



Investing In Our Communities

LCNB
CORP.

2009 Annual Report

LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

LCNB's philosophy of investing in our communities has always been an important part of our history and an important part of being a good corporate citizen. That investment has been in the form of monetary donations, donation of food and clothing, and volunteering manpower. While that commitment to our communities has always been present, it took on a higher priority in 2009. The recession and resulting high unemployment resulted in a greater need for help in our communities. As you will read later in this report, LCNB and all of its employees responded to the challenge.

The theme of last year's annual report was "Strong – Local – Secure". We remain a strong and secure financial institution today. The growth momentum we experienced in 2008 continued through 2009. Our assets grew by 13.03% from \$650 million to \$734 million. Adding the bank's assets to trust assets of \$197 million, mortgage loans serviced of \$57 million, business cash management assets of \$18 million, and brokerage account assets of \$72 million resulted in the corporation managing a total of \$1.1 billion of assets for its customers. Specifically, deposits grew 8.06% from \$578 million to \$624 million. Since consumer confidence continued to be low in 2009, overall loan growth was only 1.35%. But while consumer confidence waned, commercial loan growth was 6.85% growing from \$213 million to \$228 million in 2009. The net loan totals do not reflect that LCNB originated \$28 million

in additional 1-4 family residential mortgages that were sold in the secondary mortgage market enabling our customers to take advantage of lower mortgage rates.



Net income available to shareholders was \$6.7 million representing a 1.07% return on average assets and a 10.43% return on average shareholder's equity. Basic earnings per common share were \$1.00 in 2009 compared to \$.99 in 2008. Total shareholder's equity on December 31, 2009 was \$65.6 million. Our capital remains in the FDIC "well capitalized" designation.

We have the capital, liquidity, earnings, asset quality, and growth to out-perform our industry in both the short and long run.

While many financial institutions reduced or ceased paying a dividend in 2009, LCNB maintained a dividend of \$.64 per share. LCNB returned earnings to its shareholders with a dividend payout ratio of 64% in 2009. We cannot control our stock price in these emotional times, or anytime, but we can control our performance. In the long run we believe good performance and strong dividend payout will enhance shareholder value.

Because of the many bank failures in 2009 (140) the Federal Deposit Insurance Corporation's Designated Reserve Ratio fell below the minimum of 1.15%. Because of this shortfall the FDIC required all insured banks to pay a special assessment. LCNB paid an assessment (based on Total Assets less Tier One Capital) of \$325,000 in addition to

LETTER TO OUR SHAREHOLDERS

Continued

a higher premium. In total LCNB expensed \$1.3 million in FDIC premiums for 2009 compared to \$75,000 in 2008. The FDIC then required insured financial institutions to prepay premiums for the next three years on December 30, 2009. That prepayment resulted in LCNB paying over \$3.1 million to the FDIC. This prepayment by all insured banks provided the FDIC with over \$45 billion in cash to pay for anticipated bank failures. LCNB management still believes that the FDIC deposit guarantee is very important to the stability of our banking system, but the cost of doing business by healthy banks has risen significantly because of the mismanagement of some financial institutions.

Our Board of Directors is made up of individuals that contribute to the success of LCNB. Joseph W. Schwarz is a director who started contributing at the very first board meeting he attended. While Joe has been a director for the last six years, LCNB has grown from a \$524 million bank to a \$734 million bank. Joe brought his success in his own business and applied it to banking. His guidance and leadership will be missed as he is retiring from the board at this year's Annual Meeting.

On February 6, 2010 we lost a former director who retired from the board in 2004. Jim Miller served as a member of the Board from 1979 to 2004. Jim was a valuable director and a fine gentleman to everyone who knew him. Jim was highly respected in the Lebanon community and he will be missed.

Uncertainty is the watchword for 2010. The economy is still very weak with high unemployment and low consumer confidence levels. Congress is having trouble passing legislation and bank failures are predicted to remain high.

LCNB will continue to do what we have done since 1877, provide safety for our depositors and loan money to those we know in our local communities. The experienced management of LCNB will strive to make 2010 another successful year.

