

Edgar Filing: NASB FINANCIAL INC - Form 10-K

NASB FINANCIAL INC  
Form 10-K  
December 14, 2009

Securities and Exchange Commission  
Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

For the period ended SEPTEMBER 30, 2009

or

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

For the transition period from to

Commission File Number 0-24033

NASB FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.15 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) if the Exchange Act.

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to

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Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, or a small reporting company. See definition of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.  Large accelerated filer  
 Accelerated filer  Non-accelerated filer  Small reporting Company

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the asking price of its Common Stock on March 31, 2009, was approximately \$91.2 million.

As of December 7, 2009, there were issued and outstanding 7,867,614 shares of the Registrant's common stock.

### DOCUMENTS INCORPORATED BY REFERENCE

1. Part II - Annual report to Stockholders for the Fiscal Year Ended September 30, 2009.
2. Part III - Proxy Statement for the 2010 Annual Meeting of Stockholders.

### PART I

#### ITEM 1. BUSINESS

##### General Description

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

The Bank's primary market area includes the counties of Jackson, Cass, Clay, Buchanan, Andrew, Platte, and Ray in Missouri, and Johnson and Wyandotte counties in Kansas. The Bank currently has nine retail deposit offices in Missouri including one each in Grandview, Lee's Summit, Independence, Harrisonville, Excelsior Springs, Platte City, and St. Joseph, and two in Kansas City. North American also operates loan production offices in Lee's Summit and Springfield in Missouri,

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and Overland Park in Kansas. The economy of the Kansas City area is diversified with major employers in agribusiness, greeting cards, automobile production, transportation, telecommunications, and government.

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

### WEIGHTED AVERAGE YIELDS AND RATES

The following table presents the balances of interest-earning assets and interest-costing liabilities with weighted average yields and rates. Average balances and weighted average yields include all accrual and non-accrual loans. Dollar amounts are expressed in thousands.

|   | Fiscal 2009        |                |
|---|--------------------|----------------|
|   | Average<br>Balance | Yield/<br>Rate |
| -----   |                    |                |
| Interest-earning assets:                          |                    |                |
| Loans   | \$ 1,352,561       | 6.28%          |
| Mortgage-backed securities                        | 54,674             | 3.73%          |
| Investments                                       | 57,554             | 4.78%          |
| Bank deposits                                     | 26,264             | 0.38%          |
|   | -----              |                |
| Total earning assets                              | 1,491,053          | 6.02%          |
| Non-earning assets                                | 65,063             | -----          |
|   | -----              |                |
| Total   | \$ 1,556,116       |                |
|   | =====              |                |
| Interest-costing liabilities:                     |                    |                |
| Customer checking and savings<br>deposit accounts | \$ 169,124         | 0.88%          |
| Customer and brokered<br>certificates of deposit  | 698,747            | 3.37%          |
| FHLB advances                                     | 491,040            | 3.37%          |
| Subordinated debentures                           | 25,000             | 3.42%          |
|   | -----              |                |
| Total costing liabilities                         | 1,383,911          | 3.07%          |
| Non-costing liabilities                           | 13,617             | -----          |
| Stockholders' equity                              | 158,588            |                |
|   | -----              |                |
| Total   | \$1,556,116        |                |
|   | =====              |                |
| Net earning balance                               | \$ 107,142         |                |
|   | =====              |                |
| Earning yield less costing rate                   |                    | 2.95%          |
|   |                    | =====          |

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|   | Fiscal 2008        |                |
|---|--------------------|----------------|
|   | Average<br>Balance | Yield/<br>Rate |
| Interest-earning assets:                          |                    |                |
| Loans   | \$ 1,363,032       | 6.72%          |
| Mortgage-backed securities                        | 71,196             | 3.58%          |
| Investments                                       | 25,909             | 4.19%          |
| Bank deposits                                     | 11,953             | 2.12%          |
| Total earning assets                              | 1,472,090          | 6.49%          |
| Non-earning assets                                | 61,057             | -----          |
| Total   | \$ 1,533,147       | =====          |
| Interest-costing liabilities:                     |                    |                |
| Customer checking and savings<br>deposit accounts | \$ 166,076         | 1.16%          |
| Customer and brokered<br>certificates of deposit  | 639,113            | 4.51%          |
| FHLB advances                                     | 536,344            | 4.55%          |
| Subordinated debentures                           | 25,000             | 5.43%          |
| Total costing liabilities                         | 1,366,533          | 4.13%          |
| Non-costing liabilities                           | 15,291             | -----          |
| Stockholders' equity                              | 151,323            | -----          |
| Total   | \$1,533,147        | =====          |
| Net earning balance                               | \$ 105,557         | =====          |
| Earning yield less costing rate                   |                    | 2.36%<br>===== |

|   | Fiscal 2007        |                |
|---|--------------------|----------------|
|   | Average<br>Balance | Yield/<br>Rate |
| Interest-earning assets:                          |                    |                |
| Loans   | \$ 1,339,370       | 7.40%          |
| Mortgage-backed securities                        | 89,972             | 3.51%          |
| Investments                                       | 25,145             | 4.99%          |
| Bank deposits                                     | 7,506              | 4.53%          |
| Total earning assets                              | 1,461,993          | 7.10%          |
| Non-earning assets                                | 63,799             | -----          |
| Total   | \$ 1,525,792       | =====          |
| Interest-costing liabilities:                     |                    |                |
| Customer checking and savings<br>deposit accounts | \$ 169,264         | 1.20%          |
| Customer and brokered                             |                    |                |

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|                                 |             |       |
|---------------------------------|-------------|-------|
| certificates of deposit         | 650,273     | 4.84% |
| FHLB advances                   | 512,341     | 5.23% |
| Subordinated debentures         | 20,269      | 7.01% |
| Repurchase agreements           | 7,546       | 5.23% |
| -----                           |             |       |
| Total costing liabilities       | 1,359,693   | 4.57% |
| Non-costing liabilities         | 12,668      | ----- |
| Stockholders' equity            | 153,431     |       |
| -----                           |             |       |
| Total                           | \$1,525,792 |       |
| =====                           |             |       |
| Net earning balance             | \$ 102,300  |       |
| =====                           |             |       |
| Earning yield less costing rate |             | 2.53% |
| =====                           |             |       |

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### RATIOS

The following table sets forth, for the periods indicated, the Company's return on assets (net income divided by average total assets), return on equity (net income divided by average equity), and equity-to-assets ratio (average equity divided by average total assets), and dividend payout ratio (total cash dividends paid divided by net income).

