2016

ANNUAL REPORT

NASB Financial, Inc.

NASB Financial, Inc.

December 15, 2016

Dear Fellow Shareholder:

We continued to execute on our business plan of increasing our assets in order to take advantage of our large capital to asset position (11% at 9/30/16), as well as increasing dividend returns to our owners. Specifically, during our fiscal year ending September 30, 2016, we:

- Increased total assets by $419 million (+27%).
- Increased mortgage loans by $318 million (+28%). Our focus continues to be construction and permanent lending on residential properties.
- Increased net income to $22.4 million (+4%). This modest comparison was impacted by the negative loss provision in 2015 of $4 million. Absent this non-cash income in fiscal 2015, net income in fiscal 2016 increased 18%. (We failed to acknowledge this gain when bragging about fiscal 2015 income last year).
- Increased regular cash dividends to $0.98 per shares (+23%), excluding the special dividend paid in fiscal 2015.

In July we completed the acquisition of Lexington B&L Financial Corp, which added retail banking offices in Lexington and Odessa, Missouri. We welcome B&L's depositors and borrowers to our company.

We are optimistic that the future of our company remains bright, and again thank our shareholders for their continued support.

Sincerely,

David H. Hancock
Board Chairman

NASB Financial, Inc.
2016 Annual Report

Contents

1 Letter to Shareholders
2 Contents and Financial Highlights
3-48 Consolidated Financial Statements
49-50 Independent Auditor's Report
51 Listing of Directors, Officers, and Branch Offices
52 Investor Information

Financial Highlights

		2016	2015	2014	2010	2000	1990
		(Dollars in thousands, except per share data)					
For the year ended September 30:							
Net interest income	$	60,648	48,941	43,698	53,848	35,838	7,983
Net interest spread		3.65%	3.73%	3.88%	3.73%	3.71%	1.99%
Other income	$	51,971	46,935	37,904	43,580	9,409	2,774
General and administrative expenses		75,808	66,750	60,944	57,667	20,120	8,169
Net income (loss)		22,393	21,555	16,681	6,323	14,721	(369)
Basic earnings (loss) per share		3.02	2.90	2.13	0.80	1.66	(0.18)
Cash dividends paid		7,265	20,821	6,294	3,540	3,370	--
Dividend payout ratio		32.44%	96.59%	37.73%	55.99%	22.89%	--
At year end:							
Assets	$	1,949,677	1,530,637	1,168,083	1,434,196	984,525	388,477
Loans, net		1,586,054	1,206,453	883,847	1,220,886	914,012	180,348
Investment securities		240,101	231,908	200,636	76,511	20,451	179,599
Customer and brokered deposit accounts		1,277,293	982,259	773,762	933,453	621,665	333,634
Stockholders' equity		214,383	197,613	199,892	167,762	83,661	16,772
Book value per share		28.92	26.66	26.64	21.32	9.84	1.83
Basic shares outstanding (in thousands)		7,413	7,413	7,505	7,868	8,500	9,148
Other Financial Data:							
Return on average assets		1.29%	1.60%	1.44%	0.42%	1.63%	(0.20)%
Return on average equity		10.87%	10.85%	8.44%	3.78%	18.12%	(2.50)%
Stockholders' equity to assets		11.00%	12.91%	17.11%	11.70%	8.50%	4.30%
Average shares outstanding (in thousands)		7,413	7,431	7,849	7,868	8,863	8,116
Selected year end information:							
Stock price per share: Bid	$	33.50	28.00	23.55	15.90	14.50	1.03
Ask		35.00	29.10	23.70	16.79	15.50	1.13

Per share amounts have been adjusted to give retroactive effect to the four-for-one stock split, which occurred during the fiscal year ended September 30, 1999.

NASB Financial, Inc. and Subsidiary
Consolidated Balance Sheets

		September 30, 2016	September 30, 2015
ASSETS		(Dollars in thousands)	
Cash and cash equivalents	$	26,803	15,017
Interest bearing deposits		5,236	--
Securities available for sale, at fair value		239,109	230,712
Stock in Federal Home Loan Bank, at cost		18,162	13,538
Mortgage-backed securities available for sale, at fair value		992	1,196
Loans receivable:			
Held for sale, at fair value		250,868	180,929
Held for investment, net		1,351,942	1,039,766
Allowance for loan losses		(16,756)	(14,242)
Accrued interest receivable		6,944	5,574
Foreclosed assets held for sale, net		5,939	8,080
Premises and equipment, net		13,102	10,201
Investment in LLCs		13,518	14,544
Mortgage servicing rights, net		9,659	4,744
Deferred income tax asset, net		6,015	7,894
Goodwill and other intangibles		7,934	4,853
Other assets		10,210	7,831
	$	1,949,677	1,530,637
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Customer deposit accounts	$	1,256,309	961,303
Brokered deposit accounts		20,984	20,956
Escrows		14,354	11,900
Advances from Federal Home Loan Bank		402,000	300,000
Subordinated debentures		25,774	25,774
Income taxes payable		3,799	1,228
Accrued expenses and other liabilities		12,074	11,863
Total liabilities		1,735,294	1,333,024
Stockholders' equity:			
Common stock of $0.15 par value: 20,000,000 authorized; 9,857,112 shares issued at September 30, 2016 and 2015		1,479	1,479
Additional paid-in capital		16,533	16,550
Retained earnings		243,392	228,264
Treasury stock, at cost; 2,444,103 shares at September 30, 2016 and 2015		(49,106)	(49,106)
Accumulated other comprehensive income		2,085	426
Total stockholders' equity		214,383	197,613
	$	1,949,677	1,530,637

See accompanying notes to consolidated financial statements.

NASB Financial, Inc. and Subsidiary
Consolidated Statements of Operations

		Years Ended September 30,	
		2016	2015
		(Dollars in thousands, except share data)	
Interest on loans receivable	$	66,572	52,142
Interest on mortgage-backed securities		114	1,280
Interest and dividends on securities		7,216	4,777
Other interest income		62	26
Total interest income		73,964	58,225
Interest on customer and brokered deposit accounts		9,079	5,735
Interest on advances from Federal Home Loan Bank		3,658	3,044
Interest on subordinated debentures		558	484
Other interest expense		21	21
Total interest expense		13,316	9,284
Net interest income		60,648	48,941
Provision for loan losses		1,350	(4,000)
Net interest income after provision for loan losses		59,298	52,941
Other income (expense):			
Loan servicing fees, net		1,054	446
Impairment loss on mortgage servicing rights		(965)	--
Customer service fees and charges		2,949	3,154
Provision for loss on real estate owned		(246)	(92)
Income (expense) on real estate owned, net		(220)	1,412
Gain on disposal of securities available for sale		657	154
Gain on disposal of securities held to maturity		--	24
Gain from loans receivable held for sale		47,411	44,639
Other income (expense)		1,331	(2,802)
Total other income		51,971	46,935
General and administrative expenses:			
Compensation and benefits		31,295	27,474
Commission-based mortgage banking compensation and benefits		18,200	17,357
Premises and equipment		6,195	5,888
Advertising and business promotion		5,986	5,498
Federal deposit insurance premiums		933	783
Other		13,199	9,750
Total general and administrative expenses		75,808	66,750
Income before income tax expense		35,461	33,126
Income tax expense:			
Current		10,513	10,341
Deferred		2,555	1,230
Total income tax expense		13,068	11,571
Net income	$	22,393	21,555
Basic earnings per share	$	3.02	2.90
Basic weighted average shares outstanding		7,413,009	7,431,384

See accompanying notes to consolidated financial statements.

NASB Financial, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income

		Years ended September 30,	
		2016	2015
		(Dollars in thousands)	
Net income	$	22,393	21,555
Other comprehensive income:			
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of $1,269 and $(343) at September 30, 2016 and 2015, respectively		2,086	(637)
Reclassification adjustment for gain included in net income, net of income tax expense of $230 and $54 at September 30, 2016 and 2015, respectively		(427)	(100)
Change in unrealized gain on available for sale securities, net of income tax expense (benefit) of $1,039 and $(397) at September 30, 2016 and 2015, respectively		1,659	(737)
Comprehensive income	$	24,052	20,818

See accompanying notes to consolidated financial statements.

NASB Financial, Inc. and Subsidiary
Consolidated Statements of Cash Flows

		Years ended September 30,	
		2016	2015
Cash flows from operating activities:		(Dollars in thousands)	
Net income	$	22,393	21,555
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation		1,514	1,516
Amortization (accretion), net		(32)	358
Deferred income tax expense		2,555	1,230
Gain on disposal of securities available for sale		(657)	(154)
Gain on disposal of securities held to maturity		--	(24)
Gain on sale of foreclosed assets held for sale		(362)	(2,155)
Loss from investment in LLCs		1,027	597
Impairment loss on mortgage servicing rights		965	--
Gain from loans receivable held for sale		(47,411)	(44,639)
Provision for loan losses		1,350	(4,000)
Provision for loss on real estate owned		246	92
Origination of loans receivable held for sale		(1,808,770)	(1,578,981)
Sale of loans receivable held for sale		1,790,721	1,525,800
Stock based compensation – stock options		(17)	--
Changes in:			
Net fair value of loan-related commitments		(1,908)	2,777
Mortgage servicing rights		(7,281)	(4,731)
Accrued interest receivable		(947)	(1,478)
Other assets, accrued expenses and other liabilities, and income taxes payable		2,308	1,694
Net cash used in operating activities		(44,306)	(80,543)
Cash flows from investing activities:			
Principal repayments of mortgage-backed securities:			
Held to maturity		--	2,111
Available for sale		893	133
Principal repayments of mortgage loans receivable held for investment		467,129	372,713
Principal repayments of other loans receivable		1,304	1,129
Principal repayments of investment securities available for sale		20,577	23,248
Loan origination - mortgage loans receivable held for investment		(425,256)	(401,874)
Loan origination - other loans receivable		(630)	(1,110)
Purchase of mortgage loans receivable held for investment		(283,769)	(191,529)
Purchase of Federal Home Loan Bank stock		(4,482)	(6,144)
Purchase of securities available for sale		(51,042)	(98,429)
Proceeds from sale of mortgage-backed securities available for sale		18,583	23,927
Proceeds from sale of mortgage-backed securities held to maturity		--	10,794
Proceeds from sale of securities available for sale		33,259	5,122

NASB Financial, Inc. and Subsidiary

Consolidated Statements of Cash Flows (continued)

		Years ended September 30,	
		2016	2015
Cash flows from investing activities (continued):		(Dollars in thousands)	
Proceeds from sale of investment in LLC		350	400
Proceeds from sale of real estate owned		3,154	5,901
Purchases of premises, equipment and software, net		(2,465)	(1,651)
Investment in LLC		--	(18)
Net cash used in acquisition of Lexington B&L Financial Corp		(7,699)	--
Net cash used in investing activities		(230,094)	(255,277)
Cash flows from financing activities:			
Net increase in customer and brokered deposit accounts		188,997	208,486
Proceeds from advances from Federal Home Loan Bank		262,000	223,000
Repayment of advances from Federal Home Loan Bank		(160,000)	(73,000)
Cash dividends paid		(7,265)	(20,821)
Purchase of common stock for treasury		--	(2,276)
Change in escrows		2,454	2,405
Net cash provided by financing activities		286,186	337,794
Net increase in cash and cash equivalents		11,786	1,974
Cash and cash equivalents at beginning of year		15,017	13,043
Cash and cash equivalents at end of year	$	26,803	15,017
Supplemental disclosure of cash flow information:			
Cash paid for income taxes (net of refunds)	$	7,538	10,054
Cash paid for interest		13,283	9,267
Supplemental schedule of non-cash investing and financing activities:			
Conversion of loans receivable to real estate owned	$	1,254	3,942
Conversion of real estate owned to loans receivable		720	--
Capitalization of originated mortgage servicing rights		7,281	4,731
Transfer of securities from held to maturity to available for sale		--	60,102
Conversion of investment in LLC to note receivable		--	1,350

In connection with the acquisition of Lexington B&L Financial Corp on July 12, 2016, the Company acquired assets of $123.1 million, assumed liabilities of $107.2 million, received cash of $8.1 million, and paid cash of $15.8 million.

