

NASB FINANCIAL INC
Form 10-Q
May 12, 2014

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended March 31, 2014**

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
(State or other jurisdiction of
incorporation or organization)

43-1805201
(I.R.S. 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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock of the Registrant outstanding as of May 5, 2014, was 7,867,614.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

	March 31, 2014 (Unaudited)	September 30, 2013
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents	\$ 6,351	6,347
Securities:		
Available for sale, at fair value	256,724	252,696
Held to maturity, at cost	26,398	
Stock in Federal Home Loan Bank, at cost	9,034	7,679
Mortgage-backed securities:		
Available for sale, at fair value	367	433
Held to maturity, at cost	37,468	43,074
Loans receivable:		
Held for sale, at fair value	59,529	69,079
Held for investment, net	736,907	715,713
Allowance for loan losses	(13,671)	(20,383)
Accrued interest receivable	4,654	4,098
Foreclosed assets held for sale, net	10,461	11,252
Premises and equipment, net	11,831	12,033
Investment in LLCs	16,561	16,499
Income taxes receivable	1,220	
Deferred income tax asset, net	8,062	12,273
Other assets	12,849	13,362
	\$ 1,184,745	1,144,155
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Customer deposit accounts	\$ 755,204	748,193
Advances from Federal Home Loan Bank	191,000	155,000
Subordinated debentures	25,774	25,774
Escrows	5,201	8,458
Income taxes payable		70
Accrued expenses and other liabilities	7,192	11,143
Total liabilities	984,371	948,638
Stockholders equity:		
	1,479	1,479

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Common stock of \$0.15 par value: 20,000,000 shares authorized; 9,857,112 shares issued

Additional paid-in capital	16,613	16,613
Retained earnings	220,602	217,143
Treasury stock, at cost; 1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive loss	98	(1,300)
Total stockholders equity	200,374	195,517
	\$ 1,184,745	1,144,155

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Interest on loans receivable	\$ 10,250	11,740	20,850	24,074
Interest on mortgage-backed securities	394	87	805	381
Interest and dividends on securities	1,571	1,085	2,992	2,048
Other interest income	4	1	6	3
Total interest income	12,219	12,913	24,653	26,506
Interest on customer and brokered deposit accounts	939	1,360	1,884	3,109
Interest on advances from Federal Home Loan Bank	466	532	936	1,063
Interest on subordinated debentures	119	125	244	254
Other interest expense	6	5	11	8
Total interest expense	1,530	2,022	3,075	4,434
Net interest income	10,689	10,891	21,578	22,072
Provision for loan losses	(5,000)	(5,600)	(5,000)	(9,600)
Net interest income after provision for loan losses	15,689	16,491	26,578	31,672
Other income (expense):				
Loan servicing fees, net	24	26	48	52
Customer service fees and charges	752	1,357	1,632	2,831
Provision for loss on real estate owned	(40)	(242)	(155)	(817)
Gain on sale of securities available for sale	518		616	
Gain (loss) on sale of securities held to maturity	(10)	257	(10)	257
Gain from loans receivable held for sale	7,644	19,281	14,196	35,387
Other expense, net	(123)	(1,714)	(261)	(2,248)
Total other income	8,765	18,965	16,066	35,462
General and administrative expenses:				
Compensation and fringe benefits	6,423	6,502	12,566	12,858
Commission-based mortgage banking compensation	2,335	5,124	5,418	10,937
Premises and equipment	1,516	1,222	2,937	2,544
Advertising and business promotion	2,038	1,396	3,839	2,559
Federal deposit insurance premiums	351	664	659	1,250
Other	2,282	2,632	4,646	5,547
Total general and administrative expenses	14,945	17,540	30,065	35,695

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Income before income tax expense	9,509	17,916	12,579	31,439
Income tax expense	3,328	6,898	4,399	12,104
Net income	\$ 6,181	11,018	8,180	19,335
Basic earnings per share	\$ 0.79	1.40	1.04	2.46
Diluted earnings per share	\$ 0.79	1.40	1.04	2.46
Basic weighted average shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
See accompanying notes to condensed consolidated financial statements.				

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

	Three months ended March 31,	
	2014	2013
	(Dollars in thousands)	
Net income	\$ 6,181	11,018
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$1,561 and \$(323) at March 31, 2014 and 2013, respectively	2,541	(516)
Adjustment for gain included in net income, net of income tax expense of \$181 at March 31, 2014	(337)	
Change in unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$1,380 and \$(323) at March 31, 2014 and 2013, respectively	2,204	(516)
Comprehensive income	\$ 8,385	10,502
	Six months ended March 31,	
	2014	2013
	(Dollars in thousands)	
Net income	\$ 8,180	19,335
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$1,091 and \$(298) at March 31, 2014 and 2013, respectively	1,798	(476)
Adjustment for gain included in net income, net of income tax expense of \$216 at March 31, 2014	(400)	
Change in unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$875 and \$(298) at March 31, 2014 and 2013, respectively	1,398	(476)
Comprehensive income	\$ 9,578	18,859

See accompanying notes to condensed consolidated financial statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statement of Stockholders Equity (Unaudited)*

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive gain (loss)	Total stockholders equity
	(Dollars in thousands)					
Balance at October 1, 2013	\$ 1,479	16,613	217,143	(38,418)	(1,300)	195,517
Comprehensive income:						
Net income			8,180			8,180
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale					1,398	1,398
Total comprehensive income						9,578
Cash dividends paid			(4,721)			(4,721)
Balance at March 31, 2014	\$ 1,479	16,613	220,602	(38,418)	98	200,374

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended March 31,	
	2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 8,180	19,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	630	1,077
Amortization and accretion, net	307	510
Gain on sale of securities available for sale	(616)	
(Gain) loss on sale of securities held to maturity	10	(257)
(Income) loss from investment in LLCs	(50)	300
Gain from loans receivable held for sale	(14,196)	(35,387)
Provision for loan losses	(5,000)	(9,600)
Provision for loss on real estate owned	155	817
Origination of loans receivable held for sale	(517,188)	(1,044,057)
Sale of loans receivable held for sale	540,933	1,143,123
Stock based compensation stock options		(44)
Changes in:		
Net fair value of loan-related commitments	777	1,837
Accrued interest receivable	(556)	176
Prepaid and accrued expenses, other liabilities, and income taxes payable	(2,066)	5,159
Net cash provided by operating activities	11,320	82,989
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	892	3,456
Available for sale	195	48
Principal repayments of mortgage loans receivable held for investment	90,097	111,689
Principal repayments of other loans receivable	1,025	2,111
Principal repayments of investment securities available for sale	7,200	20,006
Loan origination - mortgage loans receivable held for investment	(112,975)	(57,393)
Loan origination - other loans receivable	(952)	(1,148)
Purchase of mortgage loans receivable held for investment	(478)	(647)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	(1,355)	89
Purchase of investment securities available for sale	(61,427)	(52,525)
Purchase of investment securities held to maturity	(26,409)	
Proceeds from sale of investment securities available for sale	52,551	
Proceeds from sale of mortgage-backed securities available for sale	4,351	
Proceeds from sale of mortgage-backed securities held to maturity	508	10,800
Proceeds from sale of real estate owned	1,653	4,268
Purchases of premises, equipment, and software, net	(656)	(65)
Investment in LLCs	(13)	(6)
Other	(556)	(1,107)

Net cash provided by (used in) investing activities	(46,349)	39,576
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*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows (Unaudited)*

	Six months ended March 31,	
	2014	2013
	(Dollars in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	7,011	(75,034)
Proceeds from advances from Federal Home Loan Bank	201,000	25,000
Repayment on advances from Federal Home Loan Bank	(165,000)	(27,000)
Cash dividends paid	(4,721)	
Change in escrows	(3,257)	(3,949)
Proceeds from other borrowings		422
Net cash provided by (used in) financing activities	35,033	(80,561)
Net increase in cash and cash equivalents	4	42,004
Cash and cash equivalents at beginning of the period	6,347	8,716
Cash and cash equivalents at end of period	\$ 6,351	50,720
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 3,244	8,176
Cash paid for interest	3,487	4,247
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned, net of specific reserves	\$ 1,267	9,168
Conversion of real estate owned to loans receivable		224
Transfer of mortgage-backed securities from held to maturity to available for sale	4,410	
See accompanying notes to condensed consolidated financial statements.		

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of NASB Financial, Inc. (the Company), its wholly-owned subsidiary, North American Savings Bank, F.S.B. (North American or the Bank), and the Bank's wholly-owned subsidiary, Nor-Am Service Corporation. All significant inter-company transactions have been eliminated in consolidation. The consolidated financial statements do not include the accounts of our wholly-owned statutory trust, NASB Preferred Trust I (the Trust). The Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of NASB Financial, Inc. The Trust Preferred Securities issued by the Trust are included in Tier I capital for regulatory capital purposes. See Footnote 10, Subordinated Debentures.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. All adjustments are of a normal and recurring nature, and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2013, filed with the Securities and Exchange Commission on December 16, 2013. Operating results for the six month period ended March 31, 2014, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2014. The condensed consolidated balance sheet of the Company as of September 30, 2013, has been derived from the audited balance sheet of the Company as of that date.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowances for losses on loans, valuation of foreclosed assets held for sale, accruals for loan recourse provisions, and fair values of financial instruments, among other items. Management believes that these estimates are adequate; however, future additions to the allowance or changes in the estimates may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the condensed consolidated financial statements as of March 31, 2014, have remained unchanged from September 30, 2013. These policies relate to the allowance for loan losses, the valuation of foreclosed assets held for sale, the valuation of derivative instruments, and the valuation of equity method investments.

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

(2) RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassification out of accumulated other comprehensive income. The new standard is effective for fiscal years beginning after December 15, 2012, including interim periods within those years. The amendments should be prospectively applied. The amendments do not change the current requirement for reporting net income or other comprehensive income. The amendments require an organization to present on the face of the financial statements, or in the footnotes, the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income if the item reclassified is required to be reclassified to net income in its entirety in the same reporting period. Additionally, for other amounts

that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required to provide additional detail about those amounts. The adoption of this standard during the quarter ended December 31, 2013, did not have a material impact on the Company's consolidated financial statements.

