NASB FINANCIAL INC
Form 10-Q
February 09, 2009

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, 2008

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 non-accelerated filer, or a small reporting company. See definition of "accelerated filer", "large accelerated filer" and "small reporting company" in Rule 12b-2 of the

Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer __X__

Non-accelerated filer _____ Small reporting Company _____

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

Yes No X

The number of shares of Common Stock of the Registrant outstanding as of February 6, 2009, was 7,867,614.

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

	December 31, 2008 (Unaudited)	September 30, 2008
ASSETS		
Cash and cash equivalents	$ 19,596	21,735
Securities available for sale, at fair value	35	35
Stock in Federal Home Loan Bank, at cost	23,881	26,284
Mortgage-backed securities:		
Available for sale, at fair value	54,093	59,889
Held to maturity, at cost	130	135
Loans receivable:		
Held for sale, at fair value at December 31, 2008, and at lower of amortized cost or fair value at September 30, 2008	73,769	64,030
Held for investment, net	1,300,863	1,294,297
Allowance for loan losses	(13,071)	(13,807)
Accrued interest receivable	6,671	6,886
Foreclosed asset held for sale, net	9,315	6,038
Premises and equipment, net	14,272	14,599
Investment in LLCs	21,009	20,683
Mortgage servicing rights, net	471	716
Deferred income tax asset, net	6,241	6,293
Other assets	9,179	8,948
	$ 1,526,454	1,516,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	$ 708,088	691,615
Brokered deposit accounts	127,144	77,764
Advances from Federal Home Loan Bank	496,075	550,091
Subordinated debentures	25,774	25,774
Escrows	4,731	9,776

Income taxes payable	3,509	4,002
Liability for unrecognized tax benefit	850	850
Accrued expenses and other liabilities	5,886	4,477
Total liabilities	1,372,057	1,364,349
Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,857,112 issued at December 31, 2008, and September 30, 2008	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	16,509	16,484
Retained earnings	175,140	172,612
Treasury stock, at cost; 1,989,498 shares at December 31, 2008, and at September 30, 2008	(38,418)	(38,418)
Accumulated other comprehensive Income (loss)	(313)	255
Total stockholders' equity	154,397	152,412
	$ 1,526,454	1,516,761

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,	
	2008	2007
Interest on loans receivable	$ 22,219	24,514
Interest on mortgage-backed securities	545	670
Interest and dividends on securities	104	297
Other interest income	87	64
Total interest income	22,955	25,545

Interest on customer and brokered deposit accounts	6,899	8,613
Interest on advances from FHLB	5,161	6,412
Interest on subordinated debentures	313	431
Total interest expense	12,373	15,456
Net interest income	10,582	10,089
Provision for loan losses	250	700
Net interest income after provision for loan losses	10,332	9,389
Other income (expense):		
Loan servicing fees, net	(212)	(54)
Impairment recovery on mortgage servicing rights	23	37
Customer service fees and charges	1,397	1,295
Provision for loss on real estate owned	(250)	(550)
Gain from loans held for sale	4,743	1,602
Other	(502)	(42)
Total other income	5,199	2,288
General and administrative expenses:		
Compensation and fringe benefits	3,861	3,740
Commission-based mortgage banking compensation	2,188	1,465
Premises and equipment	967	1,063
Advertising and business promotion	1,296	1,028
Federal deposit insurance premiums	34	23
Other	1,253	1,319
Total general and administrative expenses	9,599	8,638
Income before income tax expense	5,932	3,039
Income tax expense	2,284	1,170
Net income	$ 3,648	1,869
Basic earnings per share	$ 0.46	0.24
Diluted earnings per share	$ 0.46	0.23
Basic weighted average shares outstanding	7,867,614	7,867,614

See accompanying notes to condensed consolidated financial statements.