See accompanying notes to consolidated financial statements.

NASB Financial, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity

		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
		(Dollars in thousands)					
Balance at October 1, 2014	$	1,479	16,550	227,530	(46,830)	1,163	199,892
Comprehensive income:							
Net income		--	--	21,555	--	--	21,555
Other comprehensive income, net of tax							
Unrealized loss on securities		--	--	--	--	(737)	(737)
Total comprehensive income							20,818
Cash dividends paid ($2.80 per share)		--	--	(20,821)	--	--	(20,821)
Purchase of common stock for treasury		--	--	--	(2,276)	--	(2,276)
Balance at September 30, 2015	$	1,479	16,550	228,264	(49,106)	426	197,613
Comprehensive income:							
Net income		--	--	22,393	--	--	22,393
Other comprehensive income, net of tax							
Unrealized gain on securities		--	--	--	--	1,659	1,659
Total comprehensive income							24,052
Cash dividends paid ($0.98 per share)		--	--	(7,265)	--	--	(7,265)
Stock based compensation		--	(17)	--	--	--	(17)
Balance at September 30, 2016	$	1,479	16,533	243,392	(49,106)	2,085	214,383

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand plus interest-bearing deposits in the Federal Home Loan Bank of Des Moines and the Federal Reserve Bank totaling $18.7 million and $11.9 million as of September 30, 2016 and 2015, respectively, and interest-bearing deposits in other financial institutions totaling $3.1 million at September 30, 2016. Management considers interest bearing deposits with maturities of less than three months to be cash equivalents.

The Federal Reserve Board ("FRB") requires federally chartered savings banks to maintain non-interest-earning cash reserves at specified levels against their transaction accounts. Required reserves may be maintained in the form of vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a pass-through account, as defined by FRB. At September 30, 2016, the Bank's reserve requirement was $8.7 million.

Securities and Mortgage-Backed Securities

Securities and mortgage-backed securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities and mortgage-backed securities not classified as held to maturity or trading are classified as available for sale. As of September 30, 2016 and 2015, the Company had no assets designated as trading or held to maturity. Securities and mortgage-backed securities held to maturity are stated at cost. Securities and mortgage-backed securities classified as available for sale are recorded at their fair values, with unrealized gains and losses, net of income taxes, reported as accumulated other comprehensive income or loss.

Premiums and discounts are recognized as adjustments to interest income over the life of the securities using a method that approximates the level yield method. Gains or losses on the disposition of securities are based on the specific identification method. Securities are valued using market prices in an active market, if available. Less frequently traded securities are valued using industry standard models which utilize various assumptions such as historical prices of the same or similar securities, and observation of market prices of securities of the same issuer, market prices of same-sector issuers, and fixed income indexes. Mortgage-backed securities are valued by using industry standard models which utilize various inputs and assumptions such as historical prices of benchmark securities, prepayment estimates, loan type, and year of origination.

Management monitors the securities and mortgage-backed securities portfolios for impairment on an ongoing basis. This process involves monitoring market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. If management intends to sell an impaired security or mortgage-backed security, or if it is more likely than not that management will be required to sell the impaired security prior to recovery of its amortized cost basis, the Bank will recognize a loss in earnings. If management does not intend to sell a debt security or mortgage-backed security, or if it is more likely than not that management will not be required to sell the impaired security prior to recovery of its amortized cost, regardless of whether the security is classified as available for sale or held to maturity, the Bank will recognize the credit component of the loss in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is the amount of principal cash flows not expected to be received over the remaining life of the security. The amount of other-than temporary-impairment included in other comprehensive income is amortized over the remaining life of the security.

Loans Receivable Held for Sale

As the Bank originates 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 are sold with servicing released or converted into mortgage-backed securities ("MBS") and sold with the servicing retained by the Bank. Management monitors market conditions to decide whether loans should be held in the portfolio or sold and if sold, which method of sale is appropriate.

Loans held for sale are carried at fair value. Gains or losses on such sales are recognized using the specific identification method. The transfer of a loan receivable held for sale is accounted for as a sale when control over the asset has been surrendered. The Bank issues various representations and warranties and standard recourse provisions associated with the sale of loans, which are described more fully in Footnote 6.

Loans Receivable Held for Investment, Net

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal less an allowance for loan losses, undisbursed loan funds and unearned discounts and loan fees, net of certain direct loan origination costs. Interest on loans is credited to income as earned and accrued only when it is deemed collectible. Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. The accrual of interest is discontinued when principal or interest payments become doubtful. As a general rule, this occurs when the loan becomes ninety days past due. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash may be applied as reductions to the principal balance, interest in arrears or recorded as income, depending on Bank management's assessment of the ultimate collectability of the loan. Nonaccrual loans may be restored to accrual status when principal and interest become current and the full payment of principal and interest is expected.

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

Net loan fees, direct loan origination costs, and purchase discounts are deferred and amortized as yield adjustments to interest income using the level-yield method over the contractual lives of the related loans.

Allowance for Loan Losses

The Bank considers a loan to be 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 loss valuation 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 initial effective rate, or the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. One-to-four family residential loans and consumer loans are collectively evaluated for impairment. Loans on residential properties with greater than four units, on construction and development and commercial properties are evaluated for impairment on a loan by loan basis. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent losses in the portfolio, and various subjective factors such as economic and business conditions. Assessing the adequacy of the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. In management's opinion, the allowance, when taken as a whole, is adequate to absorb reasonable estimated loan losses inherent in the Bank's loan portfolio.

Foreclosed Assets Held for Sale

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

Premises and Equipment

Premises and equipment are recorded at cost, less accumulated depreciation. Depreciation of premises and equipment is provided over the estimated useful lives (from three to forty years for buildings and improvements and from three to ten years for furniture, fixtures, and equipment) of the respective assets using the straight-line method. Maintenance and repairs are charged to expense. Major renewals and improvements are capitalized. Gains and losses on dispositions are credited or charged to earnings as incurred.

Investment in LLCs

The Company is a partner in a limited liability company, which was formed for the purpose of purchasing and developing vacant land in Platte County, Missouri. This investment is accounted for using the equity method of accounting.

Goodwill and Other Intangibles

The Company has goodwill of $3.6 million at September 30, 2016 and $1.8 million at September 30, 2015. This asset, which resulted from the Company's acquisition of CBES Bancorp, Inc. in fiscal 2003 and its acquisition of Lexington B&L Financial Corp in fiscal 2016, is assigned to the banking segment of the business. In accordance with GAAP, the Company tests its goodwill for impairment annually, or more frequently if events indicate that the asset might be impaired. The first step of the goodwill impairment test compares the fair value of a reporting segment with its carrying amount, including goodwill. If the carrying value of a reporting unit exceeds its fair value, a second step of the goodwill impairment test is required, which compares the implied fair value of reporting unit goodwill to its carrying value. The implied fair value is determined in the same manner as the amount of goodwill recognized in a business combination is determined.

The Company has capitalized software of $2.5 million and $2.8 million at September 30, 2016 and 2015, respectively, which net of accumulated amortization. Amortization of software is provided over its estimated useful life (from three to five years) using the straight-line method.

The Company has core deposit intangibles of $1.8 million and $225,000 at September 30, 2016 and 2015, respectively, which resulted from the Company's acquisition of CBES Bancorp, Inc. in fiscal 2003 and its acquisition of Lexington B&L Financial Corp in fiscal 2016. This asset has a useful life of approximately 15 years and will be amortized using the straight-line method.

Stock Options

The Company has a stock-based employee compensation plan which is described more fully in Footnote 18, Stock Option Plan. The Company recognizes compensation cost over the five-year service period for its stock option awards. Stock based compensation related to stock options totaled $(17,000) during the year ended September 30, 2016. The Company recorded no stock based compensation during the year ended September 30, 2015.

Income Taxes

The Company files a consolidated Federal income tax return with its subsidiaries using the accrual method of accounting.

The Company provides for income taxes using the asset/liability method. Deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The Bank's bad debt deduction for the years ended September 30, 2016 and 2015, was based on the specific charge off method. The percentage method for additions to the tax bad debt reserve was used prior to the fiscal year ended September 30, 1997. Under the current tax rules, Banks are required to recapture their accumulated tax bad debt reserve, except for the portion that was established prior to 1988, the "base-year." The recapture of the excess reserve was completed over a six-year phase-in-period that began with the fiscal year ended September 30, 1999. A deferred income tax liability is required to the extent the tax bad debt reserve exceeds the 1988 base year amount. Retained earnings include approximately $3.7 million representing such bad debt reserve for which no deferred taxes have been provided. Distributing the Bank's capital in the form of stock redemptions caused the Bank to recapture a significant amount of its bad debt reserve prior to the phase-in period.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Bank are initially measured at fair value at the date of transfer. The Company has elected to subsequently measure its mortgage servicing rights using the amortization method, whereby servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions such as the cost to service, prepayment speeds, discount rate, ancillary income, and default rates. These variables change as market conditions change and may have an adverse impact on the value of mortgage servicing rights and may result in a reduction in noninterest income.

Mortgage servicing rights subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying the rights into tranches based on predominant characteristics, such as interest rate and loan type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Fair value in excess of the carrying amount of servicing assets is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. Such fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Derivative Instruments

The Bank regularly enters into commitments to originate and sell loans held for sale, which are described more fully in Footnote 23. Certain commitments are considered derivative instruments under GAAP, which requires the Bank to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As of September 30, 2016 and 2015, the fair value of loan related commitments resulted in a net liability of $142,000 and $2.1 million, respectively.

