NASB FINANCIAL INC
Form 10-Q
February 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the period ended December 31, 2002

or

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

For the transition period from to

Commission File Number 0-24033

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

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

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

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

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

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

Yes X No

The number of shares of Common Stock of the Registrant outstanding as of February 10, 2003, was 8,439,942.

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

	December 31, 2002 (Unaudited)	September 30, 2002
ASSETS		
Cash and cash equivalents	$ 7,836	4,168
Securities available for sale	13,386	14,635
Stock in Federal Home Loan Bank, at cost	19,230	15,173
Mortgage-backed securities:		
Available for sale	7,721	2,684
Held to maturity (market value of $1,398 and $1,544 at December 31, 2002, and September 30, 2002, respectively)	1,332	1,483
Loans receivable:		
Held for sale	130,899	73,591
Held for investment, net	889,090	839,284
Accrued interest receivable	5,489	4,795
Real estate owned, net	5,821	4,938
Premises and equipment, net	7,267	6,523
Investment in LLC	2,262	200
Mortgage servicing rights, net	2,214	2,957
Deferred tax asset	3,051	2,537
Other assets	11,152	5,254
	$ 1,106,750	978,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Checks outstanding in excess of bank balances	$ 9,259	7,764
Customer deposit accounts	617,930	549,437
Advances from Federal Home Loan Bank	349,479	295,192
Escrows	4,001	7,404
Income taxes payable	5,105	2,230
Accrued expenses and other liabilities	7,727	6,749
Total liabilities	993,501	868,776
Commitments and contingencies		
Stockholders' equity:		
Common stock of $0.15 par value: 20,000,000 authorized; 9,818,112 issued at December 31, 2002, and 9,802,112 issued at September 30, 2002	1,473	1,470
Serial preferred stock of $1.00 par value: 7,500,000 shares authorized; none issued or outstanding	--	--

Additional paid-in capital	15,922	15,862
Retained earnings	112,158	108,367
Treasury stock, at cost; 1,382,170 shares at December 31, 2002 and 1,381,770 shares at September 30, 2002	(16,726)	(16.716)
Accumulated other comprehensive income	422	463
Total stockholders' equity	113,249	109,446
	$ 1,106,750	978,222

See accompanying notes to consolidated financial statements.

1

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

	Three months ended December 31, 2002	2001
Interest on loans	$ 17,730	18,723
Interest on mortgage-backed securities	89	177
Interest and dividends on securities	270	270
Other interest income	27	173
Total interest income	18,116	19,343
Interest on customer deposit accounts	3,564	6,195
Interest on advances from FHLB and other borrowings	2,801	4,009
Total interest expense	6,365	10,204
Net interest income	11,751	9,139
Provision for loan losses	18	341
Net interest income after provision for loan losses	11,733	8,798
Other income (expense):		
Loan servicing fees	(758)	313
Impairment recovery (loss) on mortgage servicing rights	247	(276)
Impairment loss on mortgage-backed securities	--	(170)
Customer service fees and charges	1,346	1,099
Provision for losses on real estate owned	(1,200)	(67)

Loss on sale of investments	(13)	--
Gain on sale of loans held for sale	2,737	3,740
Other	(34)	421
Total other income	2,325	5,060
General and administrative expenses:		
Compensation and fringe benefits	2,513	2,451
Commission-based mortgage banking compensation	1,364	1,233
Premises and equipment	558	528
Advertising and business promotion	260	124
Federal deposit insurance premiums	26	30
Other	1,121	1,116
Total general and administrative expenses	5,842	5,482
Income before income tax expense	8,216	8,376
Income tax expense	3,161	3,216
Net income	$ 5,055	5,160
Basic earnings per share	$ 0.60	0.61
Diluted earnings per share	$ 0.60	0.60
Weighted average shares outstanding	8,425,299	8,509,525

See accompanying notes to consolidated financial statements.