|                          | Year ended September 30, |        |        |        |        |
|--------------------------|--------------------------|--------|--------|--------|--------|
|                          | 2009                     | 2008   | 2007   | 2006   | 2005   |
|                          | -----                    |        |        |        |        |
| Return on average assets | 1.22%                    | 0.61%  | 1.01%  | 1.35%  | 1.77%  |
| Return on average equity | 11.74%                   | 6.16%  | 10.01% | 13.60% | 17.94% |
| Equity to asset ratio    | 10.67%                   | 10.05% | 9.92%  | 10.27% | 9.57%  |
| Dividend payout ratio    | 37.84%                   | 76.16% | 47.90% | 45.59% | 54.82% |

The following table sets forth the amount of cash dividends per share paid on the Company's common stock during the months indicated.

|          | Calendar year |       |       |       |       |
|----------|---------------|-------|-------|-------|-------|
|          | 2009          | 2008  | 2007  | 2006  | 2005  |
|          | -----         |       |       |       |       |
| February | \$ 0.225      | 0.225 | 0.225 | 0.225 | 0.225 |
| May      | 0.225         | 0.225 | 0.225 | 0.225 | 0.225 |
| August   | 0.225         | 0.225 | 0.225 | 0.225 | 0.225 |
| November | 0.225         | 0.225 | 0.225 | 0.225 | 0.45  |

### ASSET ACTIVITIES

#### LENDING ACTIVITIES

The Bank, has traditionally concentrated its lending activities on mortgage loans secured by residential and business property and, to a lesser extent, development lending. The residential mortgage loans originated have predominantly long-term fixed and 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 North American's loan portfolio

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consists of non-mortgage commercial loans and installment loans. The following table presents the Bank's total loans receivable, held for investment plus held for sale, for the periods indicated. The related discounts, premiums, deferred fees and loans-in-process accounts are excluded. Dollar amounts are expressed in thousands.

| As of September 30,    |  |             |      |           |      |           |      |           |      |           |      |
|------------------------|--|-------------|------|-----------|------|-----------|------|-----------|------|-----------|------|
|                        |  | 2009        |      | 2008      |      | 2007      |      | 2006      |      | 2005      |      |
|                        |  | Amount      | Pct. | Amount    | Pct. | Amount    | Pct. | Amount    | Pct. | Amount    | Pct. |
| Mortgage loans:        |  |             |      |           |      |           |      |           |      |           |      |
| Permanent Loans on:    |  |             |      |           |      |           |      |           |      |           |      |
| Residential properties |  | \$492,658   | 34%  | 458,087   | 31   | 428,520   | 29   | 441,123   | 29   | 535,554   | 35   |
| Business properties    |  | 474,487     | 34   | 496,671   | 34   | 489,978   | 33   | 482,029   | 32   | 428,566   | 28   |
| Partially guaranteed   |  |             |      |           |      |           |      |           |      |           |      |
| by VA or insured       |  |             |      |           |      |           |      |           |      |           |      |
| by FHA                 |  | 4,771       | --   | 2,812     | --   | 1,541     | --   | 1,890     | --   | 3,314     | --   |
| Construction and       |  |             |      |           |      |           |      |           |      |           |      |
| development            |  | 329,457     | 23   | 396,777   | 27   | 476,081   | 33   | 506,034   | 34   | 501,072   | 32   |
| Total mortgage loans   |  | 1,301,373   | 91   | 1,354,347 | 92   | 1,396,120 | 95   | 1,431,076 | 95   | 1,468,506 | 95   |
| Commercial loans       |  | 121,168     | 8    | 93,600    | 7    | 63,801    | 4    | 60,692    | 4    | 54,182    | 4    |
| Installment loans to   |  |             |      |           |      |           |      |           |      |           |      |
| individuals            |  | 13,861      | 1    | 14,920    | 1    | 17,729    | 1    | 17,279    | 1    | 21,413    | 1    |
|                        |  | \$1,436,402 | 100  | 1,462,867 | 100  | 1,477,650 | 100  | 1,509,047 | 100  | 1,544,101 | 100  |

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The following table sets forth information at September 30, 2009, regarding the dollar amount of loans maturing in the Bank's portfolio based on their contractual terms to maturity. Demand loans, which have no stated schedule of repayment and no stated maturity, are reported as due in one year or less. Scheduled repayments are reported in the maturity category in which the payment is due. Dollar amounts are expressed in thousands.

|                               |    | 2010    | 2011<br>Through<br>2014 | After<br>2014 | Total   |
|-------------------------------|----|---------|-------------------------|---------------|---------|
| Mortgage Loans:               |    |         |                         |               |         |
| Permanent:                    |    |         |                         |               |         |
| - at fixed rate               | \$ | 3,705   | 6,762                   | 385,077       | 395,544 |
| - at adjustable rates         |    | 18,318  | 7,137                   | 550,917       | 576,372 |
| Construction and development: |    |         |                         |               |         |
| - at fixed rates              |    | 2,390   | 304                     | --            | 2,694   |
| - at adjustable rates         |    | 292,002 | 34,761                  | --            | 326,763 |

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|                                  |           |        |           |           |
|----------------------------------|-----------|--------|-----------|-----------|
| Total mortgage loans             | 316,415   | 48,964 | 935,994   | 1,301,373 |
| Commercial loans                 | 48,280    | 10,784 | 62,104    | 121,168   |
| Installment loans to individuals | 1,246     | 3,036  | 9,579     | 13,861    |
| -----                            |           |        |           |           |
| Total loans receivable           | \$365,941 | 62,784 | 1,007,677 | 1,436,402 |
| =====                            |           |        |           |           |

### RESIDENTIAL REAL ESTATE LOANS

The Bank offers a range of residential loan programs. At September 30, 2009, 34% of total loans receivable were permanent loans on residential properties. Also, the Bank is authorized to originate loans guaranteed by the Veterans Administration ("VA") and loans insured by the Federal Housing Administration ("FHA"). Included in residential loans as of September 30, 2009, are \$4.8 million or less than 1% of the Bank's total loans that were insured by the FHA or VA.

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. Loan originations and purchases must be approved by various levels of management and, depending on the loan amount, are subject to review by the Board of Directors.

At the time a potential borrower applies for a single family 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 the lower of cost or 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. As of September 30, 2009, 23% of the Bank's total loans receivable were construction and development loans. The Bank originates both fixed and variable rate construction loans, and most are due and payable within one year. In some cases, extensions are permitted if payments are current and construction has progressed satisfactorily.

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. North American's staff performs periodic inspections of each property during construction to ensure adequate progress is achieved before scheduled loan disbursements are made.

