

# In Today's Economy, This is a Good Sign



2010 Annual Report

# LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

A struggling economy, increased banking regulation, and higher FDIC premiums have made it difficult for some U.S. banks to deliver good results in 2010. LCNB is happy to report that, in spite of those challenges, 2010 was another very successful year and we are proud to present these results in this year's annual report.

The theme of this year's annual report is, "If LCNB is in your Community...

This is a Good Sign." This refers directly to the importance of a bank to the economic health of any community. A traditional regulated bank, whose success is tied to the success of its customers and its community is so very important for several reasons. A community bank is the economic engine that enables its customers to create jobs and to create wealth and opportunity. It renders advice on how fast to grow and how far to go to ensure that customers are successful in the long-run. The bank's value to the community itself goes beyond economic value and provides the power of involvement and support. Support is given by investing time and money in many organizations and events which contribute to the quality of life in a community. It also supports those things, both necessary and nice, that differentiates a community and makes it a great place to live.

A successful year is measured in numerous ways. We measure it financially and with the completion of successful projects within the organization.



Financially, LCNB earned a return on average assets of 1.22% and a return on average equity of 13.36% in 2010. Net income available to common shareholders in 2010 exceeded 2009 results by 41% resulting in net income available to common shareholders of \$9.4 million. That net income produced total earnings per share of \$1.40

which is 40% higher than the \$1.00 earnings per share from 2009 results. Although LCNB Corp. total assets grew from \$734 million to \$760 million in 2010, loan growth was still sluggish in 2010. Net loans declined 1.11% from 2009 to \$452 million. But within that total, commercial loans grew by almost 2% and we have originated or refinanced \$19 million in 1-4 family mortgages for consumers taking advantage of the low interest rate environment in 2010. Another \$24 million of 1-4 family mortgages were originated and sold in the secondary market during 2010. The Trust and Brokerage Departments both had 14% growth in assets they manage for our customers and deposits continued to grow in 2010 to \$639 million. Total shareholder's equity on December 31, 2010 was \$70.7 million. Our capital remains in the "well capitalized" designation.

# LETTER TO OUR SHAREHOLDERS

Continued

LCNB Management and the Board of Directors believe continuing to pay a dividend to our shareholders is important. During 2010 our shareholders received a dividend of \$.64 per share. LCNB returned earnings to its shareholders of 46% in 2010.

In addition to the successful year financially, our employees also were busy improving delivery channels for our customers. We started upgrading our ATM machines to newer models in 2010 and this project will continue in 2011. Because of the constant threat of dishonest people trying to exploit our electronic delivery channels, we have added additional firewalls and other more secure ways that our customers can access their bank information and transact business electronically. We will always strive to maintain the latest security measures to protect our customers' information. Although we did not build or acquire any new facilities in 2010, we began construction of a new branch in the City of Monroe and the new Auto Bank in Lebanon. Both projects should be complete by late Spring of 2011.

In November, Dave Beckett, a director of LCNB since 1999 and President of Dakin Insurance Agency, a subsidiary of LCNB Corp., announced that he and his family planned to relocate to another state. We are sorry to lose Dave as a director and as president of Dakin Insurance. He has very competently fulfilled both roles. The LCNB Board of Directors decided not to fill the vacant director's seat at this time. In addition, the LCNB Board of Directors decided to divest of Dakin Insurance by selling the agency.

Additional statistical data and information on our financial performance for 2010 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](http://www.LCNB.com).

The Annual Meeting for LCNB Corp. will be Tuesday, April 26th, 2011 at 10:00 a.m. 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

**Please Note:** "In the spirit of service to our communities and profession, Steve Wilson continues to demonstrate his dedication to the banking industry. He served as chairman of the Ohio Bankers League (OBL) in 1997 and, beginning in October 2010, Steve is serving as Chairman of the American Bankers Association (ABA).

*It is a prestigious honor that Steve has been given to represent our banking industry and his leadership and experience is important to banking at this crucial time.* – Steve P. Foster

# 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.



**ANNE E. KREHBIEL**  
Attorney



**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  
**SPENCER S. CROPPER**  
Certified Public Accountant,  
Stolle Properties, Inc.  
**DAVID S. BECKETT**  
President,  
Dakin Insurance Agency, Inc.  
**ANNE E. KREHBIEL**  
Attorney  
**RICK L. BLOSSOM**  
Managing Partner,  
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

# In Today's Economy, This is a Good Sign.



LCNB National Bank's history is deeply rooted in the soil of supporting memorable Hometown events. The Bank was founded in Lebanon over 134 years ago in what was then a rural farming community. These events or gatherings were the only times during the year that its hardworking residents could come together to socialize and celebrate the community.