In January 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU No. 2014-04 clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. For public companies, this standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial statements.

(3) 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		Six months ended	
	3/31/14	3/31/13	3/31/14	3/31/13
Net income (in thousands)	\$ 6,181	11,018	8,180	19,335
Average common shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
Average common share stock options outstanding				
Average diluted common shares	7,867,614	7,867,614	7,867,614	7,867,614
Earnings per share:				
Basic	\$ 0.79	1.40	1.04	2.46
Diluted	0.79	1.40	1.04	2.46

At March 31, 2014 and 2013, options to purchase 41,138 shares of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

(4) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at March 31, 2014. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 76,405	2,534	219	78,720
U.S. government sponsored agency securities	179,762	339	2,519	177,582
Municipal securities	422			422
Total	\$ 256,589	2,873	2,738	256,724

The following table presents a summary of securities available for sale at September 30, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated Fair Value
Corporate debt securities	\$ 67,320	2,482	692	69,110
U.S. government sponsored agency securities	187,087	322	4,245	183,164
Municipal securities	422			422

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Total	\$ 254,829	2,804	4,937	252,696
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During the six month period ended March 31, 2014 the Company recognized gross gains of \$544,000 and no gross losses on the sale of securities available for sale. There were no sales of securities available for sale during the six month period ended March 31, 2013.

The following table presents a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at March 31, 2014. Dollar amounts are expressed in thousands.

	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross Unrealized Losses
Corporate debt securities	\$ 22,224	219	\$	
U.S. government sponsored agency securities	29,685	1,162	39,143	1,357
Total	\$ 51,909	1,381	\$ 39,143	1,357

Management monitors the securities portfolio for impairment on an ongoing basis by evaluating market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. The unrealized losses at March 31, 2014, are primarily the result of changes in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary. In addition, all scheduled payments for securities with unrealized losses at March 31, 2014, have been made, and it is anticipated that the Company will hold such securities to maturity and that the entire principal balance will be collected.

The scheduled maturities of securities available for sale at March 31, 2014 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	\$ 20,152	29		20,181
Due from one to five years	109,051	2,691	19	111,723
Due from five to ten years	58,157	120	209	58,068
Due after ten years	69,229	33	2,510	66,752
Total	\$ 256,589	2,873	2,738	256,724

(5) SECURITIES HELD TO MATURITY

The following table presents a summary of securities held to maturity at March 31, 2014. Dollar amounts are expressed in thousands. The Bank did not have any securities classified as held to maturity at September 30, 2013.

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	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 26,398		109	26,289
Total	\$ 26,398		109	26,289

There were no sales of securities held to maturity during the six month period ended March 31, 2014 and 2013.

The following table presents a summary of the fair value and gross unrealized losses of those securities held to maturity which had unrealized losses at March 31, 2014. Dollar amounts are expressed in thousands.

	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross Unrealized Losses
Corporate debt securities	\$ 26,398	109	\$	
Total	\$ 26,398	109	\$	

Management monitors the securities portfolio for impairment on an ongoing basis by evaluating market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. The unrealized losses at March 31, 2014, are primarily the result of changes in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary. In addition, all scheduled payments for securities with unrealized losses at March 31, 2014, have been made, and it is anticipated that the Company will hold such securities to maturity and that the entire principal balance will be collected.

The scheduled maturities of securities held to maturity at March 31, 2014 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 4,995		12	4,983
Due from five to ten years	21,403		97	21,306
Total	\$ 26,398		109	26,289

(6) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at March 31, 2014. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 64	1		65

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Pass-through certificates guaranteed by FNMA			
adjustable rate	107	5	112
FHLMC participation certificates:			
Fixed rate	90	5	95
Adjustable rate	91	4	95
Total	\$ 352	15	367

The following table presents a summary of mortgage-backed securities available for sale at September 30, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 68	2		70
Pass-through certificates guaranteed by FNMA adjustable rate	119	7		126
FHLMC participation certificates:				
Fixed rate	122	5		127
Adjustable rate	105	5		110
Total	\$ 414	19		433

During the quarter ended December 31, 2013, the Bank transferred one collateralized mortgage obligation security with an amortized cost of \$4.4 million and an unrealized gain of \$79,000 from held to maturity to available for sale. The security was transferred after it was determined that it was not an allowable investment under provisions of the Volcker Rule. Management determined that it did not have the ability to hold the security to maturity, as the Volcker Rule requires banks to bring their activities into compliance on or before July 21, 2015. This security was sold during the quarter ended March 31, 2014, and the Company recognized a gain of \$72,000. There were no other sales of securities available for sale during the six month period ended March 31, 2014 and 2013.

The scheduled maturities of mortgage-backed securities available for sale at March 31, 2014 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 90	5		95
Due after ten years	262	10		272
Total	\$ 352	15		367

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

(7) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at March 31, 2014. Dollar amounts are expressed in thousands.

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	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 26			26
FNMA pass-through certificates:				
Fixed rate	1			1
Balloon maturity and adjustable rate	1			1
Collateralized mortgage obligations	37,440	33	63	37,410
Total	\$ 37,468	33	63	37,438

The following table presents a summary of mortgage-backed securities held to maturity at September 30, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 30	2		32
FNMA pass-through certificates:				
Fixed rate	1			1
Balloon maturity and adjustable rate	14			14
Collateralized mortgage obligations	43,029	94	27	43,096
Total	\$ 43,074	96	27	43,143

During the six month period ended March 31, 2014, the Bank recognized a loss of \$10,000 on the sale of one mortgage backed security which was classified as held to maturity. This security had an amortized cost of \$518,000 at the time of sale. During the six month period ended March 31, 2013, the Bank recognized a gain of \$38,000 and a loss of \$295,000 on the sale of two mortgage backed securities which were classified as held to maturity. The securities had a combined amortized cost of \$10.5 million at the time of sale. The decision was made to sell these securities after it was determined that there was a significant deterioration in the issuer's creditworthiness.

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities held to maturity which had unrealized losses at March 31, 2014. Dollar amounts are expressed in thousands.

	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated Fair Value	Gross unrealized losses
Collateralized mortgage obligations	\$ 33,913	52	\$ 2,305	11
Total	\$ 33,913	52	\$ 2,305	11

Management monitors the securities portfolio for impairment on an ongoing basis by evaluating market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. The unrealized losses at March 31, 2014, are primarily the result of changes in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary. In addition, all scheduled payments for securities with unrealized losses at March 31, 2014, have been made, and it is anticipated that the Company will hold such securities to maturity and that the entire principal balance will be collected.

The scheduled maturities of mortgage-backed securities held to maturity at March 31, 2014, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 28			28
Due after ten years	37,440	33	63	37,410
Total	\$ 37,468	33	63	37,438

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

(8) LOANS RECEIVABLE

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

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

	3/31/14	9/30/13
HELD FOR INVESTMENT		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 375,527	365,248
Business properties	251,900	268,641
Partially guaranteed by VA or insured by FHA	12,043	7,694
Construction and development	129,490	91,451
Total mortgage loans	768,960	733,034
Commercial loans	12,050	12,226
Installment loans and lease financing to individuals	5,437	5,599
Total loans receivable held for investment	786,447	750,859
Less:		
Undisbursed loan funds	(45,408)	(30,749)
Unearned discounts and fees on loans, net of deferred costs	(4,132)	(4,397)
Net loans receivable held for investment	\$ 736,907	715,713
HELD FOR SALE		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 59,529	69,079

Included in the loans receivable balances at March 31, 2014, are participating interests in mortgage loans and wholly-owned mortgage loans serviced by other institutions in the amount of \$800,000. Loans and participations serviced for others amounted to approximately \$24.9 million at March 31, 2014. Loans serviced for others are not included in the accompanying condensed consolidated balance sheets.

Lending Practices and Underwriting Standards

Residential real estate loans - The Bank offers a range of residential loan programs, including programs offering loans guaranteed by the Veterans Administration (VA) and loans insured by the Federal Housing Administration (FHA).

The Bank's residential loans come from several sources. The loans that the Bank originates are generally a result of direct solicitations of real estate brokers, builders, developers, or potential borrowers via the internet. North American periodically purchases real estate loans from other financial institutions or mortgage bankers.

The Bank's residential real estate loan underwriters are grouped into three different levels, based upon each underwriter's experience and proficiency. Underwriters within each level are authorized to approve loans up to prescribed dollar amounts. Any loan over \$1 million must also be approved by either the Board Chairman, CEO or EVP/Residential Lending. Conventional residential real estate loans are underwritten using FNMA's Desktop Underwriter or FHLMC's Loan Prospector automated underwriting systems, which analyze credit history, employment and income information, qualifying ratios, asset reserves, and loan-to-value ratios. If a loan does not meet the automated underwriting standards, it is underwritten manually. Full documentation to support each applicant's credit history, income, and sufficient funds for

closing is required on all loans. An appraisal report, performed in conformity with the Uniform Standards of Professional Appraisers Practice by an approved outside licensed appraiser, is required for substantially all loans. Typically, the Bank requires borrowers to purchase private mortgage insurance when the loan-to-value ratio exceeds 80%.

NASB originates Adjustable Rate Mortgages (ARMs), which fully amortize and typically have initial rates that are fixed for one to seven years before becoming adjustable. Such loans are underwritten based on the initial interest rate and the borrower's ability to repay based on the maximum first adjustment rate. Each underwriting decision takes into account the type of loan and the borrower's ability to pay at higher rates. While lifetime rate caps are taken into consideration, qualifying ratios may not be calculated at this level due to an extended number of years required to reach the fully-indexed rate.

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

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

When construction and development loans mature, the Bank typically considers extensions for short, six-month term periods. This allows the Bank to more frequently evaluate the loan, including creditworthiness and current market conditions and, if management believes it is in the best interest of the Company, to modify the terms accordingly. This portfolio consists primarily of assets with rates tied to the prime rate and, in most cases, the conditions for loan renewal include an interest rate floor in accordance with the market conditions that exist at the time of renewal. Such extensions are accounted for as Troubled Debt Restructurings (TDRs) if the restructuring was related to the borrower's financial difficulty, and if the Bank made concessions that it would not otherwise consider. In order to determine whether or not a renewal should be accounted for as a TDR, management reviewed the borrower's current financial information, including an analysis of income and liquidity in relation to debt service requirements. During the six month period ended March 31, 2014, the Bank renewed twenty-five loans within its construction and development loan portfolio, four of which were considered TDRs.