### COMMERCIAL REAL ESTATE LOANS

The Bank purchases and originates several different types of

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commercial real estate loans. As of September 30, 2009, commercial real estate loans on business properties were \$474.5 million or 34% of the Bank's total loan portfolio. 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.

### INSTALLMENT LOANS

As of September 30, 2009, consumer installment loans and lease financing to individuals represented approximately 1% of loans receivable. 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.

### SALES OF MORTGAGE LOANS

The Bank is an active seller of loans in the national secondary mortgage market. A portion of loans originated are sold to various investors with the rights to service the loans (servicing released). Another portion are originated for sale with loan servicing rights kept by the Bank (servicing retained), or with servicing rights sold to a third party servicer. At the time of each loan commitment, management decides if the loan will be held in portfolio or sold and, if sold, which investor is appropriate. During fiscal 2009, the Bank sold \$1,583.2 million in loans with servicing released.

The Bank records loans held for sale at fair value, and any adjustments made to record them at estimated fair value are made through the income statement. As of September 30, 2009, the Bank had loans held for sale with a carrying value of \$81.4 million.

### CLASSIFIED ASSETS, DELINQUENCIES, AND ALLOWANCE FOR LOSS

**Classified Assets.** In accordance with the asset classification system outlined by the Office of Thrift Supervision ("OTS"), North American's problem assets are classified as 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 such little value that their existence without establishing a specific loss allowance is not warranted.

When the Bank classifies a problem asset, it establishes a specific loss allowance needed to reduce its book value to the present value of the expected future cash flows discounted at the loan's initial effective interest rate, or as a practical expedient, to the loan's observable market price or the fair value of the collateral, if the loan is dependent on collateral. In addition, Allowances for Loan and Lease Losses ("ALLL") are established by management. ALLL represent allowances that recognize inherent risks associated with distinct and homogenous loans pools. When the Bank classifies all or part of problem assets as loss, it establishes a specific loss allowance equal to 100% of the loss classification. The OTS reviews



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North American's asset classification during each examination and can require changes to asset classifications, specific loss allowances, ALLL, and loan loss provision.

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Each month, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. 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.

|   | As of September 30, |          |         |         |         |
|---|---------------------|----------|---------|---------|---------|
|   | 2009                | 2008     | 2007    | 2006    | 2005    |
| Asset Classification                      |                     |          |         |         |         |
| Substandard                               | \$ 69,158           | 34,320   | 11,726  | 12,361  | 13,346  |
| Doubtful                                  | --                  | --       | --      | --      | --      |
| Loss                                      | 6,415               | 1,442    | 357     | 434     | 595     |
| Total Classified                          | 75,573              | 35,762   | 12,083  | 12,795  | 13,941  |
| Allowance for loan/REO losses             | (20,699)            | (14,476) | (8,301) | (8,266) | (7,731) |
| Net classified assets                     | \$ 54,874           | 21,286   | 3,782   | 4,529   | 6,210   |
| Net classified to total classified assets | 73%                 | 60%      | 31%     | 35%     | 45%     |

When a loan becomes 90 days past due, the Bank stops accruing interest and establishes a reserve for the interest accrued-to-date. The following table summarizes non-performing assets, troubled debt restructurings, and real estate acquired through foreclosure or in-substance foreclosure. Dollar amounts are expressed in thousands.

|   | September 30, |           |           |           |           |
|---|---------------|-----------|-----------|-----------|-----------|
|   | 2009          | 2008      | 2007      | 2006      | 2005      |
| Total Assets  | \$1,559,562   | 1,516,761 | 1,506,483 | 1,524,796 | 1,556,344 |
| Non-accrual loans   | \$ 40,639     | 35,075    | 3,284     | 6,396     | 5,643     |
| Troubled debt restructurings                                  | 23,366        | --        | --        | 3,477     | 74        |
| Net real estate and other assets acquired through foreclosure | 10,140        | 6,038     | 6,511     | 5,231     | 7,760     |
| Total   | \$ 74,145     | 41,113    | 9,795     | 15,104    | 13,477    |
| Percent of total assets                                       | 4.75%         | 2.71%     | 0.65%     | 0.99%     | 0.87%     |

Delinquencies. The following table summarizes delinquent loan

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information.

As of September 30, 2009

| Loans delinquent for | Number of<br>Loans | Amount    | Percent of<br>Total Loans |
|----------------------|--------------------|-----------|---------------------------|
| 30 to 89 days        | 84                 | \$ 8,900  | 0.6%                      |
| 90 or more days      | 142                | 40,639    | 2.8%                      |
| Total                | 226                | \$ 49,539 | 3.4%                      |

As of September 30, 2008

| Loans delinquent for | Number of<br>Loans | Amount    | Percent of<br>Total Loans |
|----------------------|--------------------|-----------|---------------------------|
| 30 to 89 days        | 82                 | \$ 15,892 | 1.1%                      |
| 90 or more days      | 89                 | 35,075    | 2.4%                      |
| Total                | 171                | \$ 50,967 | 3.5%                      |

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The effect of non-performing loans on interest income for fiscal year 2009 is presented below. Dollar amounts are expressed in thousands.

|   |           |
|---|-----------|
| Principal amount of non-performing loans<br>as of September 30, 2009  | \$ 40,639 |
| Gross amount of interest income that would<br>have been recorded during fiscal 2009 if<br>these loans had been performing | \$ 3,901  |
| Actual amount included in interest income for<br>fiscal 2009  | 1,560     |
| Interest income not recognized on non-performing<br>loans   | \$ 2,341  |

Allowance for loan and lease losses. Management records a provision for estimated loan losses in an amount sufficient to cover current net charge-offs and probable losses based on an analysis of risks inherent in the loan portfolio. Management continually monitors the performance of the loan portfolio and establishes specific loss allowances when warranted. Specifically, when it appears that a property and borrower are no longer capable of full repayment, management establishes a specific loss allowance to reduce the loan's book value to fair value based on the anticipated results of collections. In addition, management establishes Allowance for Loan and Lease Losses ("ALLL") through charges to the provision for loan loss based on an assessment of the portfolio's credit risk, other than

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specifically identified problem loans. Management attempts to maintain ALLL proportionate to the level of risk in the Bank's performing loan portfolio.

Management records an Allowance for Loan and Lease Losses 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 ALLL recognizes the inherent risks associated with lending activities but, unlike a specific allowance, has not been allocated to particular problem assets but to a homogenous pool of loans. Management analyzes the adequacy of the allowance on a monthly basis and believes that the Bank's specific loss allowances and ALLL are adequate. 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 based on the information available at the time of their examinations.