Revenue Recognition

Interest income, loan servicing fees, customer service fees and charges and ancillary income related to the Bank's deposits and lending activities are accrued as earned.

Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the year.

At September 30, 2016 and 2015, options to purchase 9,238 and 23,638 shares of the Company's stock were outstanding. The exercise price of these options was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

Recently Issued Accounting Standards

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU clarifies principles for recognizing revenue and provides implementation guidance on several topics and requires entities to disclose both quantitative and qualitative information regarding contracts with customers. This standard is effective for fiscal years beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, which deferred the effective date of ASU 2014-09 one year, making the standard effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Management has not yet completed its review of ASU 2014-09.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. ASU 2014-14 clarifies principles for classifying government-guaranteed loans upon foreclosure, that is, when a loan receivable should be derecognized and a separate other receivable recognized. This standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which clarifies principles used to determine whether a reporting entity is required to consolidate certain legal entities. This standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Management has not yet completed its review of ASU 2015-02.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends lease accounting guidance by requiring that lessees recognize the assets and liabilities arising from leases on the balance sheet. Additionally, the ASU requires entities to disclose both quantitative and qualitative information regarding their leasing activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which is October 1, 2019 for the Company. The Company has not yet completed its evaluation of ASU 2016-02.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, along with simplifying the classification in the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company has not yet completed its evaluation of ASU 2016-09.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU replaces the incurred loss impairment methodology in current GAAP, which requires credit losses to be recognized when it is probable that a loss has incurred, with a new impairment methodology. The new impairment methodology requires an entity to measure, at each reporting date, the expected credit losses of financial assets not measured at fair value, such as loans, HTM debt securities, and loan commitments, over their contractual lives. Under the new impairment methodology, expected credit losses will be measured at each reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends the current credit loss measurements for AFS debt securities. The ASU also requires enhanced disclosures related to credit quality and significant estimates and judgments used by management when estimating credit losses. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual reporting periods. The Company has not yet completed its evaluation of ASU 2016-13.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reported periods. Estimates were used to establish loss reserves for both loans and foreclosed assets, accruals for loan recourse provisions, and fair values of financial instruments, derivatives, and mortgage servicing rights, among other items. Actual results could differ from those estimates.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain amounts for 2015 have been reclassified to conform to the current year presentation.

(2) SECURITIES AVAILABLE FOR SALE

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

	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	$ 144,940	3,263	70	148,132
U.S. government sponsored agency securities	90,319	235	--	90,554
Municipal securities	422	--	--	422
Total	$ 235,681	3,498	70	239,109

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	$ 139,685	2,033	1,912	139,806
U.S. government sponsored agency securities	89,913	571	--	90,484
Municipal securities	422	--	--	422
Total	$ 230,020	2,604	1,912	230,712

During the year ended September 30, 2016, the Company realized gross gains of $278,000 and no gross losses on the sale of securities available for sale. The Company realized gross gains of $31,000 and no gross losses on the sales of securities available for sale during the year ended September 30, 2015.

During the year ended September 30, 2016, the Company also realized gross gains of $379,000 on the call of securities available for sale. There were no calls of securities that resulted in gains or losses during the year ended September 30, 2015.

The following tables present a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at September 30. Dollar amounts are expressed in thousands.

	September 30, 2016			
	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Corporate debt securities	$ 20,896	70	$ --	--
Total	$ 20,896	70	$ --	--

	September 30, 2015			
	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Corporate debt securities	$ 55,215	1,912	$ --	--
Total	$ 55,215	1,912	$ --	--

Management monitors the securities portfolio for impairment on an ongoing basis. This process involves monitoring market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. There are no securities available for sale at September 30, 2016 and 2015, for which the Company has taken an other-than-temporary impairment loss through earnings.

The scheduled maturities of securities available for sale at September 30, 2016 are presented in the following table. Dollar amounts are expressed in thousands.

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	$	65,400	316	--	65,716
Due from one to five years		89,938	1,586	--	91,524
Due from five to ten years		59,377	1,596	--	60,973
Due after ten years		20,966	--	70	20,896
Total	$	235,681	3,498	70	239,109

The principal balances of securities available for sale that are pledged to secure certain obligations of the Bank as of September 30 are as follows. Dollar amounts are expressed in thousands.

		September 30, 2016			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FRB advance commitments	$	9,996	330	--	10,326
Customer deposit accounts		10,002	29	--	10,031
	$	19,998	359	--	20,357

		September 30, 2015			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FRB advance commitments	$	10,134	119	--	10,253

(3) SECURITIES HELD TO MATURITY

The Bank had no securities classified as held to maturity at September 30, 2016 and 2015, respectively.

During the year ended September 30, 2015, the Bank sold one mortgage-backed security which was classified as held to maturity, as described more fully in footnote 5. In conjunction with this event, and in accordance with GAAP, the Bank transferred the remainder of its securities classified as held to maturity to available for sale. The securities transferred to available for sale, excluding mortgage-backed securities (which are described more fully in footnote 5), had a net carrying value of $35.3 million and an unrealized gain of $131,000 at the time of transfer.

There were no other sales of securities held to maturity during the years ended September 30, 2016 and 2015.

(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA – fixed rate	$ 46	1	--	47
Pass-through certificates guaranteed by FNMA – adjustable rate	64	3	--	67
FHLMC participation certificates:				
Fixed rate	8	--	--	8
Adjustable rate	53	2	--	55
Collateralized mortgage obligations	858	--	43	815
Total	$ 1,029	6	43	992

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA – fixed rate	$ 53	1	--	54
Pass-through certificates guaranteed by FNMA – adjustable rate	77	5	--	82
FHLMC participation certificates:				
Fixed rate	32	--	--	32
Adjustable rate	71	4	--	75
Collateralized mortgage obligations	962	--	9	953
Total	$ 1,195	10	9	1,196

During the year ended September 30, 2016, there were no sales of mortgage-backed securities available for sale. The Company realized gross gains of $123,000 on the sale of mortgage-backed securities available for sale during the year ended September 30, 2015.

The scheduled maturities of mortgage-backed securities available for sale at September 30, 2016, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	$ 4	--	--	4
Due from one to five years	4	--	--	4
Due after ten years	1,021	6	43	984
Total	$ 1,029	6	43	992

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

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities available for sale which had unrealized losses at September 30. Dollar amounts are expressed in thousands.

	September 30, 2016			
	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Collateralized mortgage obligations	$ 815	43	$ --	--
Total	$ 815	43	$ --	--

	September 30, 2015			
	Less than 12 months		12 months or longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Collateralized mortgage obligations	$ 953	9	$ --	--
Total	$ 953	9	$ --	--

Management monitors the mortgage-backed securities portfolio for impairment on an ongoing basis. This process involves monitoring market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. There are no mortgage-backed securities available for sale at September 30, 2016 and 2015, for which the Company has taken an other-than-temporary impairment loss through earnings.

The principal balances of mortgage-backed securities available for sale that are pledged to secure certain obligations of the Bank as of September 30 are as follows. Dollar amounts are expressed in thousands.

	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Customer deposit accounts	$ 141	6	--	147

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Customer deposit accounts	$ 17	--	--	17

(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The Bank had no mortgage-backed securities classified as held to maturity at September 30, 2016 and 2015.

During the year ended September 30, 2015, the Bank recognized a gain of $24,000 on the sale of one mortgage-backed security which was classified as held to maturity. The decision was made to sell this security after it was determined that its duration and yield were no longer aligned with the Bank's strategic objectives. In conjunction with this event, and in accordance with GAAP, the Bank transferred the remainder of its securities classified as held to maturity to available for sale. The mortgage backed securities transferred to available for sale had a net carrying value of $24.8 million and an unrealized gain of $83,000 at the time of transfer.

(6) LOANS RECEIVABLE

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

The following table presents the Bank's total loans receivable at September 30. Dollar amounts are expressed in thousands.

HELD FOR INVESTMENT	2016	2015
Mortgage loans:		
Permanent loans on:		
Residential properties	$ 862,576	600,289
Business properties	291,001	278,088
Partially guaranteed by VA or insured by FHA	29,598	23,551
Construction and development	260,066	223,145
Total mortgage loans	1,443,241	1,125,073
Commercial loans	33,784	22,970
Installment loans and lease financing to individuals	7,835	5,132
Total loans receivable held for investment	1,484,860	1,153,175
Less:		
Undisbursed loan funds	(102,828)	(99,105)
Unearned discounts and fees on loans, net of deferred costs	(30,090)	(14,304)
Net loans receivable held for investment	$ 1,351,942	1,039,766
HELD FOR SALE		
Mortgage loans:		
Permanent loans on:		
Residential properties	$ 250,868	180,929

Included in the loans receivable balances are mortgage loans serviced by other institutions of approximately $19.7 million and $12.9 million at September 30, 2016 and 2015, respectively.

Whole loans and participations serviced for others were approximately $1,195.9 million and $618.2 million at September 30, 2016 and 2015, respectively. Loans serviced for others are not included in the accompanying consolidated balance sheets.

First mortgage loans were pledged to secure FHLB advances in the amount of approximately $1,055.8 million and $824.7 million at September 30, 2016 and 2015, respectively.

Aggregate loans to executive officers, directors and their associates, including companies in which they have partial ownership interest, did not exceed 5% of equity as of September 30, 2016 and 2015. Such loans were made under terms and conditions substantially the same as loans made to parties not affiliated with the Bank.

Proceeds from the sale of loans receivable held for sale during fiscal 2016 and 2015, were $1,790.7 million and $1,525.8 million, respectively. In fiscal 2016, the Bank realized gross gains of $62.6 million and $15.2 million of gross losses on the sale of such loans. In fiscal 2015, the Bank realized gross gains of $53.1 million and $8.5 million of gross losses.

During fiscal 2016 and 2015, the Bank purchased single-family residential real estate loans which were of similar credit quality to other such loans held for investment in the Bank's portfolio. These loans had an unpaid principal balance totaling $415.8 million at September 30, 2016, and were purchased at an average discount of approximately 5%. At September 30, 2015, these loans had an unpaid principal balance totaling $212.0 million and were purchased at an average discount of approximately 5%.

Lending Practices and Underwriting Standards

Residential real estate loans - The Bank offers a range of residential loan programs, including programs offering loans guaranteed by the Veterans Administration ("VA") and loans insured by the Federal Housing Administration ("FHA"). The Bank's residential loans come from several sources. The loans that the Bank originates are generally a result of direct solicitations of real estate brokers, builders, developers, or potential borrowers via the internet. North American periodically purchases real estate loans from other financial institutions or mortgage bankers.

