**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________________ to ______________________

Commission File Number 000-26121

# LCNB Corp.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Ohio** | **31-1626393** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

**2 North Broadway, Lebanon, Ohio 45036**
(Address of principal executive offices, including Zip Code)

**(513) 932-1414**
(Registrant's telephone number, including area code)

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

| Title of Each Class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, No Par Value** | **LCNB** | **NASDAQ Capital Market** |

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

**___None___**
(Title of Class)

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 Act.
☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☒ Yes ☐ No

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.

| | |
|---|---|
| ☐ Large accelerated filer | ☒ Accelerated filer |
| ☐ Non-accelerated filer | ☐ Smaller reporting company |
| | ☐ Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the registrant's outstanding voting common stock held by nonaffiliates on June 30, 2019, determined using a per share closing price on that date of $19.00 as quoted on the NASDAQ Capital Market, was $234,015,000.00.

As of March 3, 2019, 12,947,015 common shares were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement included in the Notice of Annual Meeting of Shareholders to be held April 21, 2020, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2019 are incorporated by reference into Part III.

**LCNB CORP.**

**For the Year Ended December 31, 2019**

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# PART I

## Item 1. Business

### FORWARD-LOOKING STATEMENTS

Certain statements made in this document regarding LCNB Corp.'s ("LCNB" or the "company") financial condition, results of operations, plans, objectives, future performance and business, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by the fact they are not historical facts and include words such as "anticipate", "could", "may", "feel", "expect", "believe", "plan", and similar expressions.

These forward-looking statements reflect management's current expectations based on all information available to management and its knowledge of LCNB's business and operations. Additionally, LCNB's financial condition, results of operations, plans, objectives, future performance and business are subject to risks and uncertainties that may cause actual results to differ materially. These factors include, but are not limited to:

1. the success, impact, and timing of the implementation of LCNB's business strategies;
2. LCNB's ability to integrate recent and future acquisitions may be unsuccessful, or may be more difficult, time-consuming or costly than expected;
3. LCNB may incur increased loan charge-offs in the future;
4. LCNB may face competitive loss of customers;
5. changes in the interest rate environment may have results on LCNB's operations materially different from those anticipated by LCNB's market risk management functions;
6. changes in general economic conditions and increased competition could adversely affect LCNB's operating results;
7. changes in regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact LCNB's operating results;
8. LCNB may experience difficulties growing loan and deposit balances;
9. United States trade relations with foreign countries could negatively impact the financial condition of LCNB's customers, which could adversely affect LCNB 's operating results and financial condition;
10. deterioration in the financial condition of the U.S. banking system may impact the valuations of investments LCNB has made in the securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments;
11. difficulties with technology or data security breaches, including cyberattacks, that could negatively affect LCNB's ability to conduct business and its relationships with customers, vendors, and others;
12. adverse weather events and natural disasters and global and/or national epidemics; and
13. government intervention in the U.S. financial system, including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau, the capital ratios of Basel III as adopted by the federal banking authorities, and the Tax Cuts and Jobs Act.

Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist shareholders and potential investors in understanding current and anticipated financial operations of LCNB and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. LCNB undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

## DESCRIPTION OF LCNB CORP.'S BUSINESS

General Description

LCNB Corp., an Ohio corporation formed in December 1998, is a financial holding company headquartered in Lebanon, Ohio. Substantially all of the assets, liabilities and operations of LCNB Corp. are attributable to its wholly-owned subsidiary, LCNB National Bank (the "Bank"). LCNB Risk Management, Inc., a captive insurance agency, was incorporated in Nevada by LCNB Corp. during the second quarter 2017. LCNB Corp. and its subsidiaries are herein collectively referred to as "LCNB." The predecessor of LCNB Corp., the Bank, was formed as a national banking association in 1877. On May 19, 1999, the Bank became a wholly-owned subsidiary of LCNB Corp.

On January 11, 2013, LCNB consummated a merger with First Capital Bancshares, Inc. ("First Capital") in a stock and cash transaction valued at approximately $20.2 million. Immediately following the merger of First Capital into LCNB, Citizens National Bank ("Citizens National"), a wholly-owned subsidiary of First Capital, was merged into the Bank. At that time, Citizens National's six full–service offices became offices of LCNB. Three of these offices are located in Chillicothe, Ohio and one office is located in each of Frankfort, Ohio, Clarksburg, Ohio, and Washington Court House, Ohio. The office in Clarksburg, Ohio was closed on January 24, 2017.

On January 24, 2014, LCNB purchased all of the outstanding stock of Eaton National Bank & Trust Co. ("Eaton National") from its holding company, Colonial Banc Corp., in a cash transaction totaling $24.75 million. Upon consummation of the transaction, Eaton National was merged into the Bank and its five offices became offices of the Bank. Two of these offices are located in Eaton, Ohio and one office is located in each of New Paris, Ohio, Lewisburg, Ohio, and West Alexandria, Ohio.

On April 30, 2015, LCNB consummated a merger with BNB Bancorp, Inc. ("BNB") in a stock and cash transaction valued at approximately $13.5 million. Immediately following the merger of BNB into LCNB, Brookville National Bank ("Brookville National"), a wholly-owned subsidiary of BNB, was merged into the Bank. At that time, Brookville National's two offices, both located in Brookville, Ohio, became offices of the Bank. The office located on Hay Avenue in Brookville was closed on November 10, 2017.

On May 31, 2018, LCNB consummated a merger with Columbus First Bancorp, Inc. ("CFB") in a stock transaction valued at approximately $64.4 million. Immediately following the merger of CFB into LCNB, Columbus First Bank ("Columbus First"), a wholly-owned subsidiary of CFB, was merged into the Bank. At that time, Columbus First's sole office, located in Worthington, Ohio, became an office of the Bank.

