

Building for the Future with Personal Service, Convenience and Performance



BANK

LCNB
National Bank



LCNB
CORP.

2011 Annual Report

LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

We are pleased to report to our shareholders the completion of another successful year in 2011 despite economic and regulatory challenges.

At the end of 2010 we predicted and hoped for an improving U.S. economy in 2011. By most measurements the economy gained some strength in 2011 although unemployment still remained too high. Interest rates remained low throughout 2011 and continue to remain low as we enter 2012. Consistent with general industry trends, historic sustained

low interest rates put pressure on the Bank's interest margin in 2011. Additionally, the passage of the Dodd-Frank Bill in 2010 has added and will add additional regulations that create a compliance burden for financial institutions. That compliance burden is predicted to be a contributing factor in the closing, selling, or merging of at least 25% of financial institutions in the next 3 to 5 years. Compliance is an expensive task and a larger burden for financial institutions smaller than LCNB that do not have the staff to dedicate to compliance. Many small communities have only one bank and the loss of those banks will have a negative effect on the success and quality of life for many citizens. Nevertheless, the drivers of our success are our strong corporate values which continue to lead us in this environment.

This Annual Report highlights "Building for the Future with Personal Service, Conve-

nience, and Performance". As you will read within this report, LCNB realizes the importance of excellent customer service and the many ways that customer service is presented. The Board of

Directors, management, and employees strive to provide the best service using the latest technology available in the markets we serve.

Although the low interest rates and resulting lower interest margin were a challenge to earnings, LCNB successfully earned a 1.02% return on average assets and a 10.89% return on average equity. As stated in our end of the year earn-

ings release, we believe that consistency in performance is important. We always strive to take a long-term versus a short-term view. To that end, we are pleased that for over 35 years your Bank has achieved at least a 1% return on average assets and double digit return on average equity. Of greatest importance to you, our shareholder, is the consistent dividend payment that has been the result of that performance. Net income was \$8.1 million, resulting in total basic earnings per share of \$1.21. LCNB's total assets grew by 4.1% or \$31.4 million to \$791.6 million from December 31, 2010 to December 31, 2011. Total net loans grew by \$6.0 million or 1.3% in 2011 with commercial loans growing 7.7%. The continued low interest rate environment allowed consumers to finance or refinance their mortgages. LCNB originated or refinanced \$26 million in 1-4 family mortgages for consumers in 2011. Another \$9.4



LETTER TO OUR SHAREHOLDERS

Continued

million of 1-4 family mortgages were originated and sold in the secondary market during 2011. Total shareholders' equity on December 31, 2011 was \$78.0 million which was an increase of 10.3% from December 31, 2010. Our capital remains in the "well capitalized" designation.

In the first quarter for 2011 LCNB Corp. sold the insurance subsidiary Dakin Insurance Agency. David Beckett, the President of Dakin Insurance, made the decision to move out of state and LCNB's Board of Directors and management decided to take that opportunity to sell the insurance agency to the Rixey-Berry Insurance Group. That sale was completed in late March 2011 and was recognized as a gain on LCNB Corp.'s financial statements.

Unfortunately, in 2011 the LCNB family was saddened by the sudden deaths of three LCNB employees. In early March, Ed Hale, Vice President of Mortgage Loans, was stricken by a heart attack and died suddenly. Although Ed had only been with LCNB for two years, many of us had known Ed as a local banker for over thirty-six years. In late July, Ben Jackson lost his battle with cancer. Ben had worked at LCNB for over thirty-seven years helping LCNB grow from a \$30 million asset bank to an almost \$800 million asset bank at his death. Ben's dedication and hard work was instrumental in LCNB's growth and success. In late December, Linda Palmer also died suddenly. Linda had worked in our Mason office as a teller for over ten years. Linda was well-liked by her fellow employees and her customers. All three were an important part of the LCNB family and will be missed.

Several projects that were started in 2010 were completed in 2011. The replacement of

older ATMs with new touch screen models was completed in 2011. The construction of a new full service branch in Monroe, Ohio was started in November, 2010 and it opened in June, 2011. The construction of a new Auto Bank at the Main Office was also completed in 2011. The new Auto Bank includes a drive-up ATM and a drive-up night depository. We also closed our Bridgetown Office during 2011. While that may sound like a negative, it does demonstrate that your Board and Management consistently strive to insure that all our operations are either currently profitable or have strong potential to enhance our bottom line. Work on providing mobile banking using smart phones was also started in late 2011 to roll out in early 2012.

Additional statistical data and information on our financial performance for 2011 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 shareholder information section on our website, www.LCNB.com or www.lcnbcorp.com.

The Annual Meeting for LCNB Corp. will be Tuesday, April 24th, 2012 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

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.



