

LANDMARK BANCORP INC  
Form 10-K  
March 27, 2009  
[Table of Contents](#)

**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**  
(State or other jurisdiction of incorporation or  
organization)

**43-1930755**  
(I.R.S. Employer Identification Number)

**701 Poyntz Avenue, Manhattan, Kansas**  
(Address of principal executive offices)

**66505**  
(Zip Code)

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

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

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Common Stock, par value \$0.01 per share  
Preferred Share Purchase Rights  
None

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

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

Yes  No

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

Yes  No

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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

Yes  No

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.



Table of Contents

**LANDMARK BANCORP, INC.**

2008 Form 10-K Annual Report

Table of Contents

**PART I**

|                 |                                                                                                                      |    |
|-----------------|----------------------------------------------------------------------------------------------------------------------|----|
| <u>ITEM 1.</u>  | <u>BUSINESS</u>                                                                                                      | 3  |
| <u>ITEM 1A.</u> | <u>RISK FACTORS</u>                                                                                                  | 19 |
| <u>ITEM 1B.</u> | <u>UNRESOLVED STAFF COMMENTS</u>                                                                                     | 25 |
| <u>ITEM 2.</u>  | <u>PROPERTIES</u>                                                                                                    | 25 |
| <u>ITEM 3.</u>  | <u>LEGAL PROCEEDINGS</u>                                                                                             | 25 |
| <u>ITEM 4.</u>  | <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>                                                           | 25 |
| <u>ITEM 5.</u>  | <u>MARKET FOR THE COMPANY'S COMMON STOCK, RELATED STOCK HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 26 |
| <u>ITEM 6.</u>  | <u>SELECTED FINANCIAL DATA</u>                                                                                       | 27 |
| <u>ITEM 7.</u>  | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                         | 28 |
| <u>ITEM 7A.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                                                    | 42 |
| <u>ITEM 8.</u>  | <u>FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA</u>                                                                    | 45 |
| <u>ITEM 9.</u>  | <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>                          | 75 |
| <u>ITEM 9A.</u> | <u>CONTROLS AND PROCEDURES</u>                                                                                       | 75 |
| <u>ITEM 9B.</u> | <u>OTHER INFORMATION</u>                                                                                             | 75 |
| <u>ITEM 10.</u> | <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>                                                        | 76 |
| <u>ITEM 11.</u> | <u>EXECUTIVE COMPENSATION</u>                                                                                        | 76 |
| <u>ITEM 12.</u> | <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>                                                | 77 |
| <u>ITEM 13.</u> | <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>                                      | 77 |
| <u>ITEM 14.</u> | <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>                                                                        | 78 |
| <u>ITEM 15.</u> | <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>                                                                    | 78 |

SIGNATURES

Table of Contents

**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.

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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

Table of Contents

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

Table of Contents

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

Table of Contents

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.



## **Table of Contents**

### **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

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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

Table of Contents

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



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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.

Table of Contents

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**

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

**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

Table of Contents

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.



Table of Contents

**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.

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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.

Table of Contents

**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

Table of Contents

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](http://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                        |      |     | 2007 vs 2006                        |      |     |    |     |    |     |    |       |
|                  | Increase/(decrease) attributable to |      | Net | Increase/(decrease) attributable to |      | Net |    |     |    |     |    |       |
|                  | Volume                              | Rate |     | Volume                              | Rate |     |    |     |    |     |    |       |
|                  | (Dollars in thousands)              |      |     |                                     |      |     |    |     |    |     |    |       |
| Interest income: | \$                                  | 548  | \$  | (358)                               | \$   | 190 | \$ | 656 | \$ | 682 | \$ | 1,338 |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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) |

Table of Contents**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.

|                                 | 2008              | As of December 31,<br>2007<br>(Dollars in thousands) | 2006              |
|---------------------------------|-------------------|------------------------------------------------------|-------------------|
| <b>Investment Securities:</b>   |                   |                                                      |                   |
| 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               |
| <b>Total</b>                    | <b>\$ 171,297</b> | <b>\$ 164,724</b>                                    | <b>\$ 145,884</b> |

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.

|                                 | One year or less |               | One to five years |               | As of December 31, 2008<br>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 |
| <b>Investment securities:</b>   |                  |               |                   |               |                                              |               |                     |               |                   |               |
| 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%         |
| <b>Total</b>                    | <b>\$ 31,598</b> | <b>4.06%</b>  | <b>\$ 71,280</b>  | <b>4.70%</b>  | <b>\$ 32,925</b>                             | <b>5.75%</b>  | <b>\$ 25,368</b>    | <b>6.01%</b>  | <b>\$ 161,171</b> | <b>4.99%</b>  |



Table of Contents**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.

|                                                 | 2008       | As of December 31,<br>2007<br>(Dollars in thousands) |            | 2006 |
|-------------------------------------------------|------------|------------------------------------------------------|------------|------|
| <b>Balance</b>                                  |            |                                                      |            |      |
| 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 |      |
| <b>Percent of total</b>                         |            |                                                      |            |      |
| 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<br>(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 |       |

Table of Contents

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<br>(Dollars in thousands) | Total             |
|--------------------------------|------------------|--------------------------------------|-------------------|
| <b>Real estate loans:</b>      |                  |                                      |                   |
| 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             |
| <b>Total gross loans</b>       | <b>\$ 77,962</b> | <b>\$ 155,589</b>                    | <b>\$ 233,551</b> |

**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.

|                                                  | 2008            | As of December 31,<br>2007<br>(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             |
| <b>Total nonperforming assets</b>                | <b>\$ 7,682</b> | <b>\$ 10,529</b>                                     | <b>\$ 4,023</b> |
| 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.

Table of Contents**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:

|                                                                         | 2008       | As of December 31,<br>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.





Table of Contents

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<br>type to<br>total loans | Amount   | % Loan<br>type to<br>total loans | Amount   | % Loan<br>type to<br>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% |

Table of Contents

**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.

Table of Contents

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 losses. 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.

Table of Contents

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:

Table of Contents

- 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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents**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.

| <b>Year ended December 31, 2008</b> | <b>High</b> | <b>Low</b> | <b>Cash dividends paid</b> |
|-------------------------------------|-------------|------------|----------------------------|
| 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                  |

| <b>Year ended December 31, 2007</b> | <b>High</b> | <b>Low</b> | <b>Cash dividends paid</b> |
|-------------------------------------|-------------|------------|----------------------------|
| 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:

| <b>Period</b>       | <b>Total number of shares purchased</b> | <b>Average price paid per share</b> | <b>Total number of shares purchased as part of a publicly announced plan (1)</b> | <b>Maximum number of shares that may yet be purchased under the plans (1)</b> |
|---------------------|-----------------------------------------|-------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| 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

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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.

Table of Contents**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) |            |            |            |            |
| <b>Selected Financial Data:</b>                     |                                                  |            |            |            |            |
| 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  |
| <b>Selected Operating Data:</b>                     |                                                  |            |            |            |            |
| 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   |
| <b>Other Data:</b>                                  |                                                  |            |            |            |            |
| 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.

Table of Contents

**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.



Table of Contents**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.





Table of Contents

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.

Table of Contents**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

Table of Contents

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.

Table of Contents

**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.



Table of Contents

**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.

Table of Contents

**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 |
| <b>Assets</b>                                                                    |                              |           |                    |                              |           |                    |                              |           |                    |
| 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                   |           |                    |
| <b>Liabilities and Stockholders Equity</b>                                       |                              |           |                    |                              |           |                    |                              |           |                    |
| 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.

**Table of Contents****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      | 367,341      | 165,255      |
| Net earnings                                        | \$ 1,244,620               | \$ 1,353,603 | \$ 1,437,566 | \$ 1,366,275 |
| Earnings per share(1):                              |                            |              |              |              |
| Basic                                               | \$ 0.48                    | \$ 0.53      | \$ 0.57      | \$ 0.54      |
| Diluted                                             | \$ 0.48                    | \$ 0.52      | \$ 0.56      | \$ 0.54      |

(1) All per share amounts have been adjusted to give effect to the 5% stock dividend paid during December 2008 and 2007.

Table of Contents

**FINANCIAL CONDITION**

Although the Company has avoided many of the problems caused by the deterioration in residential real estate market values and loan portfolio credit quality, particularly the subprime mortgage sector, the Company's asset quality and 2008 performance has nonetheless been affected by the declining real estate values, falling consumer confidence, increased unemployment and decreased consumer spending, which have all contributed to a slowing economy and a difficult credit market. Management believes that it continues to have a high quality asset base and solid earnings and anticipates that its efforts to run a high quality financial institution with a sound asset base will continue to create a strong foundation for continued growth and profitability in the future.

**ASSET QUALITY AND DISTRIBUTION.** Total assets decreased to \$602.2 million at December 31, 2008, compared to \$606.5 million at December 31, 2007. Our primary ongoing sources of funds are deposits, FHLB borrowings, proceeds from principal and interest payments on loans and investment securities and proceeds from the sale of mortgage loans and investment securities. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates and economic conditions.

Net loans, excluding loans held for sale, decreased to \$365.8 million as of December 31, 2008 from \$376.2 million at December 31, 2007. The \$10.4 million decline in net loans is primarily the result of the refinancings and paydowns in our one-to-four family residential loan portfolio exceeding our commercial and commercial real estate loan originations. We have concentrated on generating commercial and commercial real estate loans over the past few years and are pleased that this segment of our loan portfolio has grown. Despite the decrease in total loans, we continued our balance sheet transition with a net increase of \$12.6 million in commercial and commercial real estate loans, which partially offset declines of \$8.3 million in construction loans and \$13.6 million in one-to-four family residential loans. This is consistent with our strategy to continue to reduce portfolio reliance on construction loans and residential mortgage loans, most of which have been acquired in previous acquisitions, while increasing our loan portfolio in the area of commercial lending. We plan to continue our efforts to grow our commercial and commercial real estate lending activities, as long as we are able to originate loans that meet our credit and asset qualities. As of December 31, 2008, our commercial loans, including commercial real estate loans, comprised 62.0% of our loan portfolio, up from 56.9% at December 31, 2007. As of December 31, 2008, our construction loans comprised 5.3% of total loans, down from 7.4% at December 31, 2007. As of December 31, 2008, our one-to-four family residential loans comprised 30.5% of total loans, down from 33.3% at December 31, 2007. We anticipate continuing to diversify our loan portfolio composition through our continued planned expansion of commercial and commercial real estate lending activities and continued refinancings and paydowns in our one-to-four family residential loans.

Our primary investing activities are the origination of commercial, mortgage and consumer loans and the purchase of investment and mortgage-backed securities. Generally, we originate fixed-rate, residential mortgage loans with maturities in excess of ten years for sale in the secondary market. These loans are typically sold soon after the loan closing. We do not originate and warehouse these fixed-rate residential loans for resale in order to speculate on interest rates. As of December 31, 2008, our residential mortgage loan portfolio consisted of \$39.6 million with fixed rates and \$73.2 million with variable rates.

The allowance for losses on loans is established through a provision for losses on loans based on our evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of its loan activity. Such evaluation, which includes a review of all loans with respect to which full collectibility may not be reasonably assured, considers the fair value of the underlying collateral, economic conditions, historical loan loss experience, level of classified loans and other factors that warrant recognition in providing for an adequate allowance for losses on loans. During 2008 we felt 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 have identified the stresses in our loan portfolio and are working to reduce the risks of certain loan exposures, including significantly reducing our exposure to construction and land development loans.

Table of Contents

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.

As of December 31, 2008, loans with aggregate principal balances of \$5.7 million were on non-accrual status, or 1.6% of total loans, compared to a balance of \$10.0 million loans on non-accrual status, or 2.7% of total loans, as of December 31, 2007. The Company's non-accrual loans decreased during 2008 primarily as a result of the collection of outstanding balances on two loan relationships totaling \$3.0 million and from increased charge-offs during 2008. 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. The ratio of nonperforming assets as a percentage of total assets was 1.3% at December 31, 2008 and 1.7% at December 31, 2007. Net loan charge-offs increased to \$2.7 million for 2008, compared to \$113,000 for 2007. The increase in net loan charge-offs during 2008 was primarily related to loans that had a specific loss reserve allocation at December 31, 2007. Even though our 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 for a significant period of time. Further deterioration in the local economy or real estate values may create additional problem loans for us.

Although the current economic recession has created a very difficult environment for financial institutions, as well as other businesses, the U.S. government, Federal Reserve and the Treasury Department have already initiated many programs to try to stimulate the economy. The economic outlook for 2009 depends on whether the stimulus can offset any additional stresses that may arise. Many financial institutions, including us, have experienced an increase in non-performing assets during the recent economic period, as even well-established business borrowers developed cash flow, profitability and other business-related problems. We believe that the allowance for losses on loans at December 31, 2008, was adequate, however, there can be no assurances that losses will not exceed the estimated amounts. While we believe that we use the best information available to determine the allowance for losses on loans, unforeseen market conditions could result in adjustment to the allowance for losses on loans. In addition, net earnings could be significantly affected if circumstances differ substantially from the assumptions used in establishing the allowance for losses on loans.

**LIABILITY DISTRIBUTION.** Total deposits decreased to \$439.5 million at December 31, 2008 from \$452.7 million at December 31, 2007. Borrowings increased \$11.3 million to \$104.4 million at December 31, 2008 from \$93.1 million at December 31, 2007. During 2008 we replaced short-term public fund certificate of deposits with longer-term advances through the FHLB in an effort to extend our liabilities while we thought rates were at a relatively low point in the interest rate cycle.

Non-interest bearing deposits at December 31, 2008 were \$49.8 million, or 11.3% of deposits, compared to \$51.0 million, also 11.3% of deposits, at December 31, 2007. Money market and NOW deposit accounts were 34.2% of the portfolio and totaled \$150.1 million at December 31, 2008, compared to \$139.6 million, or 30.8% of deposits, at December 31, 2007. Savings accounts increased to \$26.2 million, or 6.0% of deposits, at December 31, 2008, from \$25.9 million, or 5.7% of deposits, at December 31, 2007. Certificates of deposit decreased to \$213.4 million, or 48.6% of deposits, at December 31, 2008, from \$236.2 million, or 52.2% of deposits, at December 31, 2007.

Certificates of deposit at December 31, 2008 which were scheduled to mature in one year or less totaled \$168.8 million. Historically, maturing deposits have generally remained with the Bank and we believe that a significant portion of the deposits maturing in one year or less will remain with us upon maturity.

**CASH FLOWS.** During the year ended December 31, 2008, our cash and cash equivalents decreased by \$952,000. Our operating activities during 2008 provided net cash of \$5.3 million, while we used \$338,000 in investing activities in 2008. We purchased \$51.5 million of investment securities during 2008 to replace the \$45.3 million that either matured or was sold as well as the \$5.2 million of cash relating to a net decrease in loans. Our financing activities used net cash of \$5.9 million during 2008 primarily to purchase treasury stock and pay dividends. We increased our FHLB borrowings to offset lower deposit balances.



Table of Contents

**LIQUIDITY.** Our most liquid assets are cash and cash equivalents and investment securities available for sale. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2008 and 2007, the carrying value of these liquid assets totaled \$176.0 million and \$179.5 million, respectively. During periods in which we are not able to originate a sufficient amount of loans and/or periods of high principal prepayments, we increase our liquid assets by investing in short-term U.S. Government and agency securities or high-grade municipal securities.