The Bank is a full service community bank offering a wide range of commercial and personal banking services. Deposit services include checking accounts, NOW accounts, savings accounts, Christmas and vacation club accounts, money market deposit accounts, Lifetime Checking accounts (a senior citizen program), individual retirement accounts, and certificates of deposit. Additional supportive services include online banking, bill pay, mobile banking and telephone banking. Commercial customers also have both cash management and remote deposit capture products as potential options. Deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (the "FDIC").

Loan products offered include commercial and industrial loans, commercial and residential real estate loans, agricultural loans, construction loans, various types of consumer loans, and Small Business Administration loans. The Bank's residential mortgage lending activities consist primarily of loans for purchasing or refinancing personal residences, home equity lines of credit, and loans for commercial or consumer purposes secured by residential mortgages. Most longer term, fixed-rate residential real estate loans are sold to the Federal Home Loan Mortgage Corporation with servicing retained. Consumer lending activities include automobile, boat, home improvement and personal loans.

The Trust and Investment Management Division of the Bank provides complete trust administration, estate settlement, and fiduciary services and also offers investment management of trusts, agency accounts, individual retirement accounts, and foundations/endowments.

Security brokerage services are offered by the Bank through arrangements with LPL Financial LLC, a registered broker/dealer. Licensed brokers offer a full range of investment services and products, including financial needs analysis, mutual funds, securities trading, annuities, and life insurance.

Other services offered include safe deposit boxes, night depositories, cashier's checks, bank-by-mail, ATMs, cash and transaction services, debit cards, wire transfers, electronic funds transfer, utility bill collections, notary public service, personal computer-based cash management services, 24-hour telephone banking, PC Internet banking, mobile banking, and other services tailored for both individuals and businesses.

The Bank is not dependent upon any one significant customer or specific industry. Business is not seasonal to any material degree.

The address of the main office of the Bank is 2 North Broadway, Lebanon, Ohio 45036; telephone (513) 932-1414.

Primary Market Area

The Bank considers its primary market area to consist of counties where it has a physical presence and neighboring counties, which includes Southwestern and South Central Ohio. At December 31, 2019, the Bank had:

- 35 offices, including a main office in Warren County, Ohio and branch offices in Warren, Butler, Clinton, Clermont, Fayette, Franklin, Hamilton, Montgomery, Preble, and Ross Counties, Ohio,
- an Operations Center in Warren County, Ohio,
- and 38 ATMs.

Competition

The Bank faces strong competition both in making loans and attracting deposits. The deregulation of the banking industry and the wide spread enactment of state laws that permit multi-bank holding companies as well as the availability of nationwide interstate banking has created a highly competitive environment for financial services providers. The Bank competes with other national and state banks, savings and loan associations, credit unions, finance companies, mortgage brokerage firms, realty companies with captive mortgage brokerage firms, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries operating in its market and elsewhere, many of whom have substantially larger financial and managerial resources.

The Bank seeks to minimize the competitive effect of other financial institutions through a community banking approach that emphasizes direct customer access to the Bank's CEO and other officers in an environment conducive to friendly, informed, and courteous personal services. Management believes that the Bank is well positioned to compete successfully in its primary market area. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans and other credit and service charges, the quality and scope of the services rendered, the convenience of the banking facilities, and, in the case of loans to commercial borrowers, relative lending limits.

The ability to access and use technology is an increasingly competitive factor in the financial services industry. Technology relating to the delivery of financial services, the security and privacy of customer information, and the processing of information is evolving rapidly. LCNB must continually make technology investments to remain competitive in the financial services industry.

Management believes the commitment of the Bank to personal service, innovation, and involvement in the communities and primary market areas it serves, as well as its commitment to quality community banking service, are factors that contribute to its competitive advantage.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies, financial holding companies and banks. These laws (and the regulations promulgated thereunder) are primarily intended to protect depositors and the deposit insurance fund (the “DIF”) of the Federal Deposit Insurance Corporation (the "FDIC"). The following information describes particular laws and regulatory provisions relating to financial holding companies and banks. This discussion is qualified in its entirety by reference to the particular laws and regulatory provisions. A change in any of these laws or regulations may have a material effect on our business and the business of our subsidiaries.

*Bank Holding Companies and Financial Holding Companies*

Historically, the activities of bank holding companies were limited to the business of banking and activities closely related or incidental to banking. Bank holding companies were generally prohibited from acquiring control of any company that was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. The Gramm-Leach-Bliley Act, which took effect on March 12, 2000, dismantled many Depression-era restrictions against affiliations between banking, securities, and insurance firms by permitting bank holding companies to engage in a broader range of financial activities, so long as certain safeguards are observed. Specifically, bank holding companies may elect to become "financial holding companies" that may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental to a financial activity. Thus, with the enactment of the Gramm-Leach-Bliley Act, banks, security firms, and insurance companies find it easier to acquire or affiliate with each other and cross-sell financial products. The Gramm-Leach-Bliley Act permits a single financial services organization to offer a more complete array of financial products and services than historically was permitted.

A financial holding company is essentially a bank holding company with significantly expanded powers. Under the Gramm-Leach-Bliley Act, in addition to traditional lending activities, the following activities are among those that are deemed "financial in nature" for financial holding companies: securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, activities which the Federal Reserve Board determines to be closely related to banking, and certain merchant banking activities.