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

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	T sto
	(Dollars in thousands)					
Balance at October 1, 2002	$ 1,470	15,862	108,367	(16,716)	463	1
Comprehensive income:						
Net income	--	--	5,055	--	--	
Other comprehensive loss, net of tax						
Unrealized loss on securities available for sale	--	--	--	--	(41)	--
Total comprehensive income	--	--	--	--	--	
Cash dividends paid	--	--	(1,264)	--	--	
Stock options exercised	3	60	--	--	--	

Purchase of common stock for treasury	--	--	--	(10)	--	
Balance at December 31, 2002	$ 1,473	15,922	112,158	(16,726)	422	1

See accompanying notes to consolidated financial statements.

3

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

	Three months ended December 31,	
	2002	2001
Cash flows from operating activities:		
Net income	$ 5,055	5,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	179	215
Amortization and accretion, net	392	(449)
Impairment (recovery) loss on mortgage servicing rights	(247)	276
Impairment loss on mortgage-backed securities	--	170
Net fair value of loan related commitments	248	--
Gain on sale of loans receivable held for sale	(2,737)	(3,740)
Provision for loan losses	18	341
Provision for losses on real estate owned	1,200	67
Origination and purchase of loans held for sale	(203,881)	(150,185)
Sale of loans receivable held for sale	208,028	192,075
Changes in:		
Accrued interest receivable	(347)	534
Accrued expenses and other liabilities and income taxes payable	3,695	1,464
Net cash provided by operating activities	11,603	45,928
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	163	976
Available for sale	227	289
Principal repayments of mortgage loans held for investment and held for sale	170,336	143,796
Principal repayments of other loans receivable	10,221	10,374
Maturity of investment securities available for sale	--	20,000
Loan origination - mortgage loans held for investment	(222,814)	(171,299)
Loan origination - other loans receivable	(6,578)	(5,368)
Purchase of mortgage loans held for investment	(1,260)	(8,294)

Purchase of investment securities available for sale	--	(20,000)
Purchase of FHLB stock	(1,735)	(1,497)
Purchase from sale of securities available for sale	2,738	--
Proceeds for sale of real estate owned	1,102	1,552
Purchases of premises and equipment, net of sales	32	(223)
Investment in LLC	(2,063)	--
Net cash acquired in merger	16,664	--
Other	(1,028)	(926)
Net cash used in investing activities	(33,995)	(30,620)

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

	Three months ended December 31,	
	2002	2001
Cash flows from financing activities:		
Net increase (decrease) in customer deposit accounts	(14,258)	5,177
Proceeds from advances from FHLB	145,000	45,000
Repayment on advances from FHLB	(101,072)	(30,068)
Cash dividends paid	(1,264)	(1,063)
Stock options exercised	63	94
Repurchase of common stock	--	(329)
Change in checks outstanding in excess of bank balances	1,494	--
Net decrease in escrows	(3,903)	(4,260)
Net cash provided by financing activities	26,060	14,551
Net increase in cash and cash equivalents	3,668	29,859
Cash and cash equivalents at beginning of the period	4,168	16,043
Cash and cash equivalents at end of period	$ 7,836	45,902
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	$ (12)	4,112
Cash paid for interest	6,343	10,446
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	$ 1,034	1,057
Conversion of real estate owned to loans receivable	--	57
Capitalization of mortgage servicing rights	41	36

In connection with the merger, the Company acquired assets of $109.9 million, assumed liabilities of $94.3 million, and received net cash of $16.7 million.

See accompanying notes to consolidated financial statements.

5

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. All adjustments are of a normal and recurring nature and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission. Operating results for the three months ended December 31, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2003. The consolidated balance sheet of the Company as of September 30, 2002, has been derived from the audited balance sheet of the Company as of that date.

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

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the consolidated financial statements as of December 31, 2002, have remained unchanged from September 30, 2002. These policies are provision for loan losses and mortgage servicing rights. Disclosure of these critical accounting policies is incorporated by reference under Item 8 "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2002.

The FASB recently issued SFAS No. 142, "Goodwill and Other Intangible Assets," No. 143, "Accounting for Asset Retirement Obligations," No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets," No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statements No. 13, and Technical Corrections," No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," and No. 147, "Acquisitions of Certain Financial Institutions." These Statements are effective on various dates throughout the Company's 2003 fiscal year. Implementation of these Statements is not expected to have a material effect on the Company's consolidated financial statements.