Liquidity management is both a daily and long-term function of our strategy. Excess funds are generally invested in short-term investments. In the event we require funds beyond our ability to generate them internally, additional funds are available through the use of FHLB advances, a line of credit with the FHLB, other borrowings or through sales of securities. At December 31, 2008, we had outstanding FHLB advances of \$71.3 million and \$6.0 million of borrowings on our line of credit with the FHLB. At December 31, 2008, our total borrowing capacity with the FHLB, which is based on collateral pledged, was \$126.1 million. We also had other borrowings of \$27.0 million at December 31, 2008, which included \$16.5 million of subordinated debentures, \$4.8 million borrowed on a revolving credit agreement and \$5.7 million in repurchase agreements.

As a provider of financial services, we routinely issue financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by us generally to guarantee the payment or performance obligation of a customer to a third party. While these standby letters of credit represent a potential outlay by us, a significant amount of the commitments may expire without being drawn upon. We have recourse against the customer for any amount the customer is required to pay to a third party under a standby letter of credit. The letters of credit are subject to the same credit policies, underwriting standards and approval process as loans made by us. Most of the standby letters of credit are secured, and in the event of nonperformance by the customers, we have the right to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The contract amount of these standby letters of credit, which represents the maximum potential future payments guaranteed by us, was \$2.1 million at December 31, 2008.

At December 31, 2008, we had outstanding loan commitments, excluding standby letters of credit, of \$67.3 million. We anticipate that sufficient funds will be available to meet current loan commitments. These commitments consist of unfunded lines of credit and commitments to finance real estate loans.

**CAPITAL.** The Federal Reserve has established capital requirements for bank holding companies which generally parallel the capital requirements for national banks under OCC regulations. The regulations provide that such standards will generally be applied on a consolidated (rather than a bank-only) basis in the case of a bank holding company with more than \$500 million in total consolidated assets.

At December 31, 2008, we continued to maintain a sound leverage capital ratio of 9.0% and a total risk based capital ratio of 13.9%. As shown by the following table, our capital exceeded the minimum capital requirements at December 31, 2008 (dollars in thousands):

|                          | Actual<br>amount | Actual<br>percent | Required<br>percent | Required<br>amount |
|--------------------------|------------------|-------------------|---------------------|--------------------|
| Leverage                 | \$ 52,450        | 9.0%              | 4.0%                | \$ 23,427          |
| Tier 1 capital           | \$ 52,450        | 13.0%             | 4.0%                | \$ 16,176          |
| Total risk based capital | \$ 56,321        | 13.9%             | 8.0%                | \$ 32,352          |



Table of Contents

At December 31, 2008, Landmark National Bank continued to maintain a sound leverage ratio of 9.6% and a total risk based capital ratio of 14.8%. As shown by the following table, Landmark National Bank's capital exceeded the minimum capital requirements at December 31, 2008 (dollars in thousands):

|                          | Actual<br>amount | Actual<br>percent | Required<br>percent | Required<br>amount |
|--------------------------|------------------|-------------------|---------------------|--------------------|
| Leverage                 | \$ 55,867        | 9.6%              | 4.0%                | \$ 23,351          |
| Tier 1 capital           | \$ 55,867        | 13.8%             | 4.0%                | \$ 16,141          |
| Total risk based capital | \$ 59,738        | 14.8%             | 8.0%                | \$ 32,282          |

Banks and bank holding companies are generally expected to operate at or above the minimum capital requirements. The above ratios are well in excess of regulatory minimums and should allow us to operate without capital adequacy concerns. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a bank rating system based on the capital levels of banks. As of December 31, 2008 and 2007, we were rated "well capitalized", which is the highest rating available under this capital-based rating system. We have \$16.5 million in trust preferred securities and, in accordance with current capital guidelines, this amount has been included in our Tier 1 capital ratios as of December 31, 2008. Cash distributions on the securities are payable quarterly, are deductible for income tax purposes and are included in interest expense in the consolidated financial statements.

On March 1, 2005, the Board of Governors of the Federal Reserve System issued a final rule regarding the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter standards. As a result of the final rule, the Federal Reserve will limit the aggregate amount of a bank holding company's cumulative perpetual preferred stock, trust preferred securities and other minority interests to 25% of a company's core capital elements, net of goodwill. Regulations in place at the time we placed our currently outstanding trust preferred securities did not require the deduction of goodwill. The rule also provides that amounts of qualifying trust preferred securities and certain minority interests in excess of the 25% limit may be included in Tier 2 capital but will be limited, together with subordinated debt and limited-life preferred stock, to 50% of Tier 1 capital. The final rule provides a five-year transition period for bank holding companies to meet these quantitative limitations. While management does not anticipate that the final rule will have an impact on the Company when the five-year transition period expires, it is not possible to predict the final impact of the rule on us.

**DIVIDENDS**

During the year ended December 31, 2008, we paid a quarterly cash dividend of \$0.181 per share to our stockholders. Additionally, we distributed a 5% stock dividend for the eighth consecutive year in December 2008. The cash dividends have been adjusted to give effect to the 5% stock dividend.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations. As described above, Landmark National Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2008. The National Bank Act imposes limitations on the amount of dividends that a national bank may pay without prior regulatory approval. Generally, the amount is limited to the bank's current year's net earnings plus the adjusted retained earnings for the two preceding years. As of December 31, 2008, approximately \$2.5 million was available to be paid as dividends to Landmark Bancorp by Landmark National Bank without prior regulatory approval.

Additionally, our ability to pay dividends is limited by the subordinated debentures that 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.

Table of Contents

**RECENT ACCOUNTING DEVELOPMENTS**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements* . This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It does not require any new fair value measurements. The Company adopted this Statement on January 1, 2008. The adoption of the Statement did not have a material effect on our consolidated financial statements.

In September 2006, the Emerging Issues Task Force ( EITF ) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* , was ratified. This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires the employer to recognize a liability for future benefits payable to the employee under these agreements. The effects of applying this Issue must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. The Company adopted this Issue on January 1, 2008. The adoption of the Issue did not have a material effect on our consolidated financial statements.

In September 2006, the EITF Issue 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* , was ratified. This EITF Issue addresses accounting for what could be realized as an asset and provides clarification regarding additional amounts included in the contractual terms of an individual policy in determining the amount that could be realized under the insurance contract. The effects of applying this issue must be recognized through an adjustment to equity or through the retrospective application to all prior periods. The Company adopted this Issue on January 1, 2008. The adoption of the Issue did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows companies to elect fair-value measurement of specified financial instruments and warranty and insurance contracts when an eligible asset or liability is initially recognized or when an event, such as a business combination triggers new basis of accounting for that asset or liability. The election, called the fair-value option, will enable some companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently. The election is available for eligible assets or liabilities on a contract-by-contract basis without electing it for identical assets or liabilities under certain restrictions. The Company adopted this Statement on January 1, 2008. The adoption of the Statement did not have a material effect on our consolidated financial statements.

In November 2007, the SEC staff issued Staff Accounting Bulletin ( SAB ) No. 109, *Written Loan Commitment Recorded at Fair Value through Earnings*. This SAB supersedes SAB 105 and expresses the current view that, consistent with the guidance in SFAS No. 156, *Accounting for Servicing of Financial Assets* , and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* , the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. For calendar year companies, this SAB is effective January 1, 2008. The adoption of SAB 109 did not have a material effect on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations*. The Statement retains the fundamental requirements in Statement No. 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement No. 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies and contingent considerations must be measured at fair value as of the acquisition date. The Statement also changes the accounting for negative

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

goodwill arising from a bargain purchase, requiring recognition in earnings instead of allocation to assets acquired. For calendar year companies, this Statement is applicable to business combinations occurring after January 1, 2009.

Table of Contents

Also in December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141 (revised 2007), *Business Combinations*. The Company adopted this Statement on January 1, 2009. The adoption of this Statement did not have a material effect on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. This statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how these activities affect its financial position, financial performance, and cash flows. The Company adopted this Statement on January 1, 2009. The adoption of this Statement did not have a material effect on our consolidated financial statements.

In January 2009, the FASB issued Staff Position No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. The amendment's purpose is to achieve a more consistent determination of whether an other than temporary impairment has occurred on beneficial interests. Specifically, the new pronouncement no longer requires the usage of market participant assumptions about future cash flows in determining other-than-temporary impairment under the EITF 99-20 model, and aligns that model's impairment guidance with SFAS 115. This Statement is applicable to our investments in pooled trust preferred investment securities.

**EFFECTS ON INFLATION**

Our consolidated financial statements and accompanying footnotes have been prepared in accordance with U.S. generally accepted accounting principles, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation can be found in the increased cost of our operations because our assets and liabilities are primarily monetary and interest rates have a greater impact on our performance than do the effects of inflation.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our assets and liabilities are principally financial in nature and the resulting net interest income thereon is subject to changes in market interest rates and the mix of various assets and liabilities. Interest rates in the financial markets affect our decision on pricing our assets and liabilities which impacts our net interest income, a significant cash flow source for us. As a result, a substantial portion of our risk management activities relates to managing interest rate risk.

Our Asset/Liability Management Committee monitors the interest rate sensitivity of our balance sheet using earnings simulation models and interest sensitivity GAP analysis. We have set policy limits of interest rate risk to be assumed in the normal course of business and monitor such limits through our simulation process.

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

In the past, we have been successful in meeting the interest rate sensitivity objectives set forth in our policy. Simulation models are prepared to determine the impact on net interest income for the coming twelve months, including using rates at December 31, 2008 and forecasting volumes for the twelve month projection. This position is then subjected to a shift in interest rates of 100 and 200 basis points rising and 100 basis points falling with an impact to our net interest income on a one year horizon as follows:

| <b>Scenario</b>         | <b>\$000 s change in net<br/>interest income</b> | <b>% of net<br/>interest income</b> |
|-------------------------|--------------------------------------------------|-------------------------------------|
| 200 basis point rising  | \$ 530                                           | 2.9%                                |
| 100 basis point rising  | \$ 357                                           | 1.9%                                |
| 100 basis point falling | \$ (270)                                         | (1.5)%                              |



**Table of Contents****ASSET/LIABILITY MANAGEMENT**

Interest rate gap analysis is a common, though imperfect, measure of interest rate risk which measures the relative dollar amounts of interest-earning assets and interest bearing liabilities which reprice within a specific time period, either through maturity or rate adjustment. The gap is the difference between the amounts of such assets and liabilities that are subject to such repricing. A positive gap for a given period means that the amount of interest-earning assets maturing or otherwise repricing within that period exceeds the amount of interest-bearing liabilities maturing or otherwise repricing during that same period. In a rising interest rate environment, an institution with a positive gap would generally be expected, absent the effects of other factors, to experience a greater increase in the yield of its assets relative to the cost of its liabilities. Conversely, the cost of funds for an institution with a positive gap would generally be expected to decline less quickly than the yield on its assets in a falling interest rate environment. Changes in interest rates generally have the opposite effect on an institution with a negative gap.

Following is our static gap schedule. One-to-four family and consumer loans included prepayment assumptions, while all other loans assume no prepayments. The mortgage-backed securities included published prepayment assumptions, while all other investments assume no prepayments.

Certificates of deposit reflect contractual maturities only. Money market accounts are rate sensitive and accordingly, a higher percentage of the accounts have been included as repricing immediately in the first period. Savings and NOW accounts are not as rate sensitive as money market accounts and for that reason a significant percentage of the accounts are reflected in the more than 1 to 5 years category.

We have been successful in meeting the interest sensitivity objectives set forth in our policy. This has been accomplished primarily by managing the assets and liabilities while maintaining our traditional high credit standards.

**INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES REPRICING****SCHEDULE ( GAP TABLE)**

| As of December 31, 2008                   | 3 months<br>or less | More than<br>3 to 12<br>months | More than<br>1 to 5 years<br>(Dollars in thousands) | Over 5<br>years | Total          |
|-------------------------------------------|---------------------|--------------------------------|-----------------------------------------------------|-----------------|----------------|
| <b>Interest-earning assets:</b>           |                     |                                |                                                     |                 |                |
| Investment securities                     | \$ 19,544           | \$ 29,505                      | \$ 59,977                                           | \$ 62,261       | \$ 171,297     |
| Loans                                     | 105,320             | 119,223                        | 130,827                                             | 11,889          | 367,259        |
| <b>Total interest-earning assets</b>      | <b>124,874</b>      | <b>148,728</b>                 | <b>190,804</b>                                      | <b>74,150</b>   | <b>538,556</b> |
| <b>Interest-bearing liabilities:</b>      |                     |                                |                                                     |                 |                |
| Certificates of deposit                   | 58,135              | 110,707                        | 44,317                                              | 244             | 213,403        |
| Money market and NOW accounts             | 42,790              |                                | 107,326                                             |                 | 150,116        |
| Savings accounts                          | 5,241               |                                | 20,962                                              |                 | 26,203         |
| Borrowed money                            | 30,056              | 15,027                         | 35,182                                              | 24,101          | 104,366        |
| <b>Total interest-bearing liabilities</b> | <b>136,222</b>      | <b>125,734</b>                 | <b>207,787</b>                                      | <b>24,345</b>   | <b>494,088</b> |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                                                                                |          |        |          |        |        |
|------------------------------------------------------------------------------------------------|----------|--------|----------|--------|--------|
| Interest sensitivity gap per period                                                            | (11,348) | 22,994 | (16,983) | 49,805 | 44,468 |
| Cumulative interest sensitivity gap                                                            | (11,348) | 11,646 | (5,337)  | 44,468 |        |
| Cumulative gap as a percent of total interest-earning assets                                   | (2.1%)   | 2.2%   | (1.0%)   | 8.3%   |        |
| Cumulative interest sensitive assets as a percent of cumulative interest sensitive liabilities | 91.7%    | 104.5% | 98.9%    | 109.0% |        |

Table of Contents

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

**Forward-Looking Statements**

This document (including information incorporated by reference) contains, and future oral and written statements by us and our management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to our financial condition, results of operations, plans, objectives, future performance and business. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of our management and on information currently available to management, are generally identifiable by the use of words such as believe, expect, anticipate, plan, intend, estimate, may, will, would, could, should expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and we undertake no obligation to update any statement in light of new information or future events.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on operations and future prospects by us and our subsidiaries include, but are not limited to, the following:

- The strength of the United States economy in general and the strength of the local economies in which we conduct our operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of our assets.
- The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of our assets) and the policies of the Board of Governors of the Federal Reserve System.
- Our ability to compete with other financial institutions as effectively as we currently intend due to increases in competitive pressures in the financial services sector.
- Our inability to obtain new customers and to retain existing customers.
- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

- Technological changes implemented by us and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to us and our customers.
- Our ability to develop and maintain secure and reliable electronic systems.
- Our ability to retain key executives and employees and the difficulty that we may experience in replacing key executives and employees in an effective manner.
- Consumer spending and saving habits which may change in a manner that affects our business adversely.
- Our ability to successfully integrate acquired businesses.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.
- The economic impact of past and any future terrorist attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning us and our business, including other factors that could materially affect our financial results is included in the Risk Factors section.