Management estimates the required level of ALLL using a formula based on various subjective and objective factors. ALLL is established and maintained in the form of a provision on loss charged to earnings. Based on its analysis, management may determine that ALLL is above appropriate levels. If so, a negative loss provision would be recorded to reduce the ALLL. This could occur due to significant asset recoveries or significant reductions in the level of classified assets. Each quarter management assesses the risk of the assets in the loan portfolio using historical loss data and current economic conditions in order to determine impairment of the various loan portfolios and adjusts the level of ALLL. 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.

When considering the adequacy of ALLL, management's evaluation of the asset portfolio has two primary components: foreclosure probability and loss severity. Foreclosure probability is the likelihood of loans not repaying in accordance with their original terms, which would result in the foreclosure and subsequent liquidation of the property. Loss severity is any potential loss resulting from the loan's foreclosure and subsequent liquidation. Management calculates estimated foreclosure frequency and loss severity ratios for each homogenous loan pool based upon objective factors such as historical data and loan characteristics, plus an estimate of certain subjective factors including future market trends and economic conditions. These ratios are applied to the balances of the homogeneous loan pools to determine the adequacy of the ALLL each month.

In addition to analyzing homogenous pools of loans for impairment, management reviews individual loans for impairment each month. 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. If a loan is impaired, the Bank records a specific allowance equal to the excess of the loan's carrying value over the present value of the estimated future cash flows discounted at the loan's effective rate based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Loans on residential properties with greater than four units and loans on construction/development and commercial properties are evaluated for impairment on a loan-by-loan

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basis.

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The provision for losses on loans was \$11.3 million during the year ended September 30, 2009, compared to \$6.2 million during fiscal 2008. The allowance for loan losses was \$20.7 million or 1.64% of the total loan portfolio held for investment and approximately 51% of total nonaccrual loans as of September 30, 2009. This compares with an allowance for loan losses of \$13.8 million or 1.07% of the total loan portfolio held for investment and approximately 39% of the total nonaccrual loans as of September 30, 2008. The increase in the allowance for loan loss of \$6.9 million was due to the aforementioned provision for loan loss resulting from management's analysis of the Bank's loan portfolios, which was offset by net charge-offs for the year of \$4.4 million. The increase in the provision for loss on loans related primarily to the significant increase in loans classified as substandard or loss over the prior year. Additionally, management determined that the significant increase in the allowance for loan loss was appropriate due to the continued deterioration in the real estate markets.

The following table sets forth the activity in the allowance for loan losses. Dollar amounts are expressed in thousands.

|                                    | September 30, |        |         |       |         |
|------------------------------------|---------------|--------|---------|-------|---------|
|                                    | 2009          | 2008   | 2007    | 2006  | 2005    |
| Balance at beginning of year       | \$13,807      | 8,097  | 7,991   | 7,536 | 8,221   |
| Total provisions                   | 11,250        | 6,200  | 1,634   | 745   | 522     |
| Net recoveries (charge-offs) on:   |               |        |         |       |         |
| Residential properties             | (2,309)       | (11)   | (40)    | (2)   | 53      |
| Business properties                | (254)         | (5)    | (386)   | (280) | (1,237) |
| Construction and development       | (1,326)       | (362)  | (842)   | (2)   | --      |
| Commercial loans                   | (339)         | --     | --      | --    | --      |
| Installment loans                  | (130)         | (112)  | (260)   | (6)   | (23)    |
| Total net recoveries (charge-offs) | (4,358)       | (490)  | (1,528) | (290) | (1,207) |
| Acquired in merger                 | --            | --     | --      | --    | --      |
| Balance at end of year             | \$20,699      | 13,807 | 8,097   | 7,991 | 7,536   |

The following table sets forth the allocation of the allowance for loan losses. Dollar amounts are expressed in thousands.

|  | As of September 30, |      |      |      |      |
|--|---------------------|------|------|------|------|
|  | 2009                | 2008 | 2007 | 2006 | 2005 |

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|                              | Amount    | Pct. | Amount | Pct. | Amount | Pct. | Amount | Pct. | Amount | Pct. |
|------------------------------|-----------|------|--------|------|--------|------|--------|------|--------|------|
|                              | -----     |      | -----  |      | -----  |      | -----  |      | -----  |      |
| Residential properties       | \$ 3,680  | 18%  | 1,286  | 9    | 1,013  | 13   | 789    | 10   | 722    | 1    |
| Business properties          | 8,936     | 43   | 5,723  | 41   | 4,289  | 53   | 4,574  | 57   | 4,404  | 5    |
| Construction and development | 6,272     | 30   | 5,638  | 41   | 1,704  | 21   | 1,783  | 22   | 1,406  | 1    |
| Commercial loans             | 1,123     | 6    | 952    | 7    | 728    | 9    | 613    | 8    | 608    |      |
| Installment loans            | 688       | 3    | 208    | 2    | 363    | 4    | 232    | 3    | 396    |      |
|                              | -----     |      | -----  |      | -----  |      | -----  |      | -----  |      |
|                              | \$ 20,699 | 100  | 13,807 | 100  | 8,097  | 100  | 7,991  | 100  | 7,536  | 100  |
|                              | =====     |      | =====  |      | =====  |      | =====  |      | =====  |      |

If a loan has a specific loss reserve at the time it is foreclosed, the specific reserve is netted against the loan balance in recording the foreclosed loan as REO. Management records a provision for losses on REO when, subsequent to foreclosure, the estimated net realizable value of a repossessed asset declines below its book value. The following table sets forth activity in the allowance for loss on REO. Dollar amounts are expressed in thousands.

|                                | September 30, |         |       |         |       |
|--------------------------------|---------------|---------|-------|---------|-------|
|                                | 2009          | 2008    | 2007  | 2006    | 2005  |
|                                | -----         | -----   | ----- | -----   | ----- |
| Beginning allowance for loss   | \$ 669        | 204     | 275   | 195     | 1,093 |
| Provisions                     | 727           | 2,050   | 595   | (1,026) | (899) |
| Net recoveries (charge-offs)   | (1,396)       | (1,585) | (666) | 1,106   | 1     |
|                                | -----         | -----   | ----- | -----   | ----- |
| Allowance for loss at year-end | \$ --         | 669     | 204   | 275     | 195   |
|                                | =====         | =====   | ===== | =====   | ===== |

SECURITIES AND MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

Management classifies debt securities as available for sale if the Bank does not have the intention and ability to hold until maturity. Assets available for sale are carried at estimated fair value, with all fair value adjustments recorded as accumulated other comprehensive income or loss.