LCNB elected to become a financial holding company on April 11, 2000. As a financial holding company, LCNB has very broad discretion to affiliate with securities firms and insurance companies, provide merchant banking services, and engage in other activities that the Federal Reserve Board has deemed financial in nature. In order to continue as a financial holding company, LCNB must continue to be well-capitalized, well-managed, and maintain compliance with the Community Reinvestment Act. Depending on the types of financial activities that LCNB may elect to engage in, under the Gramm-Leach-Bliley Act's functional regulation principles, it may become subject to supervision by additional government agencies. The election to be treated as a financial holding company increases LCNB's ability to offer financial products and services that historically it was either unable to provide or was only able to provide on a limited basis. As a result, LCNB will face increased competition in the markets for any new financial products and services that it may offer. Likewise, an increased amount of consolidation among banks and securities firms or banks and insurance firms could result in a growing number of large financial institutions that could compete aggressively with LCNB.

The Bank is subject to the provisions of the National Bank Act. The Bank is subject to primary supervision, regulation and examination by the Office of the Comptroller of the Currency (the "OCC"). The Bank is also subject to the rules and regulations of the Board of Governors of the Federal Reserve System and the FDIC.

*Banking Operations.*

LCNB Corp. and the Bank are subject to an extensive array of banking laws and regulations that are intended primarily for the protection of the Bank's customers and depositors. These laws and regulations govern such areas as permissible activities, loans and investments, and rates of interest that can be charged on loans and reserves. LCNB Corp. and the Bank also are subject to general U.S. federal laws and regulations and to the laws and regulations of the State of Ohio. Set forth below are brief descriptions of selected laws and regulations applicable to LCNB and the Bank.

*Safe and Sound Banking Practices.*

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1.0 million for each day the activity continues.

*Deposit Insurance Coverage and Assessments*

The Bank is FDIC insured. Through the DIF, the FDIC provides deposit insurance protection that covers all deposit accounts in FDIC-insured depository institutions up to applicable limits (currently $250,0000 per depositor).

The Bank must pay assessments to the FDIC under a risk-based assessment system for this federal deposit insurance protection. FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (i.e., institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions assigned to lower risk classifications. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to bank regulators. Through December 31, 2019, the assessment rate for the Bank was at the lowest risk-based premium available, which was 3.00% of the assessment base per annum. In addition, the FDIC can impose special assessments to cover shortages in the DIF and has imposed special assessments in the past.

In October 2010, the FDIC adopted a new Restoration Plan for the DIF to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. On April 26, 2016, the FDIC adopted a rule amending pricing for deposit insurance for institutions with less than $10 billion in assets, effective the quarter after the fund reserve ratio reached 1.15%. The fund reserve ratio reached 1.15% effective as of June 30, 2016. As a result, the Bank’s assessment rate was decreased to the rate stated above effective July 1, 2016. The Dodd-Frank Act also eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

The Dodd-Frank Act required the FDIC to offset the effect of increasing the reserve ratio on insured depository institutions with total consolidated assets of less than $10 billion, such as the Bank. In September 2018, the reserve ratio reached 1.36% at which time banks with assets of less than $10 billion were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%. When the reserve ratio reached 1.40% in June 2019, the FDIC applied these credits to the September 30, 2019 assessment invoice and then again to the December 31, 2019 assessment invoice. The Bank’s assessment credit totaled $413,000 of which $111,000 and $112,000, respectively, were used to zero out the September 30, 2019 and December 31, 2019 assessment invoices. As of December 31, 2019, $190,000 remains in available credits, which the Bank expects to be applied to the March 31, 2020 and June 30, 2020 assessment invoices.

As required by the Dodd-Frank Act, the FDIC also revised the deposit insurance assessment system, effective April 1, 2011, to base assessments on the average total consolidated assets of insured depository institutions during the assessment period, less the average tangible equity of the institution during the assessment period, as opposed to solely bank deposits at an institution. This base assessment change necessitated that the FDIC adjust the assessment rates to ensure that the revenue collected under the new assessment system will approximately equal that under the existing assessment system.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), an FDIC-insured depository institution can be held liable for any losses incurred by the FDIC in connection with (1) the “default” of one of its FDIC-insured subsidiaries or (2) any assistance provided by the FDIC to one of its FDIC-receivers. “In danger of default” is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

*Dividends*

LCNB is a legal entity separate and distinct from the Bank. LCNB receives most of its revenue from dividends paid to it by the Bank. Described below are some of the laws and regulations that apply when either LCNB or the Bank pay or paid dividends.

The Federal Reserve Board and the OCC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends to the extent net income is sufficient to cover both cash dividends and a rate of earnings retention consistent with capital needs, asset quality, and overall financial condition. Further, the Federal Reserve Board's policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. In addition, the Federal Reserve Board has indicated that each bank holding company should carefully review its dividend policy and has discouraged payment ratios that are at maximum allowable levels, which is the maximum dividend amount that may be issued and allow the company to still maintain its target Tier 1 capital ratio, unless both asset quality and capital are very strong.

To pay dividends, the Bank must maintain adequate capital above regulatory guidelines. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, the bank would be "undercapitalized." In addition, national banks are required by federal law to obtain the prior approval of the OCC in order to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

The Bank paid aggregate dividends to LCNB of $17,625,000 in 2019 and $10,383,000 in 2018. Under the dividend restrictions discussed above, as of December 31, 2019, the Bank could have declared in the aggregate additional dividends of approximately $14,598,000 from retained net profits, without obtaining regulatory approvals.