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

average occupancy rate exceeds 80%. All other performing commercial real estate loans have 100% risk-weights.

The Bank's commercial real estate loans are secured primarily by multi-family and nonresidential properties. Such loans are manually underwritten using NASB's internal underwriting standards, which evaluate the sources of repayment, including the ability of income producing property to generate sufficient cash flow to service the debt, the capacity of the borrower or guarantors to cover any shortfalls in operating income, and, as a last resort, the ability to liquidate the collateral in such a manner as to completely protect the Bank's investment. All commercial real estate loans require two approvals, from either the Board Chairman, CEO, or EVP/Chief Lending Officer. Prior approval is required from the Bank's Board of

Directors for newly originated commercial loans with a proposed balance of \$2.5 million or greater. Typically, loan-to-value ratios do not exceed 80%; however, exceptions may be made when it is determined that the safety of the loan is not compromised, and the rationale for exceeding this limit is clearly documented. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an approved outside licensed appraiser is required on all loans in excess of \$250,000. Interest rates on commercial loans may be either fixed or tied to a predetermined index and adjusted daily.

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

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

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

Allowance for Loan Losses

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

The ALLL is determined based upon two components. The first is made up of specific reserves for loans which have been deemed impaired in accordance with GAAP. The second component is made up of general reserves for loans that are not impaired. A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent. Any measured impairments that are deemed confirmed losses are charged-off and netted from their respective loan balances. For impaired loans that are collateral dependent, a confirmed loss is generally the amount by which the loan's recorded investment exceeds the fair value of

its collateral. If a loan is considered uncollectible, the entire balance is deemed a confirmed loss and is fully charged-off.

Loans that are not impaired are evaluated based upon the Bank's historical loss experience, as well as various subjective factors, to estimate potential unidentified losses within the various loan portfolios. These loans are categorized into pools based upon certain characteristics such as loan type, collateral type and repayment source. In addition to analyzing historical losses, the Bank also evaluates the following subjective factors for each loan pool to estimate future losses: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in management and other relevant staff, changes in the volume and severity of past due loans,

changes in the quality of the Bank's loan review system, changes in the value of the underlying collateral for collateral dependent loans, changes in the level of lending concentrations, and changes in other external factors such as competition and legal and regulatory requirements. Historical loss ratios are adjusted accordingly, based upon the effect that the subjective factors have in estimated future losses. These adjusted ratios are applied to the balances of the loan pools to determine the adequacy of the ALLL each quarter

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

The following table presents the balance in the allowance for loan losses for the three and six month periods ended March 31, 2014 and 2013. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial Installment	Total
Allowance for loan losses:						
Balance at January 1, 2014	\$ 9,324		6,437	5,186	36	21,270
Provision for loan losses	(1,249)		(2,946)	(652)	(26)	(5,000)
Losses charged off	(1,742)		(338)	(651)		(2,731)
Recoveries	74		40		18	132
Balance at March 31, 2014	\$ 6,407		3,193	3,883	10	13,671
Balance at January 1, 2013	\$ 8,493		7,429	11,205	65	27,853
Provision for loan losses	(610)		326	(4,955)	(5)	(5,600)
Losses charged off	(692)		(505)	(629)	(1)	(1,827)
Recoveries	189		3	6	102	300
Balance at March 31, 2013	\$ 7,380		7,253	5,627	60	20,726
Balance at October 1, 2013	\$ 8,642		6,561	4,841	58	20,383
Provision for loan losses	(316)		(4,131)	(326)	(48)	(5,000)
Losses charged off	(2,142)		(364)	(651)		(3,157)
Recoveries	223		1,127	19	76	1,445
Balance at March 31, 2014	\$ 6,407		3,193	3,883	10	13,671
Balance at October 1, 2012	\$ 6,941		7,086	16,590	513	31,829
Provision for loan losses	1,346		492	(10,653)	(453)	(9,600)
Losses charged off	(1,156)		(574)	(669)	(87)	(2,486)
Recoveries	249		249	359	126	983
Balance at March 31, 2013	\$ 7,380		7,253	5,627	60	20,726

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at March 31, 2014. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial Installment	Total	
<u>Allowance for loan losses:</u>							
Ending balance of allowance for loan losses related to loans at March 31, 2014:							
Individually evaluated for impairment	\$ 234		538	2	5	779	
Collectively evaluated for impairment	\$ 6,173		2,655	3,881	5	178	12,892
Acquired with deteriorated credit quality *	\$ 32					32	
<u>Loans:</u>							
Balance at March 31, 2014	\$ 384,916	59,529	250,494	84,023	12,050	5,424	796,436
Ending balance:							
Loans individually evaluated for impairment	\$ 15,060		11,771	14,523	11,250	24	52,628
Loans collectively evaluated for impairment	\$ 369,856	59,529	238,723	69,500	800	5,400	743,808
Loans acquired with deteriorated credit quality **	\$ 4,033						4,033

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at September 30, 2013. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial Installment	Total
<u>Allowance for loan losses:</u>						
Ending balance of allowance for loan losses related to loans at September 30, 2013:						
	\$ 333		35	4	25	397

Individually evaluated for impairment							
Collectively evaluated for Impairment	\$ 8,309		6,526	4,837	33	281	19,986
Acquired with deteriorated credit quality *	\$ 31						31
<u>Loans:</u>							
Balance at September 30, 2013	\$ 370,296	69,079	266,895	60,697	12,226	5,599	784,792
Ending balance:							
Loans individually evaluated for impairment	\$ 18,864		10,235	23,917	11,250	3	64,269
Loans collectively evaluated for impairment	\$ 351,432	69,079	256,660	36,780	976	5,596	720,523
Loans acquired with deteriorated credit quality **	\$ 4,196						4,196

* Included in ending balance of allowance for loan losses related to loans individually evaluated for impairment.

** Included in ending balance of loans individually evaluated for impairment.

Classified Assets, Delinquencies, and Non-accrual Loans

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

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

Each quarter, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of March 31, 2014. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Commercial Construction & Development	Commercial Installment	Total
Rating:						
Pass	\$ 345,358	59,529	196,127	51,705	5,400	658,119
Pass Watch	20,203		38,783	26,737	12,050	97,773
Special Mention	637					637
Substandard	18,689		15,046	5,580	24	39,339
Doubtful	29		538	1		568
Loss						
Total	\$ 384,916	59,529	250,494	84,023	12,050	796,436

The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of September 30, 2013. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Commercial Construction & Development	Commercial Installment	Total
Rating:						
Pass	\$ 320,090	69,079	194,070	20,789	5,595	609,623
Pass Watch	24,449		56,640	20,698	976	102,763
Special Mention	227		583			810

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Substandard	25,397	15,567	19,210	11,250	4	71,428	
Doubtful	133	35				168	
Loss							
Total	\$ 370,296	69,079	266,895	60,697	12,226	5,599	784,792

The following table presents the Company's loan portfolio aging analysis as of March 31, 2014. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	\$ 732	623	5,815	7,170	377,746	384,916	
Residential held for sale					59,529	59,529	
Commercial real estate			2,304	2,304	248,190	250,494	284
Construction & development	211		714	925	83,098	84,023	
Commercial					12,050	12,050	
Installment	29			29	5,395	5,424	
Total	\$ 972	623	8,833	10,428	786,008	796,436	284

The following table presents the Company's loan portfolio aging analysis as of September 30, 2013. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	\$ 1,044	1,308	7,079	9,431	360,865	370,296	
Residential held for sale					69,079	69,079	
Commercial real estate	4,195	334	328	4,857	262,038	266,895	
Construction & development			774	774	59,923	60,697	
Commercial					12,226	12,226	
Installment			1	1	5,598	5,599	
Total	\$ 5,239	1,642	8,182	15,063	769,729	784,792	

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

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

	3/31/14	9/30/13
Residential	\$ 12,791	18,073

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Residential held for sale		
Commercial real estate	6,925	8,354
Construction & development	2,507	5,195
Commercial Installment		
Total	\$ 22,223	31,622

As of March 31, 2014, \$13.5 million (60.9%) of the loans classified as nonaccrual were current and paying as agreed.

During the quarter ended March 31, 2012, the Company's nonaccrual loans increased \$41.4 million. This increase resulted from management's decision to move certain impaired collateral dependent loans secured by land development, commercial real estate, and residential rental properties to nonaccrual, even though the majority of such loans were current and paying in accordance with their contractual terms. Due to the continued deterioration in the real estate markets, management determined that the full collection of principal and interest was uncertain. In accordance with GAAP, these loans were charged-down to the fair value of their underlying collateral, and therefore, the recorded investment in the loan is deemed fully collectable at March 31, 2014. Interest income is recognized on a cash-basis as payments are received. Loans with a carrying value of \$15.7 million at March 31, 2014, which were nonaccrual at March 31, 2012, have been returned to a performing status, based upon improvement in the real estate markets and the borrower's financial condition.

A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. A restructuring of debt is considered a TDR if, because of a debtor's financial difficulty, a creditor grants concessions that it would not otherwise consider. Loans modified in troubled debt restructurings are also considered impaired. Concessions granted in a TDR could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent. Unless the loan is performing prior to the restructuring, TDRs are placed in non-accrual status at the time of restructuring and may only be returned to performing status after the borrower demonstrates sustained repayment performance for a reasonable period, generally six months.

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

	3/31/14	9/30/13
Troubled debt restructurings:		
Residential	\$ 6,908	9,381
Residential held for sale		
Commercial real estate	5,943	6,079
Construction & development	13,809	23,144
Commercial	11,250	11,250
Installment	24	3
Total	\$ 37,934	49,857
Performing troubled debt restructurings:		
Residential	\$ 2,108	1,626
Residential held for sale		
Commercial real estate	3,646	1,036
Construction & development	12,016	18,722
Commercial	11,250	11,250
Installment	24	3
Total	\$ 29,044	32,637

At March 31, 2014, the Bank had outstanding commitments of \$1,000 to be advanced in connection with TDRs.

