LANDMARK BANCORP INC
Form 10-K
March 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For fiscal year ended December 31, 2008
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For transition period from to

Commission File Number 0-33203

LANDMARK BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**43-1930755**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
701 Poyntz Avenue, Manhattan, Kansas	**66505**
(Address of principal executive offices)	(Zip Code)

(785) 565-2000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

	Common Stock, par value $0.01 per share
	Preferred Share Purchase Rights
Securities registered pursuant to Section 12(g) of the Act:	None

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

Yes o No x

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

Yes o No x

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

Yes x No o

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

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

Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the Nasdaq Global Market on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $38.6 million. At February 28, 2009, the total number of shares of common stock outstanding was 2,372,250.

Portions of the following documents are incorporated by reference: the Proxy Statement for the Annual Meeting of Stockholders to be held May 20, 2009, are incorporated by reference in Part III hereof, to the extent indicated herein.

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LANDMARK BANCORP, INC.

2008 Form 10-K Annual Report

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PART I

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PART I.

ITEM 1. BUSINESS

The Company

Landmark Bancorp, Inc. (the Company) is a bank holding company incorporated under the laws of the State of Delaware. Currently, the Company s business consists solely of the ownership of Landmark National Bank (the Bank), which is a wholly-owned subsidiary of the Company. As of December 31, 2008, the Company had $602.2 million in consolidated total assets.

The Company is headquartered in Manhattan, Kansas and has expanded its geographic presence through acquisitions in the past several years. Effective January 1, 2006, the Company completed the acquisition of First Manhattan Bancorporation, Inc. (FMB), the holding company for First Savings Bank F.S.B. In conjunction with the transaction, FMB was merged into the Bank (the 2006 Acquisition). In August 2005, the Company acquired 2 branches in Great Bend, Kansas. Effective April 1, 2004, the Company acquired First Kansas Financial Corporation (First Kansas), the holding company for First Kansas Federal Savings Association (First Kansas Federal). In conjunction with the transaction, First Kansas was merged into the Bank (the 2004 Acquisition). Effective October 9, 2001, Landmark Bancshares, Inc., the holding company for Landmark Federal Savings Bank, and MNB Bancshares, Inc., the holding company for Security National Bank, completed their merger into Landmark Merger Company, which immediately changed its name to Landmark Bancorp, Inc. (the 2001 Merger). In addition, Landmark Federal Savings Bank merged with Security National Bank and the resulting bank changed its name to Landmark National Bank.

As a bank holding company, the Company is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve). The Company is also subject to various reporting requirements of the Securities and Exchange Commission (the SEC).

Pursuant to the 2006 Acquisition, the 2004 Acquisition and the 2001 Merger, the Bank succeeded to all of the assets and liabilities of FMB, First Savings Bank F.S.B., First Kansas, First Kansas Federal, Landmark Federal Savings Bank and Security National Bank. The Bank is principally engaged in the business of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to originate commercial, commercial real estate, one-to-four family residential mortgage and consumer loans in the Bank s principal market areas, as described below. Since the 2001 Merger, the Bank has focused on originating greater numbers and amounts of commercial, commercial real estate and agricultural loans. Additionally, greater emphasis has been placed on diversification of the deposit mix through expansion of core deposit accounts such as checking, savings, and money market accounts. The Bank has also diversified its geographical markets as a result of the 2006 Acquisition, the 2004 Acquisition and the 2001 Merger. The Company s main office is in Manhattan, Kansas with branch offices in central, eastern and southwestern Kansas. The Company continues to explore opportunities to expand its banking markets through mergers and acquisitions, as well as branching opportunities. In January 2009, the Company entered into an agreement to purchase a second branch in Lawrence, Kansas. Completion of the acquisition is subject to customary closing conditions. In light of the recent turmoil in the financial industry, additional attractive opportunities may become available to the Company.

The results of operations of the Bank and the Company are dependent primarily upon net interest income and, to a lesser extent, upon other income derived from loan servicing fees and customer deposit services. Additional expenses of the Bank include general and administrative expenses such as salaries, employee benefits, federal deposit insurance premiums, data processing, occupancy and related expenses.

Deposits of the Bank are insured by the Deposit Insurance Fund (the DIF) of the Federal Deposit Insurance Corporation (the FDIC) up to the maximum amount allowable under applicable federal law and regulation. The Bank is regulated by the Office of the Comptroller of the Currency (the OCC), as the chartering authority for national banks, and the FDIC, as the administrator of the DIF. The Bank is also subject to regulation by the Board of Governors of the Federal Reserve System with respect to reserves required to be maintained against deposits and

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certain other matters. The Bank is a member of the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank (the FHLB) of Topeka.

The Company s executive office and the Bank s main office are located at 701 Poyntz Avenue, Manhattan, Kansas 66502. The telephone number is (785) 565-2000.

Market Area

The Bank s primary deposit gathering and lending markets are geographically diversified with locations in eastern, central, and southwestern Kansas. The primary industries within these respective markets are also diverse and dependent upon a wide array of industry and governmental activity for their economic base. The Bank s markets have not been immune to the effects of the recent economic downturn. To varying degrees, the Bank s markets have experienced either flat or declining real estate values, falling consumer confidence, increased unemployment and decreased consumer spending. However, the economic and credit crises has so far been less severe in Kansas than many markets across the U.S. have experienced. A brief description of these three geographic areas and the communities which the Bank serves within these communities is summarized below.

Shawnee, Douglas, Miami, Osage, and Bourbon counties are located in eastern Kansas and encompass the Bank locations in Topeka, Auburn, Lawrence, Paola, Louisburg, Osawatomie, Osage City, and Fort Scott. Shawnee County s market, which encompasses the Bank locations in Topeka and Auburn, is strongly influenced by the State of Kansas, City of Topeka, two regional hospitals and several major private firms and public institutions. The Bank s Lawrence location is located in Douglas County and is significantly impacted by the University of Kansas, the largest university in Kansas, in addition to several private industries and businesses in the community. In January 2009, the Company entered into an agreement to purchase a second branch in Lawrence, Kansas. The communities of Paola, Louisburg, and Osawatomie, located within Miami County, are influenced by the growth of the Kansas City market resulting in housing growth and small private industries and business. Additionally, the Osawatomie State Hospital is a major government employer within the county. Bourbon and Osage Counties are primarily agricultural with small private industries and business firms, while Bourbon County is also influenced by a regional hospital and Fort Scott Community College.

Bank locations within central Kansas include the communities of Manhattan within Riley County, Wamego which is located within Pottawatomie County, Junction City which is located in Geary County, Great Bend and Hoisington within Barton County, and LaCrosse located in Rush County. The Riley, Pottawatomie and Geary County economies are significantly impacted by employment at Fort Riley Military Base and Kansas State University, the second largest university in Kansas, which is located in Manhattan. Several private industries and businesses are also located within these counties. Agriculture, oil, and gas are the predominant industries in Barton County. Additionally manufacturing and service industries also play a key role within this central Kansas market. LaCrosse, located within Rush County, is primarily an agricultural community with an emphasis on crop and livestock production.

The counties of Ford and Finney were founded on agriculture, which continues to play a major role in the economy. Predominant activities involve crop production, feed lot operations, and food processing.   Dodge City is known as the Cowboy Capital of the World and maintains a significant tourism industry. Both Dodge City and Garden City are recognized as regional commercial centers within the state with small business, manufacturing, retail, and service industries having a significant influence upon the local economies. Additionally, each community has a community college which also attracts a number of individuals from the surrounding area to live within the community to participate in educational programs and pursue a degree.

Competition

The Company faces strong competition both in attracting deposits and making real estate, commercial and other loans. Its most direct competition for deposits comes from commercial banks and other savings institutions located in its principal market areas, including many large financial institutions which have greater financial and marketing resources available to them. The ability of the Company to attract and retain deposits generally depends on its ability to provide a rate of return, liquidity and risk comparable to that offered by competing investment

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opportunities. The Company competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of services it provides borrowers.

Employees

At December 31, 2008, the Bank had a total of 207 employees (195 full time equivalent employees). The Company has no direct employees. Employees are provided with a comprehensive benefits program, including basic and major medical insurance, life and disability insurance, sick leave, and a 401(k) profit sharing plan. Employees are not represented by any union or collective bargaining group and the Bank considers its employee relations to be good.

Lending Activities

General. The Bank strives to provide each market area it serves a full range of financial products and services to small and medium sized businesses and to consumers. The Bank targets owner-operated businesses and utilizes Small Business Administration and Farm Services Administration lending as a part of its product mix. Each market has an established loan committee which has authority to approve credits, within established guidelines. Concentrations in excess of those guidelines must be approved by either a corporate loan committee comprised of the Bank s Chief Executive Officer, the Credit Risk Manager, and other senior commercial lenders or the bank s board of directors. When lending to an entity, the Bank generally obtains a guaranty from the principals of the entity. The loan mix is subject to the discretion of the Bank s board of directors and the demands of the local marketplace.

Residential loans are priced and originated following global underwriting standards that are consistent with guidelines established by the major buyers in the secondary market. Commercial and consumer loans generally are issued at or above the national prime rate. While the origination of one-to-four family residential loans continues to be a key component of our business, the majority of these loans are sold in the secondary market. The Bank is focusing on the generation of commercial and commercial real estate loans to grow and diversify the loan portfolio. The Bank has no potential negative amortization loans. The following is a brief description of each major category of the Bank s lending activity.