The Bank's residential real estate loan underwriters are grouped into three different levels, based upon each underwriter's experience and proficiency. Underwriters within each level are authorized to approve loans up to prescribed dollar amounts. Any loan over $1 million must also be approved by either the Board Chairman, CEO or EVP/Residential Lending. Prior approval is required from the Bank's Board of Directors for newly originated residential real estate loans with a balance of $2.5 million or greater that will be retained in the Bank's portfolio. Conventional residential real estate loans are underwritten using FNMA's Desktop Underwriter or FHLMC's Loan Prospector automated underwriting systems, which analyze credit history, employment and income information, qualifying ratios, asset reserves, and loan-to-value ratios. If a loan does not meet the automated underwriting standards, it is underwritten manually. Full documentation to support each applicant's credit history, income, and sufficient funds for closing is required on all loans. An appraisal report, performed in conformity with the Uniform Standards of Professional Appraisers Practice by an approved outside licensed appraiser, is required for substantially all loans. Typically, the Bank requires borrowers to purchase private mortgage insurance when the loan-to-value ratio exceeds 80%.

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

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

Construction and development loans - Construction and land development loans are made primarily to builders/developers, who construct single family residential properties for resale. The Bank's requirements for a construction loan are similar to those of a mortgage on an existing residence. In addition, the borrower must submit accurate plans, specifications, and cost projections of the property to be constructed. All construction and development loans are manually underwritten using NASB's internal underwriting standards. All construction and development loans require two approvals, from either the Board Chairman, CEO, or EVP/Chief Credit Officer. Prior approval is required from the Bank's Board of Directors for newly originated construction and development loans with a proposed balance of $2.5 million or greater. The bank has adopted internal loan-to-value limits consistent with regulations, which are 65% for raw land, 75% for land development, and 85% for residential and non-residential construction. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an approved outside licensed appraiser is required on all loans in excess of $250,000. Generally, the Bank will commit to an initial term of 12 to 18 months on construction loans, and an initial term of 24 to 60 months on land acquisition and development loans. Interest rates on construction loans typically adjust daily and are tied to a predetermined index. NASB's staff regularly performs inspections of each property during its construction phase to help ensure adequate progress is achieved before making scheduled loan disbursements.

When construction and development loans mature, the Bank typically considers extensions for short, six-month term periods. This allows the Bank to more frequently evaluate the loan, including creditworthiness and current market conditions and, if management believes it is in the best interest of the Company, to modify the terms accordingly. In addition, the Bank typically requires a 5% principal reduction 18 months after origination of a construction loan. This portfolio consists primarily of assets with rates tied to the prime rate and, in most cases, the conditions for loan renewal include an interest rate "floor" in accordance with the market conditions that exist at the time of renewal. Such extensions are accounted for as Troubled Debt Restructurings ("TDRs") if the restructuring was related to the borrower's financial difficulty, and if the Bank made concessions that it would not otherwise consider. In order to determine whether or not a renewal should be accounted for as a TDR, management reviewed the borrower's current financial information, including an analysis of income and liquidity in relation to debt service requirements.

Commercial real estate loans and commercial loans - The Bank purchases and originates several different types of commercial real estate loans. The Bank's commercial real estate loans are secured primarily by multi-family and nonresidential properties. The Bank originates several different types of commercial loans on a term or line-of-credit basis, including aircraft and fleet auto financing. Such loans are manually underwritten using NASB's internal underwriting standards, which evaluate the sources of repayment, including the ability of income producing property to generate sufficient cash flow to service the debt, the capacity of the borrower or guarantors to cover any shortfalls in operating income, and, as a last resort, the ability to liquidate the collateral in such a manner as to completely protect the Bank's investment. All commercial real estate loans require two approvals, from either the Board Chairman, CEO, or EVP/Chief Credit Officer. Prior approval is required from the Bank's Board of Directors for newly originated commercial real estate loans with a proposed balance of $2.5 million or greater. Typically, loan-to-value ratios do not exceed 80%; however, exceptions may be made when it is determined that the safety of the loan is not compromised, and the rationale for exceeding this limit is clearly documented. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an approved outside licensed appraiser is required on all loans in excess of $250,000. Interest rates on commercial loans may be either fixed or tied to a predetermined index and adjusted daily.

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

At least once during each calendar year, an internal review is prepared for each borrower relationship in excess of $2.5 million and for each individual loan over $2.5 million. Collateral inspections are obtained every two years for each loan over $2.5 million, and on a risk based basis for each loan between $500,000 and $2.5 million. Financial information, such as tax returns, is requested annually for all commercial real estate loans over $500,000, which is consistent with industry practice, and the Bank believes it has sufficient monitoring procedures in place to identify potential problem loans. A loan is deemed impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Any loans deemed impaired, regardless of their balance, are reviewed by management at the time of the impairment determination, and monitored on a quarterly basis thereafter, including calculation of specific valuation allowances, if applicable.

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

Allowance for Loan Losses

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

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

Loans that are not impaired are evaluated based upon the Bank's historical loss experience, as well as various subjective factors, to estimate potential unidentified losses within the various loan portfolios. These loans are categorized into pools based upon certain characteristics such as loan type, collateral type and repayment source. In addition to analyzing historical losses, the Bank also evaluates the following subjective factors for each loan pool to estimate future losses: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in management and other relevant staff, changes in the volume and severity of past due loans, changes in the quality of the Bank's loan review system, changes in the value of the underlying collateral for collateral dependent loans, changes in the level of lending concentrations, and changes in other external factors such as competition and legal and regulatory requirements. Historical loss ratios are adjusted accordingly, based upon the effect that the subjective factors have in estimated future losses. These adjusted ratios are applied to the balances of the loan pools to determine the adequacy of the ALLL each quarter.

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

The following table presents the balance in the allowance for loan losses for the years ended September 30, 2016 and 2015. Dollar amounts are expressed in thousands.

		Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:								
Balance at October 1, 2015	$	9,913	--	2,619	1,419	219	72	14,242
Provision for loan losses		2,329	--	(1,112)	280	(67)	(80)	1,350
Losses charged off		(125)	--	(46)	--	--	--	(171)
Recoveries		119	--	989	125	--	102	1,335
Balance at September 30, 2016	$	12,236	--	2,450	1,824	152	94	16,756
Balance at October 1, 2014	$	7,443	--	3,759	4,084	13	190	15,489
Provision for loan losses		2,688	--	(2,756)	(4,001)	206	(137)	(4,000)
Losses charged off		(504)	--	(376)	(32)	--	(105)	(1,017)
Recoveries		286	--	1,992	1,368	--	124	3,770
Balance at September 30, 2015	$	9,913	--	2,619	1,419	219	72	14,242

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at September 30, 2016. Dollar amounts are expressed in thousands.

		Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:								
Ending balance of allowance for loan losses related to loans:								
Individually evaluated for impairment	$	398	--	--	--	1	41	440
Collectively evaluated for impairment	$	11,838	--	2,450	1,824	151	53	16,316
Acquired with deteriorated credit quality *	$	76	--	--	--	--	--	76
Loans:								
Balance at September 30, 2016	$	864,191	250,868	284,453	161,760	33,724	7,814	1,602,810
Ending balance:								
Loans individually evaluated for impairment	$	10,415	--	6,062	3,208	11,800	53	31,538
Loans collectively evaluated for impairment	$	853,776	250,868	278,391	158,552	21,924	7,761	1,571,272
Loans acquired with deteriorated credit quality	$	7,220	--	--	--	--	--	7,220

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at September 30, 2015. Dollar amounts are expressed in thousands.

		Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:								
Ending balance of allowance for loan losses related to loans:								
Individually evaluated for impairment	$	515	--	--	7	42	1	565
Collectively evaluated for impairment	$	9,398	--	2,619	1,412	177	71	13,677
Acquired with deteriorated credit quality *	$	26	--	--	--	--	--	26
Loans:								
Balance at September 30, 2015	$	609,602	180,929	271,310	130,770	22,963	5,121	1,220,695
Ending balance:								
Loans individually evaluated for impairment	$	9,281	--	6,173	5,758	8,650	17	29,879
Loans collectively evaluated for impairment	$	600,321	180,929	265,137	125,012	14,313	5,104	1,190,816
Loans acquired with deteriorated credit quality	$	4,737	--	--	--	--	--	4,737

* Included in ending balance of allowance for loan losses related to loans individually evaluated for impairment at September 30, 2016 and 2015.

Classified Assets, Delinquencies, and Non-accrual Loans

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

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

Each quarter, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of September 30, 2016. Dollar amounts are expressed in thousands.

		Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Rating:								
Pass	$	838,152	250,868	235,007	147,726	13,211	7,761	1,492,725
Pass – Watch		15,160	--	42,727	13,047	8,669	--	79,603
Special Mention		--	--	--	--	--	--	--
Substandard		10,879	--	6,719	987	11,843	12	30,440
Doubtful		--	--	--	--	1	41	42
Loss		--	--	--	--	--	--	--
Total	$	864,191	250,868	284,453	161,760	33,724	7,814	1,602,810

The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of September 30, 2015. Dollar amounts are expressed in thousands.

		Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Rating:								
Pass	$	583,461	180,929	228,256	114,884	14,313	5,104	1,126,947
Pass – Watch		14,744	--	35,199	13,999	8,650	--	72,592
Special Mention		--	--	--	--	--	--	--
Substandard		11,288	--	7,855	1,887	--	17	21,017
Doubtful		109	--	--	--	--	--	109
Loss		--	--	--	--	--	--	--
Total	$	609,602	180,929	271,310	130,770	22,963	5,121	1,220,695

The following table presents the Company's loan portfolio aging analysis as of September 30, 2016. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	$ 4,586	742	8,999	14,327	849,864	864,191	--
Residential held for sale	--	--		--	250,868	250,868	--
Commercial real estate	3,481	51	314	3,846	280,607	284,453	--
Construction & development	16	--	--	16	161,744	161,760	--
Commercial	4	3	40	47	33,677	33,724	--
Installment	54	35	34	123	7,691	7,814	28
Total	$ 8,141	831	9,387	18,359	1,584,451	1,602,810	28

The following table presents the Company's loan portfolio aging analysis as of September 30, 2015. Dollar amounts are expressed in thousands.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Residential	$ 948	819	5,012	6,779	602,823	609,602	--
Residential held for sale	--	--	--	--	180,929	180,929	--
Commercial real estate	--	2,106	3,481	5,587	265,723	271,310	3,481
Construction & development	200	--	--	200	130,570	130,770	--
Commercial	--	--	--	--	22,963	22,963	--
Installment	21	--	--	21	5,100	5,121	--
Total	$ 1,169	2,925	8,493	12,587	1,208,108	1,220,695	3,481

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

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

	2016	2015
Residential	$ 12,866	9,251
Residential held for sale	--	--
Commercial real estate	6,743	3,199
Construction & development	108	1,502
Commercial	78	--
Installment	6	--
Total	$ 19,801	13,952

As of September 30, 2016 and 2015, $5.6 million (28.4%) and $8.7 million (62.5%) of the loans classified as nonaccrual were current and paying as agreed, respectively.