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

**REPORT OF INDEPENDENT REGISTERED**

**PUBLIC ACCOUNTING FIRM**

The Board of Directors  
Landmark Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Landmark Bancorp, Inc. and subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Landmark Bancorp, Inc. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Kansas City, Missouri  
March 27, 2009

Table of Contents**LANDMARK BANCORP, INC. AND SUBSIDIARY****Consolidated Balance Sheets**

|                                                                                                                                           | December 31,   |                |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                           | 2008           | 2007           |
| <b>Assets</b>                                                                                                                             |                |                |
| Cash and cash equivalents                                                                                                                 | \$ 13,787,640  | \$ 14,739,148  |
| Investment securities:                                                                                                                    |                |                |
| Available-for-sale, at fair value                                                                                                         | 162,244,822    | 155,879,231    |
| Other securities                                                                                                                          | 9,051,900      | 8,844,950      |
| Loans, net                                                                                                                                | 365,771,707    | 376,156,608    |
| Loans held for sale                                                                                                                       | 1,487,550      | 1,723,687      |
| Premises and equipment, net                                                                                                               | 13,955,625     | 14,259,172     |
| Goodwill                                                                                                                                  | 12,894,167     | 12,894,167     |
| Other intangible assets, net                                                                                                              | 2,406,840      | 3,144,001      |
| Bank owned life insurance                                                                                                                 | 11,995,918     | 11,634,535     |
| Accrued interest and other assets                                                                                                         | 8,617,317      | 7,179,224      |
| Total assets                                                                                                                              | \$ 602,213,486 | \$ 606,454,723 |
| <b>Liabilities and Stockholders Equity</b>                                                                                                |                |                |
| Liabilities:                                                                                                                              |                |                |
| Deposits:                                                                                                                                 |                |                |
| Non-interest bearing demand                                                                                                               | \$ 49,823,347  | \$ 51,007,859  |
| Money market and NOW                                                                                                                      | 150,116,362    | 139,557,359    |
| Savings                                                                                                                                   | 26,202,715     | 25,882,935     |
| Time, \$100,000 and greater                                                                                                               | 49,964,782     | 58,980,552     |
| Time, other                                                                                                                               | 163,438,570    | 177,223,601    |
| Total deposits                                                                                                                            | 439,545,776    | 452,652,306    |
| Federal Home Loan Bank borrowings                                                                                                         | 77,319,133     | 69,026,525     |
| Other borrowings                                                                                                                          | 27,046,591     | 24,061,554     |
| Accrued interest, taxes, and other liabilities                                                                                            | 6,896,284      | 8,418,200      |
| Total liabilities                                                                                                                         | 550,807,784    | 554,158,585    |
| Commitments and contingencies                                                                                                             |                |                |
| Stockholders equity:                                                                                                                      |                |                |
| Preferred stock, \$0.01 par. Authorized 200,000 shares; none issued                                                                       |                |                |
| Common stock, \$0.01 par. Authorized 7,500,000 shares; issued 2,411,412 and 2,409,125 shares, at December 31, 2008 and 2007, respectively | 24,114         | 24,091         |
| Additional paid-in capital                                                                                                                | 23,872,983     | 24,304,144     |
| Retained earnings                                                                                                                         | 27,818,594     | 27,493,281     |
| Treasury stock, at cost; 39,162 and 7,763 shares at December 31, 2008 and 2007, respectively                                              | (935,214)      | (205,894)      |
| Accumulated other comprehensive income                                                                                                    | 625,225        | 680,516        |
| Total stockholders equity                                                                                                                 | 51,405,702     | 52,296,138     |
| Total liabilities and stockholders equity                                                                                                 | \$ 602,213,486 | \$ 606,454,723 |

See accompanying notes to consolidated financial statements.



Table of Contents

## LANDMARK BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Earnings

|                                                                  | Years ended December 31, |              |              |
|------------------------------------------------------------------|--------------------------|--------------|--------------|
|                                                                  | 2008                     | 2007         | 2006         |
| Interest income:                                                 |                          |              |              |
| Loans:                                                           |                          |              |              |
| Taxable                                                          | \$24,235,784             | \$28,315,686 | \$28,183,639 |
| Tax-exempt                                                       | 201,103                  | 149,121      | 110,302      |
| Investment securities:                                           |                          |              |              |
| Taxable                                                          | 4,770,865                | 4,675,107    | 4,450,838    |
| Tax-exempt                                                       | 2,394,270                | 2,345,112    | 1,511,226    |
| Other                                                            | 44,679                   | 66,063       | 138,436      |
| Total interest income                                            | 31,646,701               | 35,551,089   | 34,394,441   |
| Interest expense:                                                |                          |              |              |
| Deposits                                                         | 9,896,805                | 13,505,636   | 10,947,064   |
| Borrowings                                                       | 3,718,217                | 4,362,576    | 4,691,820    |
| Total interest expense                                           | 13,615,022               | 17,868,212   | 15,638,884   |
| Net interest income                                              | 18,031,679               | 17,682,877   | 18,755,557   |
| Provision for loan losses                                        | 2,400,000                | 255,000      | 235,000      |
| Net interest income after provision for loan losses              | 15,631,679               | 17,427,877   | 18,520,557   |
| Non-interest income:                                             |                          |              |              |
| Fees and service charges                                         | 4,232,838                | 4,004,770    | 4,310,495    |
| Gains on sales of loans                                          | 1,457,252                | 955,289      | 1,140,511    |
| Gains (losses) on sales of investment securities                 | 497,134                  |              | (300,256)    |
| Gains on sales of other assets and prepayment of FHLB borrowings | 270,294                  |              | 716,815      |
| Bank owned life insurance                                        | 488,184                  | 473,682      | 397,720      |
| Other                                                            | 596,333                  | 481,893      | 647,862      |
| Total non-interest income                                        | 7,542,035                | 5,915,634    | 6,913,147    |
| Non-interest expense:                                            |                          |              |              |
| Compensation and benefits                                        | 8,794,776                | 8,226,676    | 8,725,051    |
| Occupancy and equipment                                          | 2,848,081                | 2,860,629    | 2,822,695    |
| Amortization of intangibles                                      | 791,594                  | 915,503      | 1,029,424    |
| Data processing                                                  | 774,315                  | 751,010      | 724,542      |
| Professional fees                                                | 469,357                  | 437,335      | 497,972      |
| Advertising                                                      | 447,258                  | 415,020      | 433,997      |
| Other                                                            | 3,385,130                | 3,032,191    | 3,110,927    |
| Total non-interest expense                                       | 17,510,511               | 16,638,364   | 17,344,608   |
| Earnings before income taxes                                     | 5,663,203                | 6,705,147    | 8,089,096    |
| Income tax expense                                               | 1,109,819                | 1,303,083    | 2,079,455    |
| Net earnings                                                     | \$4,553,384              | \$5,402,064  | \$6,009,641  |
| Earnings per share:                                              |                          |              |              |
| Basic                                                            | \$1.90                   | \$2.12       | \$2.33       |



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|         |        |        |        |
|---------|--------|--------|--------|
| Diluted | \$1.89 | \$2.10 | \$2.32 |
|---------|--------|--------|--------|

See accompanying notes to consolidated financial statements.

Table of Contents**LANDMARK BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Stockholders Equity and Comprehensive Income**

|                                                                                                     | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Accumulated other comprehensive income (loss) | Total         |
|-----------------------------------------------------------------------------------------------------|--------------|----------------------------|-------------------|----------------|-----------------------------------------------|---------------|
| Balance at December 31, 2005                                                                        | \$ 22,443    | \$ 19,868,567              | \$ 25,322,019     | \$ (414,514)   | \$ (725,908)                                  | \$ 44,072,607 |
| Comprehensive income:                                                                               |              |                            |                   |                |                                               |               |
| Net income                                                                                          |              |                            | 6,009,641         |                |                                               | 6,009,641     |
| Change in fair value of investment securities available-for-sale and interest rate swap, net of tax |              |                            |                   |                | 711,446                                       | 711,446       |
| Total comprehensive income                                                                          |              |                            | 6,009,641         |                | 711,446                                       | 6,721,087     |
| Dividends paid (\$0.60 per share)                                                                   |              |                            | (1,566,656)       |                |                                               | (1,566,656)   |
| Stock based compensation                                                                            |              | 113,593                    |                   |                |                                               | 113,593       |
| Exercise of stock options, 1,867 shares, including tax benefit of \$6,999                           | 19           | 33,871                     |                   |                |                                               | 33,890        |
| Purchase of 5,000 treasury shares                                                                   |              |                            |                   | (138,506)      |                                               | (138,506)     |
| 5% stock dividend, 111,286 shares                                                                   | 955          | 2,591,479                  | (3,006,948)       | 414,514        |                                               |               |
| Balance at December 31, 2006                                                                        | 23,417       | 22,607,510                 | 26,758,056        | (138,506)      | (14,462)                                      | 49,236,015    |
| Comprehensive income:                                                                               |              |                            |                   |                |                                               |               |
| Net income                                                                                          |              |                            | 5,402,064         |                |                                               | 5,402,064     |
| Change in fair value of investment securities available-for-sale, net of tax                        |              |                            |                   |                | 694,978                                       | 694,978       |
| Total comprehensive income                                                                          |              |                            | 5,402,064         |                | 694,978                                       | 6,097,042     |
| Dividends paid (\$0.69 per share)                                                                   |              |                            | (1,768,105)       |                |                                               | (1,768,105)   |
| Stock based compensation                                                                            |              | 118,313                    |                   |                |                                               | 118,313       |
| Exercise of stock options, 2,374 shares, including tax benefit of \$7,543                           | 24           | 48,637                     |                   |                |                                               | 48,661        |
| Purchase of 52,240 treasury shares                                                                  |              |                            |                   | (1,435,788)    |                                               | (1,435,788)   |
| 5% stock dividend, 114,484 shares                                                                   | 650          | 1,529,684                  | (2,898,734)       | 1,368,400      |                                               |               |
| Balance at December 31, 2007                                                                        | 24,091       | 24,304,144                 | 27,493,281        | (205,894)      | 680,516                                       | 52,296,138    |
| Comprehensive income:                                                                               |              |                            |                   |                |                                               |               |
| Net income                                                                                          |              |                            | 4,553,384         |                |                                               | 4,553,384     |
| Change in fair value of investment securities                                                       |              |                            |                   |                | (55,291)                                      | (55,291)      |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                                                                  |    |         |             |             |             |            |             |           |    |         |    |            |
|----------------------------------------------------------------------------------|----|---------|-------------|-------------|-------------|------------|-------------|-----------|----|---------|----|------------|
| available-for-sale, net of tax                                                   |    |         |             |             |             |            |             |           |    |         |    |            |
| Total comprehensive income                                                       |    |         | 4,553,384   |             | (55,291)    |            | 4,498,093   |           |    |         |    |            |
| Dividends paid (\$0.72 per share)                                                |    |         | (1,754,071) |             |             |            | (1,754,071) |           |    |         |    |            |
| Stock based compensation                                                         |    | 134,310 |             |             |             |            | 134,310     |           |    |         |    |            |
| Exercise of stock options, 2,287 shares, including excess tax benefit of \$5,504 | 23 |         | 42,462      |             |             |            | 42,485      |           |    |         |    |            |
| Purchase of 144,290 treasury shares                                              |    |         |             |             | (3,476,538) |            | (3,476,538) |           |    |         |    |            |
| 5% stock dividend, 112,891 shares                                                |    |         | (607,933)   | (2,139,285) | 2,747,218   |            |             |           |    |         |    |            |
| Adoption of Emerging Issues TaskForce Issue 06-4                                 |    |         |             | (334,715)   |             |            | (334,715)   |           |    |         |    |            |
| Balance at December 31, 2008                                                     | \$ | 24,114  | \$          | 23,872,983  | \$          | 27,818,594 | \$          | (935,214) | \$ | 625,225 | \$ | 51,405,702 |

See accompanying notes to consolidated financial statements.

Table of Contents

## LANDMARK BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

|                                                                                     | Years ended December 31, |               |               |
|-------------------------------------------------------------------------------------|--------------------------|---------------|---------------|
|                                                                                     | 2008                     | 2007          | 2006          |
| Cash flows from operating activities:                                               |                          |               |               |
| Net earnings                                                                        | \$ 4,553,384             | \$ 5,402,064  | \$ 6,009,641  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                          |               |               |
| Provision for loan losses                                                           | 2,400,000                | 255,000       | 235,000       |
| Amortization of intangibles                                                         | 791,594                  | 915,503       | 1,029,424     |
| Depreciation                                                                        | 1,050,082                | 882,825       | 854,870       |
| Stock-based compensation                                                            | 134,310                  | 118,313       | 113,593       |
| Deferred income taxes                                                               | 269,733                  | 114,408       | 1,632,422     |
| Net gains (losses) on investment securities                                         | (431,258)                |               | 300,256       |
| Net gains on sales of premises and equipment and foreclosed assets                  | (10,365)                 | (64,651)      | (784,362)     |
| Net gain on sales of loans                                                          | (1,457,252)              | (955,289)     | (1,140,511)   |
| Proceeds from sale of loans                                                         | 85,240,782               | 59,436,855    | 65,404,161    |
| Origination of loans held for sale                                                  | (83,547,393)             | (58,840,779)  | (64,464,913)  |
| Gains on prepayments of FHLB borrowings                                             | (270,294)                |               |               |
| Changes in assets and liabilities:                                                  |                          |               |               |
| Accrued interest and other assets                                                   | (1,568,125)              | (941,024)     | (9,311,653)   |
| Accrued expenses, taxes, and other liabilities                                      | (1,822,743)              | 1,447,050     | (1,498,088)   |
| Net cash provided by (used in) operating activities                                 | 5,332,455                | 7,770,275     | (1,620,160)   |
| Cash flows from investing activities:                                               |                          |               |               |
| Net decrease in loans                                                               | 5,205,909                | 2,379,082     | 3,289,992     |
| Maturities and prepayments of investment securities                                 | 34,914,561               | 16,489,910    | 38,865,258    |
| Net cash paid in FMB acquisition                                                    |                          |               | (9,147,605)   |
| Purchases of investment securities                                                  | (51,530,316)             | (34,279,644)  | (50,825,131)  |
| Proceeds from sale of investment securities                                         | 10,407,572               |               | 17,943,322    |
| Proceeds from sales of premises and equipment and foreclosed assets                 | 1,411,909                | 402,777       | 2,334,542     |
| Purchases of premises and equipment, net                                            | (747,213)                | (1,517,680)   | (3,207,482)   |
| Net cash used in investing activities                                               | (337,578)                | (16,525,555)  | (747,104)     |
| Cash flows from financing activities:                                               |                          |               |               |
| Net increase (decrease) in deposits                                                 | (13,106,530)             | 8,268,603     | 6,490,795     |
| Federal Home Loan Bank advance borrowings                                           | 40,000,000               |               |               |
| Federal Home Loan Bank advance repayments                                           | (25,536,768)             | (3,036,768)   | (5,536,768)   |
| Change in Federal Home Loan Bank line of credit, net                                | (5,100,000)              | 11,100,000    | (3,400,000)   |
| Proceeds from other borrowings                                                      | 6,915,037                | 4,310,000     | 12,240,984    |
| Repayments on other borrowings                                                      | (3,930,000)              | (8,744,089)   | (12,495,073)  |
| Proceeds from issuance of common stock under stock option plans                     | 36,981                   | 41,118        | 26,891        |
| Excess tax benefit related to stock option plans                                    | 5,504                    | 7,543         | 6,999         |
| Payment of dividends                                                                | (1,754,071)              | (1,768,105)   | (1,566,656)   |
| Purchase of treasury stock                                                          | (3,476,538)              | (1,435,788)   | (138,506)     |
| Net cash provided by (used in) financing activities                                 | (5,946,385)              | 8,742,514     | (4,371,334)   |
| Net decrease in cash and cash equivalents                                           | (951,508)                | (12,766)      | (6,738,598)   |
| Cash and cash equivalents at beginning of year                                      | 14,739,148               | 14,751,914    | 21,490,512    |
| Cash and cash equivalents at end of year                                            | \$ 13,787,640            | \$ 14,739,148 | \$ 14,751,914 |
| Supplemental disclosure of cash flow information:                                   |                          |               |               |
| Cash paid during the year for income taxes                                          | \$ 953,000               | \$ 553,000    | \$ 896,000    |
| Cash paid during the year for interest                                              | 14,295,999               | 17,946,000    | 14,553,000    |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Supplemental schedule of noncash investing and financing activities:

|                                                   |           |         |             |
|---------------------------------------------------|-----------|---------|-------------|
| Transfer of loans to real estate owned            | 2,825,000 | 368,000 | 293,000     |
| FMB acquisition:                                  |           |         |             |
| Fair value of liabilities assumed                 |           |         | 123,965,000 |
| Fair value of assets acquired, including goodwill |           |         | 133,112,000 |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**





- (1) Summary of Significant Accounting Policies



(a) Principles of Consolidation



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The accompanying consolidated financial statements include the accounts of the Landmark Bancorp, Inc. (the Company) and its wholly owned subsidiary, Landmark National Bank (the Bank). All intercompany balances and transactions have been eliminated in consolidation. The Bank, considered a single operating segment, 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 real estate and non-real estate loans, one-to-four family residential mortgage loans, consumer loans, and home equity loans.