*Affiliate Transactions*

The Company and the Bank and other subsidiaries are "affiliates" within the meaning of the Federal Reserve Act. The Federal Reserve Act imposes limitations on a bank with respect to extensions of credit to, investments in, and certain other transactions with, its parent bank holding company and the holding company's other subsidiaries. Loans and extensions of credit from the bank to its affiliates are also subject to various collateral requirements. Further, the Bank's authority to extend credit to the Company's directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to the restrictions and additional requirements of the Federal Reserve Act and Regulation O promulgated thereafter. These statutes and regulations impose specific limits on the amount of loans the Bank may make to directors and other insiders, and specify approval procedures that must be followed in making loans that exceed certain amounts.

*Capital*

LCNB and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board and the OCC, respectively. The current risk-based capital standards applicable to LCNB and the Bank are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III.

In July 2013, the federal bank regulators approved final rules (the "Basel III Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The Basel III Rules became effective for LCNB and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions).

The Basel III Rules established three components of regulatory capital: (1) common equity tier 1 capital ("CET1"), (2) additional tier 1 capital, and (3) tier 2 capital. Tier 1 capital is the sum of CET1 and additional tier 1 capital instruments meeting certain revised requirements. Total capital is the sum of tier 1 capital and tier 2 capital. Under the Basel III Rules, for most banking organizations, the most common form of additional tier 1 capital is non-cumulative perpetual preferred stock and the most common form of tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Basel III Rules' specific requirements. LCNB does not have any non-cumulative perpetual preferred stock or subordinated notes.

Under the Basel III Rules, the minimum capital ratios effective as of January 1, 2015 are: (i) 4.5% CET1 to risk-weighted assets; (ii) 6.0% tier 1 capital to risk-weighted assets; (iii) 8.0% total capital to risk-weighted assets; and (iv) 4.0% tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio"). The Basel III Rules established a "capital conservation buffer" of 2.5% above the new regulatory minimum risk-based capital requirements.

The conservation buffer, when added to the capital requirements, resulted in the following minimum ratios: (i) a CET1 risk-based capital ratio of 7.0%, (ii) a tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The new capital conservation buffer requirement began being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased by that amount each year until fully implemented in January 2019. At December 31, 2019, the required capital conservation buffer was 2.5%. An institution is subject to limitations on certain activities including payment of dividends, share repurchases, and discretionary bonuses to executive officers if its capital level is below the buffer amount.

With respect to the Bank, the Basel III Rules also revised the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "Prompt Corrective Action."

As of December 31, 2019, LCNB had a total risk-based capital ratio of 12.21%, a tier 1 capital to risk-weighted asset ratio of 12.21%, a CET1 to risk-weighted assets ratio of 12.52% and a leverage ratio of 10.06%. These regulatory capital ratios were calculated under the Basel III Rules.

In November 2019, the federal banking regulators published final rules implementing a simplified measure of capital adequacy for certain banking organizations that have less than $10 billion in total consolidated assets. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets, and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed "qualifying community banking organizations" and are eligible to opt into the "community bank leverage ratio framework." A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III Rules and, if applicable, is considered to have met the "well capitalized" ratio requirements for purposes of its primary federal regulator's prompt corrective action rules, discussed below. The final rules include a two-quarter grace period during which a qualifying community banking organization that temporarily fails to meet any of the qualifying criteria, including the greater- than-9% leverage capital ratio requirement, is generally still deemed "well capitalized" so long as the banking organization maintains a leverage capital ratio greater than 8%. A banking organization that fails to maintain a leverage capital ratio greater than 8% is not permitted to use the grace period and must comply with the generally applicable requirements under the Basel III Rules and file the appropriate regulatory reports. LCNB and the Bank do not have any immediate plans to elect to use the community bank leverage ratio framework but may make such an election in the future.

*Prompt Corrective Action.*

A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law 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 that 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.

Under current regulations, the Bank was "well capitalized" as of December 31, 2019.

*Community Reinvestment Act of 1977*

The Community Reinvestment Act of 1977 ("CRA") subjects a bank to regulatory assessment to determine if the institution meets the credit needs of its entire community, including low-and moderate-income neighborhoods served by the bank, and to take that determination into account in its evaluation of any application made by such bank for, among other things, approval of the acquisition or establishment of a branch or other depository facility, an office relocation, a merger, or the acquisition of shares of capital stock of another financial institution. The regulatory authority prepares a written evaluation of an institution's record of meeting the credit needs of its entire community and assigns a rating. These ratings are "Outstanding," "Satisfactory," "Needs Improvement," and "Substantial Non-Compliance." Institutions with ratings lower than "Satisfactory" may be restricted from engaging in the aforementioned activities. Management believes the Bank has taken and takes significant actions to comply with the CRA and the it received a "Satisfactory" rating in its most recent review by federal regulators with respect to its compliance with the CRA.

*BSA and AML*

Under the Bank Secrecy Act ("BSA"), financial institutions are required to monitor and report unusual or suspicious account activity that might signify money laundering, tax evasion, or other criminal activities, as well as transactions involving the transfer or withdrawal of amounts in excess of prescribed limits. The BSA is sometimes referred to as an "anti-money laundering" law ("AML"). Several AML acts, including provisions in Title III of the USA PATRIOT Act of 2001, have been enacted to amend the BSA. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with financial institutions and foreign customers.

In addition, under the USA PATRIOT Act, the Secretary of the U.S. Department of the Treasury ("Treasury") has adopted rules addressing a number of related issues, including increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities, and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to violate the privacy provisions of the Gramm-Leach-Bliley Act that are discussed below. Finally, under the regulations of the Office of Foreign Asset Control ("OFAC") financial institutions are required to monitor and block transactions with certain "specially designated nationals" who OFAC has determined pose a risk to U.S. national security.