Gross interest income would have increased by $283,000 and $257,000 for the years ended September 30, 2016 and 2015, respectively, if the nonaccrual loans had been performing.

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

The following table presents the recorded balance of troubled debt restructurings as of September 30. Dollar amounts are expressed in thousands.

		2016	2015
Troubled debt restructurings:			
Residential	$	6,210	5,869
Residential held for sale		--	--
Commercial real estate		543	2,495
Construction & development		1,919	5,758
Commercial		11,800	8,650
Installment		12	17
Total	$	20,484	22,789
Performing troubled debt restructurings:			
Residential	$	1,750	1,378
Residential held for sale		--	--
Commercial real estate		--	1,899
Construction & development		1,811	4,256
Commercial		11,763	8,650
Installment		12	17
Total	$	15,336	16,200

At September 30, 2016 and 2015, the Bank had no outstanding commitments to be advanced in connection with TDRs.

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the fiscal year ended September 30, 2016. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	2	$ 78	$ 78	$ --
Residential held for sale	--	--	--	--
Commercial real estate	--	--	--	--
Construction & development	3	1,264	1,264	--
Commercial	2	11,999	11,999	--
Installment	--	--	--	--
Total	7	$ 13,341	$ 13,341	$ --

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the fiscal year ended September 30, 2015. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	7	$ 1,348	$ 1,363	$ --
Residential held for sale	--	--	--	--
Commercial real estate	1	1,573	1,573	--
Construction & development	9	5,611	5,611	--
Commercial	1	8,650	8,650	--
Installment	1	21	--	21
Total	19	$ 17,203	$ 17,197	$ 21

The following table presents TDRs restructured during the fiscal year ended September 30, 2016, by type of modification. Dollar amounts are expressed in thousands.

	Extension Of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	$ --	--	78	78
Residential held for sale	--	--	--	--
Commercial real estate	--	--	--	--
Construction & development	1,264	--	--	1,264
Commercial	11,999	--	--	11,999
Installment	--	--	--	--
Total	$ 13,263	--	78	13,341

The following table presents TDRs restructured during the fiscal year ended September 30, 2015, by type of modification. Dollar amounts are expressed in thousands.

	Extension of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	$ 950	--	398	1,348
Residential held for sale	--	--	--	--
Commercial real estate	1,573	--	--	1,573
Construction & development	4,232	--	1,379	5,611
Commercial	--	--	8,650	8,650
Installment	--	--	21	21
Total	$ 6,755	--	10,448	17,203

The following table presents the Company's recorded investment and number of loans considered TDRs at September 30 that defaulted during the fiscal year. Dollar amounts are expressed in thousands.

	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential	11	$ 3,002	10	$ 3,183
Residential held for sale	--	--	--	--
Commercial real estate	1	74	--	--
Construction & development	1	879	--	--
Commercial	1	11,763	--	--
Installment	2	--	4	17
Total	16	$ 15,718	14	$ 3,200

The following table presents impaired loans, including troubled debt restructurings, as of September 30, 2016. Dollar amounts are expressed in thousands.

		Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:						
Residential	$	7,906	10,653	--	7,927	357
Residential held for sale		--	--	--	--	--
Commercial real estate		6,062	7,507	--	6,295	351
Construction & development		3,208	4,785	--	3,692	301
Commercial		11,799	11,858	--	12,290	586
Installment		--	203	--	--	6
Loans with a specific valuation allowance:						
Residential	$	2,509	2,559	398	2,161	82
Residential held for sale		--	--	--	--	--
Commercial real estate		--	--	--	--	--
Construction & development		--	--	--	--	--
Commercial		1	166	1	--	9
Installment		53	72	41	50	5
Total:						
Residential	$	10,415	13,212	398	10,088	439
Residential held for sale		--	--	--	--	--
Commercial real estate		6,062	7,507	--	6,295	351
Construction & development		3,208	4,785	--	3,692	301
Commercial		11,800	12,024	1	12,290	595
Installment		53	275	41	50	11

The following table presents impaired loans, including troubled debt restructurings, as of September 30, 2015. Dollar amounts are expressed in thousands.

		Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:						
Residential	$	6,670	9,483	--	6,841	371
Residential held for sale		--	--	--	--	--
Commercial real estate		6,173	9,022	--	6,698	532
Construction & development		4,379	5,930	--	4,809	307
Commercial		--	--	--	--	--
Installment		--	352	--	65	20
Loans with a specific valuation allowance:						
Residential	$	2,611	2,655	515	2,625	101
Residential held for sale		--	--	--	--	--
Commercial real estate		--	--	--	--	--
Construction & development		1,379	1,379	7	1,379	59
Commercial		8,650	8,650	42	8,650	367
Installment		17	17	1	19	1
Total:						
Residential	$	9,281	12,138	515	9,466	472
Residential held for sale		--	--	--	--	--
Commercial real estate		6,173	9,022	--	6,698	532
Construction & development		5,758	7,309	7	6,188	366
Commercial		8,650	8,650	42	8,650	367
Installment		17	369	1	84	21

Although the Bank has a diversified loan portfolio, a substantial portion is secured by real estate. The following table presents information as of September 30 about the location of real estate that secures loans in the Bank's mortgage loan portfolio. The line item "Other" includes total investments in other states of less than $10 million each. Dollar amounts are expressed in thousands.

	2016				
	Residential			Construction	
	1-4	5 or more	Commercial	and	
State	family	family	real estate	development	Total
Missouri	$ 140,213	24,716	27,928	106,403	299,260
California	203,766	2,553	7,604	1,755	215,678
Kansas	38,726	4,326	7,380	139,615	190,047
Texas	81,658	1,278	40,111	--	123,047
Florida	63,292	130	5,526	--	68,948
Illinois	17,112	201	27,254	--	44,567
Colorado	25,929	667	15,874	--	42,470
Virginia	21,490	--	6,562	10,765	38,817
Washington	24,434	--	10,996	--	35,430
Arizona	26,739	--	5,021	--	31,760
North Carolina	16,676	--	7,494	--	24,170
Georgia	15,730	--	4,465	--	20,195
Oregon	16,943	1,068	551	1,528	20,090
Ohio	5,045	1,417	13,245	--	19,707
Indiana	6,242	888	10,222	--	17,352
Mississippi	1,303	13,000	1,275	--	15,578
New Jersey	14,861	--	350	--	15,211
Michigan	3,673	--	10,721	--	14,394
South Carolina	8,832	280	4,999	--	14,111
Maryland	14,100	--	--	--	14,100
Massachusetts	13,279	292	--	--	13,571
Nevada	12,499	133	--	--	12,632
Minnesota	10,210	--	775	--	10,985
Tennessee	8,665	297	1,919	--	10,881
Utah	10,463	--	--	--	10,463
Alabama	4,267	307	5,537	--	10,111
Other	86,027	791	22,848	--	109,666
	$ 892,174	52,344	238,657	260,066	1,443,241

	2015				
	Residential			Construction	
	1-4	5 or more	Commercial	and	
State	Family	family	real estate	development	Total
Missouri	$ 102,267	31,968	20,413	79,581	234,229
Kansas	44,312	532	9,190	130,987	185,021
California	117,026	2,500	7,591	--	127,117
Texas	51,875	951	43,172	--	95,998
Florida	52,792	138	7,223	--	60,153
Illinois	13,816	222	23,807	--	37,845
Colorado	13,208	783	16,212	--	30,203
Virginia	12,622	--	5,201	10,765	28,588
Washington	15,251	--	11,118	--	26,369
Arizona	20,704	--	5,204	--	25,908
North Carolina	15,289	--	7,827	--	23,116
Indiana	5,035	917	13,429	--	19,381
Georgia	9,642	2,252	4,880	1,611	18,385
Ohio	3,726	1,450	9,517	--	14,693
New Jersey	11,358	--	--	--	11,358
South Carolina	7,153	346	3,605	201	11,305
Michigan	2,536	--	8,342	--	10,878
Oregon	8,964	997	575	--	10,536
Massachusetts	9,879	311	--	--	10,190
Other	106,385	807	36,608	--	143,800
	$ 623,840	44,174	233,914	223,145	1,125,073

The Bank issues various representations and warranties and standard recourse provisions associated with the sale of loans to outside investors, which may require the Bank to repurchase a loan that defaults or has identified defects, or to indemnify the investor in the event of a material breach of contractual representations and warranties. Such provisions related to early payoff and early payment default typically expire 90 to 180 days after purchase. Repurchase obligations related to fraud or misrepresentation remain outstanding during the life of the loan. The Bank has established reserves related to various representations and warranties that reflect management's estimate of losses based on various factors. Such factors include estimated level of defects, historical repurchase demand, success rate in avoiding claims, and projected loss severity. Reserves are established at the time loans are sold, and updated during their estimated life. It is management's estimate that the total recourse liability associated with such loans was $815,000 and $914,000 at September 30, 2016 and 2015, respectively. The reserve for such losses is included in "Accrued expenses and other liabilities" in the Company's consolidated financial statements.

In recent years, the Bank experienced increased losses resulting from investor charges for loans with defects, repurchased loans, early prepayment penalties, and early default penalties. During fiscal 2013, the Bank negotiated global settlements with two investors, which released the Bank from further liability for all known and unknown claims, subject to certain exceptions for fraud committed by Bank employees. During fiscal 2016, the Bank negotiated global settlements with two additional investors. As a result of these settlements and improving economic conditions, the Bank experienced fewer losses during fiscal 2016 and fiscal 2015. Total losses incurred on these loans were $476,000 and $872,000 during fiscal year 2016 and 2015, respectively. Repurchased loans are recorded at fair value and evaluated for impairment in accordance with GAAP.

The following table presents the activity in the reserve related to representations and warranties for the year ended September 30. Dollar amounts are expressed in thousands.

	2016	2015
Balance at beginning of year	$ 914	1,093
Additions to reserve	550	693
Losses, settlements, and penalties incurred	(649)	(872)
Balance at end of year	$ 815	914

If economic conditions, particularly the housing market, decline in future periods, it is management's opinion that the Bank may experience increased loss severity on repurchased loans, resulting in further additions to the reserve. However, the Bank tightened underwriting standards in mid-2008, and expects a lower level of repurchase requests for loans originated thereafter. Management believes that the current reserve is adequate to cover the expected settlement amount on loans that remain outstanding and are not covered under the aforementioned global settlements.

(7) FORECLOSED ASSETS HELD FOR SALE

The carrying value of real estate owned and other repossessed property was $5.9 million and $8.1 million at September 30, 2016 and 2015, respectively

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

The allowance for losses on real estate owned includes the following activity for the years ended September 30. Dollar amounts are expressed in thousands.