Your Board of Directors, officers, and employees understand that financial market concerns are still present and that the downturn in our economy is severe and unlikely to improve in the near term. Yet, we enter 2010 with high expectations for continued growth and prosperity. The challenges are many but so are the opportunities. We are positioned with financial strength, a great market area, the right products, delivery channels, technology, and most important of all, the people to move successfully into the future.

Additional statistical data and information on our financial performance for 2009 is available in the LCNB Corp. Annual Report on Form 10-K. This report is filed annually with the Securities and Exchange Commission. We have enclosed the Form 10-K with the initial mailing of this report to shareholders and it is available upon request or from the shareholders information section on our website, www.LCNB.com.

The Annual Meeting for LCNB Corp. will be Tuesday, April 20, 2010 at 10:00am at our Main Office located at 2 North Broadway in Lebanon, Ohio. Proxy material is included with this initial mailing. Please review, sign and return the proxy in the envelope provided. We would be pleased to have you attend our annual meeting in person. Thank you for your continued support.



Stephen P. Wilson
Chairman and CEO



Steve P. Foster
President

BOARD OF DIRECTORS



STEPHEN P. WILSON
Chairman of the Board
Chief Executive Officer



KATHLEEN PORTER STOLLE
Attorney



WILLIAM H. KAUFMAN
Attorney



SPENCER S. CROPPER
Certified Public Accountant
Stolle Properties, Inc.



DAVID S. BECKETT
President
Dakin Insurance Agency, Inc.



JOSEPH W. SCHWARZ
Managing Member
J-II Enterprises, LLC



GEORGE L. LEASURE
President
Ghent Manufacturing, Inc.



RICK L. BLOSSOM
Managing Partner
Reality Check, LLC



STEVE P. FOSTER
President



STEPHEN P. WILSON
Chairman of the Board
Chief Executive Officer

KATHLEEN PORTER STOLLE
Attorney

GEORGE L. LEASURE
President,
Ghent Manufacturing, Inc.

WILLIAM H. KAUFMAN
Attorney

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Reality Check, LLC

STEVE P. FOSTER
President



STEPHEN P. WILSON
Chairman of the Board,
CEO – LCNB

DAVID S. BECKETT
President,

DONALD L. BECKETT
Retired President,
Dakin Insurance Agency, Inc.

VINCENT B. FULLAN
Vice President,

PHILLIP R. HINES
Vice President,

JOHN C. GEORGE
President,
George Steel Fabricating, Inc.

STEVE P. FOSTER
President,
LCNB

D.J. BENJAMIN JACKSON
Sr. Executive Vice President,
LCNB

BERNARD H. WRIGHT, JR.
Sr. Executive Vice President
& Trust Officer, LCNB

Investing In Our



Over the years, we have shared the story of LCNB National Bank's founding in 1877 as a "safe haven" for Warren County residents and businesses from the unscrupulous "Wildcat Banks" that sprang up like ragweed after the Civil War. These store front banks promised the unsuspecting public a secure place to put their money. And, as quickly as they opened, they left town without a trace. Small savers were not the only victims. Even the cautious Shakers lost a substantial sum of \$7,568 (equivalent to

almost \$200,000 today). From this "safe haven" philosophy of our founders has grown the "Invest in our Communities" mission that LCNB practices today. The times may be different but the goals of the bank are the same—give customers a secure place to deposit their money and invest in each of our communities through leadership, loans, donations and service. It is important to us to lend money responsibly to local residents and businesses so they can grow their equity and build for a secure financial future. This is what our founders had in mind when they opened their doors 132 years ago. "Investing in our communities" is not just a saying, but a philosophy which yields real-life success stories that span generations and builds shareholder value.



Once again, in 2009 LCNB National Bank was sought out as a "safe haven".

This was especially important in light of the volatile economy and stock markets of the past two years. Our customers knew they could depend on us to safeguard their savings while also continuing to invest in their communities. We are proud to say that LCNB Corp., LCNB National Bank, Dakin Insurance Agency, Inc., and all of our 278 dedicated employees unselfishly answered this call.