(b) Investment Securities



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company has classified its investment securities portfolio as available-for-sale, with the exception of certain investments held for regulatory purposes. The Company carries its investment securities at fair value and in accordance with the requirements of Statement of Financial Accounting Standard ( 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. Available-for-sale securities are recorded at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity until realized. Purchased premiums and discounts on investment securities are amortized/accreted into interest income over the estimated lives of the securities using the interest method. Gains and losses on sales of available-for-sale securities are recorded on a trade date basis and are calculated using the specific identification method.

The Company performs quarterly reviews of the investment portfolio to determine if investment securities have any declines in fair value which might be considered other than temporary. The initial review begins with all securities in an unrealized loss position. The 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, the ability and intent of the Company to hold the security until recovery and whether evidence indicates that it is probable that the Company will not recover the cost of the security. The Company holds certain pooled trust preferred securities, the market for which is considered to be inactive. In order to assess the impairment of these securities, the Company performs the procedures mentioned above as well as utilizes a discounted cash flow model to determine the estimated fair value and whether the securities are other than temporarily impaired. Based on these reviews, the Company determines if such impairments are other than temporary which results in a charge to earnings, establishing the securities estimated fair value as the new cost basis.

Other investments included in the Company's investment portfolio are investments acquired for regulatory purposes and borrowing availability and are accounted for at cost. The cost of such investments represents their redemption value as such investments do not have a readily determinable market value.

(c) Loans and Allowance for Loan Losses





Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances, net of undisbursed loan proceeds, the allowance for loan losses, and any deferred fees or costs on originated loans. Origination fees received on

Table of Contents

loans held in portfolio and the estimated costs of origination are deferred and amortized to interest income using the interest method.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, determined on an aggregate basis. Net unrealized losses are recognized through a valuation allowance as charges against income. Origination fees and costs received on such loans are deferred and recognized as a component of the gain or loss on sale.

The Company maintains an allowance to absorb probable loan losses inherent in the portfolio. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the current level of nonperforming assets, and current economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining if a loan is impaired include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of homogeneous loans with smaller individual balances are collectively evaluated for impairment. Accordingly, the Company generally does not separately identify individual consumer and residential loans for impairment disclosures.

The accrual of interest on nonperforming loans is discontinued at the time the loan is ninety days delinquent, unless the credit is well-secured and in process of collection. Loans are placed on non-accrual or are charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are evaluated individually and are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(d) Premises and Equipment



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

|                                    |    |          |
|------------------------------------|----|----------|
| Buildings and improvements         | 10 | 50 years |
| Furniture, fixtures, and equipment | 3  | 15 years |
| Automobiles                        | 2  | 5 years  |

Major replacements and betterments are capitalized while maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in operations as incurred.

*Table of Contents*

(e) Goodwill and Intangible Assets



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Goodwill is not amortized; however, it is tested for impairment. Goodwill impairment tests are performed at each calendar year end or more frequently when events or circumstances dictate. The impairment test compares the carrying value of goodwill to an implied fair value of the goodwill, which is based on a review of stock price and valuation multiples of recent, comparable acquisitions. A goodwill impairment would be recorded for the amount that the carrying value exceeds the implied fair value. The Company's impairment test for the Company's single reporting unit performed as of December 31, 2008 indicated that goodwill as of that date was not impaired. The Company can make no assurances that future impairment tests will not result in goodwill impairments.

Intangible assets include core deposit intangibles and mortgage servicing rights. Core deposit intangible assets are amortized over their estimated useful life of ten years on an accelerated basis. When facts and circumstances indicate potential impairment, the Company will evaluate the recoverability of the intangible asset carrying value, using estimates of undiscounted future cash flows over the remaining asset life. Any impairment loss is measured by the excess of carrying value over fair value. Mortgage servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets, primarily one-to-four family real estate loans. Mortgage servicing rights are amortized into non-interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are recorded at the lower of amortized cost or fair value, and are evaluated for impairment based upon the fair value of the retained rights as compared to amortized cost.

(f) Income Taxes





## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

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 financial statements or tax returns. The Company adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007, in which an income tax position will be recognized only 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. The Company also assesses its deferred tax assets to determine if the items are more likely than not to be realized and a valuation allowance is established for any amounts that are not more likely than not to 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.

(g) Use of Estimates



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, valuation and impairment of investment securities, income taxes and goodwill. Actual results could differ from those estimates.

*Table of Contents*

**(h)** Comprehensive Income



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company's other comprehensive income (loss) consists of unrealized holding gains and losses on available-for-sale securities and an unrealized gain on an interest rate swap (terminated in 2006) as shown below:



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                                                        | Years ended December 31, |              |              |
|------------------------------------------------------------------------|--------------------------|--------------|--------------|
|                                                                        | 2008                     | 2007         | 2006         |
| Net income                                                             | \$ 4,553,384             | \$ 5,402,064 | \$ 6,009,641 |
| Unrealized holding gains (losses) on securities and interest rate swap | 342,079                  | 1,120,932    | 952,255      |
| Less reclassification adjustment for gains (losses) included in income | 431,258                  |              | (195,239)    |
| Net unrealized gains (losses)                                          | (89,179)                 | 1,120,932    | 1,147,494    |
| Income tax expense (benefit)                                           | (33,888)                 | 425,954      | 436,048      |
| Total comprehensive income                                             | \$ 4,498,093             | \$ 6,097,042 | \$ 6,721,087 |

Accumulated other comprehensive income related entirely to available-for-sale investment securities at December 31, 2008, 2007 and 2006.

(i) Foreclosed Assets



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Assets acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the date of foreclosure at fair value through a gain or a charge to the allowance for loan losses, establishing a new cost basis. Subsequent to foreclosure, the Company records a charge to earnings if the carrying value of a property exceeds the fair value less estimated costs to sell. Revenue and expenses from operations and subsequent declines in fair value are included in other non-interest expense in the statement of earnings.

(j) Stock Based Compensation



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company has a stock-based employee compensation plan, which is described more fully in note 11. Prior to January 1, 2006, the Company utilized the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123 established a fair-value method of accounting for employee stock options or similar equity instruments. The Company's adoption of the revised Statement on January 1, 2006 using the modified prospective method of adoption, was limited to a change in the method of accounting for forfeitures, and did not have a material effect on its consolidated financial statements.

The fair value of stock options awarded to employees is calculated through the use of an option pricing model, which requires subjective assumptions, including future stock price volatility and expected term, which greatly affect the calculated values. The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of its stock options. The grant date fair value is recognized as compensation expense over the option vesting period, on a straight-line basis, which is typically four or five years.

(k) Earnings per Share



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Basic earnings per share represents net earnings divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method using the average market price of the Company's stock for the respective periods. Antidilutive stock options were 33,950, 2,076 and 16,686 for the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents



The shares used in the calculation of basic and diluted earnings per share, which have been adjusted to give effect for the 5% stock dividends paid by the Company in December 2008, 2007 and 2006, are shown below:

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                                      | Years ended December 31, |              |              |
|------------------------------------------------------|--------------------------|--------------|--------------|
|                                                      | 2008                     | 2007         | 2006         |
| Net earnings available to common shareholders        | \$ 4,553,384             | \$ 5,402,064 | \$ 6,009,641 |
| Weighted average common shares outstanding - basic   | 2,401,888                | 2,553,475    | 2,577,417    |
| Assumed exercise of stock options                    | 7,842                    | 19,005       | 12,864       |
| Weighted average common shares outstanding - diluted | 2,409,730                | 2,572,480    | 2,590,281    |
| Net earnings per share                               |                          |              |              |
| Basic                                                | \$ 1.90                  | \$ 2.12      | \$ 2.33      |
| Diluted                                              | \$ 1.89                  | \$ 2.10      | \$ 2.32      |

(l) Treasury Stock



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Purchases of the Company's common stock are recorded at cost. Upon reissuance, treasury stock is reduced based upon the average cost basis of total shares held.

*(m)* Cash and cash equivalents



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

In the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold as segregated in the accompanying consolidated balance sheets.

(n) Derivative Financial Instruments



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company is exposed to market risk, primarily relating to changes in interest rates. To manage the volatility relating to these exposures, the Company's risk management policies permit its use of derivative financial instruments. The Company uses derivatives on a limited basis mainly to stabilize interest rate margins. The Company more often manages normal asset and liability positions by altering the terms of the products it offers.

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that all derivative financial instruments be recorded on the balance sheet at fair value, with adjustments to fair value recorded in current earnings. Derivatives that qualify in a hedging relationship are designated, based on the exposure being hedged, as fair value or cash flow hedges. Under the cash flow hedging model, the effective portion of the change in the gain or loss related to the derivative is recognized as a component of other comprehensive income, net of taxes. The ineffective portion is recognized in current earnings. The Company had no derivative financial instruments designated as hedging instruments as of December 31, 2008 and 2007.

The Company enters into interest rate lock commitments on certain mortgage loans, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. The Company also has corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related forward sales contracts are accounted for as derivatives and carried at fair value with changes in fair value recorded in income. The Company adopted Staff Accounting Bulletin No. 109 as of January 1, 2008 and as a result, the anticipating servicing value associated with the originated loan is included in the fair value of the interest rate lock commitments.



**Table of Contents****(2) Goodwill and Intangible Assets**

The Company's goodwill and core deposit intangible assets resulted from several acquisitions from 2001 through 2006. Goodwill was reduced by \$115,000 in 2007 due to the statute of limitations expiring on certain tax uncertainties acquired from these acquisitions.

The following is an analysis of the changes in core deposit intangible assets:

|                                | 2008                      |                          | Years ended December, 31<br>2007 |                          | 2006                      |                          |
|--------------------------------|---------------------------|--------------------------|----------------------------------|--------------------------|---------------------------|--------------------------|
|                                | Fair value at acquisition | Accumulated amortization | Fair value at acquisition        | Accumulated amortization | Fair value at acquisition | Accumulated amortization |
| Balance at beginning of period | \$ 5,396,065              | \$ (2,462,256)           | \$ 5,396,065                     | \$ (1,667,478)           | \$ 2,818,603              | \$ (774,589)             |
| Additions                      |                           |                          |                                  |                          | 2,577,462                 |                          |
| Amortization                   |                           | (696,675)                |                                  | (794,778)                |                           | (892,889)                |
| Balance at end of period       | \$ 5,396,065              | \$ (3,158,931)           | \$ 5,396,065                     | \$ (2,462,256)           | \$ 5,396,065              | \$ (1,667,478)           |

The following is an analysis of the changes in mortgage servicing rights:

|                                | 2008       |                          | Years ended December, 31<br>2007 |                          | 2006       |                          |
|--------------------------------|------------|--------------------------|----------------------------------|--------------------------|------------|--------------------------|
|                                | Cost       | Accumulated amortization | Cost                             | Accumulated amortization | Cost       | Accumulated amortization |
| Balance at beginning of period | \$ 770,172 | \$ (559,980)             | \$ 791,840                       | \$ (489,718)             | \$ 775,666 | \$ (401,467)             |
| Additions                      | 54,433     |                          | 28,795                           |                          | 64,458     |                          |
| Prepayments/maturities         | (53,033)   | 53,033                   | (50,463)                         | 50,463                   | (48,284)   | 48,284                   |
| Amortization                   |            | (94,919)                 |                                  | (120,725)                |            | (136,535)                |
| Balance at end of period       | \$ 771,572 | \$ (601,866)             | \$ 770,172                       | \$ (559,980)             | \$ 791,840 | \$ (489,718)             |

The following is estimated amortization expense for the years ending December 31:

| Year:      | Amount     |
|------------|------------|
| 2009       | \$ 694,000 |
| 2010       | 575,000    |
| 2011       | 402,000    |
| 2012       | 308,000    |
| 2013       | 224,000    |
| Thereafter | \$ 204,000 |



Table of Contents

(3) Investment Securities

A summary of investment securities available-for-sale is as follows:

|                                  | As of December 31, 2008 |                        |                         |                      |
|----------------------------------|-------------------------|------------------------|-------------------------|----------------------|
|                                  | Amortized cost          | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U. S. federal agency obligations | \$ 28,565,817           | \$ 949,535             | \$ (1,706)              | \$ 29,513,646        |
| Municipal obligations            | 63,711,462              | 1,531,807              | (933,937)               | 64,309,332           |
| Mortgage-backed securities       | 55,751,609              | 934,040                | (104,036)               | 56,581,613           |
| Corporate bonds                  | 2,487,933               |                        | (1,747,684)             | 740,249              |
| Common stocks                    | 693,749                 | 388,929                | (8,520)                 | 1,074,158            |
| Certificates of deposit          | 10,025,824              |                        |                         | 10,025,824           |
| Total                            | \$ 161,236,394          | \$ 3,804,311           | \$ (2,795,883)          | \$ 162,244,822       |

|                                  | As of December 31, 2007 |                        |                         |                      |
|----------------------------------|-------------------------|------------------------|-------------------------|----------------------|
|                                  | Amortized cost          | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U. S. federal agency obligations | \$ 47,917,353           | \$ 803,859             | \$ (13,679)             | \$ 48,707,533        |
| Municipal obligations            | 62,238,749              | 235,030                | (360,395)               | 62,113,384           |
| Mortgage-backed securities       | 36,153,501              | 248,369                | (185,881)               | 36,215,989           |
| Corporate bonds                  | 2,498,234               | 1,500                  | (6,789)                 | 2,492,945            |
| Common stocks                    | 746,293                 | 387,093                | (11,500)                | 1,121,886            |
| Certificates of deposit          | 5,227,494               |                        |                         | 5,227,494            |
| Total                            | \$ 154,781,624          | \$ 1,675,851           | \$ (578,244)            | \$ 155,879,231       |

The tables above show that some of the securities in the available for sale investment portfolio had unrealized losses, or were temporarily impaired, as of December 31, 2008 and 2007. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which were temporarily impaired are shown below, along with the length of the impairment period.