NASB FINANCIAL, INC. AND SUBSIDIARY

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
(In thousands)

	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, 2008	$ 1,479	16,484	172,612	(38,418)	255	152,
Comprehensive income:						
Net income	--	--	3,648	--	--	3,
Other comprehensive income (loss), net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	(568)	(
Total comprehensive income						3,
Cash dividends paid	--	--	(1,770)	--	--	(1,
Stock based compensation expense	--	25	--	--	--	
Adoption of FAS 159	--	--	650	--	--	
Balance at December 31, 2008	$ 1,479	16,509	175,140	(38,418)	(313)	154,

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31, 2008	Three months ended December 31, 2007
Cash flows from operating activities:		
Net income	$ 3,648	1,869
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	441	447

Amortization and accretion, net	(1,078)	(265)
Loss from investment in LLCs	48	64
Impairment recovery on mortgage servicing rights	(23)	(37)
Gain from loans receivable held for sale	(4,743)	(1,602)
Provision for loan losses	250	700
Provision for loss on real estate owned	250	550
Origination of loans receivable held for sale	(242,682)	(159,722)
Sale of loans receivable held for sale	239,017	165,788
Stock based compensation - stock options	25	26
Changes in:		
Net fair value of loan-related commitments	432	220
Accrued interest receivable	215	583
Accrued expenses and other liabilities and income taxes payable	422	810
Net cash provided by (used in) operating activities	(3,778)	9,431
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	5	11
Available for sale	4,831	5,568
Principal repayments of mortgage loans receivable held for investment	41,866	97,172
Principal repayments of other loans receivable	1,501	1,362
Loan origination - mortgage loans receivable held for investment	(53,982)	(140,298)
Loan origination - other loans receivable	(948)	(1,566)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	2,403	(3,738)
Proceeds from sale of real estate owned	1,702	2,114
Purchases of premises and equipment, net	(114)	(121)
Investment in LLCs	(373)	(767)
Other	(194)	392
Net cash used in investing activities	(3,303)	(39,871)

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

	Three months ended December 31,	
	2008	2007
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	65,757	(53,385)

Proceeds from advances from Federal Home Loan Bank	105,000	108,000
Repayment on advances from Federal Home Loan Bank	(159,000)	(30,000)
Cash dividends paid	(1,770)	(1,770)
Change in escrows	(5,045)	(5,221)
Net cash provided by financing activities	4,942	17,624
Net decrease in cash and cash equivalents	(2,139)	(12,816)
Cash and cash equivalents at beginning of the period	21,735	26,050
Cash and cash equivalents at end of period	$ 19,596	13,234
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 2,771	34
Cash paid for interest	11,409	14,713
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 6,391	1,237
Conversion of real estate owned to loans receivable	--	1,669

See accompanying notes to condensed consolidated financial statements.

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the three months ended December 31, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. The condensed consolidated balance sheet of the Company as of September 30, 2008, 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, valuation of mortgage servicing rights, and unrecognized tax benefits. Management believes that these allowances are adequate, however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the condensed consolidated financial statements as of December 31, 2008, have remained unchanged from September 30, 2008. These policies relate to the allowance for loan losses and the valuation of mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2008.

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	
	12/31/08	12/31/07
Net income (in thousands)	$ 3,648	1,869
Average common shares outstanding	7,867,614	7,867,614
Average common share stock options outstanding	--	95,639
Average diluted common shares	7,867,614	7,963,253
Earnings per share:		
Basic	$ 0.46	0.24
Diluted	0.46	0.23

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.

At December 31, 2008, options to purchase 72,038 shares of the Company's stock were outstanding. These options were not included in the calculated of diluted earnings per share, as they were considered anti-dilutive.