Commercial Lending. Loans in this category include loans to service, retail, wholesale and light manufacturing businesses, including agricultural operations. Commercial loans are made based on the financial strength and repayment ability of the borrower, as well as the collateral securing the loans. The Bank targets owner-operated businesses as its customers and makes lending decisions based upon a cash flow analysis of the borrower as well as a collateral analysis. Accounts receivable loans and loans for inventory purchases are generally on a one-year renewable term and loans for equipment generally have a term of seven years or less. The Bank generally takes a blanket security interest in all assets of the borrower. Equipment loans are generally limited to 75% of the cost or appraised value of the equipment. Inventory loans are generally limited to 50% of the value of the inventory, and accounts receivable loans are generally limited to 75% of a predetermined eligible base.

The Bank also provides short-term credit for operating loans and intermediate term loans for farm product, livestock and machinery purchases and other agricultural improvements. Farm product loans have generally a one-year term and machinery and equipment and breeding livestock loans generally have five to seven year terms. Extension of credit is based upon the borrower s ability to repay, as well as the existence of federal guarantees and crop insurance coverage. These loans are generally secured by a blanket lien on livestock, equipment, feed, hay, grain and growing crops. Equipment and breeding livestock loans are generally limited to 75% of appraised value.

Real Estate Lending. Commercial, residential, construction and multi-family real estate loans represent the largest class of loans of the Bank. Generally, residential loans retained in portfolio are variable rate with adjustment periods of five years or less and amortization periods of either 15 or 30 years. Commercial real estate loans, including agricultural real estate, generally have amortization periods of 15 or 20 years. The Bank has a security interest in the borrower s real estate. The Bank also generates long term fixed rate residential real estate loans which are sold in the secondary market. Commercial real estate, construction and multi-family loans are generally limited, by policy, to 80% of the appraised value of the property. Commercial real estate, including agricultural real estate loans, are also supported by an analysis demonstrating the borrower s ability to repay. The Bank has been reducing its exposure to construction loans over the past two years, from $33.6 million at December 31, 2006 to $19.6 million at December 31, 2008. Residential loans that exceed 80% of the appraised value of the real estate generally are required, by policy, to be supported by private mortgage insurance, although on occasion the Bank will retain non-conforming residential loans to known customers at premium pricing.

Consumer and Other Lending. Loans classified as consumer and other loans include automobile, boat, student loans, home improvement and home equity loans, the latter two secured principally through second mortgages. With the exception of home improvement loans and home equity loans, the Bank generally takes a purchase money security interest in collateral for which it provides the original financing. The terms of the loans typically range from one to five years, depending upon the use of the proceeds, and generally range from 75% to 90% of the value of the collateral. The majority of these loans are installment loans with fixed interest rates. Home improvement and home equity loans are generally secured by a second mortgage on the borrower s personal residence and, when combined with the first mortgage, limited to 80% of the value of the property unless further protected by private mortgage insurance. The home improvement loans are generally made for terms of five to seven years with fixed interest rates. The home equity loans are generally made for terms of ten years on a revolving basis with the interest rates adjusting monthly tied to the national prime interest rate.

Loan Origination and Processing

Loan originations are derived from a number of sources. Residential loan originations result from real estate broker referrals, direct solicitation by the Bank s loan officers, present depositors and borrowers, referrals from builders and attorneys, walk in customers and, in some instances, other lenders. Consumer and commercial real estate loan originations emanate from many of the same sources. Residential loan applications are underwritten and closed based upon standards which generally meet secondary market guidelines. The average loan is less than $500,000.

The loan underwriting procedures followed by the Bank conform to regulatory specifications and are designed to assess both the borrower s ability to make principal and interest payments and the value of any assets or property serving as collateral for the loan. Generally, as part of the process, a loan officer meets with each applicant to obtain the appropriate employment and financial information as well as any other required loan information. The Bank then obtains reports with respect to the borrower s credit record, and orders, on real estate loans, and reviews an appraisal of any collateral for the loan (prepared for the Bank through an independent appraiser).

Loan applicants are notified promptly of the decision of the Bank. Prior to closing any long-term loan, the borrower must provide proof of fire and casualty insurance on the property serving as collateral, and such insurance must be maintained during the full term of the loan. Title insurance is required on loans collateralized by real property.

Recent events in the U.S. and global economies, including the deterioration of the world wide credit markets, have materially impacted our loan origination and processing. Residential real estate values have either leveled out or declined slightly in the markets we serve. In several of our markets there is an oversupply of newly constructed, speculative residential real estate properties and developed vacant lots. As a result of these issues we have severely curtailed land development and construction lending. We do not expect this type of lending to be resumed until the economic outlook improves and the supply and demand of residential housing and vacant developed lots is in balance. The economic downturn has also caused us to increase our underwriting requirements on other types of loans to insure borrowers can meet repayment requirements in the current economic environment.

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SUPERVISION AND REGULATION

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the OCC, the Board of Governors of the Federal Reserve System (the Federal Reserve) and the FDIC. Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities and securities laws administered by the SEC and state securities authorities have an impact on the business of the Company. The effect of these statutes, regulations and regulatory policies may be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, the kinds and amounts of investments, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. This system of supervision and regulation establishes a comprehensive framework for the respective operations of the Company and its subsidiaries and is intended primarily for the protection of the FDIC-insured deposits and depositors of the Bank, rather than stockholders. In addition to this generally applicable regulatory framework, recent turmoil in the credit markets prompted the enactment of unprecedented legislation that has allowed the U.S. Treasury Department (the Treasury) to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which the Treasury invests.

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to applicable law. Any change in applicable statutes, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the BHCA). In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is also required to file with the Federal Reserve periodic reports of the Company s operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is

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subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be so closely related to banking ... as to be a proper incident thereto. This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a thrift, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, the Company has not applied for approval to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring control of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. Control is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a risk-based requirement expressed as a percentage of total assets weighted according to risk; and (ii) a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders equity less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that do not qualify as Tier 1 capital and a portion of the Company s allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels could be required by regulatory authorities if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2008 the Company had regulatory capital in excess of the Federal Reserve s minimum requirements.

Emergency Economic Stabilization Act of 2008. Recent events in the U.S. and global financial markets, including the deterioration of the worldwide credit markets, have created significant challenges for financial institutions such as the Bank. Dramatic declines in the housing market during the past year, marked by falling home prices and increasing levels of mortgage foreclosures, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. In addition, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions, as a result of concern about the stability of the financial markets and the strength of counterparties.

In response to the crises affecting the U.S. banking system and financial markets and to bolster the distressed economy and improve consumer confidence in the financial system, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the EESA). The EESA authorizes the Secretary of the Treasury to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Financial institutions participating in certain of the programs established under the EESA will be required to adopt the Treasury s standards for executive compensation and corporate governance.

The TARP Capital Purchase Program. On October 14, 2008, the Treasury announced that it will provide Tier 1 capital (in the form of perpetual preferred stock) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the CPP), allocates $250 billion from the $700 billion authorized by the EESA to the Treasury for the purchase of senior preferred shares from qualifying financial institutions (the CPP Preferred Stock). Eligible institutions will be able to sell equity interests to the Treasury in amounts equal to between 1% and 3% of the institution s risk-weighted assets. The CPP Preferred Stock will generally be non-voting and will pay dividends at the rate of 5% per annum for the first five years and thereafter at a rate of 9% per annum. For public companies, in conjunction with the purchase of the CPP Preferred Stock, the Treasury will receive warrants to purchase common stock from the participating public institutions with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions will be required to adopt the Treasury s standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the CPP. The Treasury will determine specific eligibility and allocations for an interested financial institution after consultation with the appropriate federal banking agency. The deadline for public companies to submit an application to participate in the CPP was November 14, 2008.

The Company filed an application to participate in the CPP by issuing to the U.S. Treasury approximately $12 million in aggregate amount of CPP Preferred Stock. The Company s application to the CPP was preliminarily approved, however, as previously announced, the Company elected not to participate in the program. The Company s decision not to participate was based on management s and the Board of Directors conclusion that it was not in the best interests of the stockholders, or the Bank s customers, as the costs for the capital outweighed the benefits to the Company. This conclusion was based, in part, upon the strength of the Company s capital position and management s belief that the Bank could not efficiently use the capital in the near term.

