NASB FINANCIAL INC
Form 10-Q
August 11, 2014

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the period ended June 30, 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	**43-1805201**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x 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	x
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 x

The number of shares of Common Stock of the Registrant outstanding as of August 4, 2014, was 7,867,614.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	September 30, 2013
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents	$ 8,627	6,347
Securities:		
Available for sale, at fair value	239,896	252,696
Held to maturity, at cost	36,013	
Stock in Federal Home Loan Bank, at cost	9,994	7,679
Mortgage-backed securities:		
Available for sale, at fair value	342	433
Held to maturity, at cost	37,311	43,074
Loans receivable:		
Held for sale, at fair value	78,204	69,079
Held for investment, net	748,138	715,713
Allowance for loan losses	(14,190)	(20,383)
Accrued interest receivable	4,591	4,098
Foreclosed assets held for sale, net	10,276	11,252
Premises and equipment, net	11,532	12,033
Investment in LLCs	16,571	16,499
Deferred income tax asset, net	7,875	12,273
Other assets	11,755	13,362
	$ 1,206,935	1,144,155
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Customer deposit accounts	$ 744,406	748,193
Advances from Federal Home Loan Bank	215,000	155,000
Subordinated debentures	25,774	25,774
Escrows	7,356	8,458
Income taxes payable	1,422	70
Accrued expenses and other liabilities	7,451	11,143
Total liabilities	1,001,409	948,638
Stockholders equity:		
Common stock of $0.15 par value: 20,000,000 shares authorized; 9,857,112 shares issued	1,479	1,479
Additional paid-in capital	16,550	16,613
Retained earnings	224,404	217,143
Treasury stock, at cost; 1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive gain (loss)	1,511	(1,300)
Total stockholders equity	205,526	195,517
	$ 1,206,935	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 June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
	(Dollars in thousands, except per share data)			
Interest on loans receivable	$ 10,665	10,880	31,515	34,954
Interest on mortgage-backed securities	374	103	1,179	484
Interest and dividends on securities	1,640	1,107	4,632	3,155
Other interest income	3	1	9	4
Total interest income	12,682	12,091	37,335	38,597
Interest on customer and brokered deposit accounts	961	1,179	2,845	4,288
Interest on advances from Federal Home Loan Bank	488	510	1,424	1,573
Interest on subordinated debentures	118	124	362	378
Other interest expense	5	5	16	13
Total interest expense	1,572	1,818	4,647	6,252
Net interest income	11,110	10,273	32,688	32,345
Provision for loan losses			(5,000)	(9,600)
Net interest income after provision for loan losses	11,110	10,273	37,688	41,945
Other income (expense):				
Loan servicing fees, net	25	27	73	79
Customer service fees and charges	751	1,279	2,383	4,110
Provision for loss on real estate owned	(11)	(139)	(166)	(956)
Gain on sale of securities available for sale			616	
Gain (loss) on sale of securities held to maturity			(10)	257
Gain from loans receivable held for sale	9,886	11,232	24,082	46,619
Other income (expense), net	228	(1,402)	(33)	(3,650)
Total other income	10,879	10,997	26,945	46,459
General and administrative expenses:				
Compensation and fringe benefits	6,132	6,954	18,698	19,812
Commission-based mortgage banking compensation	3,258	4,544	8,676	15,481
Premises and equipment	1,412	1,452	4,349	3,996
Advertising and business promotion	1,746	1,930	5,585	4,489
Federal deposit insurance premiums	128	589	787	1,839
Other	2,254	2,915	6,900	8,462
Total general and administrative expenses	14,930	18,384	44,995	54,079
Income before income tax expense	7,059	2,886	19,638	34,325
Income tax expense	2,471	1,111	6,870	13,215
Net income	$ 4,588	1,775	12,768	21,110
Basic earnings per share	$ 0.58	0.23	1.62	2.68
Diluted earnings per share	$ 0.58	0.23	1.62	2.68

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 June 30,	
	2014	2013
	(Dollars in thousands)	
Net income	$ 4,588	1,775
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of $761 and $(950) at June 30, 2014 and 2013, respectively	1,413	(1,518)
Adjustment for gain included in net income		
Change in unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of $761 and $(950) at June 30, 2014 and 2013, respectively	1,413	(1,518)
Comprehensive income	$ 6,001	257

	Nine months ended June 30,	
	2014	2013
	(Dollars in thousands)	
Net income	$ 12,768	21,110
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of $1,729 and $(1,248) at June 30, 2014 and 2013, respectively	3,211	(1,994)
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 $1,513 and $(1,248) at June 30, 2014 and 2013, respectively	2,811	(1,994)
Comprehensive income	$ 15,579	19,116

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			12,768			12,768
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale					2,811	2,811
Total comprehensive income						15,579
Cash dividends paid			(5,507)			(5,507)
Stock based compensation		(63)				(63)
Balance at June 30, 2014	$ 1,479	16,550	224,404	(38,418)	1,511	205,526

See accompanying notes to condensed consolidated financial statements.