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(3) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	$ 127	--	1	126
Pass-through certificates guaranteed by FNMA				
- adjustable rate	7,147	--	67	7,080
FHLMC participation certificates:				
- fixed rate	698	--	21	677
- adjustable rate	46,630	--	420	46,210
Total	$ 54,602	--	509	54,093

(4) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 72	5	--	77
FNMA pass-through certificates:				
Fixed rate	12	--	--	12
Balloon maturity and adjustable rate	46	--	--	46
Total	$ 130	5	--	135

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(5) LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2008 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 385,020
Business properties	477,712
Partially guaranteed by VA or insured by FHA	3,642
Construction and development	375,563
Total mortgage loans	1,241,937
Commercial loans	109,182
Installment loans to individuals	14,366
Total loans held for investment	1,365,485
Less:	
Undisbursed loan funds	(56,246)
Unearned discounts and fees and costs on loans, net	(8,376)
Net loans held for investment	$1,300,863

	December 31, 2008 (Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 106,761
Less:	
Undisbursed loan funds	(32,992)
Net loans held for sale	$ 73,769

Included in the loans receivable balances at December 31, 2008, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of $61,000. Loans and participations serviced for others amounted to approximately $62.8 million at December 31, 2008.

The following table presents the activity in the allowance for losses on loans for the period ended December 31, 2008. Allowance for losses on mortgage loans includes specific valuation allowances and valuation allowances associated with homogenous pools of loans. Dollar amounts are expressed in thousands.

Balance at October 1, 2008	$ 13,807

Provisions	250
Charge-offs	(988)
Recoveries	2
Balance at December 31, 2008	$ 13,071

(6) FORECLOSED ASSETS HELD FOR SALE

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

	December 31, 2008
	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 10,143
Less: allowance for losses	(828)
Total	$ 9,315

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

(7) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended December 31, 2008. Dollar amounts are expressed in thousands.

Balance at October 1, 2008	$ 716
Additions:	
Impairment recovery	23
Reductions:	
Amortization	(268)
Balance at December 31, 2008	$ 471

(8) SUBORDINATED DEBENTURES

On December 13, 2006, NASB Financial, Inc. (the "Company"), through its wholly owned statutory trust, NASB Preferred Trust I (the "Trust"), issued $25 million of pooled Trust Preferred Securities. The Trust used the proceeds from the offering to purchase a like amount of NASB Financial Inc.'s subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust. In exchange for the capital contributions made to the Trust by NASB Financial, Inc. upon formation, NASB Financial. Inc. owns all the common securities of the Trust.

In accordance with Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), the Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of the Company. The $25.0 million Trust Preferred Securities issued by the Trust will remain on the records of the Trust. The debentures are included in Tier I capital for regulatory capital purposes.

The Trust Preferred Securities have a variable interest rate of 1.65% over the 3-month LIBOR, and are mandatorily redeemable upon the 30-year term of the debentures, or upon earlier redemption as provided in the Indenture. The debentures are callable, in whole or in part, after five years from the issuance date. The Company did not incur a placement or annual trustee fee related to the issuance. The securities are subordinate to all other debt of the Company and interest may be deferred up to five years.

(9) INCOME TAXES

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). As of December 31, 2008, the Company's liability for unrecognized tax benefits of $850,000 included $149,000 of related interest and penalties. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits within income tax expense in the consolidated statements of income.

The Company's unrecognized tax benefit is expected to decrease in the next twelve months as a result of the settlements with various taxing authorities.

The Company's federal and state income tax returns for fiscal years 2005 through 2007 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(10) SEGMENT INFORMATION

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

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

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, 2008	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 10,882	--	(300)	10,582
Provision for loan losses	250	--	--	250
Other income	(26)	5,971	(746)	5,199
General and administrative expenses	4,848	5,012	(261)	9,599
Income tax expense (benefit)	2,216	369	(301)	2,284
Net income	$ 3,542	590	(484)	3,648

Three months ended December 31, 2007	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 10,503	--	(414)	10,089
Provision for loan losses	700	--	--	700
Other income	(657)	4,206	(1,261)	2,288
General and administrative expenses	4,345	4,545	(252)	8,638
Income tax expense (benefit)	1,848	(130)	(548)	1,170
Net income	$ 2,953	(209)	(875)	1,869

(11) FAIR VALUE OPTION

On October 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value.