Dividend Payments. The Company s ability to pay dividends to its stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Delaware corporation, the Company is subject to the limitations of the Delaware General Corporation Law (the DGCL). The DGCL allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends unless its net income available to common stockholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Federal Securities Regulation. The Company s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

General. The Bank is a national bank, chartered by the OCC under the National Bank Act. The deposit accounts of the Bank are insured by the FDIC s Deposit Insurance Fund (DIF) to the maximum extent provided under federal law and FDIC regulations. The Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System. As a national bank, the Bank is subject to the examination, supervision, reporting and enforcement

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requirements of the OCC, the chartering authority for national banks. The FDIC, as administrator of the DIF, also has regulatory authority over the Bank.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Under the regulations of the FDIC, as presently in effect, insurance assessments range from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment period only (subject to the application of assessment credits, if any, issued by the FDIC in 2008). Effective April 1, 2009, insurance assessments will range from 0.07% to 0.78% of total deposits, depending on an institution s risk classification, its levels of unsecured debt and secured liabilities, and, in certain cases, its level of brokered deposits. In addition, the FDIC recently passed an interim rule authorizing the FDIC to impose an emergency special assessment equal to 0.20% of total deposits on June 30, 2009 (that will be collected on September 30, 2009), and further authorizing the FDIC to impose additional emergency special assessments after June 30, 2009, of up to 0.10% of total deposits, whenever the FDIC estimates that the reserve ratio of the DIF will fall to a level that the FDIC believes would adversely affect public confidence in federal deposit insurance or to a level that will be close to zero or negative at the end of a calendar quarter. The interim rule, however, is subject to a 30-day comment period that will expire on April 2, 2009, and may be subject to change before any special assessments are imposed on insured depository institutions. We expect our FDIC deposit insurance expense to increase approximately $300,000 during 2009 as compared to 2008 due to the expiration of our credits and the increased assessment levels. This amount does not include the emergency special assessment, which would be approximately $900,000, based on the proposed 0.20% of total deposits. These additional amounts will increase non-interest expense.

FDIC Temporary Liquidity Guarantee Program. In connection with the recently enacted EESA and in conjunction with the Treasury s actions to address the current credit and liquidity crisis in financial markets, the FDIC announced the Temporary Liquidity Guarantee Program, which will temporarily provide to participating institutions unlimited deposit insurance coverage for non-interest bearing transaction accounts maintained at FDIC insured institutions (the transaction account guarantee program), and provide a limited guarantee on certain newly-issued senior unsecured debt (the debt guarantee program). For an initial 30-day period, all eligible financial institutions were automatically covered under this program without incurring any fees. Institutions that did not opt out by December 5, 2008, will be subject to the following potential assessments for participation: (i) for the debt guarantee program, between 50 and 100 basis points per annum for eligible senior unsecured debt (depending on the maturity date) issued between October 14, 2008 and June 30, 2009; and (ii) for the transaction account guarantee program, 10 basis points per annum on amounts in excess of $250,000 in non-interest bearing transaction accounts from November 13, 2008 through and including December 31, 2009. The Bank decided to continue to participate in the transaction account guarantee program and did not opt out. As a result, the Bank expects to incur fees associated with that program. However, the Bank decided not to continue to participate in the debt guarantee program, opted out of that program, and will not incur any fees associated therewith.

FICO Assessments. The Financing Corporation (FICO) is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year non-callable bonds of approximately $8.2 billion that mature by 2019. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO s outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2008, the FICO assessment rate was approximately 0.01% of deposits.

Supervisory Assessments. National banks are required to pay supervisory assessments to the OCC to fund the operations of the OCC. The amount of the assessment is calculated using a formula that takes into account the bank s size and its supervisory condition.During the year ended December 31, 2008, the Bank paid supervisory assessments to the OCC totaling $147,000.

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Capital Requirements. Banks are generally required to maintain capital levels in excess of minimum capital requirements. The OCC has established the following minimum capital standards for national banks, such as the Bank: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. In general, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions as determined by the OCC. For example, regulations of the OCC provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution that is well-capitalized may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company s eligibility to operate as a financial holding company is a requirement that all of its financial institution subsidiaries be well-capitalized. Under the regulations of the OCC, in order to be well-capitalized a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

Federal law also provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators powers depends on whether the institution in question is adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2008: (i) the Bank was not subject to any directives from the OCC, including any related to increasing its capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under OCC capital adequacy guidelines; and (iii) the Bank was well-capitalized, as defined by OCC regulations.

Dividends. The primary source of funds for the Company is dividends from the Bank. Under the National Bank Act, a national bank may pay dividends out of its undivided profits in such amounts and at such times as the bank s board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank s year-to-date net income plus the bank s retained net income for the two preceding years.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2008. As of December 31, 2008, approximately $2.5 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the OCC may prohibit the payment of any dividends by the Bank if the OCC determines such payment would constitute an unsafe or unsound practice.

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Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company, on investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to the directors and officers of the Company, to principal stockholders of the Company, and to related interests of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank or a principal stockholder of the Company may obtain credit from banks with which the Bank maintains correspondent relationships.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator s order is cured, the regulator may restrict the institution s rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. National banks headquartered in Kansas, such as the Bank, have the same branching rights in Kansas as banks chartered under Kansas law, subject to OCC approval. Kansas law grants Kansas-chartered banks the authority to establish branches anywhere in the State of Kansas, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those states the laws of which expressly authorize such expansion.

Financial Subsidiaries. Under Federal law and OCC regulations, national banks are authorized to engage, through financial subsidiaries, in any activity that is permissible for a financial holding company and any activity that the Secretary of the Treasury, in consultation with the Federal Reserve, determines is financial in nature or incidental to any such financial activity, except: (i) insurance underwriting, (ii) real estate development or real estate investment activities (unless otherwise permitted by law), (iii) insurance company portfolio investments and (iv) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank must be well-managed and well-capitalized (after deducting from capital the bank s outstanding investments in financial subsidiaries). The Bank has not applied for approval to establish any financial subsidiaries.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating $44.4 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $44.4 million, the reserve requirement is $1.023 million plus 10% of the aggregate amount of total transaction accounts in excess of $44.4 million. The first $10.3 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject

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to annual adjustment by the Federal Reserve. As of December 31, 2008, the Bank is in compliance with the foregoing requirements.

Company Website

The Company maintains a corporate website at www.landmarkbancorpinc.com. The Company makes available free of charge on or through its website the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnish it to, the SEC. Many of the Company s policies, including its code of ethics, committee charters and other investor information are available on the web site. The Company will also provide copies of its filings free of charge upon written request to our Corporate Secretary at the address listed on the front of this Form 10-K.

STATISTICAL DATA

The Company has a fiscal year ending on December 31. The information presented in this annual report on Form 10-K presents information on behalf of the Company as of and for the year ended December 31, 2008.

The statistical data required by Guide 3 of the Guides for Preparation and Filing of Reports and Registration Statements under the Exchange Act is set forth in the following pages. This data should be read in conjunction with the consolidated financial statements, related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations.

I. Distribution of Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differentials

The average balance sheets are incorporated by reference from Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The following table describes the extent to which changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities affected the Company s interest income and expense during the periods indicated. The table distinguishes between (i) changes attributable to rate (changes in rate multiplied by prior volume), (ii) changes attributable to volume (changes in volume multiplied by prior rate), and (iii) net change (the sum of the previous columns). The net changes attributable to the combined effect of volume and rate, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31,					
	2008 vs 2007 Increase/(decrease) attributable to			2007 vs 2006 Increase/(decrease) attributable to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Interest income:						
	$ 548	$ (358)	$ 190	$ 656	$ 682	$ 1,338

Investment securities						
Loans	(360)	(3,641)	(4,001)	(665)	855	190
Total	188	(3,999)	(3,811)	(9)	1,537	1,528
Interest expense:						
Deposits	(209)	(3,400)	(3,609)	269	2,290	2,559
Other borrowings	654	(1,298)	(644)	(447)	117	(330)
Total	445	(4,698)	(4,253)	(178)	2,407	2,229
Net interest income	$ (257)	$ 699	$ 442	$ 169	$ (870)	$ (701)

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II. Investment Portfolio

Investment Securities. The following table sets forth the carrying value of the Company s investment securities at the dates indicated. None of the investment securities held as of December 31, 2008 was issued by an individual issuer in excess of 10% of the Company s stockholders equity, excluding the securities of U.S. government and federal agency obligations. The Company s federal agency obligations consist of obligations of U.S. government sponsored enterprises, primarily the FHLB. The Company s mortgage backed securities portfolio consisted of securities predominantly underwritten to the standards and guaranteed by the government-sponsored agencies of FHLMC, FNMA and GNMA. The Company s investments in certificates of deposits consisted of FDIC insured certificates of deposits with other financial institutions.

	As of December 31, 2008	2007	2006
		(Dollars in thousands)	
Investment Securities:			
U.S. federal agency obligations	$ 29,514	$ 48,708	$ 46,632
Municipal obligations	64,309	62,113	55,064
Mortgage-backed securities	56,582	36,216	32,224
FHLB stock	7,303	7,099	6,747
Common stock	1,074	1,122	716
FRB stock	1,749	1,746	1,741
Corporate bonds	740	2,493	2,531
Certificates of deposits	10,026	5,227	229
Total	$ 171,297	$ 164,724	$ 145,884

The following table sets forth certain information regarding the carrying values, weighted average yields, and maturities of the Company s investment securities portfolio as of December 31, 2008. Yields on tax-exempt obligations have been computed on a tax equivalent basis, using a 34% federal tax rate. The table includes scheduled principal payments and estimated prepayments for mortgage-backed securities, where actual prepayments will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

	As of December 31, 2008									
	One year or less		One to five years		Five to ten years		More than ten years		Total	
	Carrying value	Average yield	Carrying value	Average yield	Carrying value	Average yield	Carrying value	Average yield	Carrying value	Average yield
					(Dollars in thousands)					
Investment securities:										
U.S. federal agency obligations	$ 16,406	4.47%	$ 12,023	5.11%	$ 1,085	5.50%	$	%	$ 29,514	4.77%
Municipal obligations	863	4.78%	10,209	5.24%	29,468	5.73%	23,769	6.07%	64,309	5.76%
Mortgage-backed securities	4,303	4.48%	49,048	4.48%	2,372	6.16%	859	5.01%	56,582	4.56%
Corporate bonds		%		%		%	740	5.12%	740	5.12%
Certificates of deposits	10,026	3.13%		%		%		%	10,026	3.13%
Total	$ 31,598	4.06%	$ 71,280	4.70%	$ 32,925	5.75%	$ 25,368	6.01%	$ 161,171	4.99%

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III. Loan Portfolio

Loan Portfolio Composition. The following table sets forth the composition of the loan portfolio by type of loan at the dates indicated.