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NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended June 30, 2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 12,768	21,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	990	1,720
Amortization and accretion, net	490	621
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	(18)	563
Gain from loans receivable held for sale	(24,082)	(46,619)
Provision for loan losses	(5,000)	(9,600)
Provision for loss on real estate owned	166	956
Origination of loans receivable held for sale	(827,788)	(1,494,860)
Sale of loans receivable held for sale	842,745	1,600,655
Stock based compensation stock options	(63)	(44)
Changes in:		
Net fair value of loan-related commitments	972	3,299
Accrued interest receivable	(492)	391
Prepaid and accrued expenses, other liabilities, and income taxes payable	587	2,103
Net cash provided by operating activities	669	80,038
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	1,156	4,851
Available for sale	219	68
Principal repayments of mortgage loans receivable held for investment	141,429	169,266
Principal repayments of other loans receivable	1,276	2,686
Principal repayments of investment securities available for sale	25,937	42,468
Loan origination mortgage loans receivable held for investment	(174,919)	(108,088)
Loan origination other loans receivable	(1,239)	(1,712)
Purchase of mortgage loans receivable held for investment	(700)	(647)
Proceeds from sale (purchase) of Federal Home Loan Bank stock	(2,315)	1,145
Purchase of investment securities available for sale	(61,427)	(72,525)
Purchase of investment securities held to maturity	(36,101)	
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	2,332	11,905
Purchases of premises, equipment, and software, net	(751)	(957)
Investment in LLCs	(55)	(7)
Other	(245)	(91)
Net cash provided by (used in) investing activities	(47,993)	59,162

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended June 30, 2014	2013
	(Dollars in thousands)	
Cash flows from financing activities:		
Net decrease in customer and brokered deposit accounts	(3,787)	(90,975)
Proceeds from advances from Federal Home Loan Bank	316,000	25,000
Repayment on advances from Federal Home Loan Bank	(256,000)	(52,000)
Cash dividends paid	(5,507)	
Change in escrows	(1,102)	(2,292)
Proceeds from other borrowings		422
Net cash provided by (used in) financing activities	49,604	(119,845)
Net increase in cash and cash equivalents	2,280	19,355
Cash and cash equivalents at beginning of period	6,347	8,716
Cash and cash equivalents at end of period	$ 8,627	28,071
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ 3,646	13,602
Cash paid for interest	5,304	5,981
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned, net of specific reserves	$ 1,913	9,335
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 nine month period ended June 30, 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 June 30, 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		Nine months ended	
	6/30/14	6/30/13	6/30/14	6/30/13
Net income (in thousands)	$ 4,588	1,775	12,768	21,110
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	$ 0.58	0.23	1.62	2.68
Diluted	0.58	0.23	1.62	2.68

At June 30, 2014 and 2013, options to purchase 35,138 and 41,138 shares of the Company s stock were outstanding, respectively. 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 June 30, 2014. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	$ 76,151	2,803		78,954
U.S. government sponsored agency securities	161,014	820	1,314	160,520
Municipal securities	422			422
Total	$ 237,587	3,623	1,314	239,896

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
Total	$ 254,829	2,804	4,937	252,696

During the nine month period ended June 30, 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 nine month period ended June 30, 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 June 30, 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
U.S. government sponsored agency securities	$		$ 59,186	1,314
Total	$		$ 59,186	1,314

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 June 30, 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 June 30, 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 June 30, 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	$ 30,035	80		30,115
Due from one to five years	88,902	2,826		91,728
Due from five to ten years	58,150	717		58,867
Due after ten years	60,500		1,314	59,186
Total	$ 237,587	3,623	1,314	239,896

(5) SECURITIES HELD TO MATURITY

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	$ 36,013	348	45	36,316
Total	$ 36,013	348	45	36,316

There were no sales of securities held to maturity during the nine month period ended June 30, 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 June 30, 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	$ 9,647	45	$	
Total	$ 9,647	45	$	

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 June 30, 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 June 30, 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 June 30, 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	15		5,010
Due from five to ten years	31,018	333	45	31,306
Total	$ 36,013	348	45	36,316

(6) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at June 30, 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	$ 61	2		63
Pass-through certificates guaranteed by FNMA	adjustable rate	105	6		111
FHLMC participation certificates:					
Fixed rate		71	3		74
Adjustable rate		89	5		94
Total		$ 326	16		342

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 nine month period ended June 30, 2014 and 2013.