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the six month period ended March 31, 2014. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	5	\$ 1,008	\$ 1,008	\$
Residential held for sale				
Commercial real estate	1	990	990	
Construction & development	4	2,920	2,920	
Commercial				
Installment	1	24	24	
Total	11	\$ 4,942	\$ 4,942	\$

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the six month period ended March 31, 2013. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	12	\$ 4,562	\$ 4,504	\$ 19
Residential held for sale				
Commercial real estate	2	746	746	
Construction & development	14	18,328	18,328	
Commercial	1	16,251	13,751	25
Installment				
Total	29	\$ 39,887	\$ 37,329	\$ 44

The following table presents TDRs restructured during the six month period ended March 31, 2014 by type of modification. Dollar amounts are expressed in thousands.

	Extension of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	\$ 639		369	1,008
Residential held for sale				

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Commercial real estate		990	990
Construction & development	2,920		2,920
Commercial			
Installment		24	24
Total	\$ 3,559	1,383	4,942

The following table presents TDRs restructured during the six month period ended March 31, 2013 by type of modification. Dollar amounts are expressed in thousands.

	Extension of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	\$ 3,906		656	4,562
Residential held for sale				
Commercial real estate			746	746
Construction & development	18,328			18,328
Commercial Installment			16,251	16,251
Total	\$ 22,234		17,653	39,887

The following table presents the Company's recorded investment and number of loans considered TDRs at March 31, 2014 and 2013, that defaulted during the six month period. Dollar amounts are expressed in thousands.

	March 31, 2014		March 31, 2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential	13	\$ 3,361	21	\$ 4,699
Residential held for sale				
Commercial real estate	1		3	646
Construction & development			2	1,760
Commercial Installment	2	24		
Total	16	\$ 3,385	26	\$ 7,105

The following table presents impaired loans, including troubled debt restructurings, as of March 31, 2014. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential	\$ 12,448	16,676	
Residential held for sale			
Commercial real estate	10,177	16,907	
Construction & development	12,151	15,366	
Commercial			
Installment	24	456	
Loans with a specific valuation allowance:			
Residential	\$ 2,612	2,772	234
Residential held for sale			
Commercial real estate	1,594	1,594	538
Construction & development	2,372	2,437	2
Commercial	11,250	11,250	5
Installment			
Total:			
Residential	\$ 15,060	19,448	234
Residential held for sale			
Commercial real estate	11,771	18,501	538
Construction & development	14,523	17,803	2
Commercial	11,250	11,250	5
Installment	24	456	

The following table presents impaired loans, including troubled debt restructurings, as of September 30, 2013. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential	\$ 17,063	20,053	
Residential held for sale			
Commercial real estate	9,199	16,925	
Construction & development	22,138	25,377	
Commercial			
Installment	3	457	
Loans with a specific valuation allowance:			
Residential	\$ 1,801	1,828	333
Residential held for sale			
Commercial real estate	1,036	1,036	35
Construction & development	1,779	1,779	4
Commercial	11,250	11,250	25

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Installment			
Total:			
Residential	\$ 18,864	21,881	333
Residential held for sale			
Commercial real estate	10,235	17,961	35
Construction & development	23,917	27,156	4
Commercial	11,250	11,250	25
Installment	3	457	

The following table presents the average recorded investment and interest income recognized on impaired loans for the three and six month periods ended March 31, 2014. Dollar amounts are expressed in thousands.

	Three Months Ended 3/31/14		Six Months Ended 3/31/14	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Loans without a specific valuation allowance:				
Residential	\$ 13,437	166	13,716	305
Residential held for sale				
Commercial real estate	10,434	217	10,619	559
Construction & development	12,343	220	12,734	455
Commercial				
Installment	24	5	24	13
Loans with a specific valuation allowance:				
Residential	\$ 2,665	35	2,677	70
Residential held for sale				
Commercial real estate	1,594	41	1,594	60
Construction & development	2,405	30	2,413	61
Commercial	11,250	190	11,250	384
Installment				
Total:				
Residential	\$ 16,102	201	16,393	375
Residential held for sale				
Commercial real estate	12,028	258	12,213	619
Construction & development	14,748	250	15,147	516
Commercial	11,250	190	11,250	384
Installment	24	5	24	13

The following table presents the average recorded investment and interest income recognized on impaired loans for the three and six month periods ended March 31, 2013. Dollar amounts are expressed in thousands.

	Three Months Ended 3/31/13		Six Months Ended 3/31/13	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Loans without a specific valuation allowance:				
Residential	\$ 22,736	292	23,027	596
Residential held for sale				
Commercial real estate	11,734	269	11,883	591
Construction & development	30,505	547	31,601	1,055
Commercial				
Installment	41	25	56	29
Loans with a specific valuation allowance:				
Residential	\$ 2,029	26	2,039	53

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Residential held for sale				
Commercial real estate	2,079	48	2,089	67
Construction & development	3,029	20	3,029	61
Commercial	12,918	152	14,168	511
Installment				
Total:				
Residential	\$ 24,765	318	25,066	649
Residential held for sale				
Commercial real estate	13,813	317	13,972	658
Construction & development	33,534	567	34,630	1,116
Commercial	12,918	152	14,168	511
Installment	41	25	56	29

(9) FORECLOSED ASSETS HELD FOR SALE

The carrying value of real estate owned and other repossessed property was \$10.5 million and \$11.3 million at March 31, 2014, and September 30, 2013, respectively

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

(10) SUBORDINATED DEBENTURES

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

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

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

In accordance with the Company's written agreement with the Federal Reserve Bank of Kansas City (FRB), dated November 29, 2012, the Company is prohibited from making any distributions of principal or interest on its Trust Preferred Securities without the prior written non-objection of the FRB. On July 11, 2012, the Company notified security holders that it was exercising its right to defer the payment of interest on its Trust Preferred Securities for a period of up to five years. On December 18, 2013, the Company received written non-objection from the FRB to pay all accrued interest on Trust Preferred Securities, and on December 23, 2013, the Company notified security holders that it intended to end the elective deferral period and pay all accrued interest at the next regularly scheduled payment date in January 2014. On January 30, 2014, the Company paid \$893,000 of accrued interest on Trust Preferred Securities, which brought all payments current. The Board intends to continue making quarterly interest payments on Trust Preferred Securities; however, while the Company is operating under the regulatory written agreement, each interest payment must first receive prior written non-objection from its regulators. On April 24, 2014, Company received regulatory written non-objection to pay accrued interest on its outstanding Trust Preferred Securities on the April 30, 2014, payment date, which amounted to \$122,000.

(11) INCOME TAXES

The Company's federal and state income tax returns for fiscal years 2010 through 2013 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(12) SEGMENT INFORMATION

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

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

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

		Mortgage Banking	Other and Eliminations	Consolidated
Three months ended March 31, 2014	Banking			
Net interest income	\$ 10,807		(119)	10,688
Provision for loan losses	(5,000)			(5,000)
Other income	1,649	7,802	(686)	8,765
General and administrative expenses	7,368	7,801	(225)	14,944
Income tax expense	3,531		(203)	3,328
Net income	\$ 6,557	1	(377)	6,181

		Mortgage Banking	Other and Eliminations	Consolidated
Three months ended March 31, 2013	Banking			
Net interest income	\$ 11,015		(124)	10,891
Provision for loan losses	(5,600)			(5,600)
Other income	735	18,782	(552)	18,965
General and administrative expenses	6,469	11,144	(73)	17,540
Income tax expense (benefit)	4,189	2,941	(232)	6,898
Net income (loss)	\$ 6,692	4,697	(371)	11,018

		Mortgage Banking	Other and Eliminations	Consolidated
Six months ended March 31, 2014	Banking			
Net interest income	\$ 21,821		(243)	21,578
Provision for loan losses	(5,000)			(5,000)
Other income	2,280	15,292	(1,506)	16,066

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General and administrative expenses	14,054	16,270	(259)	30,065
Income tax expense	5,266	(342)	(525)	4,399
Net income	\$ 9,781	(636)	(965)	8,180

Six months ended March 31, 2013	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 22,325		(253)	22,072
Provision for loan losses	(9,600)			(9,600)
Other income	785	35,803	(1,126)	35,462
General and administrative expenses	13,219	22,832	(356)	35,695
Income tax expense	7,504	4,994	(394)	12,104
Net income	\$ 11,987	7,977	(629)	19,335

(13) DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. As the Company enters into commitments to originate loans, it also enters into commitments to sell the loans in the secondary market. Such commitments to originate loans held for sale are considered derivative instruments in accordance with GAAP, which requires the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$116,000, an increase in other liabilities of \$319,000, and a decrease in other income of \$203,000 for the quarter ended March 31, 2014. The Company recorded a decrease in other assets of \$1.2 million, an increase in other liabilities of \$717,000, and a decrease in other income of \$1.9 million for the six month period ended March 31, 2014. As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$659,000, a decrease in other liabilities of \$636,000, and an increase in other income of \$1.3 million for the quarter ended March 31, 2013. The Company recorded a decrease in other assets of \$1.6 million, a decrease in other liabilities of \$14,000, and a decrease in other income of \$1.6 million for the six month period ended March 31, 2013.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded a decrease in other assets of \$444,000, a decrease in other liabilities of \$6,000, and a decrease in other income of \$438,000 during the quarter ended March 31, 2014. The Company recorded an increase in other assets of \$762,000, a decrease in other liabilities of \$345,000, and an increase in other income of \$1.1 million during the six month period ended March 31, 2014. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded a decrease in other assets of \$2.8 million, an increase in other liabilities of \$21,000, and a decrease in other income of \$2.8 million during the quarter ended March 31, 2013. The Company recorded a decrease in other assets of \$370,000, a decrease in other liabilities of \$96,000, and a decrease in other income of \$274,000 during the six month period ended March 31, 2013.

The balance of derivative instruments related to commitments to originate and sell loans at March 31, 2014, and September 30, 2013, is disclosed in Footnote 14, Fair Value Measurements.