		2016	2015
Balance at beginning of year	$	--	--
Provision for loss		246	92
Charge-offs		(246)	(92)
Recoveries		--	--
Balance at end of year	$	--	--

In addition to the provision for loss noted above, the Company incurred net expenses of $624,000 and $771,000 related to foreclosed assets held for sale during the fiscal years ended September 30, 2016 and 2015, respectively.

(8) PREMISES AND EQUIPMENT

The following table summarizes premises and equipment as of September 30. Dollar amounts are expressed in thousands.

		2016	2015
Land	$	5,124	4,308
Buildings and improvements		17,784	13,446
Furniture, fixtures and equipment		10,557	8,846
		33,465	26,600
Accumulated depreciation		(20,363)	(16,399)
Total	$	13,102	10,201

Certain facilities of the Bank are leased under various operating leases. Amounts paid for rent expense for the fiscal years ended September 30, 2016 and 2015, were approximately $1.1 million and $1.0 million, respectively.

Future minimum rental commitments under noncancelable leases are presented in the following table. Dollar amounts are expressed in thousands.

Fiscal year ended September 30,		Amount
2017	$	1,322
2018		1,309
2019		1,312
2020		1,312
2021		1,312
Thereafter		1,312

(9) INVESTMENT IN LLCs

Prior to fiscal 2015, the Company was a partner in two limited liability companies, Central Platte Holdings LLC ("Central Platte") and NBH, LLC ("NBH"), which were formed for the purpose of purchasing and developing vacant land in Platte County, Missouri. These investments were accounted for using the equity method of accounting. During fiscal 2015, the Company sold its investment in NBH for $1.8 million. Under the terms of the sale agreement, the Company received cash of $400,000 and will receive an additional $1.4 million in annual installments through December 2018. The Company recorded a deferred gain of $252,000 on the sale, which will be recognized after collection of all sales proceeds. The carrying value of the Company's investment in NBH was $1.5 million at September 30, 2014.

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

The following table displays the results derived from the Company's internal valuation model at September 30, 2016, and the carrying value of its investment in Central Platte at September 30, 2016. Dollar amounts are expressed in thousands.

Method 1	$	16,340
Method 2		17,658
Method 3		18,808
Average of methods 1, 2, and 3	$	17,602
Carrying value of investment in Central Platte Holdings, LLC	$	13,518

(10) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the years ended September 30. Dollar amounts are expressed in thousands.

	Mortgage Servicing Rights		Valuation Allowances	
	2016	2015	2016	2015
Balance at beginning of year	$ 4,744	377	$ --	--
Originated mortgage servicing rights	7,281	4,731	--	--
Amortization	(1,401)	(364)	--	--
Impairment loss	(965)	--	965	--
Balance at end of year	$ 9,659	4,744	$ 965	--

Mortgage servicing rights are initially recorded at fair value at the date of transfer. The Company has elected to subsequently measure its mortgage servicing rights using the amortization method, whereby servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions such as the cost to service, prepayment speeds, discount rate, ancillary income, and default rates. Impairment is determined by stratifying the rights into tranches based on predominant characteristics, such as interest rate and loan type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of servicing assets for that tranche. At September 30, 2016, key assumptions utilized in the valuation model included an average constant prepayment rate of 12.9% and an average discount rate of 10.8%. At September 30, 2015, key assumptions utilized in the valuation model included an average constant prepayment rate of 9.8% and an average discount rate of 10.7%. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy.

During fiscal 2016, a valuation allowance of $965,000 was necessary to adjust the aggregate cost basis of the Company's mortgage servicing asset to fair market value. The Company's mortgage servicing asset had a carrying value of $9.7 million and a market value of $9.8 million at September 30, 2016. At September 30, 2015, this asset had a carrying value of $4.7 million and a market value of $6.4 million.

(11) CUSTOMER AND BROKERED DEPOSIT ACCOUNTS

Customer and brokered deposit accounts as of September 30 are illustrated in the following table. Dollar amounts are expressed in thousands.

	2016		2015	
	Amount	%	Amount	%
Demand deposit accounts	$ 194,599	15	124,396	13
Savings accounts	176,364	14	132,326	14
Money market demand accounts	209,747	16	161,111	16
Certificate accounts	675,599	53	543,470	55
Brokered accounts	20,984	2	20,956	2
	$ 1,277,293	100	982,259	100
Weighted average interest rate	0.80%		0.76%	

The aggregate amount of certificate accounts in excess of $100,000 was approximately $389.2 million and $291.9 million as of September 30, 2016 and 2015, respectively.

At September 30, 2016 and 2015, the Bank had certificate accounts in the amount of $214.2 million and $157.6 million which were acquired through a deposit listing service, respectively.

The following table presents contractual maturities of certificate accounts as of September 30, 2016. Dollar amounts are expressed in thousands.

	Maturing during the fiscal year ended September 30,						
	2017	2018	2019	2020	2021	2022 and after	Total
Certificate accounts	$ 434,517	132,997	60,754	26,129	19,547	1,655	675,599
Brokered accounts	20,984	--	--	--	--	--	20,984
Total	$ 455,501	132,997	60,754	26,129	19,547	1,655	696,583

The following table presents interest expense on customer deposit accounts for the years ended September 30. Dollar amounts are expressed in thousands.

	2016	2015
Savings accounts	$ 858	609
Money market demand and demand deposit accounts	1,282	817
Certificate and brokered accounts	6,939	4,309
	$ 9,079	5,735

(12) ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the FHLB are secured by all stock held in the FHLB, mortgage-backed securities and first mortgage loans with aggregate unpaid principal balances equal to approximately 130% of outstanding advances not secured by FHLB stock. The following table provides a summary of advances by year of maturity as of September 30. Dollar amounts are expressed in thousands.

	2016		2015	
Year ending September 30,	Amount	Weighted average rate	Amount	Weighted average rate
2016			$ 150,000	0.48%
2017	252,000	0.55%	25,000	1.53%
2018	--	--	--	--
2019	25,000	1.89%	25,000	1.89%
2020	100,000	1.79%	100,000	1.79%
2021	25,000	1.53%	--	--
	$ 402,000	1.00%	$ 300,000	1.12%

The Bank's advances have a fixed interest rate and require monthly interest payments, with a single principal payment due at maturity. At September 30, 2016 and 2015, the Bank had no advances that were callable at the option of the Federal Home Loan Bank.

(13) SUBORDINATED DEBENTURES

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

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

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

(14) INCOME TAXES

The differences between the effective income tax rates and the statutory federal corporate tax rate for the years ended September 30 are as follows:

	2016	2015
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	1.9	2.2
Other, net	--	(2.2)
	36.9%	35.0%

Deferred income tax expense (benefit) results from temporary differences in the recognition of income and expense for tax purposes and financial statement purposes. The following table lists these temporary differences and their related tax effect for the years ended September 30. Dollar amounts are expressed in thousands.

		2016	2015
Deferred loan fees and costs	$	138	139
Accrued interest receivable		(11)	11
Tax depreciation vs. book depreciation		207	(303)
Mortgage servicing rights		1,859	1,826
Loan loss reserves		(547)	1,317
Mark-to-market adjustment		736	(1,066)
Accrued expenses		39	(439)
NOL Carryforward		137	--
Other		(3)	(255)
	$	2,555	1,230

The tax effect of significant temporary differences representing deferred tax assets and liabilities are presented in the following table. Dollar amounts are expressed in thousands.

	2016	2015
Deferred income tax assets:		
Loan loss reserves	$ 7,551	6,422
Accrued interest receivable	23	12
Accrued expenses	1,903	1,817
Mark-to-market adjustment	57	793
Impairment loss on LLCs	1,281	1,281
Book depreciation in excess of tax depreciation	295	482
NOL Carryforward	510	--
Other	460	116
	12,080	10,923
Deferred income tax liabilities:		
Basis difference on investments	(6)	(6)
Deferred loan fees and costs	(1,068)	(930)
Unrealized gain on securities available for sale	(1,306)	(267)
Mark-to-market adjustment	--	--
Mortgage servicing rights	(3,685)	(1,826)
Other	--	--
	(6,065)	(3,029)
Net deferred tax asset	$ 6,015	7,894

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits within income tax expense in the consolidated statements of income.

The Company's federal and state income tax returns for fiscal years 2013 through 2015 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(15) STOCKHOLDERS' EQUITY

During fiscal 2016, the Company paid cash dividends on common stock of $0.20 per share on December 24, 2015 and cash dividends of $0.26 per share on March 25, 2016, June 24, 2016, and September 30, 2016.

During fiscal 2015, the Company paid cash dividends on common stock of $0.10 per share on October 31, 2014, and January 23, 2015, and cash dividends of $0.20 per share on March 27, 2015, June 26, 2015, and August 28, 2015. The Company paid a special cash dividend on common stock of $2.00 per share on March 24, 2015.

During fiscal 2016, the Company did not repurchase any shares of its own stock. During fiscal 2015, the Company repurchased 91,523 shares of its own stock with a value of $2.3 million at the time of repurchase.

(16) REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements as administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

In July 2013, the federal banking agencies published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank act. Basel III refers to various documents released by the Basel Committee on Banking Supervision. The new rules became effective for the Company and the Bank in January 2015, with some rules being transitioned into full effectiveness over two-to-four years. The new rules, among other things, introduced a new capital measure called Common Equity Tier 1 ("CET1"), increased the Tier 1 capital ratio requirement, changed the total assets utilized in the Tier 1 leverage ratio calculation from total assets at quarter-end to total average assets during the quarter, changed the risk-weighting of certain assets for purpose of risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios, and changed what qualified as capital for purposes of meeting various capital requirements.

As of September 30 2016, the most recent regulatory guidelines categorize the Bank as "well capitalized" under the framework for prompt corrective action. The Bank and the Company must maintain minimum capital ratios as set forth in the tables below. As of September 30, 2016, management believes that the Bank and the Company meet all capital adequacy requirements to which they are subject.