	As of December 31, 2008	2007 (Dollars in thousands)	2006
Balance			
Real estate loans:			
One-to-four family residential	$ 112,814	$ 126,459	$ 151,300
Commercial	126,977	113,209	98,314
Construction	19,618	27,936	33,600
Commercial loans	101,976	103,099	90,758
Consumer loans	7,937	9,164	9,596
Total gross loans	369,322	379,867	383,568
Less:			
Deferred loan fees/(costs) and loans in process	(320)	(462)	214
Allowance for loan losses	3,871	4,172	4,030
Loans, net	$ 365,771	$ 376,157	$ 379,324
Percent of total			
Real estate loans:			
One-to-four family residential	30.5%	33.3%	39.4%
Commercial	34.4%	29.8%	25.6%
Construction	5.3%	7.4%	8.8%
Commercial loans	27.6%	27.1%	23.7%
Consumer loans	2.2%	2.4%	2.5%
Total gross loans	100.0%	100.0%	100.0%

The following table sets forth the contractual maturities of loans as of December 31, 2008. The table does not include unscheduled prepayments.

	≤ 1 year	1-5 years (Dollars in thousands)	> 5 years	Total
Real estate loans:				
One-to-four family residential	$ 15,791	$ 48,800	$ 48,223	$ 112,814
Commercial	29,598	48,177	49,202	126,977
Construction	19,485	133		19,618
Commercial	67,576	30,341	4,059	101,976
Consumer	3,321	4,372	244	7,937
Total gross loans	$ 135,771	$ 131,823	$ 101,728	$ 369,322

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The following table sets forth, as of December 31, 2008, the dollar amount of all loans due after December 31, 2009 and whether such loans had fixed interest rates or adjustable interest rates:

	Fixed	Adjustable (Dollars in thousands)	Total
Real estate loans:			
One-to-four family residential	$ 30,631	$ 66,392	$ 97,023
Commercial	24,836	72,543	97,379
Construction	133		133
Commercial	18,210	16,190	34,400
Consumer	4,152	464	4,616
Total gross loans	$ 77,962	$ 155,589	$ 233,551

Nonperforming Assets. The following table sets forth information with respect to nonperforming assets, including non-accrual loans and real estate acquired through foreclosure or by deed in lieu of foreclosure (real estate owned). Under the original terms of the Company s non-accrual loans as of December 31, 2008, interest earned on such loans for the years ended December 31, 2008, 2007 and 2006 would have increased interest income by $252,000, $520,000 and $270,000, respectively.

	As of December 31, 2008	2007 (Dollars in thousands)	2006
Total non-accrual loans	$ 5,748	$ 10,037	$ 3,567
Accruing loans over 90 days past due			
Real estate owned	1,934	492	456
Total nonperforming assets	$ 7,682	$ 10,529	$ 4,023
Total nonperforming loans to total loans, net	1.6%	2.7%	0.9%
Total nonperforming assets to total assets	1.3%	1.7%	0.7%
Allowance for loan losses to nonperforming loans	67.3%	41.5%	113.0%

The Company s non-accrual loans declined to $5.7 million at December 31, 2008 from $10.0 million as of December 31, 2007. The decline was primarily the result of the collection of the outstanding balances of two loan relationships totaling $3.0 million during 2008 and increased charge-offs of balances in non-accrual at December 31, 2007. Net loan charge-offs for the year ended December 31, 2008 were $2.7 million compared to $113,000 for the year ended December 31, 2007. The net loan charge-offs during 2008 were primarily related to loans that had a specific loss reserve allocation at December 31, 2007. As part of the Company s credit risk management, the Company continues to aggressively manage the loan portfolio to identify problem loans and has placed additional emphasis on its commercial real estate and construction relationships. This loan portfolio management, combined with the current economic recession, has led to an increase in our real estate owned. As discussed in more detail in the Asset Quality and Distribution section, we believe the Company s allowance for loan losses is adequate based on the Company s evaluation of the loan portfolio s inherent risk as of December 31, 2008.

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IV. Summary of Loan Loss Experience

The following table sets forth information with respect to the Company s allowance for loan losses at the dates indicated:

	As of December 31, 2008	2007	2006
		(Dollars in thousands)	
Total gross loans outstanding	$ 369,322	$ 379,867	$ 383,568
Average net loans outstanding	$ 375,198	$ 380,664	$ 391,010
Allowance balances (at beginning of year)	4,172	4,030	3,151
Provision	2,400	255	235
Allowance of merged bank:			891
Charge-offs:			
Real estate loans:			
One-to-four family residential	(1,443)	(16)	(23)
Commercial			(55)
Construction	(453)	(29)	
Commercial	(728)	(12)	(3)
Consumer	(145)	(147)	(258)
	(2,769)	(204)	(339)
Recoveries:			
Real estate loans:			
One-to-four family residential	4	4	5
Commercial			1
Construction			
Commercial	9	25	25
Consumer	55	62	61
	68	91	92
Net charge-offs	(2,701)	(113)	(247)
Allowance balances (at end of year)	$ 3,871	$ 4,172	$ 4,030
Allowance for loan losses as a percent of total gross loans outstanding	1.05%	1.10%	1.05%
Net loans charged off as a percent of average net loans outstanding	0.72%	0.03%	0.06%

The significant increase in the one-to-four family residential charge-offs is primarily from the liquidation of a pool of non-owner occupied, one-to-four family residential loans, made to a single entity in the Kansas City, Missouri area. These loans were located in deteriorating neighborhoods and were originally obtained as part of an acquisition. As of December 31, 2008 the loans were partially charged-off and have subsequently been liquidated in 2009 at a price that had an immaterial impact on earnings. As mentioned above, these loans were acquired in a prior acquisition and are not representative of the quality and performance of the remaining one-to-four family residential mortgage loan portfolio.

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The distribution of the Company s allowance for losses on loans at the dates indicated and the percent of loans in each category to total loans is summarized in the following table. This allocation reflects management s judgment as to risks inherent in the types of loans indicated, but the general allowance included in the table are not restricted and are available to absorb all loan losses. The amount allocated in the following table to any category should not be interpreted as an indication of expected actual charge-offs in that category.

	2008		2007		2006	
	Amount	% Loan type to total loans	Amount	% Loan type to total loans	Amount	% Loan type to total loans
			(Dollars in thousands)			
Real estate loans:						
One-to-four family residential	$ 672	30.5%	$ 1,189	33.3%	$ 827	39.4%
Commercial	730	34.4%	640	29.8%	823	25.6%
Construction	833	5.3%	879	7.4%	834	8.8%
Commercial	1,507	27.6%	1,191	27.1%	1,308	23.7%
Consumer	129	2.2%	273	2.4%	238	2.5%
Total	$ 3,871	100.0%	$ 4,172	100.0%	$ 4,030	100.0%

The decline in the allocation of the allowance for losses on loans to one-to-four family residential loans is primarily the result of the charge-off associated with the one loan relationship on a pool of non-owner occupied, one-to-four family residential loans in the Kansas City, Missouri area. Specific reserve allocations of $705,000 related to impaired loans at December 31, 2008 was primarily related to one commercial loan relationship. The allowance for losses on loans is discussed in more detail in the Nonperforming Assets and Asset Quality and Distribution sections, we believe the Company s allowance for loan losses continues to be adequate based on the Company s evaluation of the loan portfolio s inherent risk as of December 31, 2008.

Even though the Company s levels of non-accrual loans and loans over 90 days past due declined during 2008, the current economic problems could result in our levels of nonperforming assets staying elevated, as compared to levels prior to December 31, 2007, for a significant period of time. Further deterioration in the local economy or real estate values may create additional problem loans for the Company.

V. Deposits

As of December 31, 2008, the aggregate amount outstanding of jumbo certificates of deposit (amounts of $100,000 or more) was $50.0 million. The following table presents the maturities of these time certificates of deposit at December 31, 2008:

(Dollars in thousands)

3 months or less	$ 17,745
Over 3 months through 6 months	11,126
Over 6 months through 12 months	13,524
Over 12 months	7,570
Total	$ 49,965

VI. **Return on Equity and Assets**

	As of or for the years ended December 31,		
	2008	**2007**	**2006**
Return on average assets	0.75%	0.90%	1.01%
Return on average equity	8.98%	10.78%	13.01%
Equity to total assets	8.54%	8.62%	8.34%
Dividend payout ratio	38.10%	32.70%	26.27%

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ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

The United States has been in a recession since December, 2007. Business activity across a wide range of industries and regions is greatly reduced and many businesses and local governments are experiencing serious difficulty in remaining profitable and providing services due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has increased significantly. Since mid-2007, and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide. In 2008, the U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence, including committing to invest at least $250 billion in the equity of other banking organizations, but asset values have continued to decline and access to liquidity for many organizations continues to be very limited.