|                                  | Number of securities | Less than 12 months |                   | As of December 31, 2008<br>12 months or longer |                   | Total         |                   |
|----------------------------------|----------------------|---------------------|-------------------|------------------------------------------------|-------------------|---------------|-------------------|
|                                  |                      | Fair value          | Unrealized losses | Fair value                                     | Unrealized losses | Fair value    | Unrealized losses |
| U. S. federal agency obligations | 3                    | \$ 63,973           | \$ (394)          | \$ 132,663                                     | \$ (1,312)        | \$ 196,636    | \$ (1,706)        |
| Municipal obligations            | 56                   | 13,282,121          | (466,040)         | 8,542,066                                      | (467,897)         | 21,824,187    | (933,937)         |
| Corporate bonds                  | 3                    |                     |                   | 740,249                                        | (1,747,684)       | 740,249       | (1,747,684)       |
| Mortgage-backed securities       | 80                   | 12,219,062          | (78,188)          | 3,400,414                                      | (25,848)          | 15,619,476    | (104,036)         |
| Common stocks                    | 3                    | 12,893              | (1,670)           | 18,150                                         | (6,850)           | 31,043        | (8,520)           |
| Total                            | 145                  | \$ 25,578,049       | \$ (546,292)      | \$ 12,833,542                                  | \$ (2,249,591)    | \$ 38,411,591 | \$ (2,795,883)    |



Table of Contents

|                                     | Number<br>of<br>securities | Less than 12 months |                      | As of December 31, 2007<br>12 months or longer |                      | Total         |                      |
|-------------------------------------|----------------------------|---------------------|----------------------|------------------------------------------------|----------------------|---------------|----------------------|
|                                     |                            | Fair<br>value       | Unrealized<br>losses | Fair<br>value                                  | Unrealized<br>losses | Fair<br>value | Unrealized<br>losses |
| U. S. federal<br>agency obligations | 12                         | \$ 177,345          | \$ (812)             | \$ 8,760,051                                   | \$ (12,867)          | \$ 8,937,396  | \$ (13,679)          |
| Municipal<br>obligations            | 96                         | 11,344,918          | (182,297)            | 20,375,941                                     | (178,098)            | 31,720,859    | (360,395)            |
| Corporate bonds                     | 2                          | 1,492,407           | (6,789)              |                                                |                      | 1,492,407     | (6,789)              |
| Mortgage-backed<br>securities       | 40                         | 6,819,368           | (40,349)             | 11,836,832                                     | (145,532)            | 18,656,200    | (185,881)            |
| Common stocks                       | 2                          | 20,850              | (4,150)              | 67,650                                         | (7,350)              | 88,500        | (11,500)             |
| Total                               | 152                        | \$ 19,854,888       | \$ (234,397)         | \$ 41,040,474                                  | \$ (343,847)         | \$ 60,895,362 | \$ (578,244)         |

The Company's assessment of other than temporary impairment is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the credit quality of the underlying assets and the current and anticipated market conditions.

The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit related losses. Based on these factors, and the Company's ability and intent to hold until recovery, the Company believes that the mortgage-backed securities identified in the tables above were temporarily depressed as of December 31, 2008 and 2007. 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 also held \$20.0 million in debt securities of the FHLB, all of which was in an unrealized gain position at December 31, 2008.

The Company believes that the decline in the value of certain municipal obligations was primarily related to an overall widening of market spreads for many types of fixed income products during 2008, reflecting, among other things, reduced liquidity and downgrades on the underlying credit default insurance providers. At December 31, 2008 the Company believed that it had the ability and intent to hold each of its municipal obligations in an unrealized loss position, until recovery, which may be at their maturity. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of December 31, 2008 and 2007.

At December 31, 2008, the Company owned pooled trust preferred securities with a cost basis of \$2.5 million, classified as corporate bonds. This portfolio consists of three securities, which represent investments in pools of debt obligations issued by financial institutions and insurance companies. The market for these securities is considered to be inactive. The Company used a discounted cash flow model to determine the estimated fair value of its pooled trust preferred securities and to assess other than temporary impairment. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. The discounted cash flow analysis was performed in accordance with EITF 99-20-1 and indicated that the Company will be able to collect all of the principal and interest in accordance with the original terms of the agreements. The discounted cash flow analysis included a review of all issuers within the collateral pool and incorporated higher deferral and default rates, as compared to historical rates, in the cash flow projections through maturity. The Company continues to receive its full interest payments. The Company also reviewed a stress test of these securities that indicated they could absorb additional deferrals or defaults in the collateral pool in excess of what the Company believes is likely, before the interest payments on the individual security are negatively impacted. The Company has the ability and intent to hold these



Table of Contents

securities to maturity and does not consider these investments to be other than temporarily impaired as of December 31, 2008.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy and the financial condition of some of the issuers continue to deteriorate and the liquidity of these securities remains low. As a result, there is a risk that other than temporary impairments may occur in the future and any such amounts could be material to the Company's consolidated statements of earnings.

Maturities of investment securities at December 31, 2008 are as follows:

|                                                                | Amortized<br>cost | Estimated<br>fair value |
|----------------------------------------------------------------|-------------------|-------------------------|
| Due in less than one year                                      | \$ 20,261,536     | \$ 19,133,166           |
| Due after one year but within five years                       | 20,575,578        | 21,310,067              |
| Due after five years                                           | 53,928,098        | 54,119,994              |
| Mortgage-backed securities, common stock and other investments | 66,471,182        | 67,681,595              |
| Total                                                          | \$ 161,236,394    | \$ 162,244,822          |

For mortgage-backed securities, actual maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

Gross realized gains and losses on sales of available-for-sale securities are as follows:

|                 | Years ended December 31, |      |              |
|-----------------|--------------------------|------|--------------|
|                 | 2008                     | 2007 | 2006         |
| Realized gains  | \$ 497,134               | \$   | \$ 143,541   |
| Realized losses |                          |      | (443,797)    |
| Total           | \$ 497,134               | \$   | \$ (300,256) |

At December 31, 2008, securities pledged to secure public funds on deposit, repurchase agreements and as collateral for the Federal Reserve discount window had a carrying value of approximately \$123.0 million. Except for U. S. government and agency obligations, no investment in a single issuer exceeded 10% of stockholders' equity.

Other investment securities include investments in Federal Home Loan Bank ( FHLB ) and Federal Reserve Bank ( FRB ) stock. The carrying value of the FHLB stock at December 31, 2008 and 2007 was \$7.3 million and \$7.1 million, respectively and the carrying value of the FRB stock at December 31, 2008 and 2007 was \$1.7 million. These securities are not readily marketable and are required for regulatory purposes and borrowing availability. Since there is no available market values these securities are carried at cost. Redemption of these investments is at the option of the FHLB or FRB. We have assessed the ultimate recoverability of these stocks and believe that no impairment has occurred.





Table of Contents**(4)** Loans

Loans consist of the following:

|                                              | As of December 31, |                |
|----------------------------------------------|--------------------|----------------|
|                                              | 2008               | 2007           |
| Real estate loans:                           |                    |                |
| One-to-four family residential               | \$ 112,814,543     | \$ 126,459,081 |
| Commercial                                   | 126,976,891        | 113,209,220    |
| Construction                                 | 19,617,910         | 27,936,176     |
| Commercial loans                             | 101,976,506        | 103,098,695    |
| Consumer loans                               | 7,936,550          | 9,164,122      |
| Total                                        | 369,322,400        | 379,867,294    |
| Less:                                        |                    |                |
| Net deferred loan costs and loans in process | (320,270)          | (460,981)      |
| Allowance for loan losses                    | 3,870,963          | 4,171,667      |
| Loans, net                                   | \$ 365,771,707     | \$ 376,156,608 |

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet customers' financing needs. These financial instruments consist principally of commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. In the normal course of business, there are various commitments and contingent liabilities, such as commitments to extend credit, letters of credit, and lines of credit, the balance of which are not recorded in the accompanying consolidated financial statements. The Company generally requires collateral or other security on unfunded loan commitments and irrevocable letters of credit. Unfunded commitments to extend credit, excluding standby letters of credit, aggregated \$67.3 million and \$72.3 million at December 31, 2008 and 2007, respectively, and are generally at variable interest rates. Standby letters of credit totaled \$2.1 million and \$2.0 million at December 31, 2008 and 2007, respectively.

The Company is exposed to varying risks associated with concentrations of credit relating primarily to lending activities in specific geographic areas. The Company's principal lending area consists of the cities of Manhattan, Auburn, Dodge City, Garden City, Great Bend, Hoisington, Junction City, LaCrosse, Lawrence, Osage City, Topeka, Wamego, Paola, Osawatomie, Louisburg, and Fort Scott, Kansas and the surrounding communities, and substantially all of the Company's loans are to residents of or secured by properties located in its principal lending area. Accordingly, the ultimate collectibility of the Company's loan portfolio is dependent in part upon market conditions in those areas. These geographic concentrations are considered in management's establishment of the allowance for loan losses.

A summary of the activity in the allowance for loan losses is as follows:

|                              | Years ended December 31, |              |              |
|------------------------------|--------------------------|--------------|--------------|
|                              | 2008                     | 2007         | 2006         |
| Balance at beginning of year | \$ 4,171,667             | \$ 4,029,710 | \$ 3,151,373 |
| Allowance of acquired bank   |                          |              | 891,374      |
| Provision for loan losses    | 2,400,000                | 255,000      | 235,000      |
| Charge-offs                  | (2,769,368)              | (203,968)    | (339,637)    |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                        |    |           |    |           |    |           |
|------------------------|----|-----------|----|-----------|----|-----------|
| Recoveries             |    | 68,664    |    | 90,925    |    | 91,600    |
| Balance at end of year | \$ | 3,870,963 | \$ | 4,171,667 | \$ | 4,029,710 |

Table of Contents

The following table presents information on impaired loans as of December 31:

|                                                         | <b>2008</b> |                  | <b>2007</b> |                   |
|---------------------------------------------------------|-------------|------------------|-------------|-------------------|
| Impaired loans for which an allowance has been provided | \$          | 1,867,303        | \$          | 4,782,563         |
| Impaired loans for which no allowance has been provided |             | 5,191,917        |             | 6,502,312         |
| <b>Total impaired loans</b>                             |             | <b>7,059,220</b> |             | <b>11,284,875</b> |
| Allowance related to impaired loans                     | \$          | 705,371          | \$          | 1,706,648         |

Under the original terms of the Company's impaired loans, interest earned on such loans for the years 2008, 2007 and 2006, would have increased interest income by \$245,000 and \$520,000 and \$270,000, respectively. There were no loans 90 days delinquent and still accruing interest at December 31, 2008 and 2007. Average impaired loans were \$6.1 million for 2008, \$5.7 million for 2007, and \$4.2 million for 2006.

The Company provides servicing on loans for others with outstanding principal balances of \$82.0 million and \$91.0 million at December 31, 2008 and 2007, respectively. Gross service fee income related to such loans was \$219,000, \$243,000 and \$266,000 for the years ended December 31, 2008, 2007 and 2006, respectively, and is included in fees and service charges in the consolidated statements of earnings.

The Company had loans to directors and officers at December 31, 2008 and 2007, which carry terms similar to those for other loans. Management believes such outstanding loans do not represent more than a normal risk of collection. A summary of such loans is as follows:

|                              |    |             |
|------------------------------|----|-------------|
| Balance at December 31, 2007 | \$ | 7,296,161   |
| New loans                    |    | 1,204,915   |
| Repayments                   |    | (2,404,841) |
| Balance at December 31, 2008 | \$ | 6,096,235   |

**(5) Premises and Equipment**

Premises and equipment consisted of the following:

|                                   | <b>As of December 31,</b> |                      |
|-----------------------------------|---------------------------|----------------------|
|                                   | <b>2008</b>               | <b>2007</b>          |
| Land                              | \$ 3,787,696              | \$ 3,787,696         |
| Office buildings and improvements | 11,266,780                | 11,379,922           |
| Furniture and equipment           | 6,177,732                 | 5,833,346            |
| Automobiles                       | 328,971                   | 263,509              |
| <b>Total</b>                      | <b>21,561,179</b>         | <b>21,264,473</b>    |
| Less accumulated depreciation     | 7,605,554                 | 7,005,301            |
| <b>Total</b>                      | <b>\$ 13,955,625</b>      | <b>\$ 14,259,172</b> |

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company has operating lease agreements for three of its branch locations and several ATM locations. The Company has lease commitments on one branch location and one ATM location, the remaining agreements are month-to-month. The Company may renew some of these lease agreements, most likely on similar terms. The following table includes the Company's minimum lease commitments for the years ending December 31:

| <b>Year</b>  |    | <b>Amount</b> |
|--------------|----|---------------|
| 2009         | \$ | 15,222        |
| 2010         |    | 3,520         |
| <b>Total</b> | \$ | <b>18,742</b> |

Table of Contents

Total rent expense for the years ended December 31, 2008, 2007 and 2006 was \$152,000, \$152,000 and \$188,000, respectively, and was included in occupancy and equipment on the consolidated statements of earnings.

**(6) Deposits**

Maturities of time deposits were as follows at December 31, 2008:

| Year       | Amount         |
|------------|----------------|
| 2009       | \$ 168,841,531 |
| 2010       | 19,756,304     |
| 2011       | 13,478,804     |
| 2012       | 7,138,433      |
| 2013       | 3,899,483      |
| Thereafter | 288,797        |
| Total      | \$ 213,403,352 |

Regulations of the Federal Reserve System require reserves to be maintained by all banking institutions according to the types and amounts of certain deposit liabilities. These requirements restrict a portion of the amounts shown as consolidated cash and due from banks from everyday usage in operation of the banks. The minimum reserve requirements for the Bank totaled \$25,000 at December 31, 2008.

**(7) Federal Home Loan Bank Borrowings**

Advances from the FHLB, excluding line of credit advances, at December 31, 2008 and 2007, amounted to \$71,319,133 and \$57,926,525, respectively. Maturities of such borrowings at December 31, 2008 and 2007 are summarized as follows:

| Year                   | As of December 31, |                        |              |                        |
|------------------------|--------------------|------------------------|--------------|------------------------|
|                        | 2008               | Weighted average rates | 2007         | Weighted average rates |
|                        | Amount             |                        |              |                        |
| 2008                   |                    |                        | \$2,000,000  | 4.81%                  |
| 2009                   | \$15,089,022       | 4.91%                  | 35,933,554   | 3.42%                  |
| 2010                   | 15,356,847         | 4.39%                  | 15,582,939   | 3.40%                  |
| Thereafter (2014-2018) | 40,873,264         | 3.38%                  | 4,410,032    | 4.36%                  |
| Total                  | \$71,319,133       |                        | \$57,926,525 |                        |

All of the Bank's advances with the FHLB have fixed rates and prepayment penalties. However, certain borrowings contain a conversion option, at which on certain dates the FHLB may exercise an option to convert the borrowing to a variable rate equal to the FHLB one month short-term advance rate, adjustable monthly. The Bank would then have the option to prepay the advances without penalty. The Bank may refinance the advance at each respective reset date if the FHLB first exercises its option to convert the fixed-rate borrowing.

Additionally, the Bank also has a line of credit, renewable annually each September, with the FHLB under which there were \$6.0 million of outstanding borrowings as of December 31, 2008. There was \$11.1 million outstanding at December 31, 2007. Interest on any outstanding balances on the line of credit accrues at the federal funds market rate plus 0.15% (0.65% at December 31, 2008).