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,
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WILLIAM H. KAUFMAN
Attorney

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

ANNE E. KREHBIEL
Attorney

RICK L. BLOSSOM
Managing Partner,
Reality Check, LLC

STEVE P. FOSTER
President

Building for the Future with Personal Service, Convenience and Performance

Every era in banking presents new challenges and opportunities to assure our LCNB National Bank customers that their Bank is a safe and secure place to invest, borrow and grow their money. And, as a community bank, we must also assure our customers that our financial products, technology and delivery channels are the best and most secure available without sacrificing the personal service and convenience upon which they depend. Our final challenge is that the Bank must blend these assurances together to serve our customers and provide the expected results of our shareholders. To some this sounds daunting, but we have a long history of meeting these challenges and turning them into opportunities.

SINCE 1877 For example, in 1877 our Founders opened the Bank in very trying times with the promise to their customers that they would provide the best in security and safety with easy access to their money. They accomplished this by being open convenient hours, staffing with knowledgeable people and installing a 6,000 lb. safe. Everyone in the Bank was involved. We like to think of this as state-of-the-art technology in community banking 135 years ago.

Today, our challenge to meet those same assurances has not changed in scope. Our people are knowledgeable and dedicated. We concentrate our efforts on personal service and offering the best in financial products and services. And although we have a much larger vault today, we also have more secure delivery channels that serve the same purpose. Some things never change. We continue to turn challenges into opportunities.

DEDICATION AND EDUCATION



The majority of our officers and staff have long careers with the Bank. They all agree that constant internal and external education about products, services and security are a key to their success. Their education and knowledge are challenged everyday with questions from our customers. These questions range from how a product can help them manage their finances more easily to just solving a problem. Whatever the situation, when we help them find the answers they are looking for we all feel a sense of satisfaction in a job well done. That is the essence of community banking.

BRICKS AND MORTAR – 25 OFFICES



LCNB is a community bank. We still hold true to the traditions of local service and personal banking. Despite the explosion of high-tech offerings, our customers still want the ability to walk into their LCNB office and visit with our personnel. It gives them a comfort level of knowing with whom they are investing their money or have their loan.

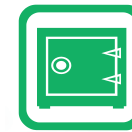


Our 25 offices continue to be one of our most important delivery channels. During this past year, we opened a new office in Monroe and built a new Auto Bank to replace our 35-year old structure. Both of these offices provide a greater presence for the Bank in important markets we serve.

OUR ATM NETWORK, BANKLINE, IMAGING, AND IT DEPARTMENT



When we first installed our ATMs, it became obvious that additional delivery channels would be carried through phone lines. From that moment, we began to build for the future. Our Information Technology (IT) Department was created and they were given the ongoing task to find safe and secure solutions to the many new technologies being offered. Around this same time, the Bank introduced BankLine, our automated telephone banking service. This allowed our customers to perform some of their banking functions with a touchtone phone. We also invested in imaging scanners for our checking and business customers. This provided a quick search and secure mechanism for someone seeking records. Today, these services are nothing like their predecessors. The evolution of each through software upgrades, satellites and the Internet has made them extremely vital to our customers in managing their finances. Our IT Department grew in its acquired knowledge and personnel so that we can keep these delivery channels running securely to serve our customers anywhere in the world.



ONLINE BANKING, ONLINE LOAN APPLICATIONS AND CALL CENTER



Providing Internet access for all of our products and services in a safe, secure and dependable manner has always been a high priority and a challenge. At the same time, new services were being offered and developed. We knew our customers wanted the option to use the new available technology like Online Banking and Online Loan Applications. However, customers did not want to sacrifice their personal interaction with their Bank. Leading the effort to promote the benefits of both was the management team, but the day-to-day solution-providers were our Information Technology Department and the Call Center. Our Call Center staff personally answers every phone call, answers questions, solves problems, transfers customers to correct departments, and provides the personal touch that helps define our personal banking style.



MOBILE BANKING



Mobile Banking, our newest delivery channel, allows our customers to access their accounts on their smart phone and perform many of the same transactions currently performed on their computers or in-person at one of our offices. This service has grown in popularity because of the change in our customers' lifestyles and work schedules. When we combine our mobile banking with personal service – this gives us an edge in the competitive banking world and one in which we are most proud.