SECURITIES AND MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The Bank's MBS portfolio consists of collateralized mortgage obligations, asset-backed securities, and securities issued by the FHLMC, FNMA, and GNMA. As of September 30, 2009, the Bank had \$69,000 in fixed rate and \$43,000 in balloon and adjustable rate mortgage-backed securities ("MBS") issued by these agencies. In addition, the Bank had \$11.0 million of collateralized mortgage obligations and \$1.3 million of asset-backed securities at September 30, 2009.

INVESTMENT SECURITIES

As of September 30, 2009, the Bank held no investment security from a single issuer for which the market value exceeded 10% of the Bank's stockholders' equity.

SOURCE OF FUNDS

In addition to customer and brokered deposits, the Bank obtains funds from loan and MBS repayments, sales of loans held-for-sale and securities available-for-sale, investment maturities, FHLB advances,

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and other borrowings. Loan repayments, as well as the availability of customer deposits, are influenced significantly by the level of market interest rates. Borrowings may be used to compensate for insufficient customer deposits or to support expanded loan and investment activities.

### CUSTOMER DEPOSIT AND BROKERED DEPOSIT ACCOUNTS

The following table sets forth the composition of various types of deposit accounts. Dollar amounts are expressed in thousands.

| Type of Account and Rate:      |           |     |         |     |         |     |         |     |         |
|--------------------------------|-----------|-----|---------|-----|---------|-----|---------|-----|---------|
| Demand deposit accounts        | \$ 80,201 | 9%  | 76,621  | 10  | 93,451  | 11  | 86,517  | 10  | 82,596  |
| Savings accounts               | 81,572    | 9   | 71,193  | 9   | 70,077  | 8   | 77,469  | 9   | 97,435  |
| Money market demand accounts   | 14,991    | 2   | 13,352  | 2   | 10,323  | 1   | 11,717  | 2   | 12,271  |
| Certificates of deposit        | 520,017   | 57  | 530,449 | 69  | 548,251 | 64  | 547,096 | 64  | 515,590 |
| Brokered accounts              | 207,844   | 23  | 77,764  | 10  | 133,434 | 16  | 128,243 | 15  | 94,802  |
|                                | -----     |     | -----   |     | -----   |     | -----   |     | -----   |
|                                | \$904,625 | 100 | 769,379 | 100 | 855,536 | 100 | 851,042 | 100 | 802,694 |
|                                | =====     |     | =====   |     | =====   |     | =====   |     | =====   |
| Weighted average interest rate | 2.23%     |     | 3.38%   |     | 4.30%   |     | 3.98%   |     | 2.96%   |

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The following table presents the deposit activities at the Bank. Dollar amounts are expressed in thousands.

|   | For the years ended September 30, |           |           |           |           |
|---|-----------------------------------|-----------|-----------|-----------|-----------|
|   | 2009                              | 2008      | 2007      | 2006      | 2005      |
| Deposit receipts  | \$ 1,218,488                      | 1,390,376 | 1,354,709 | 1,477,500 | 1,302,290 |
| Withdrawals   | 1,106,956                         | 1,508,927 | 1,383,389 | 1,457,221 | 1,199,596 |
| Deposit receipts and purchases in excess of (less than) withdrawals | 111,532                           | (118,551) | (28,680)  | 20,279    | 102,694   |
| Interest credited   | 23,714                            | 32,394    | 33,174    | 28,069    | 16,260    |
| Net increase (decrease)   | \$ 135,246                        | (86,157)  | 4,494     | 48,348    | 118,954   |
| Balance at end of year  | \$ 904,625                        | 769,379   | 855,536   | 851,042   | 802,694   |

Customers who wish to withdraw certificates of deposit prior to maturity are subject to a penalty for early withdrawal.

The following table presents contractual maturities of

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certificate accounts of \$100,000 or more at September 30, 2009.  
Dollar amounts are expressed in thousands.

|                                  |            |
|----------------------------------|------------|
| Maturing in three months or less | \$ 24,172  |
| Maturing in three to six months  | 19,973     |
| Maturing in six to twelve months | 38,473     |
| Maturing in over twelve months   | 37,591     |
|                                  | -----      |
|                                  | \$ 120,209 |
|                                  | =====      |

### FHLB ADVANCES AND OTHER BORROWINGS

FHLB advances are an important source of borrowing for North American. The FHLB functions as a central reserve bank providing credit for thrifts and other member institutions. As a member of the FHLB, North American is required to own stock in the FHLB of Des Moines and can apply for advances, collateralized by the stock and certain types of mortgages, provided that certain standards related to credit-worthiness are met.

The Bank has historically relied on customer deposits and loan repayments as its primary sources of funds. Advances are sometimes used as a funding supplement, when management determines that it can profitably invest the advances over their term. During fiscal 2009, the Bank borrowed an additional \$444.0 million in advances, repaid \$553.0 million, and as of September 30, 2009, had a balance of \$441.0 million (32% of total liabilities) of advances from the FHLB.

The following table presents, for the periods indicated, certain information as to the Bank's advances from the FHLB and other borrowings. Dollar amounts are expressed in thousands.

|                       | As of September 30, |         |         |         |         |
|-----------------------|---------------------|---------|---------|---------|---------|
|                       | 2009                | 2008    | 2007    | 2006    | 2005    |
| FHLB advances         | \$ 441,026          | 550,091 | 458,933 | 499,357 | 465,907 |
| Other borrowings      | --                  | --      | --      | --      | 122,000 |
| Total                 | \$ 441,026          | 550,091 | 458,933 | 499,357 | 587,907 |
| Weighted average rate | 2.99%               | 4.07%   | 5.08%   | 5.21%   | 3.67%   |

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### OTHER INFORMATION

#### EMPLOYEES

As of September 30, 2009, the Bank and its subsidiaries had 383 employees. Management considers its relations with the employees to be excellent.

The Bank currently maintains a comprehensive employee benefit program including a qualified pension plan, hospitalization and major medical insurance, paid vacations, paid sick leave, long-term disability insurance, life insurance, and reduced loan fees for

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employees who qualify. The Bank's employees are not represented by any collective bargaining group.

### COMPETITION

The Bank, like other savings institutions, is operating in a changing environment. Non-depository financial service companies such as securities dealers, insurance agencies, and mutual funds have become competitors for retail savings and investments. In addition to offering competitive interest rates, a savings institution can attract customer deposits by offering a variety of services and convenient office locations and business hours. Mortgage banking/brokerage firms compete for the residential mortgage business. The primary factors in competing for loans are interest rates and rate adjustment provisions, loan maturity, loan fees, and the quality of service to borrowers and brokers.