Table of Contents

Although no loans are specifically pledged, the FHLB requires the Bank to maintain eligible collateral (qualifying loans and investment securities) that has a lending value at least equal to its required collateral. At December 31, 2008 and 2007, the Bank's total borrowing capacity with the FHLB was approximately \$126.1 million and \$117.9 million, respectively. The available borrowing capacity with the FHLB of Topeka is collateral based, and the Bank's ability to borrow is subject to maintaining collateral that meets the eligibility requirements. The borrowing capacity is not committed and is subject to approval by the FHLB.

**(8) Other Borrowings**

In 2003, the Company issued \$8.2 million of subordinated debentures. These debentures, which are due in 2034 and are redeemable beginning in 2009, were issued to a wholly owned grantor trust (the Trust) formed to issue preferred securities representing undivided beneficial interests in the assets of the Trust. The Trust then invested the gross proceeds of such preferred securities in the debentures. The Trust's preferred securities and the subordinated debentures require quarterly interest payments and have variable rates, adjustable quarterly. Interest accrues at LIBOR plus 2.85%. The interest rates at December 31, 2008 and 2007 were 6.32% and 7.83%, respectively.

In 2005, the Company issued an additional \$8.2 million of subordinated debentures. These debentures, which are due in 2036 and are redeemable beginning in 2011, were issued to a wholly owned grantor trust (Trust II) formed to issue preferred securities representing undivided beneficial interests in the assets of Trust II. Trust II then invested the gross proceeds of such preferred securities in the debentures. Trust II's preferred securities and the subordinated debentures require quarterly interest payments and have variable rates, adjustable quarterly. Interest accrues at LIBOR plus 1.34% on \$5.2 million of the subordinated debentures, while the remaining \$3.0 million of the subordinated debentures has a fixed rate of 6.17%. The blended interest rate at December 31, 2008 and 2007 was 4.40% and 6.27%, respectively.

While these Trusts are accounted for as unconsolidated equity investments under the requirements of Financial Accounting Interpretation No. 46R, *Consolidation of Variable Interest Entities*, a portion of the trust preferred securities issued by the Trust qualifies as Tier 1 Capital for regulatory purposes.

The Company has a \$9.0 million line of credit from an unrelated financial institution maturing on November 19, 2009, with an interest rate that adjusts daily based on the prime rate less 0.75%. This line of credit has covenants specific to capital and other ratios, which the Company was in compliance with at December 31, 2008. The outstanding balance of the line of credit at December 31, 2008 and 2007, was \$4.8 million and \$2.7 million, respectively, and is included in other borrowings. Additionally, the Bank had \$5,765,591 and \$4,880,554 in repurchase agreements outstanding and included in other borrowings at December 31, 2008 and 2007.

At December 31, 2008, the Bank had no borrowings through the Federal Reserve discount window, while our borrowing capacity was \$15.7 million. The Bank also has various other federal funds agreements, both secured and unsecured, with correspondent banks totaling approximately \$58.7 million. As of December 31, 2008 there were no borrowings through these correspondent bank federal funds agreements.

**(9) Income Taxes**

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company adopted the provisions of the FIN 48 on January 1, 2007. FIN 48 provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Unrecognized tax benefits represent tax positions for which reserves have been established. The Company's adoption of FIN 48 did not have a significant effect on our consolidated financial statements. We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense in our consolidated statements of earnings.



Table of Contents

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|                                                | Years ended December 31, |            |
|------------------------------------------------|--------------------------|------------|
|                                                | 2008                     | 2007       |
| Unrecognized tax benefits at beginning of year | \$ 852,000               | \$ 970,000 |
| Gross increases to current year tax positions  | 182,000                  | 291,000    |
| Gross decreases to prior year's tax positions  | (14,000)                 | (21,000)   |
| Lapse of statute of limitations                | (210,000)                | (388,000)  |
| Unrecognized tax benefits at end of year       | \$ 810,000               | \$ 852,000 |

Tax years that remain open and subject to audit include the years 2005 through 2008 for both federal and state. We recognized \$210,000 and \$388,000 of previously unrecognized tax benefits during 2008 and 2007, respectively. Our gross unrecognized tax benefits balance of \$810,000 and \$852,000 at December 31, 2008 and 2007, respectively, would favorably impact our effective tax rate by \$535,000 and \$563,000, respectively, if recognized. As of December 31, 2008 and 2007 we have accrued interest and penalties of \$212,000 and \$190,000, respectively. We believe that it is reasonably possible that a reduction in gross unrecognized tax benefits of up to \$162,000 is possible during the next 12 months.

Income tax expense attributable to income from operations consisted of:

|                    | Years ended December 31, |              |              |
|--------------------|--------------------------|--------------|--------------|
|                    | 2008                     | 2007         | 2006         |
| <b>Current:</b>    |                          |              |              |
| Federal            | \$ 892,227               | \$ 1,084,999 | \$ 510,747   |
| State              | (52,141)                 | 103,676      | (63,714)     |
| Total current      | 840,086                  | 1,188,675    | 447,033      |
| <b>Deferred:</b>   |                          |              |              |
| Federal            | 163,150                  | 109,810      | 1,446,828    |
| State              | 106,583                  | 4,598        | 185,594      |
| Total deferred     | 269,733                  | 114,408      | 1,632,422    |
| Income tax expense | \$ 1,109,819             | \$ 1,303,083 | \$ 2,079,455 |

Total income tax expense, including amounts allocated directly to stockholders equity, was as follows:

|                                                                                                                        | Years ended December 31, |              |              |
|------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------|--------------|
|                                                                                                                        | 2008                     | 2007         | 2006         |
| Income tax from operations                                                                                             | \$ 1,109,819             | \$ 1,303,083 | \$ 2,079,455 |
| Stockholders' equity, recognition of tax benefit for stock options exercised                                           | (5,504)                  | (7,543)      | (6,999)      |
| Stockholders' equity, recognition of unrealized (losses)/gains on available-for-sale securities and interest rate swap | (33,888)                 | 425,954      | 436,048      |
|                                                                                                                        | \$ 1,070,427             | \$ 1,721,494 | \$ 2,508,504 |



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Table of Contents

The reasons for the difference between actual income tax expense and expected income tax expense attributable to income from operations at the 34% statutory federal income tax rate were as follows:

|                                                      | Years ended December 31, |              |              |
|------------------------------------------------------|--------------------------|--------------|--------------|
|                                                      | 2008                     | 2007         | 2006         |
| Computed expected tax expense                        | \$ 1,925,489             | \$ 2,279,750 | \$ 2,750,293 |
| Increase (reduction) in income taxes resulting from: |                          |              |              |
| Tax-exempt interest income, net                      | (783,637)                | (717,012)    | (479,686)    |
| Bank owned life insurance                            | (140,002)                | (159,802)    | (139,138)    |
| State income taxes, net of federal benefit           | 35,928                   | 71,220       | 78,831       |
| Investment tax credits, net of costs                 | 20,149                   | (149,550)    | (130,000)    |
| Other, net                                           | 51,893                   | (21,523)     | (845)        |
|                                                      | \$ 1,109,819             | \$ 1,303,083 | \$ 2,079,455 |

The tax effects of temporary differences that give rise to the significant portions of the deferred tax assets and liabilities at the following dates were as follows:

|                                                                                    | As of December 31, |                   |
|------------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                    | 2008               | 2007              |
| <b>Deferred tax assets:</b>                                                        |                    |                   |
| Loans, including allowance for loan losses                                         | \$ 1,202,817       | \$ 1,105,739      |
| Federal alternative minimum tax credit and low income housing credit carryforwards | 1,064,212          | 699,759           |
| Net operating loss carry forwards                                                  | 701,353            | 862,154           |
| Deferred compensation arrangements                                                 | 261,902            | 306,879           |
| State taxes                                                                        | 199,547            | 248,034           |
| FHLB advances                                                                      | 151,595            | 515,607           |
| Investment impairments                                                             | 22,398             |                   |
| Accrued expenses                                                                   | 1,657              | 8,284             |
| Other, net                                                                         |                    | 11,172            |
| <b>Total deferred tax assets</b>                                                   | <b>3,605,481</b>   | <b>3,757,628</b>  |
| Less valuation allowance                                                           | 328,306            | 263,403           |
| <b>Net deferred tax assets</b>                                                     | <b>3,277,175</b>   | <b>3,494,225</b>  |
| <b>Deferred tax liabilities:</b>                                                   |                    |                   |
| Premises and equipment, net of depreciation                                        | 969,602            | 888,255           |
| FHLB stock dividends                                                               | 974,116            | 904,926           |
| Intangible assets                                                                  | 454,525            | 617,511           |
| Unrealized gain on investment securities available-for-sale                        | 383,203            | 417,091           |
| Investments                                                                        | 9,101              | 13,205            |
| Other, net                                                                         | 69,236             |                   |
| <b>Total deferred tax liabilities</b>                                              | <b>2,859,783</b>   | <b>2,840,988</b>  |
| <b>Net deferred tax asset</b>                                                      | <b>\$ 417,392</b>  | <b>\$ 653,237</b> |

The Company has deferred taxes for temporary differences related to fair value adjustments on loans, investment securities, and FHLB advances related to previous acquisitions. In addition, the Company has also recorded a deferred tax asset for future benefits of net operating losses and alternative minimum tax credit carry forwards. The net operating loss carry forwards will expire, if not utilized. The Company has \$1.0 million of federal net operating loss carry forwards as of December 31, 2008, which expire in 2026 and \$1.6



Table of Contents

million of Kansas privilege tax net operating loss carry forwards as of December 31, 2008, which expire between 2012 and 2015. The Company also has Kansas corporate net operating loss carry forwards totaling \$6.7 million as of December 31, 2008, which expire between 2009 and 2018. The alternative minimum tax credit carry forward does not expire and totaled \$810,000 as of December 31, 2008. In addition, the Company has low income housing credit carryforwards of \$254,000 which expire in varying amounts between 2026 and 2028. The Company has recorded a valuation allowance to reduce certain Kansas corporate net operating loss carry forwards which expire at various times through 2018. The increase in the valuation allowance is related to additional net operating loss carry forwards generated during 2008. At December 31, 2008 and 2007, the Company believes it is more likely than not that these items will not be realized. A valuation allowance related to the remaining deferred tax assets has not been provided because management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Retained earnings at December 31, 2008 and 2007, includes approximately \$6.3 million for which no provision for federal income tax had been made. This amount represents allocations of income to bad debt deductions in years prior to 1988 for tax purposes only. Reduction of amounts allocated for purposes other than tax bad debt losses will create income for tax purposes only, which will be subject to the then current corporate income tax rate.

**(10) Employee Benefit Plans**

***Employee Retirement Plan***

Substantially all employees are covered under a 401(k) defined contribution savings plan. Contributions were \$290,000, \$269,000 and \$253,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

***Deferred Compensation and Retirement Agreements***

The Company adopted the Emerging Issues Task Force ( EITF ) Issue 06-4, *Accounting for Deferred Compensation and postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* , on January 1, 2008. The EITF Issue 06-4 addresses accounting for separate agreements that split life insurance policy benefits between an employer and employee, and requires the employer to recognize a liability for future benefits payable to an employee under these agreements. The effect of adoption must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. Upon adoption, the Company recognized a liability of \$335,000, with an offsetting reduction to retained earnings, attributable to the future benefits payable to a former employee pursuant to a split-dollar life insurance arrangement. At December 31, 2008 the liability was \$328,000. At December 31, 2008 the Company had an asset of \$2.0 million recorded representing the net cash surrender value for the corresponding life insurance arrangement.

The Company entered into deferred compensation and other retirement agreements with certain key employees that provides for cash payments to be made after their retirement. The obligations under these arrangements have been recorded at the present value of the accrued benefits. The Company has also entered into agreements with certain directors to defer portions of their compensation. The balance of estimated accrued benefits under all of these arrangements, including the split-dollar life insurance arrangement, was \$1.1 million and \$940,000 at December 31, 2008 and 2007, respectively, and was included as a component of other liabilities in the accompanying consolidated balance sheets. To assist in funding benefits under each of these plans, the Bank has purchased certain assets including life insurance policies on covered employees in

which the Bank is the beneficiary. At December 31, 2008 and 2007, the cash surrender values on these policies established to meet such obligations were \$3.4 million and \$3.5 million, respectively.

In addition to these policies the Bank purchased \$7.5 million of bank owned life insurance policies during 2006, which had a cash surrender value of \$8.6 million and \$8.1 million at December 31, 2008 and 2007, respectively. These policies are not related to deferred compensation split-dollar arrangements or other retirement agreements.

**Table of Contents**

**(11)** Stock Option Plan





## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company has a stock based employee compensation plan which allows for the issuance of stock options, the purpose of which is to provide additional incentive to certain officers, directors, and key employees by facilitating their purchase of a stock interest in the Company. The plan is administered by the compensation committee of the board of directors who selects employees to whom options are granted and the number of shares granted. The option price may not be less than 100% of the fair market value of the shares on the date of the grant, and no option shall be exercisable after the expiration of ten years from the grant date. The Company intends to utilize authorized, but un-issued shares to satisfy option exercises. The number of shares available for future grants under the plan was 61,433 at December 31, 2008. Compensation expense is recognized over the option vesting period, which is typically pro-rata over four or five years. The stock-based compensation cost related to these awards was \$134,000, \$118,000 and \$114,000 for the years ended December 31, 2008, 2007, and 2006, respectively. The Company recognized tax benefits of \$28,000, \$31,000 and \$24,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of options on date of grant. The Black-Scholes model is a closed-end model that uses the assumptions outlined below. Expected volatility is based on historical volatility of the Company's stock. The Company uses historical exercise behavior and other qualitative factors to estimate the expected term of the options, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for the expected term is based on U.S. Treasury rates in effect at the time of grant.

The fair value of options granted were estimated utilizing the following weighted average assumptions:

|                                     | Years ended December 31, |      |         |
|-------------------------------------|--------------------------|------|---------|
|                                     | 2008                     | 2007 | 2006    |
| Dividend rate                       | 5.3%                     | n/a  | 5.0%    |
| Volatility                          | 18.5%                    | n/a  | 19.1%   |
| Risk-free interest rate             | 2.9%                     | n/a  | 4.9%    |
| Expected lives                      | 5 years                  | n/a  | 5 years |
| Fair value per option at grant date | \$ 2.10                  | n/a  | \$ 3.55 |

A summary of option activity during 2008 is presented below:

|                                                  | Shares  | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>term | Aggregate<br>intrinsic<br>value |
|--------------------------------------------------|---------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Outstanding at January 1, 2008                   | 239,121 | \$ 22.99                                 | 6.8 years                                               | \$ 611,000                      |
| Granted                                          | 128,600 | \$ 21.88                                 |                                                         | n/a                             |
| Effect of 5% stock dividend                      | 18,692  |                                          |                                                         | n/a                             |
| Forfeited/expired                                |         |                                          |                                                         | n/a                             |
| Exercised                                        | (2,287) | \$ 16.17                                 |                                                         | n/a                             |
| Outstanding at December 31, 2008                 | 394,193 | \$ 21.97                                 | 7.0 years                                               | \$ 235,000                      |
| Exercisable at December 31, 2008                 | 197,546 | \$ 21.56                                 | 5.4 years                                               | \$ 234,000                      |
| Vested and expected to vest at December 31, 2008 | 376,876 | \$ 21.93                                 | 7.0 years                                               | \$ 235,000                      |

Table of Contents

Additional information about stock options exercised is presented below:

|                                                         | Years ended December 31, |           |           |
|---------------------------------------------------------|--------------------------|-----------|-----------|
|                                                         | 2008                     | 2007      | 2006      |
| Intrinsic value of options exercised (on exercise date) | \$ 16,188                | \$ 22,185 | \$ 23,584 |
| Cash received from options exercised                    | \$ 36,981                | \$ 41,118 | \$ 26,891 |
| Excess tax benefit realized from options exercised      | \$ 5,504                 | \$ 7,543  | \$ 6,999  |

As of December 31, 2008, there was \$352,000 of total unrecognized compensation cost related to outstanding unvested options. That unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2 years. The total fair value (at vest date) of shares vested during the years ended December 31, 2008, 2007 and 2006 was \$66,000, \$295,000 and \$111,000, respectively.