In accordance with FAS 159, the Company has elected to measure

loans held for sale at fair value. This portfolio is made up entirely of mortgage loans held for immediate sale with servicing released. Such loans are sold prior to origination at a contracted price to outside investors on a best-efforts basis (i.e., the loan becomes mandatorily deliverable to the investor only when, and if, it closes) and remain on the Company's balance sheet for a very short period of time, typically less than one month. It is management's opinion, given the short-term nature of these loans, that fair value provides a reasonable measure of the economic value of these assets. In addition, carrying such loans at fair value eliminates some measure of volatility created by the timing of sales proceeds from outside investors, which typically occur in the month following origination. Management believes that measuring these loans at fair value appropriately matches commission-based mortgage banking compensation expense related to their origination with the revenue created by their sale.

The Company elected the fair value option for the following item (in thousands):

	Balance Sheet Prior to Adoption 10/1/08	Gain Upon Adoption	Balance Sheet After Adoption 10/1/08
Loans held for sale	$ 64,030	1,058	65,088

Pre-tax cumulative effect of Adoption	$ 1,058
Decrease in deferred tax asset	(408)
Cumulative effect of adoption	$ 650

The difference between the aggregate fair value and the aggregate unpaid principal balance of these loans was $1.9 million at December 31, 2008. Interest income on loans held for sale is included in interest on loans receivable in the accompanying statements of income.

(12) FAIR VALUE MEASUREMENTS

On October 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. FAS 157 identifies three primary measurement techniques: the market approach, the income approach, and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuations or techniques to convert future amounts, such as cash flows or earnings, to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capability of an asset.

FAS 157 establishes a fair value hierarchy and prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to

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

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

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

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

The Company measures certain financial assets and liabilities at fair value in accordance with FAS 157. These measurements involve various valuation techniques and assume that the transactions would occur between market participants in the most advantageous market for the Company.

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

Available for sale securities

Mortgage-backed available for sale securities are valued using industry-standard pricing models that consider assumptions, including market yield and prepayment speeds. These measurements are classified as Level 2.

Loans held for sale

Loans held for sale are valued using estimated future cash flows expected to be received by the Company, typically within less than one month. This measurement is classified as Level 2 within the hierarchy.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market prices. Therefore, fair value is assessed using a valuation model that calculates the discounted cash flow using assumption such as estimates of prepayment speeds, market discount rates, servicing fee income, and cost of servicing. These measurements are classified as Level 3. Mortgage servicing rights are carried on the Company's books at fair value and are amortized over the period of net servicing income. Additionally, they are evaluated for impairment monthly.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at December 31, 2008 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities available for sale	$ 54,093	--	54,093	--
Loans held for sale	73,769	--	73,769	--
Mortgage servicing rights	471	--	--	471
Total assets	$ 128,333	--	127,862	471

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The following table is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs (in thousands):

	Mortgage Servicing Rights
Asset balance at October 1, 2008	$ 716
Total realized and unrealized	

gains (losses):	
Included in net income	(245)
Included in other comprehensive income	--
Purchases, issuances, and settlements	--
Transfers in (out) of Level 3	--
Asset balance at December 31, 2008	$ 471

Realized and unrealized gains and losses noted in the table above and included in net income for the period ended December 31, 2008, are reported in the consolidated statements of income as follows (in thousands):

	Loan Servicing Fees	Impairment Recovery on Mortgage Servicing Rights
Total gains (losses)	$ (268)	23
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	$ --	--

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

Impaired loans

Loans for which it is probable that the Company will not collect principal and interest due according to contractual terms are measured for impairment in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or, where the loan is determined not to be collateral dependent, using the discounted cash flows.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and other internal assessments of value. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loans effective interest rate. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans was $4.9 million at December 31, 2008.