### REGULATION

#### GENERAL

Federal savings institutions are members of the FHLB System and their deposits are insured by the DIF, a division of the Federal Deposit Insurance Corporation ("FDIC"). They are subject to extensive regulation by the OTS as the chartering authority and now, since the passage of the FIRREA, the FDIC. DIF insured institutions are limited in the transactions in which they may engage by statute and regulation, which in certain instances may require an institution to conform with regulatory standards or to receive prior approval from regulators. Institutions must also file periodic reports with these government 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. If it is deemed appropriate, the FDIC can require a re-valuation of the Bank's assets based on examinations and they can require the Bank to establish specific allowances for loss that reflect any such re-valuation. This supervision and regulation is intended primarily for the protection of depositors. Savings institutions are also subject to certain reserve requirements under Federal Reserve Board regulations.

The enforcement provisions of the Federal Deposit Insurance Act ("FDI Act") are applicable to savings institutions and savings and loan holding companies. While the OTS is primarily responsible for enforcing those provisions, the FDIC also has authority to impose enforcement action on savings institutions in certain situations. The jurisdiction of the FDI Act's enforcement powers cover all "insured-related parties" including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Regulators have broad flexibility to impose enforcement action on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement action ranges from requiring a capital plan, restricting operations, or terminating deposit insurance. The FDIC can recommend to the director of the OTS (the "Director") enforcement action, and if action is not taken by the Director, the FDIC has the authority to compel such action under certain circumstances.



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The Bank is a member of the FHLB System, which consists of 12 regional Federal Home Loan Banks each subject to OTS supervision and regulation. The FHLBs provide a central credit facility for member institutions. The Bank, as a member of the FHLB of Des Moines, is required to hold shares of capital stock of the FHLB in an amount equal to at least 1% of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 1/20 of its advances from the FHLB of Des Moines, whichever is greater. The Bank complies with this requirement and holds stock in the FHLB of Des Moines at September 30, 2009, of \$26.6 million. FHLB advances must be secured by specified types of collateral. Also, standards of community investment and community service must be met by members that apply for FHLB advances.

### LIQUIDITY

Effective July 18, 2001, the OTS adopted a rule that removed the regulation to maintain a specific average daily balance of liquid assets, but retained a provision that requires institutions to maintain sufficient liquidity to ensure their safe and sound operation. North American maintains a level of liquid assets adequate to meet the requirements of normal banking activities, including the repayment of maturing debt and potential deposit withdrawals. The Bank's primary sources of liquidity are the sale and repayment of loans, retention of existing or newly acquired retail deposits, and FHLB advances. Management continues to use FHLB advances as a primary source of short-term funding. FHLB advances are secured by a blanket pledge agreement of the loan and securities portfolio, as collateral, supported by quarterly reporting of eligible collateral to FHLB. Available FHLB borrowings are limited based upon a percentage of the Bank's assets and eligible collateral, as adjusted by appropriate eligibility and maintenance levels. Management continually monitors the balance of eligible collateral relative to the amount of advances outstanding. At September 30, 2009, the Bank had available advances at FHLB of \$535.9 million, and outstanding advances of \$441.0 million. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank may purchase brokered deposit accounts. At September 30, 2009, the Bank has \$207.8 million in brokered deposits, and it could purchase up to an additional \$354.7 million in brokered deposits and remain "well capitalized" as defined by the OTS.

### INSURANCE ON CUSTOMER DEPOSIT ACCOUNTS

Deposit insurance reform legislation was signed into law on February 8, 2006. A key provision of this legislation was the merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a single fund, the Deposit Insurance Fund (DIF). The merger of the funds was effective March 31, 2006. The DIF insures the Bank's customer deposit accounts to a maximum of \$100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of \$250,000. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit of federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. This legislation provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2009. On September 9, 2009, the FDIC Board of Directors approved a rule to extend the temporary increase through December 31, 2013.

Deposit 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 subgroups.

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The capital groups are an objective measure of risk based on regulatory capital calculations and include well capitalized, adequately capitalized, and undercapitalized. The supervisory subgroups (A, B, and C) are more subjective and are determined by the FDIC based on recent regulatory examinations. Member institutions are eligible for reclassification every six months.

Annual deposit insurance premiums range from 7 to 77.5 basis points of insured deposits based on where an institution fits on the RRPS. North American is considered to be "well capitalized" and has been placed in the most favorable capital subgroup. In addition to deposit insurance premiums, institutions are assessed a premium, which is used to service the interest on the Financing Corporation ("FICO") debt.

On May 22, 2009, the Federal Deposit Insurance Corporation (FDIC) adopted a rule imposing a five basis point special assessment on all insured financial institutions' assets minus its Tier I capital as of June 30, 2009, to be collected on September 30, 2009.

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On November 12, 2009, the FDIC adopted a rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and all of 2010, 2011, and 2012. The prepaid assessment for these periods will be collected on December 31, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009.

The FDIC has authority to conduct examinations of, require reporting of, and initiate enforcement actions against a thrift. Regardless of an institution's capital level, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS.

### REGULATORY CAPITAL REQUIREMENTS

Regulations require that thrifts maintain minimum levels of regulatory capital, which are at least as stringent as those imposed on national banks by the Office of the Comptroller of the Currency ("OCC").

**Leverage Limit.** The leverage limit requires that a thrift maintain "core capital" of at least 4% of its adjusted tangible assets. "Core capital" includes (i) common stockholders' equity, including retained earnings; non-cumulative preferred stock and related earnings; and minority interest in the equity accounts of consolidated subsidiaries, minus (ii) those intangibles (including goodwill) and investments in and loans to subsidiaries not permitted in computing capital for national banks, plus (iii) certain purchased mortgage servicing rights and certain qualifying supervisory goodwill. At September 30, 2009, intangible assets of \$2.7 million and disallowed servicing asset totaling an additional \$39,000 were deducted from the Bank's regulatory capital. At September 30, 2009, the Bank's core capital ratio was 10.6%.

**Tangible Capital Requirement.** The tangible capital requirement mandates that a thrift maintain tangible capital of at least 1.5% of

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tangible assets. For the purposes of this requirement, adjusted total assets are generally calculated on the same basis as for the leverage ratio requirement. Tangible capital is defined in the same manner as core capital, except that all goodwill and certain other intangible assets must be deducted. As of September 30, 2009, North American's regulatory tangible capital was 10.6% of tangible assets.

**Risk-Based Capital Requirement.** OTS standards require that institutions maintain risk-based capital equal to at least 8% of risk-weighted assets. Total risk-based capital includes core capital plus supplementary capital. In determining risk-weighted assets, all assets including certain off-balance-sheet items are multiplied by a risk weight factor from 0% to 100%, based on risk categories assigned by the OTS. The RRPS categorizes bank risk-based capital ratio over 10% as well capitalized, 8% to 10% as adequately capitalized, and under 8% as undercapitalized. As of September 30, 2009, the Bank's current risk-based regulatory capital was 12.4% of risk-weighted assets.