The Bank believes that sponsoring these events is important in any economy. They show first-hand the economic health of the community. They also build traditions with families, friends and neighbors. It seems as if the entire community was there—smiling, laughing and working side by side. And they were. Just about everyone was there—including LCNB National Bank and our employees.

Being a supporter of these tradition-rich events is only one of the Bank's responsibilities to the communities it serves. Our primary role is to serve as the "economic engine" that stimulates the local economy. LCNB

accomplishes this by offering the financial tools that our customers can use to achieve their own personal goals of success. These goals are different for everyone. They may include home ownership, starting or expanding a



*In the Spring of this year, we will be opening our 26th office in the hometown community of Monroe. When this new LCNB office is built, and the big 'green and white' sign is turned on, everyone will know This is a Good Sign—a sign of prosperity and success...backed by a lot of tradition.*

LCNB is a community bank. We are dedicated to the success of our customers, communities, shareholders and employees. Their success is our success. That says it all! We believe that the 20 citizens who founded LCNB in 1877 would be very proud of the Bank in 2011.



business, wealth building, investing for retirement and much, much more.

As the community's "economic engine," the Bank must also serve local public institutions and governments, as only a local bank can. And during a difficult economy, LCNB is trusted to find unique solutions that keep the community moving forward, responsibly. The Bank accomplishes this by buying local bonds and investing in mortgage securities. These financial instruments directly help our local governments, schools and also encourage home ownership.

While we offer the financial tools and unique solutions to stimulate the local economy, the Bank also provides a strong, local and secure place for our customers to grow and safeguard their money. This is a philosophy we were founded upon and it serves us well today in light of the continued turmoil facing the financial markets.



# LCNB OFFICERS

Name	Years with LCNB	Title	Years of Related Experience	Name	Years with LCNB	Title	Years of Related Experience
Stephen P. Wilson	36	Chairman & CEO	39	Amy L. Butler	19	Assistant VP	19
Steve P. Foster	34	President	37	William E. Childers	12	Assistant VP	15
D.J. Benjamin Jackson	37	Sr. Executive VP	42	Karen M. Cramer	23	Assistant VP	23
Bernard H. Wright, Jr.	33	Sr. Executive VP	36	Jeffrey L. Davis	12	Assistant VP	12
Robert C. Haines, II	19	Executive VP	19	Lisa E. Emmel	5	Assistant VP	21
Matthew P. Layer	28	Executive VP	28	Ed Hale	2	Assistant VP	36
Leroy F. McKay	15	Executive VP	25	Patricia S. Hogan	20	Assistant VP	20
Eric J. Meilstrup	23	Executive VP	23	Sherry L. Jackson	16	Assistant VP	16
Kenneth R. Layer	28	Senior VP	28	Kimberly J. Johnson	30	Assistant VP	32
Timothy J. Sheridan	21	Senior VP	34	Steven C. Lautenslager	21	Assistant VP	21
Ann M. Smith	24	Senior VP	24	Michael Lavatori	8	Assistant VP	22
Stephen P. Anglin	10	Vice President	32	Teresa A. McCurley	22	Assistant VP	22
Brian N. Bausmith	24	Vice President	24	Roger P. Mersch	5	Assistant VP	27
Harry E. Campbell, Jr.	34	Vice President	34	Patricia D. Mitchell	32	Assistant VP	32
P. Stanley Castleman	5	Vice President	22	Judith Neiheisel	4	Assistant VP	28
Kelly Haworth	2	Vice President	30	Beverly K. Taylor	34	Assistant VP	34
Kimberli R. Layer	21	Vice President	21	John L. Torbeck	1	Assistant VP	25
Ralph D. Mattingly	32	Vice President	39	John E. Wetzig, III	22	Assistant VP	22
Dan H. Nielsen	3	Vice President	34	Karen A. Day	16	Assistant Cashier	16
Rebecca H. Roess	2	VP/Trust Officer	12	Christina L. Harris	15	Assistant Cashier	15
John Rost	4	Vice President	28	Terry J. Howard	21	Assistant Cashier	21
Bradley A. Ruppert	3	Vice President	12	Kimberly B. Isaacs	15	Assistant Cashier	15
Nathan Sachritz	2	Vice President	31	Mary Lynn Johnson	24	Assistant Cashier	24
Lonnie D. Schear	13	Vice President	37	M. Teresa Jenkins	7	Assistant Cashier	37
Connie A. Sears	8	Vice President	23	Annie S. Joseph	5	Assistant Cashier	13
Pauletta I. Sears	22	Vice President	39	Tammy S. Murray	11	Assistant Cashier	12
Deborah G. Stevens	9	Vice President	34	Patricia Q. Partch	7	Assistant Cashier	25
David R. Theiss	12	Vice President	32	Simone Payne	7	Assistant Cashier	7
Melanie K. Crane	25	Trust Officer	25	Steven Pomeroy	3	Assistant Cashier	27
S. Diane Ingram	19	Trust Officer	19	Janet M. Preston	15	Assistant Cashier	25
Randy Bernhardt	4	Assistant VP	26	Lenora Schoultheis	13	Assistant Cashier	40
Peter G. Berninger	6	Assistant VP	28	Rhonda G. Wetzig	18	Assistant Cashier	18