*Incentive Compensation*

LCNB is subject to regulatory rules and guidance regarding employee incentive compensation policies intended to ensure that incentive-based compensation does not undermine the safety and soundness of the institution by encouraging excess risk-taking. LCNB's incentive compensation arrangements must provide employees with incentives that appropriately balance risk and reward and do not encourage imprudent risk, be compatible with effective controls and risk managements, and be supported by strong corporate governance, including active and effective oversight by LCNB's board of directors.

*Consumer Laws and Regulations*

LCNB is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the following list is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, The Fair and Accurate Credit Transactions Act, The Real Estate Settlement Procedures Act, and the Fair Housing Act, among others. These laws and regulations, among other things, prohibit discrimination on the basis of race, gender, or other designated characteristics and mandate various disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. These and other laws also limit finance charges or other fees or charges earned for offering various services. LCNB must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

*Consumer Financial Protection Bureau*

The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory, and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act, and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive, or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits the state attorney general to enforce compliance with both the state and federal laws and regulations.

The CFPB has finalized rules relating to, among other things, remittance transfers under the Electronic Fund Transfer Act, which requires companies to provide consumers with certain disclosures before the consumer pays for a remittance transfer. These rules became effective in October 2013. The CFPB has also amended certain rules under Regulation C relating to home mortgage disclosure to reflect a change in the asset-size exemption threshold for depository institutions based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. In addition, on January 10, 2013, the CFPB released its final "Ability-to-Repay/Qualified Mortgage" rules, which amended the Truth in Lending Act (Regulation Z). Regulation Z prohibits a creditor from making a higher-priced mortgage loan without regard to the consumer's ability to repay the loan. The final amended rule implemented sections 1411 and 1412 of the Dodd-Frank Act, which generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for "qualified mortgages." The final rule also implemented section 1414 of the Dodd-Frank Act, which limits prepayment penalties. Finally, the final rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated. This rule became effective January 10, 2014.

*Consumer Privacy*

State and federal banking regulators have issued various policy statements emphasizing the importance of technology risk management and supervision in evaluating the safety and soundness of depository institutions with respect to banks that contract with outside vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels, and processes exposes a bank to various risks, particularly operational, privacy, security, strategic, reputation, and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring, and controlling risks associated with the use of technology.

Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established appropriate standards for financial institutions regarding the implementation of safeguards to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records, and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical, and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must provide its customers with a notice of privacy policies and practices. Section 502 prohibits a financial institution from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. Under Section 504, the agencies are authorized to issue regulations as necessary to implement notice requirements and restrictions on a financial institution's ability to disclose nonpublic personal information about customers to nonaffiliated third parties. Under the final rule the regulators adopted, all banks must develop initial and annual privacy notices which describe in general terms the bank's information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure, with certain exceptions. Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit, or transaction accounts to any nonaffiliated third party for use in marketing.

*Dodd-Frank Act and Regulatory Relief Act*

The Dodd-Frank Act, which was enacted in July 2010, effected a fundamental restructuring of federal banking regulation. In addition to those provisions discussed above, among the Dodd-Frank Act provisions that have affected LCNB are the following:

- creation of a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms;
- elimination of the federal statutory prohibition against the payment of interest on business checking accounts;
- prohibition on state-chartered banks engaging in derivatives transactions unless the loans to one borrower of the state in which the bank is chartered takes into consideration credit exposure to derivative transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodity securities, currencies, interest or other rates, indices, or other assets;
- requirement that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction and 5 basis points multiplied by the value of the transaction. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks; and
- restrictions under the Volcker Rule of the Company's ability to engage in proprietary trading and to invest in, sponsor and engage in certain types of transactions with certain private funds. The Company had until July 15, 2015 to fully conform to the Volcker Rule's restrictions.

Many of the Dodd-Frank Act's provisions are still subject to the final rulemaking by federal banking agencies, and the implication of the Dodd-Frank Act for LCNB's business will depend to a large extent on how such rules are adopted and implemented. Management continues to review actively the provisions of the Dodd-Frank Act and assess its probable impact on its business, financial condition, and results of operations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") was signed into law on May 24, 2018. The Regulatory Relief Act scales back certain aspects of the Dodd-Frank Act and provides other regulatory relief for financial institutions. Certain provisions affecting LCNB include:

- Simplifying regulatory capital requirements by providing that banks with less than $10 billion in total consolidated assets that meet a to-be-developed community bank leverage ratio of tangible equity to average consolidated assets between eight and ten percent will be deemed to be in compliance with risk-based capital and leverage requirements.
- Changing how federal financial institution regulators classify certain municipal securities assets under the liquidity coverage ratio rule;
- Exempting certain reciprocal deposits from treatment as brokered deposits under the FDIC's brokered deposits rule;
- Exempting banks with less than $10 billion in total consolidated assets from certain provisions under the Volcker Rule; and
- Authorizing new banking procedures to better facilitate online transactions.

*Monetary Policy*

Banks are affected by the credit policies of monetary authorities, including the Federal Reserve Board, that affect the national supply of credit. The Federal Reserve Board regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future.

*Regulatory Reform and Legislation*

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of LCNB and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. LCNB and the Bank cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of LCNB and the Bank. A change in statutes, regulations, or regulatory policies applicable to LCNB and the Bank could have a material effect on LCNB's business, financial condition, and results of operations.

Employees

As of December 31, 2019, LCNB employed 332 full-time equivalent employees. LCNB is not a party to any collective bargaining agreement. Management considers its relationship with its employees to be very good. Employee benefit programs are considered by management to be competitive with benefit programs provided by other financial institutions and major employers within LCNB's market area.