Volunteering as a team and individually

We are proud to support hundreds of non-profit organizations, schools, churches, and service clubs throughout the six counties we serve. This is achieved through



personal service time, financial donations, and volunteer leadership. The projects range from sponsoring company-wide blood drives, to building homes with Habitat For Humanity, to speaking to students of all ages about the importance of saving and establishing good credit. Sometimes the volunteer effort is simply being part of a community event. You can be assured that if any of our communities are having a parade or celebration, you will find our employees there.



ur Communities

Donations for the greater good of our communities

The economy has shaken the foundation of our not for profit communities.

Finances have become tight and giving has declined. We anticipated this and planned accordingly. LCNB continues to be a strong supporter in United Way campaigns through donations and providing year-round leadership. We continue to supply a number of organizations with both contributions and

volunteer effort. Sometimes our donations are offered in unique ways. For example, in August LCNB decided to bring attention to the problem of the over-stressed food pantry network in Southwestern Ohio. So, LCNB promoted the message “Support Your Local Food Pantry” by using 45 outdoor billboards, eight newspapers, and commercials on television, radio, and cable. The promotion began in September to remind everyone that the need for food donations is ongoing and not just during the holidays. The response is still being felt and the goodwill generated was humbling.



We Have Money to Lend

In 2009, LCNB National Bank was one of the few regional financial institutions that aggressively promoted “We have Money to Lend”. Our



responsible lending philosophy over the years gave us a great advantage over those who were not responsible. This means that our customers can be confident as they build for their future because they can depend on their bank for their lending needs. Our city, township, and county government customers

are also comforted in their knowledge that, if they need funding, LCNB will be there for them. In 2008, the U.S. Treasury Department asked profitable and secure banks, like us, to help distribute monies through lending programs in order to help stimulate the stalled economy. LCNB did as asked and distributed \$63.9 million in home loans, \$60.3 million in loans to businesses and \$47.8 million in loans to municipal governments. We also supported the national mortgage markets with purchases of over \$33.5 million of government guaranteed mortgage securities. LCNB repaid the

Treasury’s investment in full in October 2009. The request by the U.S. Treasury was viewed by us as our duty. We are glad to have helped make a difference.



LCNB OFFICERS

Name	Years with LCNB	Title	Years of Related Experience
Main Office			
Stephen P. Wilson	35	Chairman & CEO	38
Steve P. Foster	33	President	36
D.J. Benjamin Jackson	36	Sr. Executive VP	41
Bernard H. Wright, Jr.	32	Sr. Executive VP	35
Matthew P. Layer	27	Executive VP	27
Eric J. Meilstrup	22	Executive VP	22
Robert C. Haines, II	18	Executive VP	18
Leroy F. McKay	14	Executive VP	24
Kenneth R. Layer	27	Senior VP	27
Ann M. Smith	23	Senior VP	23
Timothy J. Sheridan	20	Senior VP	33
Ralph D. Mattingly	31	Vice President	38
Brian N. Bausmith	23	Vice President	23
Stephen P. Anglin	9	Vice President	31
Deborah G. Stevens	8	Vice President	33
Connie A. Sears	7	Vice President	22
John Rost	3	Vice President	27
Nathan Sachritz	1	Vice President	30
Beverly K. Taylor	33	Assistant VP	33
Patricia D. Mitchell	31	Assistant VP	31
Steven C. Lautenslager	20	Assistant VP	20
Sherry L. Jackson	15	Assistant VP	15
Jeffrey L. Davis	11	Assistant VP	11
Peter G. Berninger	5	Assistant VP	27
Roger P. Mersch	4	Assistant VP	26
Bradley A. Ruppert	2	Assistant VP	11
Ed Hale	1	Assistant VP	35
Melanie K. Crane	24	Trust Officer	24
Mary Lynn Johnson	23	Assistant Cashier	23
Rhonda G. Wetzig	17	Assistant Cashier	17
Mary Jane Mayer	9	Assistant Cashier	28
Steven Pomeroy	2	Assistant Cashier	26
Simone Payne	6	Assistant Cashier	6
Karen Day	15	Assistant Cashier	15
S. Diane Ingram	18	Asst. Trust Officer	18
Centerville			
Daniel H. Nielsen	2	Vice President	33
Colerain Township			
Judith Neiheisel	3	Assistant VP	27
Randy Bernhardt	3	Assistant VP	25
Columbus Ave.			
David W. Witham	45	Vice President	45
Fairfield			
Patricia Q. Partch	6	Assistant Cashier	24