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

(2) SECURITIES AVAILABLE FOR SALE

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

	December 31, 2002			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
U.S. government obligations	$ 2,011	--	--	2,011
Agency securities	1,515	--	(1)	1,514
Debt securities	9,165	621	--	9,786
Municipal securities	75	--	--	75
Total	$ 12,766	621	(1)	13,386

(3) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	December 31, 2002			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Pass-through certificates guaranteed by GNMA - fixed rate	$ 1,229	31	--	1,260
FHLMC participation certificates - fixed rate	5,238	27	--	5,265
Other asset backed securities	1,137	--	--	1,137
Mortgage-backed derivatives (including CMO residuals and interest-only securities)	50	9	--	59
Total	$ 7,654	67	--	7,721

(4) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

December 31, 2002

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	$ 786	48	--	834
FNMA pass-through certificates:				
Fixed rate	107	--	--	107
Balloon maturity and adjustable rate	167	2	--	169
Pass-through certificates guaranteed by GNMA - fixed rate	233	16	--	249
Collateralized mortgage obligation bonds	39	--	--	39
Total	$ 1,332	66	--	1,398

(5) LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2002 (Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 247,256
Business properties	428,651
Partially guaranteed by VA or insured by FHA	21,649
Construction and development	231,382
Total mortgage loans	928,938
Commercial loans	18,874
Installment loans to individuals	37,431
Total loans held for investment	985,243
Less:	
Undisbursed loan funds	(83,669)
Unearned discounts and fees and costs on loans, net	(5,327)
Allowance for losses on loans	(7,157)
Net loans held for investment	$ 889,090

December 31,
2002

	(Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	$ 139,815
Less:	
Undisbursed loan funds	(9,465)
Unearned discounts and fees and costs on loans, net	549
Net loans held for sale	$ 130,899

Included in the loans receivable balances at December 31, 2002, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the approximate amount of $803,000. Loans and participations serviced for others amounted to approximately $411.6 million at December 31, 2002.

(6) REAL ESTATE OWNED

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

	December 31, 2002 (Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	$ 7,697
Less: allowance for losses	(1,876)
Total	$ 5,821

Real estate owned is carried at fair value as of the date of foreclosure minus any estimated disposal costs (the "new basis"), and is subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date.

(7) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended December 31, 2002. Dollar amounts are expressed in thousands.

Balance at October 1, 2002	$ 2,957
Additions:	
Originated mortgage servicing rights	41
Acquired in merger	122
Impairment recovery	247
Reductions:	
Amortization	1,153
Sale of mortgage servicing rights	--
Impairment loss	--
Balance at December 31, 2002	$ 2,214

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

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

	Three months ended	
	12/31/02	12/30/01
Net income (in thousands)	$ 5,055	5,160
Basic weighted average shares outstanding	8,425,299	8,509,525
Effect of stock options	15,340	38,486
Dilutive potential common shares	8,440,639	8,548,011
Net income per share:		
Basic	$ 0.60	0.61
Diluted	0.60	0.60

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

(9) SEGMENT INFORMATION

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

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

The following table presents financial information from the

Company's operating segments for the periods indicated. Dollar amounts are expressed in thousands.

Three months ended December 31, 2002	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 11,772	--	(21)	11,751
Provision for loan losses	18	--	--	18
Other income	2,079	5,327	(5,081)	2,325
General and administrative expenses	3,070	3,719	(947)	5,842
Income tax expense	4,144	619	(1,602)	3,161
Net income	$ 6,619	989	(2,553)	5,055

Three months ended December 31, 2001	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	$ 9,070	--	69	9,139
Provision for loan losses	341	--	--	341
Other income	3,557	4,542	(3,039)	5,060
General and administrative expenses	3,006	3,330	(854)	5,482
Income tax expense	3,712	485	(981)	3,216
Net income	$ 5,568	727	(1,135)	5,160