### OTS ASSESSMENTS

The OTS has a sliding scale assessment formula to provide funding for its operations. Troubled savings associations are charged a "premium assessment" at a rate of 50% higher than non-troubled savings associations at the same level of assets. Non-troubled institutions are charged "general assessments." The changes in assessment fees reflect the increased supervisory attention that troubled institutions require from the OTS, which in turn increases the cost of regulation and examinations.

### EQUITY RISK INVESTMENTS

OTS regulations limit the aggregate amount that an insured institution may invest in real estate, service corporations, equity securities, and nonresidential construction loans and loans with loan-to-value ratios greater than 80%. Under the regulations, savings associations which meet their minimum regulatory capital requirements and have tangible capital of less than 6% of total liabilities may make aggregate equity risk investments equal to the greater of 3% of assets or two and one-half times their tangible capital. Savings associations that meet their minimum regulatory capital requirements and have tangible capital equal to or greater than 6% of total liabilities may make aggregate equity risk investments of up to three times their tangible capital.

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### LOANS TO ONE BORROWER

FIRREA prohibits an institution from investing in any one real estate project in an amount in excess of the applicable loans-to-one-borrower limit, which is an amount equal to 15% of unimpaired capital on an unsecured basis and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permissible if the original borrower remains liable for the debt and no additional funds are disbursed. The Bank has received regulatory approval from the OTS under 12 CFR 560.93 which increased its loans-to-one-borrower limit to \$30 million for loans secured by certain residential housing units. Such loans must, in the aggregate, not exceed 150% of the Bank's unimpaired capital and surplus.

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### INVESTMENT IN SUBSIDIARIES

Investments in and extensions of credit to subsidiaries not engaged in activities permissible for national banks must generally be deducted from capital. As of September 30, 2009, the Bank did not have any investments in or advances to subsidiaries engaged in activities not permissible for national banks.

### FEDERAL RESERVE SYSTEM

Regulations require that institutions maintain reserves of 3% against transaction accounts up to a specified level and an initial reserve of 10% against that portion of total transaction accounts in excess of such amount. In addition, an initial reserve of 3% must be maintained on non-personal time deposits, which include borrowings with maturities of less than four years. Such reserves are non-interest bearing. These percentages are subject to change by the Federal Reserve Board. As of September 30, 2009, North American met its reserve requirements.

Savings institutions have authority to borrow from the Federal Reserve Bank's "discount window," but only after exhausting all FHLB sources of borrowing.

### U.S. TREASURY TROUBLED ASSET RELIEF PROGRAM

On October 14, 2008, the U. S. Department of Treasury ("the Treasury") announced the Troubled Asset Relief Program ("TARP Program"), in an effort to improve the strength of financial institutions and enhance market liquidity. Under the TARP Program, the Treasury could purchase up to \$250 billion in senior preferred stock of participating financial institutions. The TARP program was available to certain qualified financial institutions, and such institutions would only be qualified if they elected to participate on or before November 14, 2008. Institutions participating in the TARP program were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP program. North American did not participate in the TARP Program.

### TAXATION

The Company is subject to the general applicable corporate tax provisions of the Internal Revenue Code ("Code") and the Bank is subject to certain additional provisions of the Code, which apply to savings institutions and other types of financial institutions.

### BAD DEBT RESERVES

Prior to October 1, 1996, the Bank was allowed a special bad debt deduction for additions to tax bad debt reserves established for the purpose of absorbing losses. This deduction was either based on an institution's actual loss experience (the "experience method") or, subject to certain tests relating to the composition of assets, based on a percentage of taxable income ("percentage method"). Under the percentage method, qualifying institutions generally deducted 8% of their taxable income.

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debt deduction was based on actual experience beginning with the fiscal year ended September 30, 1997, as the percentage method for additions to the tax bad debt reserve was eliminated. Under the new tax rules, thrift institutions were required to recapture their accumulated tax bad debt reserve, except for the portion that was established prior to 1988, the "base-year". The recapture was completed over a six-year phase-in period that began with the fiscal year ended September 30, 1999. A deferred tax liability is required to the extent the tax bad debt reserve exceeds the 1988 base year amount. As of September 30, 2009, North American had approximately \$3.7 million established as a tax bad debt reserve in the base-year. Distributing the Bank's capital in the form of purchasing treasury stock forced North American to recapture its after base-year bad debt reserve prior to the phase-in period. Management believes that accelerating the recapture was more than offset by the opportunity to buy treasury stock at lower average market prices.

### MINIMUM TAX

For taxable years beginning after December 31, 1986, the alternative minimum tax rate is 20%. The alternative minimum tax generally applies to a base of regular taxable income plus certain tax preferences and is payable to the extent such preferences exceed an exemption amount.

### STATE TAXATION

The Bank is subject to a special financial institution state tax based on approximately 7% of net income. This tax is in lieu of all other taxes on thrift institutions except taxes on real estate, tangible personal property owned by the Bank, contributions paid to the State unemployment insurance fund, and sales/use taxes.

### ITEM 2. PROPERTIES

North American's main office is located at 12498 South 71 Highway, Grandview, Missouri. In addition to its main office, the Bank has nine branch offices, three loan origination offices, and one customer service office. Net book value of premises owned and leasehold improvement (net of accumulated depreciation) at September 30, 2009, was approximately \$10.3 million.

| Location   | Date<br>Occupied | Owned/<br>Leased | Lease<br>Expiration |
|--|------------------|------------------|---------------------|
| 12498 South 71 Highway<br>Grandview, Missouri      | 1972             | Owned            |                     |
| 646 N 291 Highway<br>Lees Summit, Missouri         | 1992             | Owned            |                     |
| 8501 North Oak Trafficway<br>Kansas City, Missouri | 1994             | Owned            |                     |
| 920 North Belt<br>St. Joseph, Missouri             | 1979             | Owned            |                     |
| 2002 E Mechanic<br>Harrisonville, Missouri         | 1975             | Owned            |                     |
| 11400 E 23rd St.<br>Independence, Missouri         | 2000             | Owned            |                     |
| 7012 NW Barry Road                                 |                  |                  |                     |

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|  |      |        |               |
|--|------|--------|---------------|
| Kansas City, Missouri                                  | 2001 | Owned  |               |
|  | 14   |        |               |
| 1001 N Jesse James Road<br>Excelsior Springs, Missouri | 2002 | Owned  |               |
| 12520 South 71 Highway<br>Grandview, Missouri          | 2005 | Owned  |               |
| 2707 NW Prairie View Road<br>Platte City, Missouri     | 2007 | Owned  |               |
| 789 NE Rice Road<br>Lee's Summit, Missouri             | 2008 | Leased | April 2010    |
| 12900 Metcalf - Suite 140<br>Overland Park, Kansas     | 1996 | Leased | December 2009 |
| 4350 S National, Suite A100<br>Springfield, Missouri   | 2005 | Leased | Juy 2015      |
| 10950 El Monte, Suite 210<br>Overland Park, Kansas     | 2007 | Leased | May 2014      |

### ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal actions that arose in the normal course of business. There are no legal proceedings to which the Company or its subsidiaries is a party that would have a material impact on its consolidated financial statements.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information appearing on page 55 and 56 of the 2009 Annual Report to Stockholders is incorporated herein by reference.