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

The Company's total assets as of December 31, 2008, were $1,526.5 million, an increase of $9.7 million from September 30, 2008, 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, 2008, the Bank originated and purchased $242.7 million in mortgage loans held for sale, $54.0 million in mortgage loans held for investment, and $948,000 in other loans. This total of $297.6 million in loans compares to $301.6 million in loans originated and purchased during the three months ended December 31, 2007.

Loans held for sale as of December 31, 2008 were $73.8 million, and consisted entirely of mortgage loans held for sale with servicing released. As of October 1, 2008, the Company elected to carry loans

held for sale are at fair value, as permitted under FAS 159.

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.

	12/31/08	9/30/08	12/31/07
Asset Classification:			
Substandard	$ 36,513	34,320	11,364
Doubtful	--	--	--
Loss	1,231	1,442	791
	37,744	35,762	12,155
Allowance for losses on loans and real estate owned	(13,899)	(14,476)	(9,130)
	$ 23,845	21,286	3,025

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.

	12/31/08	9/30/08	12/31/07
Total Assets	$ 1,526,454	1,516,761	1,528,729
Non-accrual loans	$ 15,297	35,075	7,998
Troubled debt restructurings	--	--	--
Net real estate and other assets acquired through foreclosure	9,315	6,038	3,439
Total	$ 24,612	41,113	11,437
Percent of total assets	1.61%	2.71%	0.75%

Management records a provision for loan losses in amounts sufficient to cover current net charge-offs and an estimate of probable losses based on an analysis of risks that management believes to be inherent in the loan portfolio. The Allowance for Loan and Lease Losses

("ALLL") recognizes the inherent risks associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets but to a homogenous pool of loans. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future allowances may be necessary because of changes in economic conditions. Also, regulatory agencies (OTS and FDIC) review the Bank's allowance for losses as part of their examinations, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

LIABILITIES AND EQUITY

Customer and brokered deposit accounts increased $65.9 million during the three months ended December 31, 2008. The weighted average rate on customer and brokered deposits as of December 31, 2008, was 3.26%, a decrease from 4.21% as of December 31, 2007.

Advances from the FHLB were $496.1 million as of December 31, 2008, a decrease of $54.0 million from September 30, 2008. During the three-month period, the Bank borrowed $105.0 million of new advances and repaid $159.0 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Subordinated debentures were $25.8 million as of December 31, 2008. Such debentures resulted from the issuance of pooled Trust Preferred Securities through the Company's wholly owned statutory trust, NASB Preferred Trust I. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust.

Escrows were $4.7 million as of December 31, 2008, a decrease of $5.0 million from September 30, 2008. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2008.

Total stockholders' equity as of December 31, 2008, was $154.4 million (10.1% of total assets). This compares to $152.4 million (10.0% of total assets) at September 30, 2008. On a per share basis, stockholders' equity was $19.62 on December 31, 2008, compared to $19.37 on September 30, 2008.

The Company paid cash dividends on its common stock of $0.225 per share on November 28, 2008. Subsequent to the quarter ended December 31, 2008, the Company announced a cash dividend of $0.225 per share to be paid on February 27, 2009, to stockholders of record as of February 6, 2009.

Total stockholders' equity as of December 31, 2008, includes an unrealized loss of $313,000 net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive loss."

RATIOS

The following table illustrates the Company's return on assets (annualized net income divided by average total assets); return on

equity (annualized net income divided by average total equity); equity-to-assets ratio (ending total equity divided by ending total assets); and dividend payout ratio (dividends paid divided by net income).

	Three months ended	
	12/31/08	12/31/07
Return on assets	0.96%	0.49%
Return on equity	9.51%	5.00%
Equity-to-assets ratio	10.11%	9.79%
Dividend payout ratio	48.52%	94.70%

RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2008 and 2007.

For the three months ended December 31, 2008, the Company had net income of $3,648,000 or $0.46 per share. This compares to net income of 1,869,000 or $0.24 per share for the quarter ended December 31, 2007.