LCNB OFFICERS

Name	Years with LCNB	Title	Years of Related Experience
Stephen P. Wilson	37	Chairman & CEO	40
Steve P. Foster	35	President	38
Bernard H. Wright, Jr.	34	Sr. Executive VP	37
Robert C. Haines, II	20	Executive VP	20
Matthew P. Layer	29	Executive VP	29
Leroy F. McKay	16	Executive VP	26
Eric J. Meilstrup	24	Executive VP	24
Kenneth R. Layer	29	Senior VP	29
Timothy J. Sheridan	22	Senior VP	35
Ann M. Smith	25	Senior VP	25
Stephen P. Anglin	11	Vice President	33
Brian N. Bausmith	25	Vice President	25
Peter G. Berninger	7	Vice President	29
Gene G. Bonny	1	Vice President	6
P. Stanley Castleman	6	Vice President	23
Kelly Haworth	3	Vice President	31
Kimberli R. Layer	22	Vice President	22
Ralph D. Mattingly	33	Vice President	40
Dan H. Nielsen	4	Vice President	35
Rebecca H. Roess	3	VP/Trust Officer	13
John Rost	5	Vice President	29
Bradley A. Ruppert	4	Vice President	13
Nathan Sachritz	3	Vice President	32
Lonnie D. Schear	14	Vice President	38
Connie A. Sears	9	Vice President	24
Pauletta I. Sears	22	Vice President	40
Deborah G. Stevens	10	Vice President	35
David A. Stitsinger	5	Vice President	33
David R. Theiss	13	Vice President	33
Melanie K. Crane	26	Trust Officer	26
S. Diane Ingram	20	Trust Officer	20
Randy Bernhardt	5	Assistant VP	27
Amy L. Butler	20	Assistant VP	20

Name	Years with LCNB	Title	Years of Related Experience
William E. Childers	13	Assistant VP	16
Karen M. Cramer	24	Assistant VP	24
Lisa E. Emmel	6	Assistant VP	22
Patricia S. Hogan	21	Assistant VP	21
Sherry L. Jackson	17	Assistant VP	17
Kimberly J. Johnson	31	Assistant VP	33
Annie S. Joseph	6	Assistant VP	14
Steven C. Lautenslager	22	Assistant VP	22
Michael Lavatori	9	Assistant VP	23
Teresa A. McCurley	23	Assistant VP	23
Roger P. Mersch	6	Assistant VP	28
Patricia D. Mitchell	33	Assistant VP	33
Judith Neiheisel	5	Assistant VP	29
Beverly K. Taylor	35	Assistant VP	35
John L. Torbeck	2	Assistant VP	26
Elizabeth G. Vogeles	1	Assistant VP	30
John E. Wetzig, III	23	Assistant VP	23
Melissa M. Cordes	11	Branch Officer	17
Karen A. Day	17	Assistant Cashier	17
Lisa A. Gibson	9	Assistant Cashier	21
Christina L. Harris	16	Branch Officer	16
Terry J. Howard	22	Branch Officer	22
Kimberly B. Isaacs	16	Assistant Cashier	16
Mary Lynn Johnson	25	Assistant Cashier	25
M. Teresa Jenkins	8	Branch Officer	38
Paula L. Lee	8	Branch Officer	10
Tammy S. Murray	12	Branch Officer	13
Patricia Q. Partch	8	Branch Officer	26
Janet M. Preston	16	Assistant Cashier	26
Lenora Schoultheis	14	Branch Officer	41
Simone Walter	8	Assistant Cashier	8
Rhonda G. Wetzig	19	Branch Officer	19

FINANCIAL HIGHLIGHTS

For the Years Ended December 31,	(Dollars in thousands, except per share data)				
	2011	2010	2009	2008	2007
Income Statement					
Net interest income	\$ 25,706	25,697	24,838	20,977	18,203
Net income from continuing operations	7,322	9,133	7,687	6,427	5,737
Income from discontinued operations, net of tax	793	240	79	176	217
Net income	8,115	9,373	7,766	6,603	5,954
Net income available to common shareholders	8,115	9,373	6,658	6,603	5,954
Dividends declared per common share ⁽¹⁾	0.64	0.64	0.64	0.64	0.62
Basic earnings per common share ⁽¹⁾ :					
Continuing operations	1.09	1.37	0.99	0.96	0.90
Discontinued operations	0.12	0.03	0.01	0.03	0.04
Diluted earnings per common share ⁽¹⁾ :					
Continuing operations	1.08	1.36	0.98	0.96	0.90
Discontinued operations	0.12	0.03	0.01	0.03	0.04
Balance Sheet					
Loans, net	\$458,331	452,350	457,418	451,343	444,419
Earning assets	736,119	706,226	678,055	599,825	550,733
Total assets	791,570	760,134	734,409	649,731	604,058
Total deposits	663,562	638,539	624,179	577,622	535,929
Short-term borrowings	21,596	21,691	14,265	2,206	1,459
Long-term debt	21,373	23,120	24,960	5,000	5,000
Total shareholders' equity	77,960	70,707	65,615	58,116	56,528
Per common share:					
Book value at year end ⁽¹⁾	11.63	10.57	9.81	8.69	8.45
Performance Ratios					
Return on average assets	1.02%	1.22%	1.07%	1.03%	1.08%
Return on average shareholders' equity	10.89%	13.36%	10.43%	11.35%	11.41%