As a result of these financial economic crises, many lending institutions, including us, have experienced declines in the performance of their loans, including commercial loans, commercial real estate loans and consumer loans. Moreover, competition among depository institutions for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets has become more difficult compared to recent years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal or informal enforcement actions or orders. The impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Declines in our stock price, as well as changes to other risk factors discussed herein, could result in impairment of our goodwill which would have an adverse effect on our earnings.

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Overall, during the past year, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

Our allowance for loan losses may prove to be insufficient to absorb probable losses in our loan portfolio.

We established our allowance for loan losses and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. Additionally, our Board of Directors regularly monitors the adequacy of our allowance for loan loses. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2008 and 2007, our allowance for loan losses as a percentage of total loans was 1.05% and 1.10%, respectively, and as a percentage of total non-performing loans was approximately 67.3% and 41.5%, respectively. Although management believes that the allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty nor can we assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations. The increased levels of provision for loan losses experienced during 2008 may continue for some period of time.

Declines in value may adversely impact the carrying amount of our investment portfolio and result in other-than-temporary impairment charges.

As of December 31, 2008, we had pooled trust preferred securities with an aggregate book value of $2.5 million and an unrealized loss of approximately $1.7 million. We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. If the credit quality of the securities in our investment portfolio deteriorates, we may also experience a loss in interest income from the suspension of either interest or dividend payments. Numerous factors, including lack of liquidity for resales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate or adverse actions by regulators could have a negative effect on our investment portfolio in future periods.

Our concentration of one-to-four family residential mortgage loans may result in lower yields and profitability.

One-to-four family residential mortgage loans comprised $112.8 million and $126.5 million, or 30.5% and 33.3%, of our loan portfolio at December 31, 2008 and 2007, respectively. These loans are secured primarily by properties located in the state of Kansas. Our concentration of these loans results in lower yields relative to other loan categories within our loan portfolio. While these loans generally possess higher yields than investment securities, their repayment characteristics are not as well defined and they generally possess a higher degree of interest rate risk versus other loans and investment securities within our portfolio. This increased interest rate risk is due to the repayment and prepayment options inherent in residential mortgage loans which are exercised by borrowers based upon the overall level of interest rates. These residential mortgage loans are generally made on the basis of the borrower s ability to make repayments from his or her employment and the value of the property securing the loan. Thus, as a result, repayment of these loans is also subject to general economic and employment conditions within the communities and surrounding areas where the property is located.

The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, has the potential to adversely affect our one-to-four family residential mortgage portfolio in several ways, each of which could adversely affect our operating results and/or financial condition.

Commercial loans make up a significant portion of our loan portfolio.

Commercial loans were $102.0 million, or approximately 27.6% of our total loan portfolio as of December 31, 2008, compared to $103.1 million and 27.1% as of December 31, 2007. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower.

Most often, this collateral is accounts receivable, inventory, or machinery. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our agricultural loans involve a greater degree of risk than other loans, and the ability of the borrower to repay may be affected by many factors outside of the borrower s control.

At December 31, 2008 and 2007, agricultural real estate loans totaled $7.2 million and $6.9 million, or 1.9% and 1.8% of our total loan portfolio, respectively. Agricultural real estate lending involves a greater degree of risk and typically involves larger loans to single borrowers than lending on single-family residences. Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the farm borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower s ability to repay the loan may be impaired. The primary crops in our market areas are wheat, corn and soybean. Accordingly, adverse circumstances affecting wheat, corn and soybean crops could have an adverse effect on our agricultural real estate loan portfolio.

We also originate agricultural operating loans. At December 31, 2008 and 2007, these loans totaled $36.0 million and $34.4 million, respectively, or 9.7% and 9.1% respectively, of our total loan portfolio. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property.

Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment, livestock or crops. We generally secure agricultural operating loans with a blanket lien on livestock, equipment, food, hay, grain and crops. Nevertheless, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Our business is concentrated in and dependent upon the continued growth and welfare of the markets in which we operate, including eastern, central and southwestern Kansas.

We operate primarily in eastern, central and southwestern Kansas, and as a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. Although each market we operate in is geographically and economically diverse, our success depends upon the business activity, population, income levels, deposits and real estate activity in each of these markets. Although our customers business and financial interests may extend well beyond our market area, adverse economic conditions that affect our specific market area could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income.

As part of our general strategy, we may acquire banks and related businesses that we believe provide a strategic fit with our business. In the past, we have acquired a number of local banks and, to the extent that we continue to grow through future acquisitions, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve risks commonly associated with acquisitions, including:

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- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire;
- potential disruption to our business;
- potential diversion of our management s time and attention; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

In addition to acquisitions, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking additional branch openings. We believe that it generally takes several years for new banking facilities to first achieve operational profitability, due to the impact of organization and overhead expenses and the start-up phase of generating loans and deposits. To the extent that we undertake additional branch openings, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets.

We face intense competition in all phases of our business from other banks and financial institutions.

The banking and financial services business in our market is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial service providers, many of which have greater financial, marketing and technological resources than us. Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we can offer.

Interest rates and other conditions impact our results of operations.

Our profitability is in part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented in the section entitled   Management   s Discussion and Analysis of Financial Conditions and Results of Operations. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks. Most of our loans are commercial, real estate, or consumer

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loans, each of which is subject to distinct types of risk. To reduce the lending risks we face, we generally take a security interest in borrowers property for all three types of loans. In addition, we sell certain residential real estate loans to third parties. Nevertheless, the risk of non-payment is inherent in all three types of loans and if we are unable to collect amounts owed, it may materially affect our operations and financial performance.

For a more complete discussion of our lending activities see Part 1 of Item 1 of this Annual Report on Form 10-K.

Our loan portfolio has a large concentration of real estate loans, which involve risks specific to real estate value.

Real estate lending (including commercial, construction, and residential) is a large portion of our loan portfolio. These categories were $259.4 million, or approximately 70.2% of our total loan portfolio as of December 31, 2008, as compared to $267.6 million, or approximately 70.4%, as of December 31, 2007. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans are secured by real estate as a secondary form of collateral, adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition. In particular, if the problems that have occurred in the residential real estate and mortgage markets spread to the commercial real estate market, particularly within our market area, the value of collateral securing our real estate loans could decline and the demand for our real estate loans could decrease. We generally have not experienced a downturn in credit performance by our real estate loan customers, but in light of the uncertainty that exists in the economy and credit markets nationally, there can be no guarantee that we will not experience any deterioration in such performance.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future and this is a major reason why we did not participate in the CPP. However, we may at some point need to raise additional capital to support continuing growth. Our ability to raise additional capital is particularly important to our strategy of continual growth through acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Our community banking strategy relies heavily on our management team, and the unexpected loss of key managers may adversely affect our operations.

Much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market area. Our ability to retain executive officers, the current management teams, branch managers and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market area to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

Government regulation can result in limitations on our operations.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Board of Governors of the Federal Reserve System, the FDIC and the OCC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of stockholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and in light of the recent economic downturn, the industry has experienced a general strengthening of these laws and regulations. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

We have a continuing need for technological change and we may not have the resources to effectively implement new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price you paid for them.

Although our common shares are listed for trading on the Nasdaq Global Market under the symbol LARK , the trading in our common shares has substantially less liquidity than many other publicly traded companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that volume of trading in our common shares will increase in the future.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be

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successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Failure to pay interest on our debt may adversely impact our ability to pay dividends.

Our $16.5 million of subordinated debentures are held by two business trusts that we control. Interest payments on the debentures must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock. Deferral of interest payments could also cause a decline in the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company owns its main office in Manhattan and sixteen branch offices and leases 3 branch offices. The Company also leases a parking lot for one of the branch offices it owns. In January 2009, the Company entered into an agreement to purchase a second branch in Lawrence.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Company or the Bank is a party, other than ordinary routine litigation incidental to the Bank s business. While the ultimate outcome of current legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on the Company s consolidated financial position or results of operations.

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

No matter was submitted to a vote of security holders during the quarter ended December 31, 2008.

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PART II.

ITEM 5. MARKET FOR THE COMPANY S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has traded on the Nasdaq Global Market under the symbol LARK since 2001. At December 31, 2008, the Company had approximately 1,080 stockholders, consisting of approximately 385 owners of record and approximately 695 beneficial owners of our common stock. Set forth below are the reported high and low sale prices of our common stock and dividends paid during the past two years. Information presented below has been adjusted to give effect to the 5% stock dividends declared in December 2008 and 2007.