**(12)** Fair Value Measurements



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

On January 1, 2008, the Company adopted the provisions of SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. SFAS No. 157 requires the use of a hierarchy of fair value techniques based upon whether the inputs to those fair values reflect assumptions other market participants would use based upon market data obtained from independent sources or reflect the Company's own assumptions of market participant valuation. In accordance with SFAS No. 157, the fair value hierarchy is as follows:



- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.





## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

- Level 2: Quoted prices for similar assets in active markets, quoted prices in markets that are not active or quoted prices that contain observable inputs such as yield curves, volatilities, prepayment speeds and other inputs derived from market data.



- Level 3: Quoted prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company's fair value disclosures exclude certain nonfinancial assets and liabilities which are deferred under the provisions of FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*. These include foreclosed real estate, long-lived assets, goodwill, and core deposit premium, which are recorded at fair value only upon impairment. The FASB's deferral is intended to allow additional time to consider the effect of various implementation issues relating to these non-financial instruments, and defers disclosures under SFAS No. 157 until January 1, 2009.



**Valuation methods for instruments measured at fair value on a recurring basis**

The Company's investment securities classified as available-for-sale includes agency securities, municipal obligations, mortgage-backed securities, corporate bonds, certificates of deposits and common stock. Quoted exchange prices are available for the common stock investments, which are classified as Level 1. Agency securities and mortgage-backed obligations are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace and are classified as Level 2. Municipal and corporate securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. The Company's investments in fixed rate certificates of deposits are valued using a net present value model that discounts the future cash flows at the current market rates and are classified as Level 2.

Table of Contents

The following table represents the Company's investment securities that are measured at fair value on a recurring basis at December 31, 2008 allocated to the appropriate fair value hierarchy:

| Assets (in thousands):        | Total          | Fair value hierarchy |                |            |
|-------------------------------|----------------|----------------------|----------------|------------|
|                               |                | Level 1              | Level 2        | Level 3    |
| Available-for-sale securities | \$ 162,244,822 | \$ 1,014,240         | \$ 160,490,333 | \$ 740,249 |

At December 31, 2008, the Company changed its valuation technique to Level 3 for the corporate bond portfolio. The corporate bond portfolio consists of three investments in pooled trust preferred securities. Previously the fair value on these securities was classified as Level 2 and based on observable market data provided by third party pricing vendors. At December 31, 2008, the Company determined that the observable market data associated with these assets were not orderly transactions and reflected forced liquidations or distressed sales. Based on the lack of observable market data, the Company obtained any observable market data that was available on these trust preferred securities and estimated fair value based on the observable data and reasonable unobservable market data. The Company estimated fair value based on a discounted cash flow model which used appropriately adjusted discount rates reflecting credit and liquidity risks. The change in the valuation technique for these trust preferred securities resulted in an initial transfer of \$1,713,116 into Level 3 financial assets. There were no gains or losses for the year included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities using Level 3 still held at December 31, 2008.

|                                        | Available-for sale-securities |
|----------------------------------------|-------------------------------|
| Balance at January 1, 2008             | \$                            |
| Transfers into Level 3                 | 1,713,116                     |
| Total gains (losses)                   |                               |
| Included in earnings                   |                               |
| Included in other comprehensive income | (972,867)                     |
| Balance at December 31, 2008           | \$ 740,249                    |

Changes in the fair value of available-for-sale securities are included in other comprehensive income to the extent the changes are not considered other than temporary impairments. Other than temporary impairment tests are performed on a quarterly basis and any decline in the fair value of an individual security below their cost that is deemed to be other than temporary results in a write-down to the estimated fair value. These write-downs are included as a component of earnings as realized losses. During 2008 the Company recorded a \$66,000 impairment charge on two equity investments, which is included in other non-interest expense.

The Company's derivative financial instruments consist solely of interest rate lock commitments and corresponding forward sales contracts on certain mortgage loans. The fair values of these derivatives are based on quoted prices for similar loans in the secondary market. The market prices are adjusted by a factor, based on the Company's historical data and its judgment about future economic trends, which considers the likelihood that a commitment will ultimately result in a closed loan. These instruments, which were not significant at December 31, 2008 and not included in the table above, are classified as Level 3 based on the unobservable nature of these assumptions.

**Valuation methods for instruments measured at fair value on a nonrecurring basis**



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The Company's other investment securities include investments in FHLB and FRB stock, which are held for regulatory purposes. These investments generally have restrictions on the sale and/or liquidation of stock and the carrying value is approximately equal to fair value. Fair value measurements for these securities are classified as Level 3 based on the undeliverable nature and related credit risk.

The Company does not value its loan portfolio at fair value, however adjustments are recorded on certain loans to reflect the impaired value on the underlying collateral. Collateral values are reviewed on a loan-by-

Table of Contents

loan basis through independent appraisals. Appraised values may be discounted based on management's historical knowledge, changes in market conditions and/or management's expertise and knowledge of the client and the client's business. Because many of these inputs are unobservable the valuations are classified as Level 3. The carrying value of the Company's impaired loans was \$7.1 million, with an allocated allowance of \$705,000, at December 31, 2008.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, determined on an aggregate basis. The mortgage loan valuations are based on quoted secondary market prices for similar loans and are classified as Level 2.

The Company measures its mortgage servicing rights at the lower of cost or fair value, and amortizes them over the period equal to estimated net servicing income. Periodic impairment assessments are performed based on fair value estimates at the reporting date. The fair value of mortgage servicing rights are estimated based on a valuation model which calculates the present value of estimated future cash flows associated with servicing the underlying loans. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimated prepayment speeds, market discount rates, cost to service, and other servicing income, including late fees. The fair value measurements are classified as Level 3.

| Assets (in thousands):      | Total         | Fair value hierarchy |           |              | Total gains / (losses) |
|-----------------------------|---------------|----------------------|-----------|--------------|------------------------|
|                             |               | Level 1              | Level 2   | Level 3      |                        |
| Cash and cash equivalents   | \$ 13,787,640 | \$ 13,787,640        |           |              | \$                     |
| Other investment securities | 9,051,900     |                      |           | \$ 9,051,900 |                        |
| Impaired loans              | 6,353,849     |                      |           | 6,353,849    |                        |
| Loans held for sale         | 1,749,354     |                      | 1,749,354 |              |                        |
| Mortgage servicing rights   | \$ 1,007,594  |                      |           | \$ 1,007,594 |                        |

**(13)** Fair Value of Financial Instruments



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Fair value estimates of the Company's financial instruments as of December 31, 2008 and 2007, including methods and assumptions utilized, are set forth below:

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                                           | 2008            |                      | As of December 31,     |                 | 2007                 |         |
|-----------------------------------------------------------|-----------------|----------------------|------------------------|-----------------|----------------------|---------|
|                                                           | Carrying amount | Estimated fair value | (Dollars in thousands) | Carrying amount | Estimated fair value |         |
| Cash and cash equivalents                                 | \$ 13,788       | \$ 13,788            | \$                     | 14,739          | \$                   | 14,739  |
| Investment securities                                     | 171,297         | 171,297              |                        | 164,724         |                      | 164,724 |
| Loans, net of unearned fees and allowance for loan losses | 365,772         | 368,558              |                        | 376,157         |                      | 377,189 |
| Loans held for sale                                       | 1,488           | 1,749                |                        | 1,724           |                      | 1,764   |
| Mortgage servicing rights                                 | 170             | 1,008                |                        | 210             |                      | 1,035   |
| Non-interest bearing demand deposits                      | 49,823          | 49,823               |                        | 51,008          |                      | 51,008  |
| Money market and NOW deposits                             | 150,116         | 150,116              |                        | 139,557         |                      | 139,557 |
| Savings deposits                                          | 26,203          | 26,203               |                        | 25,883          |                      | 25,883  |
| Time deposits                                             | 213,403         | 214,859              |                        | 236,204         |                      | 237,176 |
| Total deposits                                            | 439,546         | 441,001              |                        | 452,652         |                      | 453,624 |
| FHLB borrowings                                           | 77,319          | 81,986               |                        | 69,027          |                      | 70,653  |
| Other borrowings                                          | \$ 27,047       | \$ 23,298            | \$                     | 24,062          | \$                   | 25,034  |



Table of Contents

*Methods and Assumptions Utilized*





## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The carrying amount of cash and cash equivalents, repurchase agreements, federal funds sold, and accrued interest receivable and payable are considered to approximate fair value.

A detailed description of the estimated fair value of investment securities, mortgage serving rights and loans held-for-sale is available in Note 12.

The estimated fair value of the Company's loan portfolio is based on the segregation of loans by collateral type, interest terms, and maturities. In estimating the fair value of each category of loans, the carrying amount of the loan is reduced by an allocation of the allowance for loan losses. Such allocation is based on management's loan classification system, which is designed to measure the credit risk inherent in each classification category. The estimated fair value of performing variable rate loans is the carrying value of such loans, reduced by an allocation of the allowance for loan losses. The estimated fair value of performing fixed rate loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the interest rate risk inherent in the loan, reduced by an allocation of the allowance for loan losses. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions. The fair value for nonperforming loans is the estimated fair value of the underlying collateral based on recent external appraisals or other available information, which generally approximates carrying value, reduced by an allocation of the allowance for loan losses.

The estimated fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, money market accounts, and NOW accounts, is equal to the amount payable on demand. The fair value of interest-bearing time deposits is based on the discounted value of contractual cash flows of such deposits. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

The fair value of advances from the FHLB is estimated using current rates offered for similar borrowings. The fair values of other borrowings are estimated using current rates offered for similar borrowings.

### *Off-Balance Sheet Financial Instruments*



Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The fair value of letters of credit and commitments to extend credit is based on the fees currently charged to enter into similar agreements. The aggregate of these fees is not material. These instruments are also discussed in note 17 on Commitments, Contingencies and Guarantees.



*Limitations*



## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Table of Contents

(14) Regulatory Capital Requirements





## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

Current regulatory capital regulations require financial institutions (including banks and bank holding companies) to meet certain regulatory capital requirements. Institutions are required to have minimum leverage capital equal to 4% of total average assets and total qualifying capital equal to 8% of total risk-weighted assets in order to be considered adequately capitalized. As of December 31, 2008 and 2007, the Company and the Bank were rated well capitalized, which is the highest rating available under this capital-based rating system. Management believes that as of December 31, 2008, the Company and the Bank meet all capital adequacy requirements to which they are subject. The following is a comparison of the Company's regulatory capital to minimum capital requirements at December 31, 2008 and 2007, (dollars in thousands):

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                | Actual    |       | For capital adequacy purposes |       | To be well-Capitalized |       |
|--------------------------------|-----------|-------|-------------------------------|-------|------------------------|-------|
|                                | Amount    | Ratio | Amount                        | Ratio | Amount                 | Ratio |
| <u>As of December 31, 2008</u> |           |       |                               |       |                        |       |
| Leverage                       | \$ 52,450 | 9.0%  | \$ 23,427                     | 4.0%  | \$ 29,283              | 5.0%  |
| Tier 1 Capital                 | \$ 52,450 | 13.0% | \$ 16,176                     | 4.0%  | \$ 24,264              | 6.0%  |
| Total Risk Based Capital       | \$ 56,321 | 13.9% | \$ 32,352                     | 8.0%  | \$ 40,440              | 10.0% |
| <u>As of December 31, 2007</u> |           |       |                               |       |                        |       |
| Leverage                       | \$ 51,766 | 8.9%  | \$ 23,318                     | 4.0%  | \$ 29,147              | 5.0%  |
| Tier 1 Capital                 | \$ 51,766 | 12.4% | \$ 16,660                     | 4.0%  | \$ 24,990              | 6.0%  |
| Total Risk Based Capital       | \$ 55,938 | 13.4% | \$ 33,320                     | 8.0%  | \$ 41,650              | 10.0% |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

The following is a comparison of the Bank's regulatory capital to minimum capital requirements at December 31, 2008 and 2007 (dollars in thousands):

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                                | Actual    |       | For capital adequacy purposes |       | To be well-Capitalized |       |
|--------------------------------|-----------|-------|-------------------------------|-------|------------------------|-------|
|                                | Amount    | Ratio | Amount                        | Ratio | Amount                 | Ratio |
| <u>As of December 31, 2008</u> |           |       |                               |       |                        |       |
| Leverage                       | \$ 55,867 | 9.6%  | \$ 23,351                     | 4.0%  | \$ 29,189              | 5.0%  |
| Tier 1 Capital                 | \$ 55,867 | 13.8% | \$ 16,141                     | 4.0%  | \$ 24,212              | 6.0%  |
| Total Risk Based Capital       | \$ 59,738 | 14.8% | \$ 32,282                     | 8.0%  | \$ 40,353              | 10.0% |
| <u>As of December 31, 2007</u> |           |       |                               |       |                        |       |
| Leverage                       | \$ 52,737 | 9.1%  | \$ 23,233                     | 4.0%  | \$ 29,041              | 5.0%  |
| Tier 1 Capital                 | \$ 52,737 | 12.7% | \$ 16,625                     | 4.0%  | \$ 24,937              | 6.0%  |
| Total Risk Based Capital       | \$ 56,909 | 13.7% | \$ 33,250                     | 8.0%  | \$ 41,862              | 10.0% |

**Table of Contents****(15) Parent Company Condensed Financial Statements**

The following is condensed financial information of the parent company as of December 31, 2008 and 2007, and for years ended December 31, 2008, 2007 and 2006 (in thousands):

**Condensed Balance Sheets**

|                                             | As of December 31, |           |
|---------------------------------------------|--------------------|-----------|
|                                             | 2008               | 2007      |
| <b>Assets</b>                               |                    |           |
| Cash                                        | \$ 10              | \$ 20     |
| Investment securities                       | 1,448              | 1,470     |
| Investment in Bank                          | 70,587             | 69,034    |
| Other                                       | 1,086              | 1,412     |
| Total assets                                | 73,131             | 71,936    |
| <b>Liabilities and stockholders' equity</b> |                    |           |
| Borrowed funds                              | 21,281             | 19,181    |
| Other                                       | 444                | 459       |
| Stockholders' equity                        | 51,406             | 52,296    |
| Total liabilities and stockholders' equity  | \$ 73,131          | \$ 71,936 |

**Condensed Statements of Earnings**

|                                                          | Years ended December 31, |          |          |
|----------------------------------------------------------|--------------------------|----------|----------|
|                                                          | 2008                     | 2007     | 2006     |
| Dividends from Bank                                      | \$ 4,121                 | \$ 6,507 | \$ 6,258 |
| Interest income                                          | 77                       | 73       | 66       |
| Other income                                             | 7                        | 7        | 255      |
| Interest expense                                         | (1,191)                  | (1,575)  | (1,654)  |
| Other expense, net                                       | (271)                    | (176)    | (188)    |
| Earnings before equity in undistributed earnings of Bank | 2,743                    | 4,836    | 4,737    |
| (Decrease)/increase in undistributed equity of Bank      | 1,806                    | (18)     | 741      |
| Earnings before income taxes                             | 4,549                    | 4,818    | 5,478    |
| Income tax benefit                                       | (4)                      | (584)    | (532)    |
| Net earnings                                             | \$ 4,553                 | \$ 5,402 | \$ 6,010 |