Availability of Financial Information

LCNB files unaudited quarterly financial reports on Form 10-Q, annual financial reports on Form 10-K, current reports on Form 8-K, and amendments to these reports are filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC. Copies of these reports are available free of charge in the shareholder information section of the Bank's website, www.lcnb.com, as soon as reasonably practicable after they are electronically filed or furnished to the SEC, or by writing to:

Robert C. Haines II
Executive Vice President, CFO
LCNB Corp.
2 North Broadway
P.O. Box 59
Lebanon, Ohio 45036

The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that file reports electronically, as LCNB does.

**STATISTICAL INFORMATION**

The following tables and certain tables appearing in Item 7, Management's Discussion and Analysis present additional statistical information about LCNB Corp. and its operations and financial condition. They should be read in conjunction with the consolidated financial statements and related notes and the discussion included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The table presenting an average balance sheet, interest income and expense, and the resultant average yield for average interest-earning assets and average interest-bearing liabilities is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The table analyzing changes in interest income and expense by volume and rate is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Investment Portfolio

The following table presents the carrying values of securities for the years indicated:

| | At December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands) | | |
| Securities available-for-sale: | | | |
| U.S. Treasury notes | $ 2,309 | 2,235 | 2,259 |
| U.S. Agency notes | 48,984 | 78,340 | 83,261 |
| U.S. Agency mortgage-backed securities | 84,406 | 55,610 | 67,153 |
| Municipal securities | 42,301 | 102,236 | 122,540 |
| Total securities available-for-sale | 178,000 | 238,421 | 275,213 |
| | | | |
| Securities held-to-maturity: | | | |
| Municipal securities | 27,525 | 29,721 | 32,571 |
| | | | |
| Equity securities with a readily determinable fair value: | | | |
| Mutual funds | 1,345 | 1,559 | 1,542 |
| Trust preferred securities | — | — | 50 |
| Equity securities | 967 | 519 | 568 |
| Equity securities without a readily determinable fair value: | | | |
| Mutual funds | 2,000 | 2,000 | 1,000 |
| Equity securities | 99 | 99 | 99 |
| Federal Reserve Bank stock | 4,652 | 4,653 | 2,732 |
| Federal Home Loan Bank stock | 5,203 | 4,845 | 3,638 |
| Total securities | $ 219,791 | 281,817 | 317,413 |

Beginning January 1, 2018, equity securities, including mutual funds and trust preferred securities, are no longer eligible for classification as available-for-sale or held-to-maturity. Equity securities with a readily determinable fair value are carried at fair value, with changes in fair value recognized in other operating income in the consolidated statements of income. Equity securities without a readily determinable fair value are measured at cost minus impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions, as defined, for identical or similar investments of the same issuer.

Contractual maturities of securities at December 31, 2019, were as follows. Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

| | Available-for-Sale | | | Held-to-Maturity | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | Yield | Amortized Cost | Fair Value | Yield |
| | (Dollars in thousands) | | | | | |
| U.S. Treasury notes: | | | | | | |
| Within one year | $ — | — | —% | $ — | — | —% |
| One to five years | 2,273 | 2,309 | 2.07% | — | — | —% |
| Five to ten years | — | — | —% | — | — | —% |
| After ten years | — | — | —% | — | — | —% |
| Total U.S. Treasury notes | 2,273 | 2,309 | 2.07% | — | — | —% |
| U.S. Agency notes: | | | | | | |
| Within one year | 4,999 | 4,996 | 1.52% | — | — | —% |
| One to five years | 35,468 | 35,577 | 1.99% | — | — | —% |
| Five to ten years | 8,278 | 8,411 | 2.39% | — | — | —% |
| After ten years | — | — | —% | — | — | —% |
| Total U.S. Agency notes | 48,745 | 48,984 | 2.01% | — | — | —% |
| Municipal securities (1): | | | | | | |
| Within one year | 6,466 | 6,477 | 2.38% | 2,435 | 2,438 | 3.82% |
| One to five years | 17,075 | 17,255 | 3.02% | 7,404 | 7,432 | 2.77% |
| Five to ten years | 18,379 | 18,569 | 2.69% | 1,980 | 2,007 | 5.63% |
| After ten years | — | — | —% | 15,706 | 16,011 | 5.75% |
| Total Municipal securities | 41,920 | 42,301 | 2.78% | 27,525 | 27,888 | 4.77% |
| U.S. Agency mortgage-backed securities | 83,977 | 84,406 | 2.28% | — | — | —% |
| Totals | $ 176,915 | 178,000 | 2.32% | 27,525 | 27,888 | 4.77% |

(1) Yields on tax-exempt obligations are computed on a taxable-equivalent basis based upon a 21.0% statutory Federal income tax rate.

Excluding holdings in U.S. Treasury securities and U.S. Government Agencies, there were no investments in securities of any issuer that exceeded 10% of LCNB's consolidated shareholders' equity at December 31, 2019.

Loan Portfolio

Administration of the lending function is the responsibility of the Chief Lending Officer and certain senior portfolio lenders. Lenders perform their duties subject to oversight and policy direction from the Board of Directors and the Loan Committee. The Loan Committee consists of LCNB’s Chief Executive Officer, Chief Financial Officer, Chief Trust Officer, Chief Lending Officer, Chief Credit Officer, Loan Operations Officer, credit analysts, and the officers in charge of the commercial, agricultural, and retail loan portfolios.

Many commercial loan officers are authorized to accept loan applications and have various, designated lending limits for the approval of loans. A loan application for an amount outside a particular officer's lending limit needs to be approved by an officer with a lending limit sufficient for that loan. Loans secured by residential or commercial real estate require the approval of two individuals with appropriate lending authority: Chief Executive Officer, President, Chief Lending Officer, Chief Credit Officer, Senior Vice President ("SVP") of Commercial Lending, SVP of Mortgage Lending, SVP of Consumer Lending, Assistant Vice President of Secondary Market Lending, or other board-designated lending officers. Board approval is required on any loan with critical policy exceptions or that will exceed designated lending limits for specified loan officers or committees.