Year ended December 31, 2008		**High**		**Low**		**Cash dividends paid**
First Quarter	$	24.76	$	22.61	$	0.1810
Second Quarter		23.79		21.18		0.1810
Third Quarter		21.19		15.14		0.1810
Fourth Quarter	$	20.48	$	16.67	$	0.1810

Year ended December 31, 2007		**High**		**Low**		**Cash dividends paid**
First Quarter	$	26.17	$	24.26	$	0.1723
Second Quarter		25.80		24.58		0.1723
Third Quarter		26.18		23.85		0.1723
Fourth Quarter	$	25.71	$	22.97	$	0.1723

The following table provides information about purchases by the Company during the quarter ended December 31, 2008, of the Company s equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	**Total number of shares purchased**		**Average price paid per share**	**Total number of shares purchased as part of a publicly announced plan (1)**	**Maximum number of shares that may yet be purchased under the plans (1)**
October 1-31, 2008		$			118,711
November 1-30, 2008	6,405		17.70	6,405	112,306
December 1-31, 2008	3,500		19.25	3,500	108,806
Total	9,905	$	18.25	9,905	108,806

(1) In January 2008, our Board of Directors announced the approval of a stock repurchase program permitting us to repurchase up to 119,900 shares, or 5% of our outstanding common stock (January 2008 Repurchase Program), following completion of the 2007 Repurchase Program. The company completed the 2007 Repurchase Program during February 2008. In May 2008, our Board of Directors announced another a new stock repurchase program, permitting us to repurchase up to 113,400 shares, or 5% of our outstanding common stock (May 2008 Repurchase Program), following completion of the January 2008 Repurchase Program. The company completed the January 2008

Repurchase Program during November 2008. Unless terminated earlier by resolution of the Board of Directors, the May 2008 Repurchase Program will expire when we have repurchased all shares authorized for repurchase thereunder.

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ITEM 6. SELECTED FINANCIAL DATA

	At or for the years ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except per share amounts)				
Selected Financial Data:					
Total assets	$ 602,213	$ 606,455	$ 590,568	$ 465,110	$ 442,091
Loans	365,772	376,157	379,324	274,566	277,414
Investment securities	171,297	164,724	145,884	140,131	133,604
Cash and cash equivalents	13,788	14,739	14,752	21,491	7,845
Deposits	439,546	452,652	444,485	331,273	302,868
Borrowings	104,366	93,088	90,416	85,258	94,571
Stockholders equity	$ 51,406	$ 52,296	$ 49,236	$ 44,073	$ 42,169
Selected Operating Data:					
Interest income	$ 31,647	$ 35,551	$ 34,395	$ 22,124	$ 19,949
Interest expense	13,615	17,868	15,639	8,957	7,000
Net interest income	18,032	17,683	18,756	13,167	12,949
Provision for loan losses	2,400	255	235	385	460
Net interest income after provision for loan losses	15,632	17,428	18,521	12,782	12,489
Non-interest income	7,542	5,915	6,913	5,056	5,125
Non-interest expense	17,511	16,638	17,345	12,282	11,353
Earnings before income taxes	5,663	6,705	8,089	5,556	6,261
Income tax expense	1,110	1,303	2,079	1,659	2,010
Net earnings	$ 4,553	$ 5,402	$ 6,010	$ 3,897	$ 4,251
Net earnings per share (1):					
Basic	$ 1.90	$ 2.12	$ 2.33	$ 1.51	$ 1.61
Diluted	1.89	2.10	2.32	1.50	1.60
Dividends per share (1)	0.72	0.69	0.60	0.56	0.53
Book value per common share outstanding (1)	$ 21.67	$ 20.74	$ 19.13	$ 17.04	$ 16.39
Other Data:					
Return on average assets	0.75%	0.90%	1.01%	0.87%	0.98%
Return on average equity	8.98%	10.78%	13.01%	9.04%	9.98%
Equity to total assets	8.54%	8.62%	8.34%	9.48%	9.54%
Net interest rate spread (2)	3.25%	3.15%	3.35%	2.99%	2.99%
Net interest margin (2)	3.51%	3.47%	3.62%	3.26%	3.24%
Non-performing assets to total assets	1.57%	1.74%	0.68%	0.88%	0.37%
Non-performing loans to net loans	2.10%	2.67%	0.94%	1.21%	0.41%
Allowance for loan losses to total loans	1.05%	1.10%	1.05%	1.14%	1.04%
Dividend payout ratio	38.10%	32.70%	26.17%	37.14%	33.33%
Number of full service banking offices	20	20	20	17	16

** Our selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements, including the related notes.

(1) All per share amounts have been adjusted to give effect to the 5% stock dividends paid in December 2008, 2007, 2006, 2005 and 2004.

(2) Presented on a taxable equivalent basis, using a 34% federal tax rate.

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

CORPORATE PROFILE AND OVERVIEW

Landmark Bancorp, Inc. is a one-bank holding company incorporated under the laws of the State of Delaware and is engaged in the banking business through its wholly-owned subsidiary, Landmark National Bank. Landmark Bancorp is listed on the Nasdaq Global Market under the symbol LARK . Landmark National Bank is dedicated to providing quality financial and banking services to its local communities. Our strategy includes continuing a tradition of quality assets while growing our commercial and commercial real estate loan portfolios. We are committed to developing relationships with our borrowers and providing a total banking service.

Landmark National Bank is principally engaged in the business of attracting deposits from the general public and using such deposits, together with Federal Home Loan Bank borrowings and funds from operations, to originate commercial real estate and non-real estate loans, as well as one-to-four family residential mortgage loans. Landmark National Bank also originates small business, multi-family residential mortgage, home equity and consumer loans. Although not our primary business function, we do invest in certain investment and mortgage-related securities using deposits and other borrowings as funding sources.

Our results of operations are primarily dependent on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, we are subject to interest rate risk to the degree that our interest-earning assets mature or reprice at different times, or at different speeds, than our interest-bearing liabilities.

Our results of operations are also affected by non-interest income, such as service charges, loan fees and gains and losses from the sale of newly originated loans and investments. Our operating expenses, aside from interest expense, principally consist of compensation and employee benefits, occupancy costs, federal deposit insurance costs, data processing expenses and provisions for potential loan losses.

We are significantly impacted by prevailing economic conditions including federal monetary and fiscal policies and federal regulations of financial institutions. Deposit balances are influenced by numerous factors such as competing investments, the level of income and the personal rate of savings within our market areas. Factors influencing lending activities include the demand for housing and the interest rate pricing competition from other lending institutions.

Currently, our business consists of ownership of Landmark National Bank, with its main office in Manhattan, Kansas and nineteen branch offices in eastern, central and southwestern Kansas. In January 2009, we entered into an agreement to purchase a second branch in Lawrence. The location is near our planned building site and allows us to expedite the planned expansion more quickly and economically. The branch acquisition will come with approximately $7 million in deposits and $4 million in loans.

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CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those, which are both most important to the portrayal of our financial condition and results of operations, and require our management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to the allowance for loan losses, the valuation of investment securities, accounting for income taxes and the accounting related to business acquisitions, all of which involve significant judgment by our management.

We perform periodic and systematic detailed reviews of our lending portfolio to assess overall collectability. The level of the allowance for loan losses reflects our estimate of the collectability of the loan portfolio. While these estimates are based on substantive methods for determining allowance requirements, nevertheless, actual outcomes may differ significantly from estimated results. Additional explanation of the methodologies used in establishing this reserve is provided in the Asset Quality and Distribution section.

We report our available-for-sale investment securities at fair value, and in accordance with the requirements of SFAS No. 157 Fair Value Measurements, the Company employs valuation techniques which utilize observable inputs when those inputs are available. These observable inputs reflect assumptions market participants would use in pricing the security, developed based on market data obtained from sources independent of the Company. When such information is not available, the Company employs valuation techniques which utilize unobservable inputs, or those which reflect the Company s own assumptions about market participants, based on the best information available in the circumstances. These valuation methods typically involve cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, estimates, or other inputs to the valuation techniques could have a material impact on the Company s future financial condition and results of operations. SFAS 157, which requires fair value measurements to be classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable inputs) is discussed in more detail in Note 12 to the consolidated financial statements. Our management performs periodic reviews of the investment securities to determine if any investment securities have declined in value which might be considered other than temporary. If such decline is deemed other than temporary, we would adjust the cost basis of the security by writing down the security to the estimated fair market value through a charge to current period operations. The market values of securities are affected by changes in interest rates as well credit spreads associated with the issuers. The Company s review includes an analysis of the facts and circumstances surrounding each security including the length and severity of the loss, the credit of the borrower and our ability and intent to hold the security until maturity. The Company obtains estimates of the fair value for investments in pooled trust preferred securities from pricing services and by discounting projected cash flows using a risk-adjusted discount rate in accordance with FSP FAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The fair value of the pooled trust preferred securities for disclosure purposes is estimated by considering the reasonableness of the range of fair value estimates provided by a pricing service and the discounted cash values. The Company s review of investments in pooled trust preferred securities is also assessed for the recoverability of cash flows under EITF 99-20-1 Recognition of Interest Income and Impairment on Purchased Beneficial Interest. Although we believe that our estimates of the fair values of investment securities to be reasonable, economic and market factors may affect the amounts that will ultimately be realized from these investments.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Under FIN 48, an income tax position will be recognized if it is more likely than not that it will be sustained upon IRS examination, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We have also established a valuation allowance on a portion of our deferred tax assets because we believe it is more likely than not that these items will not be realized. Changes in estimates regarding the actual outcome of these future tax consequences, including the effects of IRS examinations and examinations by other state agencies, could materially impact our financial position and results of operations.