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

	As of September 30, 2016					
	Actual		Minimum Required For Capital Adequacy		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	210,250	11.2%	75,022	≥4%	93,778	≥5%
CET1 capital ratio	210,250	12.9%	73,380	≥4.5%	105,994	≥6.5%
Tier 1 capital ratio	210,250	12.9%	97,841	≥6%	130,454	≥8%
Total capital ratio	227,006	13.9%	130,454	≥8%	163,068	≥10%

	As of September 30, 2015					
	Actual		Minimum Required For Capital Adequacy		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	197,931	13.4%	58,986	≥4%	73,732	≥5%
CET1 capital ratio	197,931	15.5%	57,339	≥4.5%	82,823	≥6.5%
Tier 1 capital ratio	197,931	15.5%	76,452	≥6%	101,936	≥8%
Total capital ratio	212,173	16.7%	101,936	≥8%	127,420	≥10%

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

	As of September 30, 2016					
	Actual		Minimum Required For Capital Adequacy		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	232,632	12.3%	75,802	≥4%	N/A	N/A
CET1 capital ratio	207,632	12.6%	74,152	≥4.5%	N/A	N/A
Tier 1 capital ratio	232,632	14.1%	98,869	≥6%	N/A	N/A
Total capital ratio	249,388	15.1%	131,825	≥8%	N/A	N/A

	As of September 30, 2015					
	Actual		Minimum Required For Capital Adequacy		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	220,251	14.8%	59,707	≥4%	N/A	N/A
CET1 capital ratio	195,251	15.1%	58,182	≥4.5%	N/A	N/A
Tier 1 capital ratio	220,251	17.0%	77,576	≥6%	N/A	N/A
Total capital ratio	234,493	18.1%	103,435	≥8%	N/A	N/A

(17) EMPLOYEES' RETIREMENT PLAN

Substantially all of the Bank's full-time employees participate in a 401(k) retirement plan (the "Plan"). The Plan is administered by Standard Insurance Company, through which employees can choose from a variety of retail mutual funds to invest their fund contributions. Under the terms of the Plan, the Bank makes monthly contributions for the benefit of each participant in an amount that matches one-half of the participant's contribution, not to exceed 3% of the participants' monthly base salary. All contributions made by participants are immediately vested and cannot be forfeited. Contributions made by the Bank, and related earnings thereon, become vested to the participants according to length of service requirements as specified in the Plan. Any forfeited portions of the contributions made by the Bank and the allocated earnings thereon are used to reduce future contribution requirements of the Bank. The Plan may be modified, amended or terminated at the discretion of the Bank.

The Bank's contributions to the Plan amounted to $762,000 and $734,000 for the years ended September 30, 2016 and 2015, respectively. These amounts have been included as compensation and benefits expense in the accompanying consolidated statements of operations.

(18) STOCK OPTION PLAN

On January 27, 2004, the Company's stockholders approved an equity stock option plan through which options to purchase up to 250,000 shares of common stock may be granted to officers and employees of the Company. Options may be granted over a period of ten years. The option price may not be less than 100% of the fair market value of the shares on the date of the grant.

The following table summarizes Option Plan activity during fiscal years 2016 and 2015.

	Number of shares	Weighted avg. exercise price per share	Range of exercise price per share
Options outstanding at October 1, 2014	32,138	$ 34.39	$ 30.33-42.17
Forfeited	(8,500)	42.03	39.79-42.17
Options outstanding at September 30, 2015	23,638	$ 31.64	$ 30.33-32.91
Forfeited	(14,400)	32.48	30.33-32.91
Options outstanding at September 30, 2016	9,238	$ 30.33	$ 30.33

The weighted average remaining contractual life of options outstanding at September 30, 2016 and 2015 were 0.8 years and 1.3 years, respectively.

The following table provides information regarding the expiration dates of the stock options outstanding at September 30, 2016.

	Number of shares	Weighted average exercise price
Expiring on:		
July 24, 2017	9,238	$ 30.33

All of the options outstanding at September 30, 2016, are currently exercisable in accordance with the vesting schedules outlined in each stock option agreement.

The following table illustrates the range of exercise prices and the weighted average remaining contractual lives for options outstanding under the Option Plan as of September 30, 2016.

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number	Weighted avg. remaining contractual life	Weighted avg. exercise price	Number	Weighted avg. exercise price
$ 30.33	9,238	0.8 years	$ 30.33	9,238	30.33

(19) COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank has entered into financial agreements with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk, interest rate risk, and liquidity risk, which may exceed the amount recognized in the consolidated financial statements. The contract amounts or notional amounts of those instruments express the extent of involvement the Bank has in particular classes of financial instruments.

With regard to financial instruments for commitments to extend credit, standby letters of credit, and financial guarantees, the Bank's exposure to credit loss because of non-performance by another party is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As of September 30, 2016, the Bank had outstanding commitments to originate $10.0 million in commercial real estate loans, $379.4 million of fixed rate residential first mortgage loans, $8.7 million of adjustable rate residential first mortgage loans, and $1.2 million in commercial loans. Commercial real estate loan commitments have approximate average committed rates of 4.8%. Residential mortgage loan commitments have an approximate average committed rate of 3.3% and approximate average fees and discounts of 0.1%. The interest rate commitments on residential loans generally expire 60 days after the commitment date. Interest rate commitments on commercial real estate loans have varying terms to expiration. As of September 30, 2016, the Bank had outstanding commitments related to stand-by letters of credit of $419,000.

As of September 30, 2015, the Bank had outstanding commitments to originate $10.8 million in commercial real estate loans, $235.6 million of fixed rate residential first mortgage loans, $18.0 million of adjustable rate residential first mortgage loans, and $4.4 million in commercial loans. Commercial real estate loan commitments have approximate average committed rates of 4.7%. Residential mortgage loan commitments have an approximate average committed rate of 3.7% and approximate average fees and discounts of 0.1%. The interest rate commitments on residential loans generally expire 60 days after the commitment date. Interest rate commitments on commercial real estate loans have varying terms to expiration. As of September 30, 2015, the Bank had outstanding commitments related to stand-by letters of credit of $529,000.

At September 30, 2016 and 2015, the Bank had commitments to sell loans of approximately $141.9 million and $90.9 million, respectively. In addition, the Company had forward sales commitments of mortgage-backed securities of approximately $415.2 million and $282.6 million that have not settled at September 30, 2016 and 2015, respectively. These instruments contain an element of risk in the event that other parties are unable to meet the terms of such agreements. In such event, the Bank's loans receivable held for sale would be exposed to market fluctuations. Management does not expect any other party to default on its obligations and, therefore, does not expect to incur any costs due to such possible default.

(20) LEGAL CONTINGENCIES

Various legal claims arise from time to time within the normal course of business which, in the opinion of management, are not expected to have a material effect on the Company's consolidated financial statements.

(21) SIGNIFICANT ESTIMATES AND CONCENTRATIONS

The Company's construction and development loan portfolio includes loans that are in excess of supervisory loan-to-value limits. As of September 30, 2016 and 2015, 7.3% and 6.3% of this portfolio was made up of such loans, respectively.

(22) FAIR VALUE OPTION

On October 1, 2008, the Company elected to measure loans held for sale at fair value. It is management's opinion, given the short-term nature of these loans, that fair value provides a reasonable measure of the economic value of these assets. In addition, carrying such loans at fair value eliminates some measure of volatility created by the timing of sales proceeds from outside investors, which typically occur in the first few months following origination.

The aggregate fair value of these loans was $9.0 million and $6.2 million greater than the aggregate unpaid principal balance at September 30, 2016 and 2015, respectively. Interest income on loans held for sale is included in interest on loans receivable in the accompanying statements of income.

(23) DERIVATIVE INSTRUMENTS

The Company enters into derivative contracts to manage interest rate and pricing risk associated with its mortgage banking activities. In accordance with GAAP, derivative instruments are recorded in the Company's balance sheet at fair value. As the Company enters into commitments to originate loans, it also enters into commitments to sell certain loans in the secondary market. These derivative commitments to sell loans, which may include best efforts commitments, mandatory commitments, and forward sales of mortgage-backed securities, are used to hedge the risks resulting from interest rate movements on the Company's outstanding commitments to originate loans held for sale and its portfolio of loans held for sale.

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. Commitments to originate loans held for sale are also considered derivative instruments in accordance with GAAP. As a result of marking to market commitments to originate loans held for sale, the Company recorded an increase in other assets of $1,000, a decrease in other liabilities of $36,000, and an increase in other income of $37,000 for the year ended September 30, 2016. The Company recorded an increase in other assets of $882,000, an increase in other liabilities of $77,000, and an increase in other income of $805,000 for the year ended September 30, 2015.

The Company also has best-efforts commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell such loans held for sale, the Company recorded an increase in other assets of $5,000, a decrease in other liabilities of $66,000, and an increase in other income of $71,000 during the year ended September 30, 2016. The Company recorded a decrease in other assets of $538,000, an increase in other liabilities of $125,000, and a decrease in other income of $663,000 during the year ended September 30, 2015.

The Company also has mandatory commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell such loans held for sale, the Company recorded an increase in other assets of $825,000, a decrease in other liabilities of $158,000, and an increase in other income of $983,000 during the year ended September 30, 2016. The Company recorded an increase in other assets of $47,000, an increase in other liabilities of $277,000, and a decrease in other income of $230,000 during the year ended September 30, 2015.

In addition, the Company has forward sales commitments of mortgage-backed securities that have not settled prior to the end of the period. Due to the mark to market adjustment on forward sales of mortgage-backed securities, the Company recorded an increase in other assets of $109,000, a decrease in other liabilities of $709,000, and an increase in other income of $818,000 during the year ended September 30, 2016. The Company had $415.2 million of forward sales commitments of mortgage-backed securities that had not settled at September 30, 2016. The Company recorded a decrease in other assets of $19,000, an increase in other liabilities of $2.7 million, and a decrease in other income of $2.7 million during the year ended September 30, 2015. The Company had $282.6 million of forward sales commitments of mortgage-backed securities that had not settled at September 30, 2015.

The balance of derivative instruments related to commitments to originate and sell loans at September 30, 2016 and 2015, is disclosed in Footnote 24, Fair Value Measurements.