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

CONDENSED CONSOLIDATED BALANCE SHEETS

At December 31, (Dollars in thousands)

	2011	2010
ASSETS:		
Cash and due from banks	\$ 12,449	10,817
Interest-bearing demand deposits	7,086	182
Total cash and cash equivalents	19,535	10,999
Investment securities:		
Available-for-sale, at fair value	254,006	235,882
Held-to-maturity, at cost	10,734	12,141
Federal Reserve Bank stock, at cost	940	939
Federal Home Loan Bank stock, at cost	2,091	2,091
Loans, net	458,331	452,350
Premises and equipment, net	17,346	16,017
Goodwill	5,915	5,915
Bank owned life insurance	14,837	14,242
Other assets	7,835	9,558
TOTAL ASSETS	\$791,570	760,134
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$106,793	98,994
Interest-bearing	556,769	539,545
Total deposits	663,562	638,539
Short-term borrowings	21,596	21,691
Long-term debt	21,373	23,120
Accrued interest and other liabilities	7,079	6,077
TOTAL LIABILITIES	713,610	689,427
SHAREHOLDERS' EQUITY:		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding	-	-
Common shares - no par value, authorized 12,000,000 shares, issued 7,460,494 and 7,445,514 shares at December 31, 2011 and 2010, respectively	26,753	26,515
Retained earnings	57,877	54,045
Treasury shares at cost, 755,771 shares at December 31, 2011 and 2010	(11,698)	(11,698)
Accumulated other comprehensive income, net of taxes	5,028	1,845
TOTAL SHAREHOLDERS' EQUITY	77,960	70,707
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$791,570	760,134

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	2011	2010	2009
INTEREST INCOME:			
Interest and fees on loans	\$ 25,502	27,020	27,538
Interest on investment securities:			
Taxable	3,843	3,686	4,237
Non-taxable	2,571	3,126	2,921
Other investments	177	199	202
TOTAL INTEREST INCOME	32,093	34,031	34,898
INTEREST EXPENSE:			
Interest on deposits	5,702	7,613	9,434
Interest on short-term borrowings	28	27	3
Interest on long-term debt	657	694	623
TOTAL INTEREST EXPENSE	6,387	8,334	10,060
NET INTEREST INCOME	25,706	25,697	24,838
PROVISION FOR LOAN LOSSES	2,089	1,680	1,400
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,617	24,017	23,438
NON-INTEREST INCOME:			
Trust income	2,099	1,897	1,916
Service charges and fees on deposit accounts	3,739	3,904	3,931
Net gain on sales of securities	948	948	110
Bank owned life insurance income	596	1,389	637
Gains from sales of mortgage loans	177	496	396
Other operating income	205	253	190
TOTAL NON-INTEREST INCOME	7,764	8,887	7,180
NON-INTEREST EXPENSE:			
Salaries and employee benefits	11,743	11,271	10,534
Equipment expenses	1,038	889	995
Occupancy expense, net	1,761	1,875	1,721
State franchise tax	764	703	610
Marketing	480	448	408
FDIC premiums	545	958	1,271
ATM expense	553	513	513
Computer maintenance and supplies	565	456	449
Telephone expense	407	414	407
Other real estate owned	350	506	17
Write-off of pension asset	—	—	722
Other non-interest expense	3,643	3,244	3,039
TOTAL NON-INTEREST EXPENSE	21,849	21,277	20,686
INCOME BEFORE INCOME TAXES	9,532	11,627	9,932
PROVISION FOR INCOME TAXES	2,210	2,494	2,245
NET INCOME FROM CONTINUING OPERATIONS	7,322	9,133	7,687
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	793	240	79
NET INCOME	8,115	9,373	7,766
PREFERRED STOCK DIVIDENDS AND DISCOUNT ACCRETION	—	—	1,108
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 8,115	9,373	6,658
Basic earnings per common share:			
Continuing operations	\$ 1.09	1.37	0.99
Discontinued operations	0.12	0.03	0.01
Diluted earnings per common share:			
Continuing operations	1.08	1.36	0.98
Discontinued operations	0.12	0.03	0.01
Weighted average shares outstanding:			
Basic	6,692,385	6,687,500	6,687,232
Diluted	6,751,599	6,736,622	6,701,309

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
LCNB Corp.

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, 2011 and 2010, 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, 2011; and in our report dated February 27, 2012, 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.

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



Cincinnati, Ohio
February 27, 2012



*This bench was erected in honor of our
friend and colleague, Ben Jackson.*