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We have completed several business and asset acquisitions, which have generated significant amounts of goodwill and intangible assets and related amortization. The values assigned to goodwill and intangibles, as well as their related useful lives, are subject to judgment and estimation by our management. Goodwill and intangibles related to acquisitions are determined and based on purchase price allocations. The initial value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. If the carrying value of our goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess. Our analysis includes a review of stock price and valuation multiples compared to recent acquisition multiples in determining our implied fair value of our goodwill. Valuation of intangible assets is generally based on the estimated cash flows related to those assets. Performing such a discounted cash flow analysis involves the use of estimates and assumptions. Useful lives are determined based on the expected future period of the benefit of the asset, the assessment of which considers various characteristics of the asset, including the historical cash flows. Due to the number of estimates involved related to the allocation of purchase price and determining the appropriate useful lives of intangible assets, we have identified purchase accounting, and the subsequent impairment testing of goodwill and intangible assets, as a critical accounting policy.

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COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

SUMMARY OF PERFORMANCE. Net earnings for 2008 decreased $849,000, or 15.7%, to $4.6 million as compared to 2007. The decrease in earnings was primarily due to a $2.1 million increase in our provision for loan losses. During 2008 our loan loss analysis indicated it was necessary to increase our provision for loan losses based upon our analysis of our loan portfolio as well as deteriorating market conditions. Even though our levels of non accrual and past due loans declined during 2008, increased levels of loan loss provision were warranted given the economic environment, the uncertainty regarding the length and severity of the recession and the loan losses and resulting charge-offs experienced during 2008. We feel the external risks within the environment which we operate remain present today and will need to be continuously monitored. We believe that our capital levels, loan portfolio management and our provision for loan losses position us to deal with the economic uncertainties in this challenging environment. We will continue to monitor economic events closely, along with the performance of our loan portfolio, and take the necessary steps required to address any issues that may arise.

Partially offsetting the higher provision for loan losses were gains of $497,000 on sales of investment securities and $270,000 of gains on the prepayment of two FHLB advances, as well as an increase of $502,000 in gains on sales of loans. Market conditions during the second quarter of 2008 allowed us to sell longer term, higher yielding U.S. agency obligations while purchasing shorter term, lower yielding mortgage-backed obligations at gains that were higher than the reductions in interest income as a result of the transactions. During 2008, we began a strategy of issuing longer-term, fixed rate FHLB advances and repaying shorter-term FHLB advances to lengthen our FHLB advance maturities while rates were believed to be at a relatively low point in the rate cycle. As a result of the prepayment of two $10 million advances, we recognized gains of $270,000, which represented the unamortized fair value adjustment required by purchase accounting for a prior acquisition. The increase in gains on sales of loans was driven by higher origination volumes of residential real estate loans that were sold in the secondary market.

The year ended December 31, 2008 resulted in diluted earnings per share of $1.89 compared to $2.10 for 2007. Return on average assets was 0.75% for 2008, compared to 0.90% for 2007. Return on average stockholders equity was 8.98% for 2008, compared to 10.78% for 2007.

We distributed a 5% stock dividend for the eighth consecutive year in December 2008. All per share and average share data in this section reflects the 2008 and 2007 stock dividends.

INTEREST INCOME. Interest income for 2008 decreased $3.9 million, or 11.0%, to $31.7 million from $35.6 million for 2007, primarily as a result of lower yields on interest-earning assets as a result of the dramatic declines in benchmark interest rates during 2008. Average loans for 2008 decreased to $375.2 million from $383.1 million in 2007. Interest income on loans decreased $4.0 million, or 14.2%, to $24.4 million for 2008, due to a decrease in the average yield on loans from 7.45% during 2007 to 6.49% during 2008 combined with lower average balances. Average investment securities increased from $157.4 million for 2007, to $170.0 million for 2008. The average yield on our investment securities decreased to 4.88% during 2008 from 5.15% during 2007. Interest income on investment securities increased $124,000, or 1.7%, to $7.2 million for 2008.

INTEREST EXPENSE. Interest expense for 2008 decreased 23.8%, or $4.3 million, to $13.6 million from $17.9 million for 2007. Interest expense on deposits decreased to $9.9 million, or 26.7%, from $13.5 million in 2007. Contributing to the decline in interest expense was a decline in average interest-bearing deposits from $397.7 million for 2007, to $391.5 million during 2008, as well as a decline in the average rate from 3.40% in 2007 to 2.53% in 2008. Interest expense on borrowings decreased $644,000 during 2008 to $3.7 million from $4.4 million in 2007. This decline was the result of lower rates on our average borrowings, which declined to 3.52% during 2008 from 4.63% in 2007. Offsetting the lower average rates were higher average balances which increased from $94.2 million in 2007 to $105.5 million in 2008.

NET INTEREST INCOME. Net interest income represents the difference between income derived from interest-earning assets and the expense incurred on interest-bearing liabilities. Net interest income is affected by both the difference between the rates of interest earned on interest-earnings assets and the rates paid on interest-bearing

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liabilities (interest rate spread) as well as the relative amounts of interest-earning assets and interest-bearing liabilities.

Net interest income for the year ended December 31, 2008 increased $349,000 to $18.0 million compared to the year ended December 31, 2007, an increase of 2.0%. This increase in net interest income was due primarily to the decline in our cost of funding outpacing the decline in our yield on interest earning assets, which resulted in our net interest margin, on a tax equivalent basis, increasing to 3.51% from 3.47% for 2008 and 2007, respectively. During 2008 we were able to reduce our cost of deposits and borrowings enough to offset the lower yield on loans in a market that experienced a dramatic decline in benchmark interest rates that began in late 2007 and continued throughout 2008. The lower cost of funding allowed us to maintain our net interest margin in markets that had considerable competitive pricing pressures. We expect these pricing pressures to continue during 2009, which will continue to make maintaining or increasing our net interest margin difficult.

PROVISION FOR LOAN LOSSES. We maintain, and our Board of Directors monitors, an allowance for losses on loans. The allowance is established based upon management s periodic evaluation of known and inherent risks in the loan portfolio, review of significant individual loans and collateral, review of delinquent loans, past loss experience, adverse situations that may affect the borrowers ability to repay, current and expected market conditions, and other factors management deems important. Determining the appropriate level of reserves involves a high degree of management judgment and is based upon historical and projected losses in the loan portfolio and the collateral value of specifically identified problem loans. Additionally, allowance strategies and policies are subject to periodic review and revision in response to a number of factors, including current market conditions, actual loss experience and management s expectations.

The provision for loan losses increased to $2.4 million for 2008, compared to $255,000 for 2007. We increased our provision for loan losses based on our analysis of the loan portfolio as well as deteriorating market conditions. Even though our levels of non-accrual and past due loans declined from December 31, 2007 to December 31, 2008, increased levels of loan loss provision were warranted given the economic environment and the uncertainty regarding the length and severity of the recession we are currently experiencing. The Company s non-accrual loans declined to $5.7 million at December 31, 2008 from $10.0 million as of December 31, 2007. The decline was primarily the result of the collection of the outstanding balances of two loan relationships totaling $3.0 million during 2008 and increased charge-offs of balances in non-accrual at December 31, 2007. Net loan charge-offs for the year ended December 31, 2008 were $2.7 million compared to $113,000 for the year ended December 31, 2007. At December 31, 2008, the allowance for loan losses was $3.9 million, or 1.05% of gross loans outstanding, compared to $4.2 million, or 1.10% of gross loans outstanding, at December 31, 2007. For further discussion of the provision for loan losses, refer to the Asset Quality and Distribution section.

NON-INTEREST INCOME. Total non-interest income increased $1.6 million to $7.5 million for 2008, which was primarily attributable to $497,000 in gains on sales of investment securities, a $270,000 gain on the prepayment of FHLB advances and increases of $502,000 in gains on sales of loans and $228,000 in fees and service charges, as compared to 2007. The increase in gains on sales of loans were driven by higher origination volumes of residential real estate loans that were sold in the secondary market while the increase in fees and service charges were primarily deposit related.

NON-INTEREST EXPENSE. Total non-interest expense increased $872,000, an increase of 5.2% during 2008 as compared to 2007. The increase was primarily attributable to increases of $568,000 in compensation and benefits and $352,000 in other non-interest expense. The increase in compensation and benefits was driven primarily by increased staffing levels and general pay increases. The increased staffing levels were primarily related to increased one-to-four family residential mortgage loan staff. The increase in other non-interest expenses was primarily the result of $118,000 increase in foreclosure and other real estate asset expenses, as well as $66,000 of other than temporary impairment charges on certain investment securities. During 2008 our FDIC deposit insurance costs were primarily offset by assessment credits that were previously received. However, during 2009 these credits will be fully utilized which will cause a substantial increase in our non-interest expense. We expect our FDIC deposit insurance expense to increase approximately $300,000 during 2009 as compared to 2008 due to the expiration of the credits and the increased assessment levels. This amount does not include the proposed emergency special assessment, which would be approximately $900,000. These additional amounts will increase non-interest expense.

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INCOME TAXES. Income tax expense decreased $193,000, or 14.8%, to $1.1 million for 2008, from $1.3 million for 2007. The decrease in income tax expense for 2008 resulted primarily from a decrease in taxable income during 2008 as compared to 2007. The effective tax rate was 19.6% for 2008 as compared to 19.4% for 2007.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

SUMMARY OF PERFORMANCE. Net earnings for 2007 decreased $608,000, or 10.6%, to $5.4 million as compared to 2006. Our decline in earnings for 2007 declined from 2006 primarily due to decreases in both net interest income and non-interest income.