NET INTEREST MARGIN

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

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the three months ended December 31, 2008 and 2007. 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 12/31/08			As of 12/31/08
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,341,684	22,219	6.62%	6.14%
Mortgage-backed securities	56,639	545	3.85%	4.20%
Securities	25,098	104	1.66%	3.01%
Bank deposits	44,364	87	0.78%	0.01%
Total earning assets	1,467,785	22,955	6.26%	6.00%

	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Non-earning assets	64,117			
Total	$1,531,902			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 163,499	420	1.03%	0.80%
Customer and brokered certificates of deposit	656,030	6,479	3.95%	3.87%
FHLB Advances	522,146	5,161	3.95%	3.33%
Subordinated debentures	25,000	313	5.01%	5.12%
Total costing liabilities	1,366,675	12,373	3.62%	3.32%
Non-costing liabilities	12,287			
Stockholders' equity	152,940			
Total	$1,531,902			
Net earning balance	$ 101,110			
Earning yield less costing rate			2.64%	2.68%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,467,785	10,582	2.88%	

	Three months ended 12/31/07			As of 12/31/07
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$1,354,604	24,514	7.24%	7.02%
Mortgage-backed securities	79,201	670	3.38%	4.16%
Securities	25,351	297	4.69%	4.50%
Bank deposits	6,455	64	3.97%	3.74%
Total earning assets	1,465,611	25,545	6.97%	6.81%
Non-earning assets	62,051			
Total	$1,527,662			
Interest-costing liabilities				
Customer checking and savings deposit accounts	$ 166,975	635	1.52%	1.22%
Customer and brokered certificates of deposit	640,832	7,978	4.98%	5.04%
FHLB Advances	525,230	6,412	4.88%	4.87%
Subordinated debentures	25,000	431	6.90%	6.63%
Total costing liabilities	1,358,037	15,456	4.55%	4.51%
Non-costing liabilities	20,061			
Stockholders' equity	149,564			

Total	$1,527,662			
Net earning balance	$ 107,574			
Earning yield less costing rate			2.42%	2.30%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$1,465,611	10,089	2.75%	

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

	Three months ended December 31, 2008, compared to three months ended December 31, 2007			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ (2,100)	(234)	39	(2,295)
Mortgage-backed securities	93	(191)	(27)	(125)
Securities	(192)	(3)	2	(193)
Bank deposits	(51)	376	(302)	23
Net change in interest income	(2,250)	(52)	(288)	(2,590)
Components of interest expense:				
Customer and brokered deposit accounts	(1,797)	125	(42)	(1,714)
FHLB Advances	(1,221)	(38)	8	(1,251)
Subordinated debentures	(118)	--	--	(118)
Net change in interest expense	(3,136)	87	(34)	(3,083)
Increase in net interest margin	$ 886	(139)	(254)	493

Net interest margin before loan loss provision for the three months ended December 31, 2008, increased $493,000 from the same period in the prior year. Specifically, interest income decreased $2.6 million, which was offset by a $3.1 million decrease in interest expense for the period. Interest on loans decreased $2.3 million as the result of a 62 basis point decrease in the average yield and a $12.9 decrease in the average balance of loans receivable outstanding during the period. Interest on mortgage-backed securities decreased $125,000 due primarily to a $22.6 million decrease in the average balance of such securities. Interest on investment securities decreased $193,000 due primarily to a 303 basis point decrease in the average yield earned on such securities. Interest expense on customer and brokered deposit accounts decreased $1.7 million due primarily to a 95 basis point decrease in the average rate paid on such interest-costing liabilities. Interest expense on FHLB advances decreased $1.3 million primarily as the result of a 93 basis point decrease in the average rate paid on such liabilities. Interest expense on subordinated debentures decreased $118,000 due to a 189 basis point decrease in the average rate paid on such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of $250,000 during the quarter ended December 31, 2008, due primarily to increases in commercial real estate and residential construction and development 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, the allowance for losses on loans and real estate owned was 40.0% of total classified assets at December 31, 2008, 36.8% at September 30, 2008, and 75.1% at December 31, 2007.