Interest rates charged by the Bank vary with degree of risk, type of loan, amount, complexity, repricing frequency and other relevant factors associated with the loan.

The following table summarizes the distribution of the loan portfolio for the years indicated:

| | At December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | (Dollars in thousands) | | | | | | | | | |
| Commercial and industrial | $ 78,306 | 6.3% | $ 77,740 | 6.5% | $ 36,057 | 4.2% | $ 41,878 | 5.1% | $ 45,275 | 5.9% |
| Commercial, secured by real estate | 804,953 | 64.7% | 740,647 | 61.8% | 527,947 | 62.2% | 477,275 | 58.2% | 419,633 | 54.5% |
| Residential real estate | 322,533 | 26.0% | 349,127 | 29.1% | 251,582 | 29.6% | 265,788 | 32.5% | 273,139 | 35.4% |
| Consumer | 25,232 | 2.0% | 17,283 | 1.5% | 17,450 | 2.1% | 19,173 | 2.3% | 18,510 | 2.4% |
| Agricultural | 11,509 | 0.9% | 13,297 | 1.1% | 15,194 | 1.8% | 14,802 | 1.8% | 13,479 | 1.7% |
| Other loans, including deposit overdrafts | 1,193 | 0.1% | 450 | —% | 539 | 0.1% | 633 | 0.1% | 665 | 0.1% |
| | 1,243,726 | 100.0% | 1,198,544 | 100.0% | 848,769 | 100.0% | 819,549 | 100.0% | 770,701 | 100.0% |
| Deferred origination costs (fees), net | (275) | | 79 | | 291 | | 254 | | 237 | |
| Total loans | 1,243,451 | | 1,198,623 | | 849,060 | | 819,803 | | 770,938 | |
| Less allowance for loan losses | 4,045 | | 4,046 | | 3,403 | | 3,575 | | 3,129 | |
| Loans, net | $ 1,239,406 | | $ 1,194,577 | | $ 845,657 | | $ 816,228 | | $ 767,809 | |

As of December 31, 2019, 2018, and 2017, there were no concentrations of loans exceeding 10% of total loans that are not already disclosed as a category of loans in the above table, except for loans secured by multifamily properties. Loans secured by multifamily properties, which are included in the commercial, secured by real estate category in the above table, totaled $156,277,000, or 12.6% of total loans, at December 31, 2019, $129,266,000, or 10.8% of total loans, at December 31, 2018, and $85,853,000, or 10.1% of total loans, at December 31, 2017.

The following table summarizes the commercial and agricultural loan maturities and sensitivities to interest rate change at December 31, 2019:

| | (In thousands) |
|---|---|
| Maturing in one year or less | $ 54,161 |
| Maturing after one year, but within five years | 118,689 |
| Maturing beyond five years | 721,918 |
| Total commercial and agricultural loans | $ 894,768 |
| | |
| Loans maturing beyond one year: | |
| Fixed rate | $ 329,672 |
| Variable rate | 510,935 |
| Total | $ 840,607 |

Risk Elements

The following table summarizes non-accrual, past-due, and accruing restructured loans for the dates indicated:

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | | | |
| Non-accrual loans | $ 3,210 | 2,951 | 2,965 | 5,725 | 1,723 |
| Past-due 90 days or more and still accruing | — | 149 | — | 23 | 559 |
| Accruing restructured loans | 6,609 | 10,516 | 10,469 | 11,731 | 13,723 |
| Total | $ 9,819 | 13,616 | 13,434 | 17,479 | 16,005 |
| Percent to total loans | 0.79% | 1.14% | 1.58% | 2.13% | 2.08% |

LCNB is not committed to lend additional funds to debtors whose loans have been modified to provide a reduction or deferral of principal or interest because of deterioration in the financial position of the borrower.

At December 31, 2019, there were no material additional loans not classified as acquired credit impaired or already disclosed as non-accrual, accruing restructured, or accruing past due 90 days or more where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms.

Summary of Loan Loss Experience

The table summarizing the activity related to the allowance for loan losses is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**LCNB CORP. AND SUBSIDIARIES**

Allocation of the Allowance for Loan Losses

The following table presents the allocation of the allowance for loan loss:

| | At December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans |
| | (Dollars in thousands) | | | | | | | | | |
| Commercial and industrial | $ 456 | 6.3% | $ 400 | 6.5% | $ 378 | 4.2% | $ 350 | 5.1% | $ 244 | 5.9% |
| Commercial, secured by real estate | 2,924 | 64.7% | 2,745 | 61.8% | 2,178 | 62.2% | 2,179 | 58.2% | 1,908 | 54.5% |
| Residential real estate | 528 | 26.0% | 767 | 29.1% | 717 | 29.6% | 885 | 32.5% | 854 | 35.4% |
| Consumer | 99 | 2.0% | 87 | 1.5% | 76 | 2.1% | 96 | 2.3% | 54 | 2.4% |
| Agricultural | 34 | 0.9% | 46 | 1.1% | 53 | 1.8% | 60 | 1.8% | 66 | 1.7% |
| Other loans, including deposit overdrafts | 4 | 0.1% | 1 | —% | 1 | 0.1% | 5 | 0.1% | 3 | 0.1% |
| Total | $ 4,045 | 100.0% | $ 4,046 | 100.0% | $ 3,403 | 100.0% | $ 3,575 | 100.0% | $ 3,129 | 100.0% |

Deposits

The statistical information regarding average amounts and average rates paid for the deposit categories is included in the "Distribution of Assets, Liabilities and Shareholders' Equity" table included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table presents the contractual maturity of time deposits of $100,000 or more at December 31, 2019:

| | (In thousands) |
|---|---|
| Maturity within 3 months | $ 25,164 |
| After 3 but within 6 months | 29,718 |
| After 6 but within 12 months | 49,706 |
| After 12 months | 53,003 |
| | $ 157,591 |

Return on Equity and Assets

The statistical information regarding the return on assets, return on equity, dividend payout ratio, and equity to assets ratio is presented in Item 6, Selected Financial Data.