(14) FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

Available for sale securities

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

Mortgage-backed securities available for sale, which consist of collateralized mortgage obligations and agency pass-through and participation certificates issued by GNMA, FNMA, and FHLMC, were valued by using industry standard models which utilize various inputs and assumptions such as historical prices of benchmark securities, prepayment estimates, loan type, and year of origination. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. These measurements are classified as Level 2 within the hierarchy.

Loans held for sale

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

Commitments to Originate Loans and Forward Sales Commitments

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

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at March 31, 2014 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 177,582		177,582	
Corporate debt securities	78,720		78,720	
Municipal securities	422		422	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	65		65	
Pass through certificates guaranteed by FNMA adjustable rate	112		112	
FHLMC participation certificates:				
Fixed rate	95		95	
Adjustable rate	95		95	
Loans held for sale	59,529		59,529	
Commitments to originate loans	220			220
Forward sales commitments	980			980
Total assets	\$ 317,820		316,620	1,200
Liabilities:				
Commitments to originate loans	\$ 929			929
Forward sales commitments	19			19
Total liabilities	\$ 948			948

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2013 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 183,164	110,982	72,182	
Corporate debt securities	69,110		69,110	
Municipal securities	422		422	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	70		70	
Pass through certificates guaranteed by FNMA adjustable rate	126		126	
FHLMC participation certificates:				
Fixed rate	127		127	
Adjustable rate	110		110	
Loans held for sale	69,079		69,079	
Commitments to originate loans	1,387			1,387
Forward sales commitments	217			217
Total assets	\$ 323,812	110,982	211,226	1,604
Liabilities:				
Commitments to originate loans	\$ 213			213
Forward sales commitments	362			362
Total liabilities	\$ 575			575

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the six month periods ended March 31, 2014 and 2013 (in thousands):

	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2013	\$ 1,174	(145)
Total realized and unrealized gain (losses):		

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Included in net income	(1,883)	1,106
Balance at March 31, 2014	\$ (709)	961
	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2012	\$ 2,047	2,061
Total realized and unrealized losses:		
Included in net income	(1,563)	(274)
Balance at March 31, 2013	\$ 484	1,787

Realized and unrealized gains and losses noted in the table above and included in net income for the six month period ended March 31, 2014, are reported in the condensed consolidated statements of income as follows (in thousands):

	Other Income
Total losses	\$ (777)
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

Realized and unrealized gains and losses noted in the table above and included in net income for the six month period ended March 31, 2013, are reported in the consolidated statements of income as follows (in thousands):

	Other Income
Total losses	\$ (1,837)
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

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

Impaired loans

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

The carrying value of impaired loans that were re-measured during the six month period ended March 31, 2014, was \$10.1 million. The carrying value of impaired loans that were re-measured during the six month period ended March 31, 2013, was \$26.7 million.

Foreclosed Assets Held For Sale

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less any estimated selling costs (the new basis) and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date. Fair value is estimated through current appraisals, broker price opinions, or listing prices. Appraisals are obtained when the real estate is acquired and at least annually thereafter. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The carrying value of foreclosed assets held for sale was \$10.5 million at March 31, 2014. Charge-offs related to foreclosed assets held for sale that were re-measured during the six month period ended March 31, 2014, totaled \$155,000. Charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the six month period ended March 31, 2013, totaled \$713,000.

Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. On a quarterly basis, these investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) an on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). As a result of this analysis, the Company determined that its investment in Central Platte was materially impaired and recorded an impairment charge of \$2.0 million (\$1.2 million, net of tax) during the year ended September 30, 2010. During the quarter ended March 31, 2012, list prices of fully-developed lots in Central Platte's residential development were reduced. The Company incorporated these lower prices into its internal valuation model, which resulted in an additional impairment charge of \$200,000 (\$123,000, net of tax) during the quarter ended March 31, 2012. No other events have occurred that would indicate any additional impairment of the Company's investment in Central Platte. Investment in LLCs is classified within Level 3 of the fair value hierarchy.

The carrying value of the Company's investment in LLCs was \$16.6 million at March 31, 2014, and \$16.5 million at September 30, 2013.

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

Cash and cash equivalents

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

Securities and mortgage-backed securities held to maturity

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

Stock in Federal Home Loan Bank (FHLB)

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

Loans receivable held for investment

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

Customer and brokered deposit accounts

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

Advances from FHLB

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

Subordinated debentures

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

Commitments to originate, purchase and sell loans

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

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2014 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 6,351	6,351		
Stock in Federal Home Loan Bank	9,034		9,034	
Corporate debt securities held to maturity	26,398		26,289	
Mortgage-backed securities held to maturity	37,468		37,438	
Loans receivable held for investment	723,236			747,428
Financial Liabilities:				
Customer deposit accounts	755,204			756,455
Advances from FHLB	191,000			192,716
Subordinated debentures	25,774			16,753

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 6,347	6,347		
Stock in Federal Home Loan Bank	7,679		7,679	
Mortgage-backed securities held to maturity	43,074		43,143	
Loans receivable held for investment	695,330			726,408

Financial Liabilities:

Customer deposit accounts	748,193	749,561
Advances from FHLB	155,000	156,885
Subordinated debentures	25,774	10,310

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

		March 31, 2014		September 30, 2013	
		Contract or notional amount	Estimated unrealized gain (loss)	Contract or notional amount	Estimated unrealized gain (loss)
Unrecognized financial instruments:					
Lending commitments	fixed rate, net	\$ 25,947	(3)	\$ 17,421	(73)
Lending commitments	floating rate	8,037	39	5,813	34
Commitments to sell loans					

The fair value estimates presented are based on pertinent information available to management as of March 31, 2014, and September 30, 2013. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since that date. Therefore, current estimates of fair value may differ significantly from the amounts presented above.

(15) INVESTMENT IN LLCs

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

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

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

The following table displays the results derived from the Company's internal valuation model at March 31, 2014, and the carrying value of its investment in Central Platte at March 31, 2014. Dollar amounts are expressed in thousands.

Method 1	\$ 15,531
Method 2	16,726
Method 3	18,059

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Average of methods 1, 2, and 3	\$ 16,772
Carrying value of investment in Central Platte Holdings, LLC	\$ 15,186

The Company's investment in NBH consists of a 50% ownership interest in an entity that holds raw land, which is currently zoned as agricultural. The general managers intend to rezone this property for commercial and/or residential development. The raw land was purchased in 2002. The Company accounts for its investment in NBH under the equity method. Due to the overall economic conditions surrounding real estate, the Company evaluated its investment for impairment in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. Potential impairment was measured based on liquidation or appraised values determined by an independent third party appraisal. As a result of this analysis, the Company determined that its investment in NBH was materially impaired and recorded an impairment charge of \$1.1 million (\$693,000, net of tax) during the year ended September 30, 2010. The results of this analysis as of September 30, 2013, did not indicate any additional impairment of the Company's investment in NBH. No events have occurred during the six month period ended March 31, 2014, that would indicate any additional impairment of the Company's investment. The carrying value of the Company's investment in NBH was \$1.4 million at March 31, 2014.

(16) REGULATORY AGREEMENTS

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

On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the Office of the Comptroller of the Currency (OCC), which replaced and terminated a previous Supervisory Agreement. The Consent Order requires that the Bank establish various plans and programs to improve its asset quality, including board approval for loans over certain limits, and to ensure the adequacy of allowances for loan and lease losses. It requires the Bank to obtain an independent third-party review of its non-homogenous loan portfolios and to enhance its credit administration systems. Among other items, it also requires a written capital maintenance plan to ensure that the Bank's Tier 1 leverage capital and total risk-based capital ratios remain equal to or greater than 10% and 13%, respectively. As of March 31, 2014, the Bank's actual Tier 1 leverage capital and total risk-based capital ratios were 17.4% and 24.9%, respectively, well in excess of the ratios required in the Consent Order. The Consent Order does not direct the Bank to raise capital, make management or board changes, or restrict lending.

On November 29, 2012, the Company's Board of Directors entered into a formal written agreement with the Federal Reserve Bank of Kansas City (FRB), which replaced and terminated a previous written agreement. The agreement with FRB prohibits the Company from making distributions of capital, including the payment of shareholder dividends or other capital distributions or the purchase or redemption of Company stock, unless the Company receives prior written non-objection from the FRB. The agreement also restricts the Company's ability to incur, increase, or guarantee any debt and restricts the Company and its wholly-owned statutory trust, NASB Preferred Trust I, from making distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without prior written non-objection from the FRB.

Upon receipt of written non-objection from the FRB, the Company's Board of Directors declared a special cash dividend of \$0.60 per share on December 20, 2013, payable on January 17, 2014, to shareholders of record as of January 3, 2014. The special dividend, which amounted to \$4.7 million, was accrued within the December quarter. In addition, the Company received regulatory written non-objection to pay all accrued interest on its outstanding Trust Preferred Securities at the January 30, 2014, payment date, which amounted to \$893,000.

The Board intends to continue making quarterly interest payments on the Company's Trust Preferred Securities and to consider some level of quarterly cash dividend to the Company's shareholders; however, while the Company is operating under the regulatory written agreement, each interest payment on Trust Preferred Securities and dividend distribution to shareholders must first receive prior written non-objection from regulators. The Company will not declare future distributions of capital until it receives written non-objection from regulators.

On February 1, 2013, the Board of Directors of the Bank signed an additional Consent Order with the OCC, which requires the Bank to take corrective action to enhance its program for compliance with the Bank Secrecy Act (BSA) and other anti-money laundering requirements. The BSA Consent Order requires, among other things, that the Bank improve its processes to better identify and monitor accounts and transactions that pose a greater than normal risk for compliance with the BSA. The Consent Order also requires the Bank to maintain an effective risk assessment process, monitoring mechanisms, training programs and appropriate systems to review the activities of customer accounts.

On February 25, 2014, the Board of Directors of the Bank was notified by the OCC that they were terminating their Consent Order with the Bank, dated May 22, 2012, effective immediately. In achieving compliance with the Consent Order, the Bank established, among other things, various processes and programs that improved the asset quality of the Bank and ensured the adequacy of allowances for loan and lease losses.