Name	Years with LCNB	Title	Years of Related Experience
Goshen			
Kimberly J. Johnson	29	Assistant VP	31
Hamilton			
David R. Theiss	11	Vice President	31
Hunter			
Tammy S. Murray	10	Assistant Cashier	11
Loveland			
Harry E. Campbell, Jr.	33	Vice President	33
Maineville			
Karen M. Cramer	22	Assistant VP	22
Mason			
Kimberli R. Layer	20	Assistant VP	20
Middletown			
John E. Wetzig, III	21	Assistant VP	21
Oakwood			
P. Stanley Castleman	4	Vice President	21
Kelly Haworth	1	Vice President	29
Lisa E. Emmel	4	Assistant Cashier	20
Rebecca M. Roess	1	VP Trust Officer	11
Okeana			
Lenora Schoultheis	12	Assistant Cashier	39
Oxford			
Annie S. Joseph	4	Assistant Cashier	12
Roachester			
Pauletta I. Sears	21	Vice President	38
Terry Howard	20	Assistant Cashier	20
Springboro			
William E. Childers	11	Assistant VP	14
Teresa A. McCurley	21	Assistant VP	21
South Lebanon			
Amy L. Butler	18	Assistant VP	18
Christina L. Harris	14	Assistant Cashier	14
Waynesville			
Lonnie D. Schear	12	Vice President	36
Patricia S. Hogan	19	Assistant VP	19
Wilmington			
M. Teresa Jenkins	6	Assistant Cashier	36

FINANCIAL HIGHLIGHTS

For the Years Ended December 31,	(Dollars in thousands, except per share data)				
	2009	2008	2007	2006	2005
Income Statement					
Net interest income	\$ 24,795	20,929	18,153	18,315	18,570
Net income	7,766	6,603	5,954	6,514	6,705
Net income available to common shareholders	6,658	6,603	5,954	6,514	6,705
Earnings per common share:					
Basic ⁽¹⁾	1.00	0.99	0.94	1.00	1.01
Diluted ⁽¹⁾	0.99	0.99	0.94	1.00	1.01
Dividends declared per common share ⁽¹⁾	0.64	0.64	0.62	0.60	0.58
Balance Sheet					
Loans – net	\$457,418	451,343	444,419	388,320	357,651
Earning assets	678,055	599,825	550,733	505,485	498,396
Total assets	734,409	649,731	604,058	548,215	539,501
Total deposits	624,179	577,622	535,929	478,615	481,475
Short-term borrowings	14,265	2,206	1,459	15,370	1,031
Long-term debt	24,960	5,000	5,000	-	2,073
Total shareholders' equity	65,615	58,116	56,528	50,999	52,022
Per common share:					
Book value at year end ⁽¹⁾	9.81	8.69	8.45	7.99	7.94
Performance Ratios					
Return on average assets	1.07%	1.03%	1.08%	1.19%	1.25%
Return on average shareholders' equity	10.43%	11.35%	11.41%	12.48%	12.80%

⁽¹⁾All per share data have been adjusted to reflect a 100% stock dividend accounted for as a stock split in 2007.