Table of Contents*Condensed Statements of Cash Flows*

|                                                             | Years ended December 31, |          |          |
|-------------------------------------------------------------|--------------------------|----------|----------|
|                                                             | 2008                     | 2007     | 2006     |
| Cash flows from operating activities:                       |                          |          |          |
| Net earnings                                                | \$ 4,553                 | \$ 5,402 | \$ 6,010 |
| Decrease/(increase) in undistributed equity of Bank         | (1,806)                  | 18       | (741)    |
| Loss on impairment of investment securities                 | 66                       |          |          |
| Other                                                       | 310                      | 208      | (59)     |
| Net cash provided by operating activities                   | 3,123                    | 5,628    | 5,210    |
| Cash flows from investing activities:                       |                          |          |          |
| Purchase of investment securities                           | (40)                     | (455)    | (3)      |
| Proceeds from sales and maturities of investment securities | 1                        |          | 165      |
| Cash paid in acquisitions                                   |                          |          | (13,080) |
| Net cash used in investing activities                       | (39)                     | (455)    | (12,918) |
| Cash flows from financing activities:                       |                          |          |          |
| Issuance of shares under stock option plan                  | 37                       | 41       | 27       |
| Proceeds from other borrowings                              | 6,030                    | 4,310    | 9,772    |
| Repayments on other borrowings                              | (3,930)                  | (6,355)  | (8,342)  |
| Purchase of treasury stock                                  | (3,477)                  | (1,436)  | (138)    |
| Payment of dividends                                        | (1,754)                  | (1,768)  | (1,567)  |
| Net cash used in financing activities                       | (3,094)                  | (5,208)  | (248)    |
| Net decrease in cash                                        | (10)                     | (35)     | (7,956)  |
| Cash at beginning of year                                   | 20                       | 55       | 8,011    |
| Cash at end of year                                         | \$ 10                    | \$ 20    | \$ 55    |

Dividends paid by the Company are provided through dividends from the Bank. At December 31, 2008, the Bank could distribute dividends of up to \$2.5 million without regulatory approvals.

**(16)** Stockholders Rights Plan

On October 11, 2001, the Company's board of directors adopted a stockholders' rights plan (the Rights Plan). The Rights Plan provided for the distribution of one right on February 13, 2002, for each share of the Company's outstanding common stock as of February 1, 2002. The rights have no immediate economic value to stockholders, because they cannot be exercised unless and until a person, group or entity acquires 15% or more of the Company's common stock or announces a tender offer. The Rights Plan also permits the Company's board of directors to redeem each right for one cent under various circumstances. In general, the Rights Plan provides that if a person, group or entity acquires a 15% or larger stake in the Company or announces a tender offer, and the Company's board of directors chooses not to redeem the rights, all holders of rights, other than the 15% stockholder or the tender offeror, will be able to purchase a certain amount of the Company's common stock for half of its market price.





**Table of Contents**

(17) Commitments, Contingencies and Guarantees

Commitments to extend credit are legally binding agreements to lend to a borrower providing there are no violations of any conditions established in the contract. The Company, as a provider of financial services, routinely issues financial guarantees in the form of financial and performance commercial and standby letters of credit. As many of the commitments are expected to expire without being drawn upon, the total commitment does not necessarily represent future cash requirements (see Note 4).

The Company guarantees payments to holders of certain trust preferred securities issued by wholly owned grantor trusts. The securities are due in 2034 and 2036 and are redeemable beginning in 2009 and 2011. The maximum potential future payments guaranteed by the Company, which includes future interest and principal payments through maturity, was approximately \$39.7 million at December 31, 2008. At December 31, 2008, the Company had a recorded liability of \$16.6 million of principal and accrued interest to date, representing amounts owed to the Trust.

There are no pending legal proceedings to which the Company or the Bank is a party other than ordinary routine litigation incidental to the Company'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.

Table of Contents

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2008. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

**Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined by Rule 13a-15(f) promulgated under the Securities and Exchange Act of 1934, as amended). The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Management has made a comprehensive review, evaluation, and assessment of the Company's internal control over financial reporting as of December 31, 2008. In making its assessment of the effectiveness of the Company's internal control over financial reporting, management used the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on that assessment, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective.

## Edgar Filing: LANDMARK BANCORP INC - Form 10-K

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in the annual report.

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2008 that materially affected or were likely to materially affect the Company's internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None

Table of Contents**PART III.****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors**

The Company incorporates by reference the information called for by Item 10 of this Form 10-K regarding directors of the Company from the sections entitled "Election of Directors" and "Corporate Governance" and the Board of Directors of the Company's Proxy Statement for the annual meeting of stockholders to be held May 20, 2009 (the "2009 Proxy Statement").

Section 16(a) of the Exchange Act requires that the Company's executive officers, directors and persons who own more than 10% of their Company's common stock file reports of ownership and changes in ownership with the SEC and with the exchange on which the Company's shares of common stock are traded. Such persons are also required to furnish the Company with copies of all Section 16(a) forms they file. Based solely on the Company's review of the copies of such forms, the Company is not aware that any of its directors, executive officers or 10% stockholders failed to file on a timely basis reports required by Section 16(a) of the Exchange Act during 2008.

The executive officers of the Company, each of whom is also currently an executive officer of the Bank and both of whom serve at the discretion of the Board of Directors, are identified below:

| <b>Name</b>          | <b>Age</b> | <b>Positions with the Company</b>                                   |
|----------------------|------------|---------------------------------------------------------------------|
| Patrick L. Alexander | 56         | President and Chief Executive Officer                               |
| Mark A. Herpich      | 41         | Vice President, Secretary, Chief Financial Officer<br>and Treasurer |

The executive officers of the Bank are identified below:

| <b>Name</b>          | <b>Age</b> | <b>Positions with the Bank</b>                       |
|----------------------|------------|------------------------------------------------------|
| Patrick L. Alexander | 56         | President and Chief Executive Officer                |
| Mark A. Herpich      | 41         | Executive Vice President and Chief Financial Officer |
| Michael E. Scheopner | 47         | Executive Vice President, Credit Risk Manager        |
| Dean R. Thibault     | 57         | Executive Vice President, Commercial Banking         |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

|                    |    |                                           |
|--------------------|----|-------------------------------------------|
| Larry R. Heyka     | 62 | Market President, Manhattan Region        |
| Mark J. Oliphant   | 56 | Market President, Southwest Kansas Region |
| Bradly L. Chindamo | 40 | Market President, Eastern Kansas Region   |

**ITEM 11.** EXECUTIVE COMPENSATION

The Company incorporates by reference the information called for by Item 11 of this Form 10-K from the sections entitled Corporate Governance and the Board of Directors, and Executive Compensation of the 2009 Proxy Statement.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The Company incorporates by reference the information called for by Item 12 of this Form 10-K from the section entitled Security Ownership of Certain Beneficial Owners of the 2009 Proxy Statement.

**Equity Compensation Plan Information**

The table below sets forth the following information as of December 31, 2008 for (i) all compensation plans previously approved by the Company's stockholders and (ii) all compensation plans not previously approved by the Company's stockholders:

- (a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;
- (b) the weighted-average exercise price of such outstanding options, warrants and rights;
- (c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

**EQUITY COMPENSATION PLAN INFORMATION**

| <b>Plan category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options (1)</b> | <b>Weighted-average exercise price of outstanding options</b> | <b>Number of securities remaining available for future issuance (1)</b> |
|------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------|
| Equity compensation plans approved by security holders     | 394,193 \$                                                                        | 21.97                                                         | 61,433                                                                  |
| Equity compensation plans not approved by security holders | - 0 -                                                                             | - 0 -                                                         | - 0 -                                                                   |
| <b>Total</b>                                               | <b>394,193 \$</b>                                                                 | <b>21.97</b>                                                  | <b>61,433</b>                                                           |

(1) Includes options assumed by the Company in 2001 in connection with the mergers of Landmark Bancshares, Inc. and MNB Bancshares, Inc. with the Company. At the time of the mergers, there were options issued under the previous companies' plans, each of which was approved by stockholders of the respective company at the time of their adoption. All of the options granted under these plans fully vested at the time of the merger and no additional options were available for grant after the merger. As of December 31, 2008, there were options outstanding for an aggregate of 23,076 shares of the Company's common stock under the prior plans with a weighted average exercise price of \$11.10.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The Company incorporates by reference the information called for by Item 13 of this Form 10-K from the sections entitled Transactions with Directors, Officers and Associates and Corporate Governance and Board of Directors of the 2009 Proxy Statement.

Table of Contents

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Company incorporates by reference the information called for by Item 14 of this Form 10-K from the section entitled "Independent Registered Public Accounting Firm" of the 2009 Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

ITEM 15(a)1 and 2. Financial Statements and Schedules

LANDMARK BANCORP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS

The following audited Consolidated Financial Statements of the Company and its subsidiaries and related notes and auditors' report are included in Part II, Item 8 of this Report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets December 31, 2008 and 2007

Consolidated Statements of Earnings Years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Stockholders' Equity and Comprehensive Income Years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows Years ended December 31, 2008, 2007 and 2006



Notes to Consolidated Financial Statements

All schedules are omitted because they are not required or are not applicable or the required information is shown in the financial statements incorporated by reference or notes thereto.

Item 15(a)3.      Exhibits

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-K and are listed on the Index to Exhibits immediately following the signature page.

Upon written request to the President of the Company, P.O. Box 308, Manhattan, Kansas 66505-0308, copies of the exhibits listed above are available to stockholders of the Company by specifically identifying each exhibit desired in the request. The Company's filings with the Securities and Exchange Commission are also available via the Internet at [www.sec.gov](http://www.sec.gov), [www.banklandmark.com](http://www.banklandmark.com) or [www.landmarkbancorpinc.com](http://www.landmarkbancorpinc.com).

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LANDMARK BANCORP, INC.**

(Registrant)

By: /s/ Patrick L. Alexander  
Patrick L. Alexander  
President and Chief Executive Officer

By: /s/ Mark A. Herpich  
Mark A. Herpich  
Principal Financial and Accounting Officer

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

| SIGNATURE                                        |                        | TITLE                                           |
|--------------------------------------------------|------------------------|-------------------------------------------------|
| /s/ Patrick L. Alexander<br>Patrick L. Alexander | March 27, 2009<br>Date | President, Chief Executive Officer and Director |
| /s/ Larry L. Schugart<br>Larry L. Schugart       | March 27, 2009<br>Date | Chairman of the Board, Director                 |
| /s/ Richard A. Ball<br>Richard A. Ball           | March 27, 2009<br>Date | Director                                        |
| /s/ Brent A. Bowman<br>Brent A. Bowman           | March 27, 2009<br>Date | Director                                        |
| /s/ Joseph L. Downey<br>Joseph L. Downey         | March 27, 2009<br>Date | Director                                        |
| /s/ Jim W. Lewis<br>Jim W. Lewis                 | March 27, 2009<br>Date | Director                                        |
| /s/ Jerry R. Pettie<br>Jerry R. Pettie           | March 27, 2009<br>Date | Director                                        |
| /s/ Susan E. Roepke<br>Susan E. Roepke           | March 27, 2009<br>Date | Director                                        |
| /s/ C. Duane Ross<br>C. Duane Ross               | March 27, 2009<br>Date | Director                                        |

Edgar Filing: LANDMARK BANCORP INC - Form 10-K

/s/ David H. Snapp  
David H. Snapp

March 27, 2009  
Date

Director

Table of Contents**INDEX TO EXHIBITS**

| <b>Exhibit Number</b> | <b>Description</b>                                                                       | <b>Incorporated by reference to</b>                                                                                                                                      | <b>Attached hereto</b> |
|-----------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| 3.1                   | Amended and Restated Certificate of Incorporation                                        | the registrant's transition report on Form 10-K for the transition period ending December 31, 2001, filed with the Commission on March 24, 2002 (SEC file no. 000-33203) |                        |
| 3.2                   | Bylaws                                                                                   | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 4.1                   | Form of stock certificate                                                                | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.1                  | Form of employment agreement between Larry Schugart and the Company                      | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.2                  | Form of employment agreement between Patrick L. Alexander and the Company                | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.3                  | Form of employment agreement between Mark A. Herpich and the Company                     | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.4                  | Form of employment agreement between Michael E. Scheopner and the Company                | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.5                  | Form of employment agreement between Dean R. Thibault and the Company                    | the registrant's Form S-4, as amended, filed with the Commission on June 7, 2001 (SEC file no. 333-62466)                                                                |                        |
| 10.6                  | Rights Agreement between the Company and Landmark National Bank                          | the registrant's Form 8-K filed with the Commission on January 22, 2002 (SEC file no. 000-33203)                                                                         |                        |
| 10.7                  | Indenture dated as of December 19, 2003 between the Company and Wilmington Trust Company | the registrant's report on Form 10-K for the period ending December 31, 2003, filed with the Commission on March 30, 2004 (SEC file no. 000-33203)                       |                        |
| 10.8                  | Form of employment agreement between Mark J. Oliphant and the Company                    | the registrant's Form 8-K filed with the Commission on March 9, 2005 (SEC file no. 000-33203)                                                                            |                        |
| 10.9                  | Form of 2001 Landmark Bancorp, Inc. Stock Incentive Plan Option Grant Agreement          | the registrant's report on Form 10-K for the period ending December 31, 2004,                                                                                            |                        |

filed with the Commission on  
March 30, 2005 (SEC file no.  
000-33203)

Table of Contents

|       |                                                                                                                                                   |                                                                                                                                                    |   |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 10.10 | Landmark Bancorp, Inc. Bonus/Profit Sharing Plan                                                                                                  |                                                                                                                                                    | X |
| 10.11 | Form of Landmark Bancorp, Inc. Deferred Compensation Agreements                                                                                   | the registrant's report on Form 10-K for the period ending December 31, 2004, filed with the Commission on March 30, 2005 (SEC file no. 000-33203) |   |
| 10.12 | 2001 Stock Incentive Plan                                                                                                                         | The registrant's Registration Statement on form S-8 filed with the Commission on February 11, 2003                                                 |   |
| 10.13 | Indenture dated as of December 30, 2005 between the Company and Wilmington Trust Company                                                          | the registrant's report on Form 10-K for the period ending December 31, 2005, filed with the Commission on March 29, 2006 (SEC file no. 000-33203) |   |
| 10.14 | Revolving Credit Agreement, dated November 19, 2008 between Landmark Bancorp, Inc. and First National Bank of Omaha                               |                                                                                                                                                    | X |
| 13.1  | Letter to Stockholders and Corporate Information included in 2008 Annual Report to Stockholders                                                   |                                                                                                                                                    | X |
| 21.1  | Subsidiaries of the Company                                                                                                                       |                                                                                                                                                    | X |
| 23.1  | Consent of KPMG LLP                                                                                                                               |                                                                                                                                                    | X |
| 31.1  | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)                                                                     |                                                                                                                                                    | X |
| 31.2  | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)                                                                     |                                                                                                                                                    | X |
| 32.1  | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |                                                                                                                                                    | X |
| 32.2  | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |                                                                                                                                                    | X |