(17) CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

Amounts reclassified from Accumulated Other Comprehensive Income (AOCI) and the affected line items in the statement of operations during the three month period ending March 31, 2014 and 2013, were as follows (in thousands):

	Amounts reclassified from AOCI		Affected line item in the Statement of Operations
	3/31/14	3/31/13	
Unrealized gains (losses) on available for sale securities:			
	\$ 518		Gain (loss) on sale of securities available for sale
			Impairment loss on securities
	518		Total reclassified before tax
	181		Income tax expense (benefit)
	\$ 337		Net reclassified amount

Amounts reclassified from Accumulated Other Comprehensive Income (AOCI) and the affected line items in the statement of operations during the six month period ending March 31, 2014 and 2013, were as follows (in thousands):

	Amounts reclassified from AOCI		Affected line item in the Statement of Operations
	3/31/14	3/31/13	
Unrealized gains (losses) on available for sale Securities:			
	\$ 616		Gain (loss) on sale of securities available for sale
			Impairment loss on securities
	616		Total reclassified before tax
	216		Income tax expense (benefit)

\$ 400

Net reclassified amount

(18) SUBSEQUENT EVENT

Upon receipt of written non-objection from the FRB, the Company's Board of Directors declared a cash dividend of \$0.10 per share on April 25, 2014, payable on May 20, 2014, to shareholders of record as of May 9, 2014. In addition, the Company received regulatory written non-objection to pay accrued interest on its outstanding Trust Preferred Securities on the April 30, 2014, payment date, which amounted to \$122,000.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, and similar expressions are intended to identify forward-looking statements. The following factors, as well as those discussed under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2013, filed with the Securities and Exchange Commission, among others, could cause our financial performance to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

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

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

the effects of, and changes in, foreign and governmental policy; inflation, interest rate, market and monetary fluctuations;

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

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

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

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

technological changes;

acquisitions and dispositions;

changes in consumer spending and saving habits;

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

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

This list of important factors is not all-inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank. For further discussion of these factors, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2013, filed with the Securities and Exchange Commission, and in our Quarterly Reports, if applicable.

GENERAL

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

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

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

FINANCIAL CONDITION

Assets

The Company's total assets as of March 31, 2014 were \$1,184.7 million, an increase of \$40.6 million from September 30, 2013, the prior fiscal year end.

Loans receivable held for investment were \$736.9 million as of March 31, 2014, an increase of \$21.2 million during the six month period. This increase was primarily due to the origination of new loans in the Bank's construction and land development portfolios. The weighted average rate on total loans receivable held for investment as of March 31, 2014, was 5.15%, a decrease from 5.61% as of March 31, 2013.

Loans receivable held for sale as of March 31, 2014, were \$59.5 million, a decrease of \$9.6 million from September 30, 2013. This portfolio consists of residential mortgage loans originated by the Bank's mortgage banking division that will be sold with servicing released. The Company has elected to carry loans held for sale at fair value, as permitted under GAAP.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or 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, 2014, the Bank originated and purchased \$517.2 million in mortgage loans held for sale, \$113.5 million in mortgage loans held for investment, and \$952,000 in other loans. This total of \$631.6 million in loans compares to \$1,103.2 million in loans originated and purchased during the six months ended March 31, 2013.

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

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

	3/31/14	9/30/13	3/31/13
Asset Classification:			
Substandard	\$ 49,800	82,760	113,368
Doubtful	568	168	400
Loss			

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	50,368	82,928	113,768
Allowance for loan losses	(13,671)	(20,383)	(20,726)
	\$ 36,697	62,545	93,042

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

	3/31/14	9/30/13	3/31/13
Total Assets	\$ 1,184,745	1,144,155	1,179,036
Non-accrual loans	22,223	31,622	50,178
Performing troubled debt restructurings	29,044	32,637	29,511
Net real estate and other assets acquired through foreclosure	10,461	11,252	20,597
Total	\$ 61,728	75,511	100,286
Percent of total assets	5.21%	6.60%	8.51%

Management records a provision for loan losses in amounts sufficient to cover current net charge-offs and an estimate of probable losses based on an analysis of risks that management believes to be inherent in the loan portfolio. The Allowance for Loan and Lease Losses recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future provisions may be necessary because of changes in economic conditions or changes in the information available to management. Also, regulatory agencies review the Bank's allowance for losses as part of their examinations, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

With the exception of certain residential loans, which are not deemed impaired until they reach 180 days past due, loans in non-accrual status are considered impaired. (At March 31, 2014, loans of \$1.2 million in non-accrual status were not deemed impaired.) Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan's effective rate, or to the fair value of the loan based on the loan's observable market price, or to the fair value of the collateral if the loan is collateral dependent. Any measured impairment that is deemed a confirmed loss is charged off and netted from the respective loan balance. For collateral dependent loans, which make up the majority of the Bank's impaired loans, a confirmed loss is generally the amount by which the loan's recorded investment exceeds the fair value of its collateral. Therefore, risks associated with non-accrual loans have been addressed within Bank's quarterly analysis of the adequacy of its ALLL, as essentially all were individually analyzed for impairment.

If loans classified as substandard are also impaired, they are individually analyzed for impairment, as noted above. At March 31, 2014, \$31.0 million of loans classified as substandard have also been deemed impaired. In addition, the Bank utilizes a qualitative adjustment related to changes and trends in past due, non-accrual, and adversely classified loans. This adjustment is applied to the various pools of unimpaired loans when determining adequacy of the Bank's ALLL.

Investment securities were \$283.1 million as of March 31, 2014, an increase of \$30.4 million from September 30, 2013. During the six month period, the Bank purchased \$87.8 million and sold \$52.6 million of investment securities. The average yield on the investment securities portfolio was 2.22% at March 31, 2014, an increase from 1.57% at March 31, 2013.

Mortgage-backed securities were \$37.8 million as of March 31, 2014, a decrease of \$5.7 million from the prior year end. The Bank made no purchases, but sold \$4.9 million of mortgage-backed securities during the six month period ended March 31, 2014. The average yield on the mortgage-backed securities portfolio was 3.69% at March 31, 2014, a slight increase from 3.67% at March 31, 2013.

The Company's investment in LLCs, which is accounted for using the equity method, was \$16.6 million at March 31, 2014, an increase of \$62,000 from September 30, 2013. There have been no events subsequent to September 30, 2013, that would indicate an additional impairment in value of the Company's investment in LLCs at March 31, 2014.

Liabilities and Equity

Customer deposit accounts increased \$7.0 million during the six months ended March 31, 2014. The weighted average rate on customer and brokered deposits as of March 31, 2014, was 0.51%, a decrease from 0.60% as of March 31, 2013.

Advances from the FHLB were \$210.0 million as of March 31, 2014, an increase of \$36.0 million from September 30, 2013. During the six month period, the Bank borrowed \$201.0 million of new advances and repaid \$165.0 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 March 31, 2014. Such debentures resulted from the issuance of Trust Preferred Securities through the Company's wholly-owned statutory trust, NASB Preferred Trust I. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust.

Escrows were \$5.2 million as of March 31, 2014, a decrease of \$3.3 million from September 30, 2013. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2013.

Total stockholders' equity as of March 31, 2014, was \$200.4 million (16.9% of total assets). This compares to \$195.5 million (17.1% of total assets) at September 30, 2013. On a per share basis, stockholders' equity was \$25.47 on March 31, 2014, compared to \$24.85 on September 30, 2013.

In accordance with the regulatory written agreement, which is described more fully in Footnote 15, Regulatory Agreements, the Company is restricted from paying dividends or making other capital distributions without the prior written non-objection from its primary regulator. Upon receipt of written non-objection from the FRB, the Company's Board of Directors declared a special cash dividend of \$0.60 per share on December 20, 2013, which was paid on January 17, 2014, to shareholders of record as of January 3, 2014. The special dividend, which amounted to \$4.7 million, was accrued within the December 2013 quarter. In addition, the Company received regulatory written non-objection to pay all accrued interest on its outstanding Trust Preferred Securities on the January 30, 2014, payment date, which amounted to \$893,000.

The Board intends to continue making quarterly interest payments on the Company's Trust Preferred Securities and to consider some level of quarterly cash dividend to the Company's shareholders; however, while the Company is operating under the regulatory written agreement, each interest payment on Trust Preferred Securities and dividend distribution to shareholders must first receive prior written non-objection from regulators. The Company will not declare future distributions of capital until it receives written non-objection from regulators. Upon receipt of written non-objection from the FRB, the Company's Board of Directors declared a cash dividend of \$0.10 per share on April 25, 2014, payable on May 20, 2014, to shareholders of record as of May 9, 2014. In addition, the Company received regulatory written non-objection to pay accrued interest on its outstanding Trust Preferred Securities on the April 30, 2014, payment date, which amounted to \$122,000.

Total stockholders' equity as of March 31, 2014, includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$98,000. This amount is reflected in the line item Accumulated other comprehensive income.

Ratios

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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	
	3/31/14	3/31/13
Return on assets	1.40%	3.20%
Return on equity	8.26%	21.38%
Equity-to-assets ratio	16.91%	16.14%
Dividend payout ratio	57.71%	%

RESULTS OF OPERATIONS - Comparison of three and six months ended March 31, 2014 and 2013.

For the three months ended March 31, 2014, the Company had net income of \$6.2 million or \$0.79 per share. This compares to a net income of \$11.0 million or \$1.40 per share for the three month period ended March 31, 2013.

For the six months ended March 31, 2014, the Company had net income of \$8.2 million or \$1.04 per share. This compares to a net income of \$19.3 million or \$2.46 per share for the six month period ended March 31, 2013.