(24) FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

Available for sale securities

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

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

Loans held for sale

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

Commitments to Originate Loans and Forward Sales Commitments

Commitments to originate loans and forward sales commitments are valued using a valuation model which considers differences between current market interest rates and committed rates. The model also includes assumptions, which estimate fall-out percentages, for commitments to originate loans, and average lives. Fall-out percentages, which range from ten to forty percent, are estimated based upon the difference between current market rates and committed rates. Average lives are based upon estimates for similar types of loans. These measurements use significant unobservable inputs and are classified as Level 3 within the hierarchy. Forward commitments to sell mortgage-backed securities are valued based upon the gain or loss that would occur if the Bank were to pair-off the transaction. This value is obtained by using industry standard models which utilize various inputs and assumptions such as historical prices of benchmark securities, prepayment estimates, loan type, and year of origination. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. This measurement is classified as Level 2 within the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2016 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U. S. government agency securities	$ 90,554	--	90,554	--
Corporate debt securities	148,133	--	148,133	--
Municipal securities	422	--	422	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA – fixed rate	47	--	47	--
Pass through certificates guaranteed by FNMA – adjustable rate	67	--	67	--
FHLMC participation certificates:				
Fixed rate	8	--	8	--
Adjustable rate	55	--	55	--
Collateralized mortgage obligations	815	--	815	--
Loans held for sale	250,868	--	250,868	--
Commitments to originate loans	1,294	--	--	1,294
Forward loan sales commitments	889	--	--	889
Forward loan sales commitments of mortgage-backed securities	157	--	157	--
Total assets	$ 493,309	--	491,126	2,183
Liabilities:				
Commitments to originate loans	$ 195	--	--	195
Forward loan sales commitments	223	--	--	223
Forward loan sales commitments of mortgage-backed securities	2,064	--	2,064	--
Total liabilities	$ 2,482	--	2,064	418

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2015 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U. S. government agency securities	$ 90,484	--	90,484	--
Corporate debt securities	139,806	--	139,806	--
Municipal securities	422	--	422	--
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA – fixed rate	54	--	54	--
Pass through certificates guaranteed by FNMA – adjustable rate	82	--	82	--
FHLMC participation certificates:				
Fixed rate	32	--	32	--
Adjustable rate	75	--	75	--
Collateralized mortgage obligations	953	--	953	--
Loans held for sale	180,929	--	180,929	--
Commitments to originate loans	1,293	--	--	1,293
Forward loan sales commitments	59	--	--	59
Forward loan sales commitments of mortgage-backed securities	47	--	47	--
Total assets	$ 414,236	--	412,884	1,352
Liabilities:				
Commitments to originate loans	$ 231	--	--	231
Forward loan sales commitments	446	--	--	446
Forward loan sales commitments of mortgage-backed securities	2,772	--	2,772	--
Total liabilities	$ 3,449	--	2,772	677

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

	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2014	$ 257	506
Total realized and unrealized gains (losses):		
Included in net income	805	(893)
Balance at September 30, 2015	$ 1,062	(387)
Total realized and unrealized gains:		
Included in net income	37	1,053
Balance at September 30, 2016	$ 1,099	666

Realized and unrealized gains and losses noted in the table above and included in net income for the year ended September 30, 2016, are reported in the consolidated statements of operations as follows (in thousands):

	Other Income
Total gains (losses)	$ 1,091
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	$ 1,765

Realized and unrealized gains and losses noted in the table above and included in net income for the year ended September 30, 2015, are reported in the consolidated statements of operations as follows (in thousands):

	Other Income
Total gains (losses)	$ (88)
Changes in unrealized gains (losses) relating to assets still held at the balance sheet date	$ 675

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

Impaired loans

Loans for which it is probable that the Company will not collect principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and other internal assessments of value. Appraisals are obtained when an impaired loan is deemed to be collateral dependent, and at least annually thereafter, an updated appraisal is obtained or an internal valuation is performed. Fair value is generally the appraised value less selling costs, which are estimated at 9% of the appraised value, and may be discounted further if management believes any other factors or events have affected the fair value. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans that were re-measured during the years ended September 30, 2016 and 2015, was $22.1 million and $4.7 million, respectively.

Foreclosed Assets Held For Sale

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

The carrying value of foreclosed assets held for sale was $5.9 million and $8.1 million at September 30, 2016 and 2015, respectively. During fiscal 2016, charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the period totaled $246,000. During fiscal 2015, charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the period totaled $93,000.

Mortgage Servicing Rights

Mortgage servicing rights are initially recorded at fair value at the date of transfer. The Company has elected to subsequently measure its mortgage servicing rights using the amortization method, whereby servicing rights are amortized in proportion to and over the period of estimated net servicing income. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions such as the cost to service, prepayment speeds, discount rate, ancillary income, and default rates. Impairment is determined by stratifying the rights into tranches based on predominant characteristics, such as interest rate and loan type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of servicing assets for that tranche. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy.

During fiscal 2016, a valuation allowance of $965,000 was necessary to adjust the aggregate cost basis of the Company's mortgage servicing asset to fair market value. The Company's mortgage servicing asset had a carrying value of $9.7 million and a market value of $9.8 million at September 30, 2016. At September 30, 2015, this asset had a carrying value of $4.7 million and a market value of $6.4 million.

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

Cash and cash equivalents
The carrying amount reported in the consolidated balance sheets is a reasonable estimate of fair value.

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

Stock in Federal Home Loan Bank ("FHLB")
The carrying value of stock in Federal Home Loan Bank approximates its fair value.

Loans receivable held for investment
Fair values are computed for each loan category using market spreads to treasury securities with similar maturities and management's estimates of prepayments.

Investment in LLC
Fair value is computed based upon an internal model that utilizes valuation methods based upon appraised values and discounted cash flow assumptions for various liquidation and on-going business scenarios, which are described more fully in footnote 9.

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

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

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

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

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 (in thousands):

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	$ 26,803	26,803	--	--
Interest bearing deposits	5,236	5,236	--	--
Stock in Federal Home Loan Bank	18,162	--	18,162	--
Loans receivable held for investment	1,351,942	--	--	1,438,205
Investment in LLCs	13,518	--	--	17,602
Financial Liabilities:				
Customer deposit accounts	1,256,309	--	--	1,259,913
Brokered deposit accounts	20,984	--	--	21,014
Advances from FHLB	402,000	--	--	403,943
Subordinated debentures	25,774	--	--	15,464

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2015 (in thousands):

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	$ 15,017	15,017	--	--
Stock in Federal Home Loan Bank	13,538	--	13,538	--
Loans receivable held for investment	1,039,766	--	--	1,052,439
Investment in LLCs	14,544	--	--	17,124
Financial Liabilities:				
Customer deposit accounts	961,303	--	--	963,577
Brokered deposit accounts	20,956	--	--	20,927
Advances from FHLB	300,000	--	--	300,409
Subordinated debentures	25,774	--	--	17,011

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

	September 30, 2016		September 30, 2015	
	Contract or notional amount	Estimated unrealized gain (loss)	Contract or notional amount	Estimated unrealized gain (loss)
Unrecognized financial instruments:				
Lending commitments – fixed rate, net	$ 20,042	67	$ 24,308	(25)
Lending commitments – floating rate	4,795	8	7,283	45
Commitments to sell loans	--	--	--	--

The fair value estimates presented are based on pertinent information available to management as of September 30, 2016 and 2015. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date. Therefore, current estimates of fair value may differ significantly from the amounts presented above.

(25) CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

Amounts reclassified from Accumulated Other Comprehensive Income ("AOCI") and the affected line items in the statement of operations during the years ending September 30, were as follows (in thousands):

		Amounts reclassified from AOCI		Affected line item in the
		2016	2015	Statement of Operations
Unrealized gains (losses) on available for sale Securities:				
	$	657	154	Gain on disposal of securities available for sale
		--	--	Impairment loss on securities
		657	154	Total reclassified before tax
		(230)	(54)	Income tax expense (benefit)
	$	427	100	Net reclassified amount

(26) MERGER

On July 12, 2016, the Company acquired Lexington B&L Financial Corp ("B&L") pursuant to a definitive agreement dated February 22, 2016. The agreement provided that upon the effective date of the acquisition, each shareholder of B&L would receive cash for each share of B&L common stock owned by such shareholder. The aggregate purchase price was $15.8 million. As a result of the acquisition, the Company increased its retail banking network and provided additional funding for its ongoing operations.

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.

Fair value of consideration transferred:		
Cash paid to B&L shareholders	$	15,833
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents		8,133
Interest bearing deposits		5,268
Investment and mortgage-backed securities		28,849
Loans receivable		70,587
Premises and equipment		2,879
Core deposits		1,732
Other assets		3,918
		121,366
Customer deposit accounts		106,009
Other liabilities		1,240
		107,249
Total identifiable assets, net		14,117
Goodwill	$	1,716

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 $1.7 million of goodwill, which consists largely of synergies and economies of scale expected from combining the operations of the Company and B&L, was assigned entirely to the banking segment of the business.

(27) SUBSEQUENT EVENT

Subsequent events have been evaluated through the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued.

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying consolidated financial statements of NASB Financial, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NASB Financial, Inc. and its subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, NASB Financial, Inc.'s internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated December 19, 2016, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

BKD, LLP

Kansas City, Missouri
December 19, 2016

Board of Directors of NASB Financial, Inc.

David H. Hancock
Chairman
NASB Financial, Inc. and
North American Savings Bank

Paul L. Thomas
Chief Executive Officer
NASB Financial, Inc. and
North American Savings Bank

Thomas B. Wagers, Sr.
Vice President
NASB Financial, Inc.
Executive Vice President and
Chief Risk Officer
North American Savings Bank

Frederick V. Arbanas
Retired

Barrett Brady
Retired

Laura Brady
Partner
Royal Street Ventures
Kansas City, Missouri

E. Alexander Hancock
Portfolio Manager
Kornitzer Capital Management
Mission, Kansas

Linda S. Hancock
Linda Smith Hancock Interiors
Kansas City, Missouri

W. Russell Welsh
Chairman
Chief Executive Officer
Polsinelli Shughart PC
Kansas City, Missouri

Officers of NASB Financial, Inc.

David H. Hancock
Chairman

Paul L. Thomas
Chief Executive Officer

Rhonda Nyhus
Vice President and Treasurer

Brian Zoellner
Corporate Secretary

Mike Anderson
Vice President

Matt Dayton
Vice President

John M. Nesselrode
Vice President

Dena Sanders
Vice President

Ron Stafford
Vice President

Bruce Thielen
Vice President

J. Enrique Venegas
Vice President

Thomas B. Wagers, Sr.
Vice President

Branch Offices

Headquarters
Grandview, Missouri
12498 South 71 Highway

Lee's Summit, Missouri
646 North 291 Highway

Excelsior Springs, Missouri
1001 North Jesse James Road

Kansas City, Missouri
8501 North Oak Trafficway
and
7012 NW Barry Road

Lexington, Missouri
205 South 13th Street

Harrisonville, Missouri
2002 East Mechanic

St. Joseph, Missouri
920 North Belt

Independence, Missouri
11400 East 23rd Street

Platte City, Missouri
2707 NW Prairie View Road

Odessa, Missouri
228 South 2nd Street

Residential Lending
903 East 104th Street
Building C, Suite 400
Kansas City, Missouri

789 NE Rice Road
Lee's Summit, Missouri

Construction Lending
12520 South 71 Highway
Grandview, Missouri

Loan Administration
12520 South 71 Highway
Grandview, Missouri

Investor Information

Annual Meeting of Stockholders:

The Annual Meeting of Stockholders will be held on Tuesday, January 24, 2017, at 8:30 a.m. in the lobby of North American Savings Bank, 12498 South 71 Highway, Grandview, Missouri.

Transfer Agent:

Computershare, P.O. Box 30170, College Station, TX 77842-3170, (800) 368-5948, www.computershare.com

Stock Trading Information:

The common stock of NASB Financial, Inc. is quoted on the OTCQX . The Company's symbol is **NASB.**

Independent Registered Public Accounting Firm:

BKD LLP, 1201 Walnut, Suite 1700, Kansas City, Missouri 64106

Shareholder and Financial Information:

Contact Rhonda Nyhus, NASB Financial, Inc., 12498 South 71 Highway, Grandview, Missouri 64030, (816) 765-2200.

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NMLS ID #: 400039
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