CONDENSED CONSOLIDATED BALANCE SHEETS

At December 31, (Dollars in thousands)

	2009	2008
ASSETS:		
Cash and due from banks	\$ 12,626	11,278
Federal funds sold and interest-bearing demand deposits	-	6,742
Total cash and cash equivalents	12,626	18,020
Investment securities:		
Available-for-sale, at fair value	201,578	136,244
Held-to-maturity, at cost	13,030	-
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	3,031	3,028
Loans, net	457,418	451,343
Premises and equipment, net	15,722	15,582
Goodwill	5,915	5,915
Bank owned life insurance	14,122	13,485
Other assets	10,967	6,114
TOTAL ASSETS	\$734,409	649,731
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$93,894	82,645
Interest-bearing	530,285	494,977
Total deposits	624,179	577,622
Short-term borrowings	14,265	2,206
Long-term debt	24,960	5,000
Accrued interest and other liabilities	5,390	6,787
TOTAL LIABILITIES	668,794	591,615
SHAREHOLDERS' EQUITY:		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding	-	-
Common shares - no par value, authorized 8,000,000 shares, issued 7,445,514 at Dec. 31, 2009 and 2008	11,068	11,068
Surplus	15,407	14,792
Retained earnings	48,962	46,584
Treasury shares at cost, 758,282 shares at December 31, 2009 and 2008	(11,737)	(11,737)
Accumulated other comprehensive income (loss), net of taxes	1,915	(2,591)
TOTAL SHAREHOLDERS' EQUITY	65,615	58,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$734,409	649,731

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, (Dollars in thousands, except per share data)

	2009	2008	2007
INTEREST INCOME:			
Interest and fees on loans	\$27,493	29,024	27,066
Dividends on Federal Reserve Bank and Federal Home Loan Bank stock	153	160	163
Interest on investment securities—			
Taxable	4,239	2,642	2,229
Non-taxable	2,921	1,995	1,879
Other short-term investments	49	529	654
TOTAL INTEREST INCOME	34,855	34,350	31,991
INTEREST EXPENSE:			
Interest on deposits	9,434	13,145	13,445
Interest on short-term borrowings	3	13	181
Interest on long-term debt	623	263	212
TOTAL INTEREST EXPENSE	10,060	13,421	13,838
NET INTEREST INCOME	24,795	20,929	18,153
PROVISION FOR LOAN LOSSES	1,400	620	266
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,395	20,309	17,887
NON-INTEREST INCOME:			
Trust income	1,916	1,861	1,890
Service charges and fees	4,018	4,254	4,103
Net gain (loss) on sales of securities	110	—	—
Insurance agency income	1,511	1,620	1,627
Bank owned life insurance income	637	534	472
Gains from sales of mortgage loans	396	11	47
Other operating income	184	173	207
TOTAL NON-INTEREST INCOME	8,772	8,453	8,346
NON-INTEREST EXPENSE:			
Salaries and wages	9,422	8,888	8,040
Pension and other employee benefits	2,306	2,433	2,125
Equipment expenses	1,017	995	1,039
Occupancy expense, net	1,721	1,652	1,506
State franchise tax	611	639	630
Marketing	443	464	429
Intangible amortization	110	316	575
FDIC premiums	1,271	75	57
ATM expense	513	456	401
Computer maintenance and supplies	466	471	418
Telephone expense	410	442	424
Write-off of pension asset	722	—	—
Other non-interest expense	3,103	3,103	2,700
TOTAL NON-INTEREST EXPENSE	22,115	19,934	18,344
INCOME BEFORE INCOME TAXES	10,052	8,828	7,889
PROVISION FOR INCOME TAXES	2,286	2,225	1,935
NET INCOME	7,766	6,603	5,954
PREFERRED STOCK DIVIDENDS AND DISCOUNT ACCRETION	1,108	—	—
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 6,658	6,603	5,954
Earnings per common share:			
Basic	\$ 1.00	0.99	0.94
Diluted	0.99	0.99	0.94
Weighted average shares outstanding:			
Basic	6,687,232	6,687,232	6,368,046
Diluted	6,701,309	6,687,232	6,368,563

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
LCNB Corp. and subsidiaries

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LCNB Corp. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, and consolidated statements of comprehensive income, shareholders' equity and cash flows (not included herein), for each of the three years in the period ended December 31, 2009; and in our report dated February 22, 2010 we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Cincinnati, Ohio
February 22, 2010

J. D. Cloud & Co. L.L.P.