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 six months ended March 31, 2014 and 2013. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, or when full payment of interest and principal is not expected, any interest that has accrued up to that time is reversed and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Six months ended 3/31/14			As of 3/31/14	Six months ended 3/31/13			As of 3/31/13
	Average Balance	Interest	Yield/ Rate	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets								
Loans	\$ 765,116	20,850	5.45%	5.06%	\$ 843,897	24,074	5.71%	5.33%
Mortgage-backed securities	44,175	805	3.64%	3.69%	24,559	381	3.10%	3.67%
Securities	271,683	2,992	2.20%	2.22%	252,681	2,048	1.62%	1.57%
Bank deposits	3,534	6	0.34%	0.08%	19,568	3	0.03%	0.01%
Total earning assets	1,084,508	24,653	4.55%	4.27%	1,140,705	26,506	4.65%	4.23%
Non-earning assets								
	64,244				73,425			
Total	\$ 1,148,752				\$ 1,214,130			
Interest-costing liabilities								
Customer checking and savings deposit accounts	\$ 371,051	660	0.36%	0.33%	\$ 312,204	701	0.45%	0.41%
Customer and brokered certificates of deposit	372,001	1,224	0.66%	0.68%	543,037	2,408	0.89%	0.74%
FHLB Advances	173,292	936	1.08%	0.99%	139,006	1,063	1.53%	1.66%
Subordinated debentures	25,000	244	1.95%	1.89%	25,000	254	2.02%	1.95%
Other borrowings	421	11	5.23%	5.00%	301	8	5.32%	5.00%

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Total costing liabilities	941,765	3,075	0.65%	0.64%	1,019,548	4,434	0.87%	0.77%
Non-costing liabilities	11,034				15,115			
Stockholders equity	195,953				179,467			
Total	\$ 1,148,752				\$ 1,214,130			
Net earning balance	142,743				121,157			
Earning yield less costing rate			3.90%	3.63%			3.78%	3.46%
Average interest-earning assets, net interest, and net yield spread on average interest earning assets	\$ 1,084,508	21,578	3.98%		\$ 1,140,705	22,072	3.87%	

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, 2014, compared to six months ended March 31, 2013			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (1,097)	(2,249)	122	(3,224)
Mortgage-backed securities	66	304	54	424
Securities	733	154	57	944
Bank deposits	30	(2)	(25)	3
Net change in interest income	(268)	(1,793)	208	(1,853)
Components of interest expense:				
Customer and brokered deposit accounts	(941)	(409)	125	(1,225)
FHLB Advances	(313)	262	(76)	(127)
Subordinated debentures	(10)			(10)
Other borrowings		3		3
Net change in interest expense	(1,264)	(144)	49	(1,359)
Increase (decrease) in net interest margin	\$ 996	(1,649)	159	(494)

Net interest margin before loan loss provision for the six months ended March 31, 2014, decreased \$494,000 from the same period in the prior year. Specifically, interest income decreased \$1.9 million, which was offset by a \$1.4 million decrease in interest expense for the period. Interest on loans decreased \$3.2 million as the result of a \$78.8 million decrease in the average balance of loans receivable outstanding during the period and a 26 basis point decrease in the average rate earned on such loans during the period. Interest on mortgage-backed securities increased \$424,000 due to a \$19.6 million increase in the average balance and a 54 basis point increase in the average rate earned on such securities during the period. Interest earned on investment securities increased \$944,000 resulting from a 58 basis point increase in the average rate and an \$19.0 million increase in the average balance of such securities during the period. Interest expense on customer and brokered deposit accounts decreased \$1.2 million due to a 22 basis point decrease in the average rate paid on such liabilities and a \$112.2 million decrease in the average balance of customer and brokered deposits during the period. Interest expense on FHLB advances decreased \$127,000 as the result a 45 basis point decrease in the average rate paid on such liabilities, the effect of which was largely offset by a \$34.3 million increase in the average balance of advances outstanding during the period.

Provision for Loan Losses

During the six-month period ended March 31, 2014, the Company recorded a negative provision for loan losses of \$5.0 million, consistent with the changes in both qualitative and quantitative factors of the Bank's Allowance for Loan and Lease Losses (ALLL) methodology, including the following:

The level of criticized loans (those classified as special mention, substandard, or doubtful) decreased \$31.9 million during the period, of which \$25.5 million related to loans within the Bank's commercial real estate, construction and land development, and commercial portfolios, which had higher historical credit losses than the Bank's other portfolios.

The level of nonperforming loans decreased \$9.4 million during the period, to \$22.2 million at March 31, 2014.

The total of past due loans decreased \$4.6 million during the period, to \$10.4 million at March 31, 2014.

The Bank's historical loss experience has continued to improve, as periods with higher losses are largely outside of the 36 month look-back period used within the Bank's ALLL methodology. Management does not feel that it is appropriate to increase the look-back period, as loans within the current portfolio have less risk due to stabilized collateral values and enhanced loan underwriting and administration processes and programs.

During the March 2014 quarter, the OCC terminated the Bank's Consent Order with the Bank, which validated the improved credit quality of the Bank's portfolios and the effectiveness of its loan administration processes and programs.

These factors reflect the Bank's improved risk profile. Based upon management's analysis, the March 31, 2014, ALLL balance of \$13.7 million (1.86% of loans held to maturity) is adequate.

The Company recorded a negative provision for loan losses of \$9.6 million during the six month period ended March 31, 2013. The negative provision for loan loss for the quarter was based upon the Bank's ALLL methodology, which contains both qualitative and quantitative factors. Specifically, activity during the six month period ended March 31, 2013, reflected in quantitative factors included the following:

The Bank's portfolio of loans held to maturity decreased \$64.2 million during the six month period, to \$702.4 million. This decrease consisted almost entirely of declines within the Bank's commercial real estate and construction and land development portfolios, which historically have experienced higher credit losses than the Bank's other portfolios.

The level of criticized loans (those classified as special mention, substandard, or doubtful) decreased \$48.2 million during the six month period. Of this decline, \$36.4 million related to loans within the Bank's commercial real estate and construction and land development portfolios.

The Bank's loss experience during the period was much better than the previous 36 months. During the six month period ended March 31, 2013, the Bank recorded net charge-offs of \$1.5 million.

The level of nonperforming loans decreased \$24.6 million during the six month period. Similar to the decrease in gross loan balances, this decline consisted almost entirely of loans within the Bank's commercial real estate and construction and land development portfolios.

In addition to the quantitative factors noted above, management observed the following qualitative factors when determining the appropriate level of the Bank's ALLL at March 31, 2013:

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

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

On a consolidated basis, the allowance for losses on loans and real estate owned was 27.1% of total classified assets at March 31, 2014, 24.6% at September 30, 2013, and 18.2% at March 31, 2013.

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

Other Income

Other income for the three months ended March 31, 2014, decreased \$10.2 million from the same period in the prior year. Specifically, gain on sale of loans held for sale decreased \$11.6 million from the same period in the prior year due to decreased mortgage banking volume and spreads. Customer service fees decreased \$605,000 due primarily to a decrease in miscellaneous loan fees. Gain on sale of securities held to maturity decreased \$267,000 due primarily to the sale of two mortgage-backed securities held to maturity in the prior year, after it was determined that there was a significant deterioration in the issuer's creditworthiness. These decreases were partially offset by a \$202,000 decrease in the provision for loss on real estate owned due to fewer declines in the fair value of properties within the Bank's portfolio of foreclosed assets held for sale during the period. In addition, other income increased \$1.6 million due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP and a decrease in expenses related to foreclosed assets held for sale during the period. In addition, gain on sale of securities available for sale increased \$518,000 from the prior year, resulting from the sale of one corporate debt security, and one CMO security during the quarter ended March 31, 2014.

Other income for the six months ended March 31, 2014, decreased \$19.4 million from the same period in the prior year. Specifically, gain on sale of loans held for sale decreased \$21.2 million from the same period in the prior year due to decreased mortgage banking volume and spreads. Customer service fees decreased \$1.2 million due primarily to a decrease in miscellaneous loan fees. Gain on sale of securities held to maturity decreased \$267,000 due primarily to the sale of two mortgage-backed securities held to maturity in the prior year, after it was determined that there was a significant deterioration in the issuer's creditworthiness. These decreases were partially offset by a \$662,000 decrease in the provision for loss on real estate owned due to fewer declines in the fair value of properties within the Bank's portfolio of foreclosed assets held for sale during the period. In addition, other income increased \$2.0 million due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP and a decrease in expenses related to foreclosed assets held for sale during the period. In addition, gain on sale of securities available for sale increased \$616,000 from the prior year, resulting from the sale of four U. S. government sponsored agency securities, one corporate debt security, and one CMO security during the six months ended March 31, 2014.

General and Administrative Expenses

Total general and administrative expenses for the three months ended March 31, 2014, decreased \$2.6 million from the same period in the prior year. Specifically, commission-based mortgage banking compensation decreased \$2.8 million due to a decrease in residential mortgage loan origination volume from the same period in the prior year. Federal deposit insurance premiums decreased \$313,000, due primarily to a reduction in premium rates from the same period in the prior year, based upon the Bank's improved risk rating. Other expense decreased \$350,000 due primarily to decreases in credit and appraisal expense, legal fees, processing fees, and temporary employment fees, related to the decreased in residential mortgage origination volume. These decreases were partially offset by a \$642,000 increase in advertising and business promotion expense, due primarily to increased advertising costs related to the Company's mortgage banking division. In addition, premises and equipment expense increased \$294,000 due to the lease of additional office space for certain information technology and mortgage banking employees and due to increased amortization of software costs.

Total general and administrative expenses for the six months ended March 31, 2014, decreased \$5.6 million from the same period in the prior year. Specifically, compensation and fringe benefits decreased \$292,000 due primarily to fewer personnel in the Company's mortgage banking division. Commission-based mortgage banking compensation decreased \$5.5 million due to a decrease in residential mortgage loan origination volume from the same period in the prior year. Federal deposit insurance premiums decreased \$591,000, due primarily to a reduction in premium rates from the same period in the prior year, based upon the Bank's improved risk rating. Other expense decreased \$901,000 due primarily to decreases in credit and appraisal expense, legal fees, processing fees, and temporary employment

fees, related to the decreased in residential mortgage origination volume. In addition telecom expense decreased during the period due primarily to the settlement of billing disputes. These decreases were partially offset by a \$1.3 million increase in advertising and business promotion expense, due primarily to increased advertising costs related to the Company's mortgage banking division. In addition, premises and equipment expense increased \$393,000 due to the lease of additional office space for certain information technology and mortgage banking employees and due to increased amortization of software costs.