The scheduled maturities of mortgage-backed securities available for sale at June 30, 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	$ 71	3		74
Due after ten years	255	13		268
Total	$ 326	16		342

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 June 30, 2014. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	$ 24			24
FNMA pass-through certificates:				
Balloon maturity and adjustable rate	1			1
Collateralized mortgage obligations	37,286	704	8	37,982
Total	$ 37,311	704	8	38,007

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 nine month period ended June 30, 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 nine month period ended June 30, 2013, the Bank recognized a gain of $295,000 and a loss of $38,000 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 June 30, 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	$		$ 2,058	8
Total	$		$ 2,058	8

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 June 30, 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 June 30, 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 June 30, 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	$ 25			25
Due after ten years	37,286	704	8	37,982
Total	$ 37,311	704	8	38,007

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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.

	6/30/14	9/30/13
HELD FOR INVESTMENT		
Mortgage loans:		
Permanent loans on:		
Residential properties	$ 377,520	365,248
Business properties	256,293	268,641
Partially guaranteed by VA or insured by FHA	15,932	7,694
Construction and development	143,696	91,451
Total mortgage loans	793,441	733,034
Commercial loans	11,961	12,226
Installment loans and lease financing to individuals	5,629	5,599
Total loans receivable held for investment	811,031	750,859
Less:		
Undisbursed loan funds	(58,889)	(30,749)
Unearned discounts and fees on loans, net of deferred costs	(4,004)	(4,397)
Net loans receivable held for investment	$ 748,138	715,713
HELD FOR SALE		
Mortgage loans:		
Permanent loans on:		
Residential properties	$ 78,204	69,079

Included in the loans receivable balances at June 30, 2014, are participating interests in mortgage loans and wholly-owned mortgage loans serviced by other institutions in the amount of $711,000. Loans and participations serviced for others amounted to approximately $26.4 million at June 30, 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 nine month period ended June 30, 2014, the Bank renewed fifty-three loans within its construction and development loan portfolio, ten 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 nine month periods ended June 30, 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 April 1, 2014	$ 6,407		3,193	3,883	10	178	13,671
Provision for loan losses	(72)		426	(313)	(4)	(37)	
Losses charged off	(86)		(538)				(624)
Recoveries	304		52	725		62	1,143
Balance at June 30, 2014	$ 6,553		3,133	4,295	6	203	14,190
Balance at April 1, 2013	$ 7,380		7,253	5,627	60	406	20,726
Provision for loan losses	886		(315)	(476)		(95)	
Losses charged off	(203)		(420)				(623)
Recoveries	307		174	21		45	547
Balance at June 30, 2013	$ 8,370		6,692	5,172	60	356	20,650
Balance at October 1, 2013	$ 8,642		6,561	4,841	58	281	20,383
Provision for loan losses	(387)		(3,706)	(639)	(52)	(216)	(5,000)
Losses charged off	(2,228)		(902)	(651)			(3,781)
Recoveries	526		1,180	744		138	2,588
Balance at June 30, 2014	$ 6,553		3,133	4,295	6	203	14,190
Balance at October 1, 2012	$ 6,941		7,086	16,590	513	699	31,829
Provision for loan losses	2,232		177	(11,129)	(453)	(427)	(9,600)
Losses charged off	(1,359)		(994)	(669)		(87)	(3,109)
Recoveries	556		423	380		171	1,530
Balance at June 30, 2013	$ 8,370		6,692	5,172	60	356	20,650

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 June 30, 2014. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:							
Ending balance of allowance for loan losses related to loans at June 30, 2014:							
Individually evaluated for impairment	$ 213			1	1	15	230
Collectively evaluated for impairment	$ 6,340		3,133	4,294	5	188	13,960
Acquired with deteriorated credit quality *	$ 32						32
Loans:							
Balance at June 30, 2014	$ 391,317	78,204	254,982	84,261	11,961	5,617	826,342
Ending balance:							
Loans individually evaluated for impairment	$ 14,028		10,684	12,715	11,250	37	48,714
Loans collectively evaluated for impairment	$ 377,289	78,204	244,298	71,546	711	5,580	777,628
Loans acquired with deteriorated credit quality **	$ 4,095						4,095

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
Allowance for loan losses:							
Ending balance of allowance for loan losses related to loans at September 30, 2013:							
Individually evaluated for impairment	$ 333		35	4	25		397
Collectively evaluated for Impairment	$ 8,309		6,526	4,837	33	281	19,986
Acquired with deteriorated credit quality *	$ 31						31
Loans:							
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 June 30, 2014. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Rating:							
Pass	$ 353,290	78,204	195,445	58,359		5,595	690,893
Pass Watch	19,993		45,105	19,939	11,961		96,998
Special Mention							
Substandard	18,034		14,432	5,963		22	38,451
Doubtful							
Loss							
Total	$ 391,317	78,204	254,982	84,261	11,961	5,617	826,342

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	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
Substandard	25,397		15,567	19,210	11,250	4	71,428
Doubtful	133		35				168
Loss							
Total	$ 370,296	69,079					