The year ended December 31, 2007 resulted in diluted earnings per share of $2.10 compared to $2.32 for 2006. Return on average assets was 0.90% for 2007, compared to 1.01% for 2006. Return on average stockholders equity was 10.78% for 2007, compared to 13.01% for 2006.

INTEREST INCOME. Interest income for 2007 increased $1.2 million, or 3.4%, to $35.6 million from $34.4 million for 2006, primarily as a result of an increase in interest income on investment securities. Average loans for 2007 decreased to $383.1 million from $393.7 million in 2006. Despite the decrease in average loans, interest income on loans increased $171,000, or 0.6%, to $28.5 million for 2007, due primarily to an increase in the average yield on loans from 7.20% during 2006 to 7.45% during 2007. Average investment securities increased from $144.1 million for 2006, to $157.4 million for 2007. The average yield on our investment securities increased to 5.15% during 2007 from 4.70% during 2006. As a result of higher balances and yields, interest income on investment securities increased $1.0 million, or 16.2%, to $7.1 million for 2007.

INTEREST EXPENSE. Interest expense for 2007 increased 14.3%, or $2.2 million, to $17.9 million from $15.6 million for 2006. Interest expense on deposits increased to $13.5 million, or 23.4%, from $10.9 million in 2006 as average deposits increased from $439.7 million for 2006, to $448.8 million during 2007. The average rate on our certificates of deposit increased from 3.78% in 2006 to 4.48% in 2007. This increase was due in part to increased competition for deposits and the repricing of lower rate certificates of deposits. The higher average deposits allowed us to decrease our average borrowings for 2007 to $94.2 million from $103.8 million for 2006. Corresponding with the decrease in average borrowings for the comparable periods, interest expense on borrowings decreased $329,000, or 7.0%. Additionally, offsetting the lower average borrowings were increased interest rates, as the average rate on our borrowings increased from 4.52% in 2006 to 4.63% in 2007.

NET INTEREST INCOME. Net interest income for the year ended December 31, 2007 decreased $1.1 million to $17.7 million compared to the year ended December 31, 2006, a decrease of 5.7%. This decline in net interest income was due primarily to the increase in our cost of funding outpacing the increase in our yield on interest earning assets, which resulted in our net interest margin, on a tax equivalent basis, declining to 3.47% from 3.62% for 2007 and 2006, respectively. In the latter part of 2007, as the Federal Reserve lowered interest rates, our loan yields decreased at a faster pace than our deposit costs. The faster decline in loan yields was largely attributed to increasing competitive pressures resulting from a slowing economy, deteriorating loan pricing, and relatively fewer lending opportunities. At the same time increasing competition for deposits has limited our ability to lower the costs of deposits as quickly as the loans.

PROVISION FOR LOAN LOSSES. The provision for loan losses increased to $255,000 for 2007, compared to $235,000 for 2006. Our regular review of the loan portfolio prompted the increase in our provision, primarily as a result of decreases in credit quality, slowing economic conditions, increased commercial lending and higher nonperforming asset balances. At December 31, 2007, the allowance for loan losses was $4.2 million, or 1.10% of gross loans outstanding, compared to $4.0 million, also 1.05% of gross loans outstanding, at December 31, 2006. For further discussion of the provision for loan losses, refer to the Asset Quality and Distribution section.

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NON-INTEREST INCOME. Non-interest income decreased $998,000 or 14.4%, during 2007, to $5.9 million compared to 2006. This decrease in 2007 was generally the result of certain items recognized during 2006, including $717,000 in gains on the sale of certain assets, primarily our former main banking facility located at 800 Poyntz, Manhattan, Kansas. These gains in 2006 were partially offset by $300,000 in losses on sale of investments and purchasing higher yielding, longer-term investments during the second quarter of 2006. Furthering this decline was a decrease in gains on sale of loans of $185,000, or 16.2%, while deposit related income remained stable, declining by $3,000.

NON-INTEREST EXPENSE. Non-interest expense decreased $706,000, or 4.1%, to $16.6 million for 2007, as compared to 2006. The decrease in non-interest expense for 2007 resulted primarily from a $498,000 decrease in compensation and benefits, a $114,000 decrease in amortization of intangible assets expense, and the achievement of cost savings resulting from the acquisition of First Manhattan Bancorporation.

INCOME TAXES. Income tax expense decreased $776,000, or 37.3%, to $1.3 million for 2007, from $2.1 million for 2006. The decrease in income tax expense for 2007 resulted from a decrease in taxable income during 2007 as compared to 2006 as well as a decline in the effective tax rate for 2007, which decreased to 19.4% from 25.7% for 2006. The effective tax rate for 2007 was lower than 2006 primarily because of our increase in non-taxable income related to tax exempt municipal investments, higher income on bank owned life insurance and the recognition of $50,000 of previously unrecognized tax benefits.

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AVERAGE ASSETS/LIABILITIES. The following table sets forth information relating to average balances of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2008, 2007 and 2006. This table reflects the average yields on assets and average costs of liabilities for the periods indicated (derived by dividing income or expense by the monthly average balance of assets or liabilities, respectively) as well as the net interest margin (which reflects the effect of the net earnings balance) for the periods shown.

	Year ended December 31, 2008			Year ended December 31, 2007			Year ended December 31, 2006		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Interest-earning assets:									
Investment securities (1)	$ 170,011	$ 8,299	4.88%	$ 157,376	$ 8,109	5.15%	$ 144,110	$ 6,771	4.70%
Loans receivable, net (2)	375,208	24,534	6.49%	383,078	28,535	7.45%	393,709	28,345	7.20%
Total interest-earning assets	548,219	32,833	5.99%	540,454	36,644	6.78%	537,819	35,116	6.53%
Non-interest-earning assets	59,715			60,689			59,573		
Total	$ 607,934			$ 601,143			$ 597,392		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Certificates of deposit	$ 221,412	$ 8,075	3.65%	$ 237,831	$ 10,656	4.48%	$ 226,963	$ 8,570	3.78%
Money market and NOW accounts	142,968	1,741	1.22%	132,813	2,769	2.08%	131,470	2,287	1.74%
Savings accounts	27,081	81	0.30%	27,048	81	0.30%	29,914	90	0.30%
FHLB advances and other borrowings	105,544	3,718	3.52%	94,171	4,362	4.63%	103,805	4,692	4.52%
Total interest-bearing liabilities	49,7005	13,615	2.74%	491,863	17,868	3.63%	492,152	15,639	3.18%
Non-interest-bearing liabilities	60,211			59,146			59,031		
Stockholders equity	50,718			50,134			46,209		
Total	$ 607,934			$ 601,143			$ 597,392		
Interest rate spread (3)			3.25%			3.15%			3.35%
Net interest margin (4)		$ 19,218	3.51%		$ 18,776	3.47%		$ 19,477	3.62%
Tax equivalent interest - imputed		1,186			1,093			721	
Net interest income		$ 18,032			$ 17,683			$ 18,756	
Ratio of average interest-earning assets to average interest-bearing liabilities		110.3%			109.9%			109.3%	

(1) Income on investment securities includes all securities and interest bearing deposits in other financial institutions. Income on tax exempt investment securities is presented on a fully taxable equivalent basis, using a 34% federal tax rate.

(2) Includes loans classified as non-accrual. Income on tax exempt loans is presented on a fully taxable equivalent basis, using a 34% federal tax rate.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest-earning assets.

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QUARTERLY RESULTS OF OPERATIONS

	Fiscal 2008 Quarters Ended			
	March 31	June 30	September 30	December 31
Interest income	$ 8,494,006	$ 7,985,034	$ 7,763,780	$ 7,403,881
Interest expense	4,032,572	3,512,165	3,243,617	2,826,668
Net interest income	4,461,434	4,472,869	4,520,163	4,577,213
Provision for loan losses	600,000	300,000	500,000	1,000,000
Net interest income after provision for loan losses	3,861,434	4,172,869	4,020,163	3,577,213
Non-interest income	1,815,277	2,259,732	1,740,928	1,726,098
Non-interest expense	4,289,452	4,262,641	4,311,096	4,647,322
Earnings before income taxes	1,387,259	2,169,960	1,499,995	655,989
Income tax expense	320,745	593,553	299,970	(104,449)
Net earnings	$ 1,066,514	$ 1,576,407	$ 1,150,025	$ 760,438
Earnings per share(1):				
Basic	$ 0.43	$ 0.66	$ 0.49	$ 0.32
Diluted	$ 0.43	$ 0.66	$ 0.48	$ 0.32

	Fiscal 2007 Quarters Ended			
	March 31	June 30	September 30	December 31
Interest income	$ 8,830,732	$ 9,001,879	$ 9,085,905	$ 8,632,573
Interest expense	4,331,532	4,535,424	4,624,993	4,376,263
Net interest income	4,499,200	4,466,455	4,460,913	4,256,310
Provision for loan losses	65,000	60,000	70,000	60,000
Net interest income after provision for loan losses	4,434,200	4,406,455	4,390,912	4,196,310
Non-interest income	1,328,869	1,514,358	1,575,449	1,496,958
Non-interest expense	4,157,393	4,157,779	4,161,454	4,161,738
Earnings before income taxes	1,605,676	1,763,034	1,804,907	1,531,530
Income tax expense	361,056	409,431		