(10) MERGER

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

Cash and cash equivalents	$ 32,251
Investments and mortgage backed securities	9,171
Loans receivable	58,624

Premises and equipment	955
Core deposits	1,499
Goodwill	1,846
Other assets	5,577
Total assets acquired	109,923
Customer deposit accounts	82,750
Advances from Federal Home Loan Bank	10,358
Other liabilities	1,228
Total liabilities assumed	94,336
Net assets acquired	$ 15,587

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

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

GENERAL

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

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

FINANCIAL CONDITION

ASSETS

The Company's total assets as of December 31, 2002, were $1,106.8 million, an increase of $128.5 million from September 30, 2002, the prior fiscal year end. $109.9 million of this increase was due to the merger with Community Bancorp, Inc.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the three months ended December 31, 2002, the Bank originated and purchased $203.9 million in mortgage loans held for sale, $224.1 million in mortgage loans held for investment, and $6.6 million in other loans. This total of $434.6 million in loans originated compares to $335.1 million in loans originated during the three months ended December 31, 2001.

Included in the $130.9 million in loans held for sale as of December 31, 2002, are $25.6 million in mortgage loans held for sale with servicing released. All loans held for sale are carried at the lower of cost or fair value.

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

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

	12/31/02	9/30/02	12/31/01
Asset Classification:			
Substandard	$ 16,537	14,822	19,592
Doubtful	--	--	--
Loss	2,979	1,395	2,112
	19,516	16,217	21,704
Allowance for losses	(9,377)	(6,854)	(7,141)
	$ 10,139	9,363	14,563

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

LIABILITIES AND EQUITY

Customer deposit accounts increased $68.5 million during the three months ended December 31, 2002. The weighted average rate on customer deposits as of December 31, 2002, was 2.52%, a decrease from 4.08% as of December 31, 2001.

Advances from the FHLB were $349.5 million as of December 31, 2002, an increase of $54.3 million from September 30, 2002. During the three-month period, the Bank borrowed $145.0 million of new advances, acquired $10.4 million in the merger, and repaid $101.1 million. Management uses FHLB advances at various times as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Escrows were $4.0 million as of December 31, 2002, a decrease of $3.4 million from September 30, 2002. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2002.

Total stockholders' equity as of December 31, 2002, was $113.2 million (10.3% of total assets). This compares to $109.4 million (11.2% of total assets) at September 30, 2002. On a per share basis, stockholders' equity was $13.42 on December 31, 2002, compared to $13.00 on September 30, 2002.

The Company paid cash dividends on its common stock of $0.15 on November 22, 2002. Subsequent to the quarter ended December 31, 2002, the Company announced a cash dividend of $0.17 per share to be paid on February 28, 2003, to stockholders of record as of February 7, 2003.

Total stockholders' equity as of December 31, 2002, includes an unrealized gain of $422,000, net of deferred income taxes, on available for sale securities. This amount is reflected in the line item "Accumulated other comprehensive income."

RATIOS

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

	Three months ended	
	12/31/02	12/31/01
Return on assets	1.94%	2.10%
Return on equity	18.16%	21.18%
Equity-to-assets ratio	10.23%	10.01%
Dividend payout ratio	25.00%	20.60%

RESULTS OF OPERATIONS - Comparison of three months ended December 31, 2002 and 2001.

For the three months ended December 31, 2002, the Company had net income of $5,055,000 or $0.60 per share. This compares to net income of $5,160,000 or $0.61 per share for the quarter ended December 31, 2001.

NET INTEREST MARGIN

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

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the three months ended December 31, 2002 and 2001. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, any interest that has accrued up to that time is reserved and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Three months ended 12/31/02			As of 12/31/02
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$ 926,802	17,730	7.65%	7.02%
Mortgage-backed securities	5,382	89	6.61%	6.33%
Securities	28,678	270	3.77%	4.19%
Bank deposits	10,576	27	1.02%	0.81%
Total earning assets	971,438	18,116	7.46%	6.93%
Non-earning assets	26,846			
Total	$ 998,284			
Interest-costing liabilities				
Customer deposits accounts	$ 546,834	3,564	2.61%	2.52%
FHLB Advances	312,813	2,801	3.58%	3.30%
Other borrowings	--	--	--%	--
Total costing liabilities	859,647	6,365	2.96%	2.80%
Non-costing liabilities	31,358			
Stockholders' equity	107,279			
Total	$ 998,284			
Net earning balance	$ 111,791			
Earning yield less costing rate			4.50%	4.13%

Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 971,438	11,751	4.84%

	Three months ended 12/31/01			As of 12/31/01
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
Interest-earning assets				
Loans	$ 894,663	18,723	8.37%	7.75%
Mortgage-backed securities	8,564	177	8.27%	7.15%
Securities	24,764	270	4.36%	5.14%
Bank deposits	28,919	173	2.39%	1.43%
Total earning assets	956,910	19,343	8.09%	7.43%
Non-earning assets	33,774			
Total	$ 990,684			
Interest-costing liabilities				
Customer deposits accounts	$ 590,124	6,195	4.20%	4.08%
FHLB Advances	289,687	4,009	5.54%	5.01%
Other borrowings	--	--	--%	--
Total costing liabilities	879,811	10,204	4.64%	4.39%
Non-costing liabilities	13,345			
Stockholders' equity	97,528			
Total	$ 990,684			
Net earning balance	$ 77,099			
Earning yield less costing rate			3.45%	3.04%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	$ 956,910	9,139	3.82%	

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 volume (change in volume multiplied by the old rate), (2) changes in rates (change in rate multiplied by the old volume), and (3) changes in rate and volume (change in rate multiplied by the change in volume). Average balances, yields and rates used in the preparation of this analysis come from the preceding table. Dollar amounts are expressed in thousands.

	Three months ended December 31, 2002, compared to three months ended December 31, 2001			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	$ (1,610)	673	(56)	(993)
Mortgage-backed securities	(36)	(66)	14	(88)
Securities	(37)	43	(6)	--
Other assets	(99)	(110)	63	(146)
Net change in interest income	(1,782)	540	15	(1,227)
Components of interest expense:				
Customer deposit accounts	(2,346)	(455)	170	(2,631)
FHLB Advances	(1,419)	320	(109)	(1,208)
Net change in interest expense	(3,765)	(135)	61	(3,839)
Increase (decrease) in net interest margin	$ 1,983	675	(46)	2,612

Net interest margin before loan loss provision for the three months ended December 31, 2002, increased $2.6 million from the same period in the prior year. Specifically, total interest expense decreased $3.8 million due to a $20.2 million decrease in the average balances of interest-costing liabilities and a decrease in the interest rate cost of those liabilities of 1.7%. This was partially offset by a decrease in total interest income of $1.2 million from the same period in the prior year. $1.8 million of this decrease resulted from a 63 basis point decrease in the average rate earned on interest-earning assets, which was offset by $14.5 million increase in the average balance of interest-earning assets.

PROVISION FOR LOAN LOSSES

The Company's provision for loan losses was $18,000 during the quarter ended December 31, 2002, compared to $341,000 for the same period in the prior year. Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. On a consolidated basis, loan loss reserve was 48.0% of total classified assets at December 31, 2002, 42.3% at September 30, 2002, and 32.9% at December 31, 2001.

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

OTHER INCOME

Other income for the three months ended December 31, 2002, decreased $2.7 million from the same period in the prior year. Specifically, gain on sale of loans held for sale decreased $1.0 million due to decreased mortgage banking volume. Provision for losses on real estate owned increased $1.1 million due primarily to a $1.2 million reserve recorded on a hotel property in the Southeast area of Kansas City, Missouri. The provision for loss associated with this property, which was foreclosed in September 2001, reduces it's carrying value to $2.5 million. Several events occurred during the quarter ended December 31, 2002, which led management to establish the provision. First, a well-known large retail chain, which had previously announced plans to occupy space in a shopping mall adjacent to the hotel property, announced that they had been unsuccessful in reaching agreement on a lease. Management believed this retail neighbor would have helped to sustain the pre-provision carrying value of the hotel. Secondly, the hotel property experienced declining occupancy ratios during the quarter and management's efforts to sell the property at its previous carrying value were unsuccessful. Management believes this property is properly recorded at it's new carrying value, however, any further deterioration may require further write-downs in the future.