Management believes that the allowance for losses on loans and real estate owned is adequate. The provision can fluctuate based on changes in economic conditions, changes in the level of classified assets, changes in the amount of loan charge-offs and recoveries, or changes in other information available to management. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process and they may require changes in loss provision amounts based on information available at the time of their examination.

OTHER INCOME

Other income for the three months ended December 31, 2008, increased $2.9 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased $3.1 million due to increased mortgage banking volume during the period. Provision for loss on real estate owned decreased $300,000 due to a decrease in charge-offs of foreclosed assets held for sale during the quarter. Customer service fees and charges increased $102,000 due to an increase in miscellaneous loan origination fees resulting from the increase in mortgage banking volume. These increases were offset by a $158,000 decrease in loan servicing fees due an increase in capitalized servicing amortization, which resulted from an increase in actual prepayments and

estimated future repayments of the underlying mortgage loans during the period. In addition, other income decreased $460,000 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 to decreases in loan prepayment penalties and official check processing fee income.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended December 31, 2008, increased $961,000 from the same period in the prior year. Specifically, compensation, fringe benefits, and commission-based mortgage banking compensation increased $844,000 due primarily to an increase in mortgage banking volume for the period. Advertising and business promotion expense increased $268,000 resulting from an increase in mortgage banking volume for the quarter. These increases were partially offset by a $96,000 decrease in premises and equipment expense resulting primarily from a decrease in rent and maintenance costs related to the continued consolidation of loan origination offices in fiscal 2008.

REGULATION

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

INSURANCE OF ACCOUNTS

The DIF insures the Bank's customer deposit accounts to a maximum of $100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of $250,000. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit of federal deposit insurance coverage from $100,000 to $250,000 per depositor. This legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. 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 5 to 43 basis points of the institution's total deposit accounts, depending on the institution's risk classification. The Bank is currently considered "well capitalized," which is the most favorable capital group and supervisory subgroup. DIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

REGULATORY CAPITAL REQUIREMENTS

At December 31, 2008, 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, 2008, 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, 2008	Amount
GAAP capital (Bank only)	$ 155,448
Adjustment for regulatory capital:	
Intangible assets	(2,746)
Disallowed portion of servicing assets and deferred tax assets	(6,281)
Reverse the effect of SFAS No. 115	313
Tangible capital	146,734
Qualifying intangible assets	--
Tier 1 capital (core capital)	146,734
Qualifying general valuation allowance	11,840
Risk-based capital	$ 158,574

	As of December 31, 2008				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 158,574	12.2%	103,703	>=8%	129,62
Core capital to adjusted tangible assets	146,734	9.8%	59,811	>=4%	74,76
Tangible capital to tangible assets	146,734	9.8%	22,429	>=1.5%	-
Tier 1 capital to risk-weighted assets	146,734	11.3%	--	--	77,77

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed

the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has received regulatory approval from the OTS under 12 CFR 560.93 to increase its loans-to-one-borrower limit to $30 million for loans secured by certain residential housing units. Such loans must not, in the aggregate, exceed 150% of the Bank's unimpaired capital and surplus.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At December 31, 2008, the Bank had $101.6 million available in the form of additional FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At December 31, 2008, the Bank has $127.1 million in brokered deposits, and it could purchase up to $278.7 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, 2008.

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, 2008.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this quarterly report. There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 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

(a) Exhibits

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Rules 13a-15(e) and 15d-15(e)

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Rules 13a-15(e) and 15d-15(e)

Exhibit 32.1 - Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 - Certification of Chief Financial Officer pursuant to

18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

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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)

February 9, 2009

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

February 9, 2009

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

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