## FINANCIAL HIGHLIGHTS

For the Years Ended December 31,	(Dollars in thousands, except per share data)				
	2010	2009	2008	2007	2006
<b>Income Statement</b>					
Net interest income . . . . .	\$ 25,655	24,793	20,928	18,152	18,315
Net income from continuing operations . . . . .	9,133	7,687	6,427	5,737	6,182
Income from discontinued operations, net of tax . . . . .	240	79	176	217	332
Net income . . . . .	9,373	7,766	6,603	5,954	6,514
Net income available to common shareholders . . . . .	9,373	6,658	6,603	5,954	6,514
Dividends declared per common share <sup>(1)</sup> . . . . .	0.64	0.64	0.64	0.62	0.60
Basic earnings per common share <sup>(1)</sup> :					
Continuing operations . . . . .	1.37	0.99	0.96	0.90	0.95
Discontinued operations . . . . .	0.03	0.01	0.03	0.04	0.05
Diluted earnings per common share <sup>(1)</sup> :					
Continuing operations . . . . .	1.36	0.98	0.96	0.90	0.95
Discontinued operations . . . . .	0.03	0.01	0.03	0.04	0.05
<b>Balance Sheet</b>					
Loans – net . . . . .	\$ 452,350	457,418	451,343	444,419	388,320
Earning assets . . . . .	706,226	678,055	599,825	550,733	505,485
Total assets . . . . .	760,134	734,409	649,731	604,058	548,215
Total deposits . . . . .	638,539	624,179	577,622	535,929	478,615
Short-term borrowings . . . . .	21,691	14,265	2,206	1,459	15,370
Long-term debt . . . . .	23,120	24,960	5,000	5,000	–
Total shareholders' equity . . . . .	70,707	65,615	58,116	56,528	50,999
Per common share:					
Book value at year end <sup>(1)</sup> . . . . .	10.57	9.81	8.69	8.45	7.99
<b>Performance Ratios</b>					
Return on average assets . . . . .	1.22%	1.07%	1.03%	1.08%	1.19%
Return on average shareholders' equity . . . . .	13.36%	10.43%	11.35%	11.41%	12.48%

<sup>(1)</sup>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)

	2010	2009
<b>ASSETS:</b>		
Cash and due from banks . . . . .	\$ 10,817	12,626
Interest-bearing demand deposits . . . . .	182	–
Total cash and cash equivalents . . . . .	10,999	12,626
Investment securities:		
Available-for-sale, at fair value . . . . .	235,882	201,578
Held-to-maturity, at cost . . . . .	12,141	13,030
Federal Reserve Bank stock, at cost . . . . .	939	940
Federal Home Loan Bank stock, at cost . . . . .	2,091	2,091
Loans, net . . . . .	452,350	457,418
Premises and equipment, net . . . . .	16,017	15,722
Goodwill . . . . .	5,915	5,915
Bank owned life insurance . . . . .	14,242	14,122
Other assets . . . . .	9,558	10,967
<b>TOTAL ASSETS</b> . . . . .	<b>\$ 760,134</b>	<b>734,409</b>
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing . . . . .	\$ 98,994	93,894
Interest-bearing . . . . .	539,545	530,285
Total deposits . . . . .	638,539	624,179
Short-term borrowings . . . . .	21,691	14,265
Long-term debt . . . . .	23,120	24,960
Accrued interest and other liabilities . . . . .	6,077	5,390
<b>TOTAL LIABILITIES</b> . . . . .	<b>689,427</b>	<b>668,794</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding . . . . .	–	–
Common shares - no par value, authorized 12,000,000 shares, issued 7,445,514 at Dec. 31, 2010 and 2009 . . . . .	11,068	11,068
Surplus . . . . .	15,447	15,407
Retained earnings . . . . .	54,045	48,962
Treasury shares at cost, 755,771 shares and 758,282 shares at December 31, 2010 and 2009, respectively . . . . .	(11,698)	(11,737)
Accumulated other comprehensive income, net of taxes . . . . .	1,845	1,915
<b>TOTAL SHAREHOLDERS' EQUITY</b> . . . . .	<b>70,707</b>	<b>65,615</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> . . . . .	<b>\$ 760,134</b>	<b>734,409</b>

# CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	2010	2009	2008
<b>INTEREST INCOME:</b>			
Interest and fees on loans . . . . .	\$ 26,977	27,493	29,024
Interest on investment securities:			
Taxable . . . . .	3,686	4,237	2,641
Non-taxable . . . . .	3,126	2,921	1,995
Other investments . . . . .	200	202	689
<b>TOTAL INTEREST INCOME</b> . . . . .	<b>33,989</b>	<b>34,853</b>	<b>34,349</b>
<b>INTEREST EXPENSE:</b>			
Interest on deposits . . . . .	7,613	9,434	13,145
Interest on short-term borrowings . . . . .	27	3	13
Interest on long-term debt . . . . .	694	623	263
<b>TOTAL INTEREST EXPENSE</b> . . . . .	<b>8,334</b>	<b>10,060</b>	<b>13,421</b>
<b>NET INTEREST INCOME</b> . . . . .	<b>25,655</b>	<b>24,793</b>	<b>20,928</b>
<b>PROVISION FOR LOAN LOSSES</b> . . . . .	<b>1,680</b>	<b>1,400</b>	<b>620</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b> . . . . .	<b>23,975</b>	<b>23,393</b>	<b>20,308</b>
<b>NON-INTEREST INCOME:</b>			
Trust income . . . . .	1,897	1,916	1,861
Service charges and fees on deposit accounts . . . . .	3,953	3,985	4,211
Net gain on sales of securities . . . . .	948	110	–
Bank owned life insurance income . . . . .	1,389	637	534
Gains from sales of mortgage loans . . . . .	496	396	11
Other operating income . . . . .	248	204	184
<b>TOTAL NON-INTEREST INCOME</b> . . . . .	<b>8,931</b>	<b>7,248</b>	<b>6,801</b>
<b>NON-INTEREST EXPENSE:</b>			
Salaries and employee benefits . . . . .	11,271	10,534	10,183
Equipment expenses . . . . .	889	995	973
Occupancy expense, net . . . . .	1,875	1,721	1,652
State franchise tax . . . . .	703	610	614
Marketing . . . . .	448	408	433
Intangible amortization . . . . .	57	57	257
FDIC premiums . . . . .	958	1,271	75
ATM expense . . . . .	513	513	456
Computer maintenance and supplies . . . . .	456	449	454
Telephone expense . . . . .	414	407	439
Other real estate owned . . . . .	506	17	9
Write-off of pension asset . . . . .	–	722	–
Other non-interest expense . . . . .	3,189	3,005	3,003
<b>TOTAL NON-INTEREST EXPENSE</b> . . . . .	<b>21,279</b>	<b>20,709</b>	<b>18,548</b>
<b>INCOME BEFORE INCOME TAXES</b> . . . . .	<b>11,627</b>	<b>9,932</b>	<b>8,561</b>
<b>PROVISION FOR INCOME TAXES</b> . . . . .	<b>2,494</b>	<b>2,245</b>	<b>2,134</b>
<b>NET INCOME FROM CONTINUING OPERATIONS</b> . . . . .	<b>9,133</b>	<b>7,687</b>	<b>6,427</b>
<b>INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX</b> . . . . .	<b>240</b>	<b>79</b>	<b>176</b>
<b>NET INCOME</b> . . . . .	<b>9,373</b>	<b>7,766</b>	<b>6,603</b>
<b>PREFERRED STOCK DIVIDENDS AND DISCOUNT ACCRETION</b> . . . . .	<b>–</b>	<b>1,108</b>	<b>–</b>
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b> . . . . .	<b>\$ 9,373</b>	<b>6,658</b>	<b>6,603</b>
Basic earnings per common share:			
Continuing operations . . . . .	\$ 1.37	0.99	0.96
Discontinued operations . . . . .	0.03	0.01	0.03
Diluted earnings per common share:			
Continuing operations . . . . .	1.36	0.98	0.96
Discontinued operations . . . . .	0.03	0.01	0.03
Weighted average shares outstanding:			
Basic . . . . .	6,687,500	6,687,232	6,687,232
Diluted . . . . .	6,736,622	6,701,309	6,687,232

## 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, 2010 and 2009, 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, 2010; and in our report dated March 1, 2011 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  
March 1, 2011

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