### ITEM 6. SELECTED FINANCIAL DATA

The information appearing on page 3 of the 2009 Annual Report to Stockholders is incorporated herein by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing on pages 4 through 15 in the 2009 Annual Report to Stockholders is incorporated herein by reference.

### ITEM 7a. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing on pages 11 through 13 in the 2009 Annual Report to Stockholders is incorporated herein by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information appearing on pages 16 through 51 of the 2009

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Annual Report to Stockholders is incorporated herein by reference. See Item 15 below for a list of the financial statements and notes so incorporated.

### ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCE DISCLOSURE

None.

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### ITEM 9a. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2009.

Our internal control over financial reporting as of September 30, 2009, has been audited by BKD, LLP, an independent registered public accounting firm, as stated in their report which follows.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders  
NASB Financial, Inc.  
Grandview, Missouri

We have audited NASB Financial, Inc.'s internal control over financial reporting as of September 30, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial

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reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NASB Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of NASB Financial, Inc. and our report dated December 14, 2009 expressed an unqualified opinion thereon.

/s/ BKD LLP

Kansas City, Missouri  
December 14, 2009



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing on pages 4 through 16 of the Company's Proxy Statement for the 2010 Annual Meeting and information appearing on pages 53 and 54 of the 2009 Annual Report to Stockholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing on pages 7 through 16 of the Company's Proxy Statement for the 2010 Annual Meeting is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing on page 14 through 15 of the Company's Proxy Statement for the 2010 Annual Meeting is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing on page 16 of the Company's Proxy Statement for the 2010 Annual Meeting is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing on page 16 of the Company's Proxy Statement for the 2010 Annual Meeting is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements

The following consolidated financial statements of NASB Financial, Inc. and the independent auditor's report thereon which appear in the Company's 2009 Annual report to Stockholders ("Annual Report") have been incorporated herein by reference to Item 8.

Consolidated Balance Sheets at September 30, 2009, and 2008 (Annual Report - Page 16).

Consolidated Statements of Income for the years ended September 30, 2009, 2008, and 2007 (Annual Report - Page 17).

Consolidated Statements of Cash Flows for the years ended September 30, 2009, 2008, and 2007 (Annual Report - Pages 18 and 19).

Consolidated Statements of Stockholders' Equity for the years ended September 30, 2009, 2008, and 2007 (Annual Report - Page 20).

Notes to Consolidated Financial Statements (Annual Report - Pages 21 through 51).

Report of Independent Registered Public Accounting Firm (Annual

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Report - Page 52).

(2) Financial Statement Schedules.

Schedules are provided in the Consolidated Financial Statements.

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(3) EXHIBITS.

Exhibit  
Number

- 
- 2) Agreement and Plan of Merger by and among North American Savings Bank, F.S.B., NASB Interim Savings Bank, F.S.B., and NASB Financial, Inc. Exhibit 2 to Form 8-K, dated April 15, 1998, and incorporated herein by reference.
  - 3) Federal Stock Savings Bank Charter and Bylaws. Exhibit 3 to Form 10-K for fiscal year ended September 30, 1992, dated December 27, 1992, and incorporated herein by reference.
  - 3.1) Articles of Incorporation of NASB Financial, Inc. Exhibit 3.1 to Form 8-K, dated April 15, 1998, and incorporated herein by reference.
  - 3.2) Bylaws of NASB Financial, Inc. Exhibit 3.2 to Form 8-K, dated April 15, 1998, and incorporated herein by reference.
  - 10.1) Employees' Stock Option Plan and specimen copy of Option Agreement entered into between the Company and the Plan participants. (Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 1986, dated December 26, 1986, and incorporated herein by reference).
  - 10.2) Amended and Restated Retirement Income Plan for Employees of North American Savings Bank dated September 30, 1988, dated December 20, 1988, and incorporated herein by reference).
  - 10.3) NASB Financial, Inc. Equity Incentive Compensation Plan dated adopted on October 28, 2003. (Exhibit B to the Company's Proxy Statement for the 2004 Annual Meeting and incorporated herein by Reference).
  - \*13) 2009 Annual Report to Stockholders.
  - 22) Subsidiaries of the Registrant at September 30, 2009, listed on page 1.
  - 23) Proxy Statement of NASB Financial, Inc. for the 2010 Annual Meeting of Stockholders filed with the SEC (certain portions of such proxy Statement are incorporated herein by reference to page numbers in the text of this report on Form 10-K).
  - \*31.1) Certification of Chief Executive Officer pursuant to Rules 13a-15(e) and 15d-15(e).
  - \*31.2) Certification of Chief Financial Officer pursuant to Rules 13a-15(e) and 15d-15(e).

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- \*32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed Herewith

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### SIGNATURES

Pursuant to the requirements of section 13 or 15 (d) 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.

By: /s/ David H. Hancock  
David H. Hancock  
Chairman

Date: December 14, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on December 12, 2008, by the following persons on behalf of the Registrant and in the capacities indicated.

| Signature  | Title  |
|--|--|
| /s/ David H. Hancock<br>David H. Hancock         | Chairman and Chief<br>Executive Officer                      |
| /s/ Rhonda Nyhus<br>Rhonda Nyhus                 | Chief Financial Officer<br>(Principal Accounting<br>Officer) |
| /s/ Keith B. Cox<br>Keith B. Cox                 | Director   |
| /s/ Paul L. Thomas<br>Paul L. Thomas             | Director   |
| /s/ Frederick V. Arbanas<br>Frederick V. Arbanas | Director   |
| /s/ Barrett Brady<br>Barrett Brady               | Director   |

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/s/ Laura Brady  
Laura Brady

Director

/s/ Linda S. Hancock  
Linda S. Hancock

Director

/s/ W. Russell Welsh  
W. Russell Welsh

Director