accounts. Although the Bank does not have any brokered deposits at March 31, 2004, it could purchase up to \$258.7 million 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, 2003.

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, 2003.

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

The annual stockholder's meeting was held on January 27, 2004. The following persons were elected to NASB Financial Inc.'s Board of Directors for three year terms:

David H. Hancock
Linda S. Hancock

The firm of BKD, LLP was ratified for appointment as independent auditors for the fiscal year ended September 30, 2004.

Proposed amendments to the Company's Articles of Incorporation were adopted and approved.

An Equity Incentive Compensation Plan for the issuance of options to purchase up to 250,000 shares of stock in NASB Financial, Inc. to key

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officers and employees over a ten-year period was approved.

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 99.1 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

Exhibit 99.2 - 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 January 27, 2004, which announced a quarterly cash dividend of \$0.20 per payable on February 27, 2004 to shareholder's of record as of February 6, 2004.

A report on Form 8-K was filed on February 11, 2004, which announced financial results for the quarter ended December 31, 2003.

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S I G N A T U R E S

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

NASB Financial, Inc.
(Registrant)

May 14, 2004

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

May 14, 2004

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

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I, David Hancock, Chairman and Chief Executive Officer, certify that:

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1. I have reviewed this report on Form 10-Q of NASB Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidate subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

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I, Rhonda Nyhus, Vice President and Treasurer, certify that:

1. I have reviewed this report on Form 10-Q of NASB Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidate subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 14, 2004