Net loan servicing fees decreased $1.1 million, which was a result of increases in actual and estimated future prepayment of the underlying mortgage loans during the quarter. These decreases in other income were partially offset by an increase in impairment recovery on mortgage servicing rights of $523,000. Income from loan servicing fees are net of amortization of mortgage servicing rights. Such amortization is greatly affected by the level of actual prepayments and estimated future prepayments on the underlying mortgage loans. Management performs an ongoing analysis of mortgage servicing rights to determine to what extent, if any, they may be impaired. Changes in the trend of mortgage interest rates can occur quickly and may have a significant impact on future mortgage prepayments and amortization of mortgage servicing rights.

GENREAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the quarter ended December 31, 2002, increased $360,000 from the same period in the previous year. This was due primarily to an increase in compensation and other expenses attributable to the increased loan origination volume.

REGULATION

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

INSURANCE OF ACCOUNTS

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

REGULATORY CAPITAL REQUIREMENTS

At December 31, 2002, the Bank exceeds all capital requirements prescribed by the OTS. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of December 31, 2002, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At December 31, 2002	Amount
GAAP capital (Bank only)	$ 103,256
Adjustment for regulatory capital:	
Intangible assets	(3,345)
Disallowed portion of servicing assets	(46)
Reverse the effect of SFAS No. 115	(422)
Tangible capital	99,443
Qualifying intangible assets	--
Tier 1 capital (core capital)	99,443
Qualifying general valuation allowance	5,730
Risk-based capital	$ 105,173

	As of December 31, 2002		
	Actual	Minimum required for Capital Adequacy	Minimum "Well

	Amount	Ratio	Amount	Ratio	Amoun
Total capital to risk-weighted assets	$ 105,173	11.8%	71,327	>=8%	89,15
Core capital to adjusted tangible assets	99,443	9.1%	43,822	>=4%	54,77
Tangible capital to tangible assets	99,443	9.1%	16,433	>=1.5%	--
Tier 1 capital to risk-weighted assets	99,443	11.2%	--	--	53,49

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. As of December 31, 2002, the Bank had no loans that exceeded the loans to one borrower limit.

LIQUIDITY AND CAPITAL RESOURCES

The Bank generates liquidity primarily from savings deposits and repayments on loans, investments, and MBS. Liquidity measures the ability to meet deposit withdrawals and lending commitments. For secondary sources of liquidity, the Bank has the ability to sell assets held for sale, can borrow from primary securities dealers on a collateralized basis, and can use the FHLB of Des Moines' credit facility.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and MBS. During periods of falling interest rates, these prepayments increase and a greater demand exists for new loans. The Bank's customer deposits are partially impacted by area competition. Management is not currently aware of any other market or economic conditions that could materially impact the Bank's future ability to meet obligations as they come due.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities
None.

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

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

A report on Form 8-K was filed on December 23, 2002 under Item 2, which announced the consummation of the merger transaction with Community Bancorp, Inc ("CBES") on December 19, 2002. Pursuant to a definitive agreement dated September 5, 2002, CBES was merged with and into a wholly owned subsidiary of NASB Financial , Inc. formed solely to facilitate the transaction. The agreement provided that upon the effective date of the merger, each shareholder of CBES would receive $17.50 in cash for each share of CBES common stock owned by such shareholder.

A report on Form 8-K was filed on December 23, 2002 under Item 4, which reported management's intent to appoint the firm of BKD, LLP to replace Deloitte & Touche, LLP as independent auditors of the Bank.

S I G N A T U R E S

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

NASB Financial, Inc.
(Registrant)

February 14, 2003

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

February 14, 2003

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

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

1. I have reviewed this quarterly report on Form 10-Q of NASB Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidate subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to

significant deficiencies and material weaknesses.

Date: February 14, 2003

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

1. I have reviewed this quarterly report on Form 10-Q of NASB Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidate subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in

this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003