REGULATION

Regulation of the Company

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

Regulation of the Bank

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

Capital Requirements

Regulations require that thrifts meet three minimum capital ratios.

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

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

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

At March 31, 2014, the Bank exceeds all capital requirements prescribed by the OCC. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of March 31, 2014, 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, 2014	Amount
GAAP capital (Bank only)	\$ 204,357
Adjustment for regulatory capital:	
Intangible assets	(2,221)
Reverse the effect of SFAS No. 115	(98)
Tangible capital	202,038
Qualifying intangible assets	
Tier 1 capital (core capital)	202,038
Qualifying general valuation allowance	10,720
Risk-based capital	\$ 212,758

	Actual		As of March 31, 2014			
	Amount	Ratio	Minimum Required for Capital Adequacy		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 212,758	24.9%	68,373	≥8%	85,466	≥10%
Tier 1 capital to adjusted tangible assets	202,038	17.4%	46,486	≥4%	58,108	≥5%
Tangible capital to tangible assets	202,038	17.4%	17,432	≥1.5%		
Tier 1 capital to risk-weighted assets	202,038	23.6%			51,280	≥6%

Recent Legislation

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

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

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

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

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

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

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

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

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

On January 10, 2013, the Consumer Finance Protection Bureau (CFPB) issued a final rule that implements certain provision of the Dodd-Frank Act which prohibit creditors from making residential mortgage loans without regard to the borrower s repayment ability. The rule sets forth specific verification requirements, product features, and underwriting criteria that a lender must follow for residential mortgage loans to be treated as qualified mortgages and, therefore, subject to certain protections from liability. The final rule is effective for residential mortgage loan applications received on or after January 10, 2014.

In July 2013, the federal banking agencies announced new risk-based capital and leverage ratios to conform to the Basel III framework and address provisions of the Dodd-Frank Act. With respect to the Company and the Bank, these requirements will become effective on January 1, 2015. See Recent Amendments to Regulatory Capital Requirements below for a discussion of these new Basel III requirements.

On December 10, 2013, the federal banking agencies adopted the final version of the Volcker Rule which implements certain provision of the Dodd-Frank Act. The rule prohibits an insured depository institution and its affiliates from engaging in proprietary trading; acquiring or retaining an equity, partnership, or other ownership interest in a hedge fund or private equity fund; or sponsoring a hedge fund or private equity fund. The final rule will become effective on April 1, 2014. However, the conformance period was extended, and banks have until July 21, 2015, to bring their activities into compliance with the rule.

Recent Amendments to Regulatory Capital Requirements

In July 2013, the federal banking agencies approved amendments to their regulatory capital rules to conform them to the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as Basel III . The revisions establish new higher capital ratio requirements, tighten the definitions of capital, impose new operating restrictions on banking organizations with insufficient capital buffers and increase the risk weighting of certain assets. The new capital requirements will apply to all banks and savings associations, bank holding companies with more than \$500 million in assets and all savings and loan holding companies (other than certain savings and loan holding companies engaged in insurance underwriting and grandfathered diversified holding companies) regardless of asset size. The rules will become effective for the institutions with assets over \$250 billion and internationally active institutions starting in January 2014 and will become effective for all other institutions beginning in January 2015. The following discussion summarizes the changes which are believed most likely to affect the Company and the Bank.

New and Higher Capital Requirements. The regulations establish a new capital measure called Common Equity Tier 1 Capital which will consist of common stock instruments and related surplus (net of treasury stock), retained earnings, accumulated other comprehensive income and, subject to certain adjustments, minority common equity interests in subsidiaries. Unlike the current rules which exclude unrealized gains and losses on available-for-sale debt securities from regulatory capital, the amended rules would require accumulated other comprehensive income to flow through to regulatory capital unless a one-time, irrevocable opt-out election is made in the first regulatory reporting period under the new rule. Depository institutions and their holding companies will be required to maintain Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets by 2015.

The regulations increase the required ratio of Tier 1 Capital to risk-weighted assets from the current 4% to 6% by 2015. Tier 1 Capital will consist of Common Equity Tier 1 Capital plus Additional Tier 1 Capital elements which would include non-cumulative perpetual preferred stock. Cumulative preferred stock (other than cumulative preferred stock issued to the U.S. Treasury under the TARP Capital Purchase Program or the Small Business Lending Fund) will no longer qualify as Additional Tier 1 Capital. Trust preferred securities and other non-qualifying capital instruments issued prior to May 19, 2010 by bank and savings and loan holding companies with less than \$15 billion in assets as of December 31, 2009 or by mutual holding companies may continue to be included in Tier 1 Capital but will be phased out over 10 years beginning in 2016 for all other banking organizations. These non-qualifying capital instruments, however, may be included in Tier 2 Capital which could also include qualifying subordinated debt. The amended regulations also require a minimum Tier 1 leverage ratio of 4% for all institutions, eliminating the 3% option for institutions with the highest supervisory ratings. The minimum required ratio of total capital to risk-weighted assets will remain at 8%.

Capital Conservation Buffer Requirement. In addition to higher capital requirements, depository institutions and their holding companies will be required to maintain a common equity Tier 1 capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer requirement will be phased in over four years beginning in 2016. The capital conservation buffer requirement effectively raises the minimum required risk-based capital ratios to 7% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital on a fully phased-in basis.

Changes to Prompt Corrective Action Capital Categories. The Prompt Corrective Action rules will be amended effective January 1, 2015 to incorporate a Common Equity Tier 1 Capital requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least an 8% Total Risk-Based Capital Ratio, a 6% Tier 1 Risk-Based Capital Ratio, a 4.5% Common Equity Tier 1 Risk Based Capital Ratio and a 4% Tier 1 Leverage Ratio. To be well capitalized, a banking organization will be required to have at least a 10% Total Risk-Based Capital Ratio, an 8% Tier 1 Risk-Based Capital Ratio, a 6.5% Common Equity Tier 1 Risk Based Capital Ratio and a 5% Tier 1 Leverage Ratio. Federal savings associations will be required to calculate their prompt corrective action capital ratios in the same manner as national banks. Accordingly, tangible equity ratios will be based on average total assets rather than period-end total assets.

Additional Deductions from Capital. Banking organizations will be required to deduct goodwill and other intangible assets (other than certain mortgage servicing assets), net of associated deferred tax liabilities, from Common Equity Tier 1 Capital. Deferred tax assets arising from temporary timing differences that cannot be realized through net operating loss carrybacks will continue to be deducted. Deferred tax assets that can be realized through NOL carrybacks will not be deducted but will be subject to 100% risk weighting. Defined benefit pension fund assets, net of any associated deferred tax liability, will be deducted from Common Equity Tier 1 Capital unless the banking organization has unrestricted and unfettered access to such assets. Reciprocal cross-holdings of capital instruments in any other financial institutions will now be deducted from capital, not just holdings in other depository institutions. For this purpose, financial institutions are broadly defined to include securities and commodities firms, hedge and private equity funds and non-depository lenders. Banking organizations will also be required to deduct non-significant investments (less than 10% of outstanding stock) in the capital of other financial institutions (including investments in trust preferred securities) to the extent these exceed 10% of Common Equity Tier 1 Capital subject to a 15% of Common Equity Tier 1 Capital cap. Greater than 10% investments must be deducted if they exceed 10% of Common Equity Tier 1 Capital. If the aggregate amount of certain items excluded from capital deduction due to a 10% threshold exceeds 17.65% of Common Equity Tier 1 Capital, the excess must be deducted. Savings associations will continue to be required to deduct investments in subsidiaries engaged in activities not permitted for national banks.

Changes in Risk-Weightings. The federal banking agencies did not adopt a proposed rule that would have significantly changed the risk-weighting for residential mortgages. Instead, the amended regulations will continue to follow the current capital rules which assign a 50% risk-weighting to qualifying mortgage loans which generally consist of residential first mortgages with an 80% loan-to-value ratio (or which carry mortgage insurance that reduces the bank's exposure to 80%) that are not more than 90 days past due. All other mortgage loans will have a 100% risk weight. The revised regulations apply a 250% risk-weighting to mortgage servicing rights, deferred tax assets that cannot be realized through NOL carrybacks and investments in the capital instruments of other financial institutions that are not deducted from capital. The revised regulations also create a new 150% risk-weighting category for high volatility commercial real estate loans which are credit facilities for the acquisition, construction or development of real property other than for certain community development projects, agricultural land and one- to four-family residential properties or commercial real projects where: (i) the loan-to-value ratio is not in excess of interagency real

estate lending standards; and (ii) the borrower has contributed capital equal to not less than 15% of the real estate sales as completed value before the loan is made.

LIQUIDITY AND CAPITAL RESOURCES

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

Management continues to use FHLB advances as a primary source of short-term funding. FHLB advances are secured by a blanket pledge agreement covering portions of the loan and securities portfolio as collateral, supported by quarterly reporting of eligible collateral to FHLB. FHLB borrowings are limited based upon a percentage of the Bank's assets and eligible collateral, as adjusted by collateral eligibility and maintenance levels. Management continually monitors the balance of eligible collateral relative to the amount of advances outstanding to determine the availability of additional FHLB advances. At March 31, 2014, the Bank had a total borrowing capacity at FHLB of \$290.4 million, and outstanding advances of \$191.0 million. As an additional source of liquidity, the Bank has \$60.3 million of highly liquid short term U.S. Government sponsored agency securities in its portfolio at March 31, 2014.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a complete discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio, see the Asset/Liability Management section of the Company's Annual Report for the year ended September 30, 2013.

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, 2013.

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 Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this quarterly report. There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes during the period from the risk factors previously discussed in Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2013.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a)

Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a)

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

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

S XBRL Instance Document

H XBRL Taxonomy Extension Schema Document

L XBRL Taxonomy Extension Calculation Linkbase Document

- F XBRL Taxonomy Extension Definition Linkbase Document
- B XBRL Taxonomy Extension Label Linkbase Document
- E XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

NASB Financial, Inc.
(Registrant)

May 12, 2014

By: /s/ Paul L. Thomas
Paul L. Thomas
Chief Executive Officer

May 12, 2014

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