**Item 1A. Risk Factors**

There are risks inherent in LCNB’s operations, many beyond management’s control, which may adversely affect its financial condition and results from operations and should be considered in evaluating the Company. Credit, market, operational, liquidity, interest rate and other risks are described elsewhere in this report. Other risk factors may include the items described below.

Failure to meet regulatory capital requirements could adversely affect LCNB’s business.
The Bank is subject to regulations requiring it to satisfy minimum capital requirements, see Note 15 - Regulatory Matters of the consolidated financial statements for more information. While management expects that LCNB's capital ratios under Basel III will continue to exceed well capitalized minimum capital requirements, there can be no assurance that such will be the case. If LCNB is unable to meet or exceed applicable minimum capital requirements, it may become subject to supervisory actions including, but not limited to, requirements to raise additional capital or dispose of assets, the loss of its financial holding company status, limitations on its ability to engage in new acquisitions or new activities, or other informal or formal regulatory enforcement actions.

LCNB’s earnings are significantly affected by market interest rates.
Fluctuations in interest rates may negatively impact LCNB’s profitability. A primary source of income from operations is net interest income, which is equal to the difference between interest income earned on loans and investment securities and the interest paid for deposits and other borrowings. These rates are highly sensitive to many factors beyond LCNB’s control, including general economic conditions, the slope of the yield curve (that is, the relationship between short and long-term interest rates), and the monetary and fiscal policies of the United States Federal government. LCNB expects the current level of interest rates and the current slope of the yield curve will cause further downward pressure on its net interest margin.

Increases in general interest rates could have a negative impact on LCNB’s results of operations by reducing the ability of borrowers to repay their current loan obligations. Some residential real estate mortgage loans, most home equity line of credit loans, and many of LCNB’s commercial loans have adjustable rates. Borrower inability to make scheduled loan payments due to a higher loan cost could result in increased loan defaults, foreclosures, and write-offs and may necessitate additions to the allowance for loan losses. In addition, increases in the general level of interest rates may decrease the demand for new consumer and commercial loans, thus limiting LCNB’s growth and profitability. A general increase in interest rates may also result in deposit disintermediation, which is the flow of deposits away from banks and other depository institutions into direct investments that have the potential for higher rates of return, such as stocks, bonds, and mutual funds. If this occurs, LCNB may have to rely more heavily on borrowings as a source of funds in the future, which could negatively impact its net interest margin.

Gains from sales of mortgage loans may experience significant volatility.
Gains from sales of mortgage loans are highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. A decrease in market interest rates may create a refinancing demand for residential fixed-rate mortgage loans, which may cause an increase in gains from sales of mortgage loans if LCNB sells these loans in the secondary market. An increase in market interest rates may decrease the demand for refinanced loans and decrease the gains from sales of mortgage loans recognized in LCNB’s consolidated statements of income. Gains from sales of mortgage loans may also be impacted by changes in LCNB’s strategy to manage its residential mortgage portfolio. For example, LCNB may occasionally change the proportion of loan originations that are sold in the secondary market and instead add a greater proportion to its loan portfolio.

Banking competition in Ohio is intense.
LCNB faces strong competition for deposits, loans, trust accounts, and other services from other banks, savings banks, credit unions, mortgage brokers, and other financial institutions located in Ohio. Many of LCNB’s competitors include major financial institutions that have been in business for many years and have established customer bases, numerous branches, substantially higher regulatory lending limits, and the ability to mount extensive promotional and advertising campaigns. In addition, credit unions are growing larger due to more flexible membership requirement regulations and are offering more financial services than they legally could in the past.

LCNB also competes with numerous real estate brokerage firms, some owned by realty companies, for residential real estate mortgage loans. The banking industry now competes with brokerage firms and mutual fund companies for funds that would have historically been held as bank deposits. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of these competitors have fewer regulatory constraints and may have lower cost structures.

If LCNB is unable to attract and retain loan, deposit, brokerage, and trust customers, its growth and profitability levels may be negatively impacted.

Economic conditions in LCNB's market areas could adversely affect its financial condition and results of operations.

LCNB conducts its operations from offices that are located in nine Southwestern Ohio counties and in Franklin County, Ohio, from which substantially all of its customer base is drawn. Because of this geographic concentration of operations and customer base, LCNB's financial performance is heavily influenced by economic conditions in these areas. Any material deterioration in economic conditions in these markets could have material direct or indirect adverse impacts on LCNB's customers and on LCNB. Such deterioration could increase the number of customers experiencing financial distress, negatively impacting their ability to obtain new loans or to repay existing loans. As a result, LCNB may experience increases in the levels of impaired loans, increased charge-offs, and increased provisions for loan losses. Deteriorating economic conditions may also affect the ability of depositors to maintain or add to deposit balances and may affect the demand for loans, trust, brokerage, and other products and services offered by LCNB. Such losses and decreased demand could have material adverse effects on LCNB's financial position, results of operations, and cash flows.

New lines of business or new products and services may subject the Company to additional risks.

From time to time, LCNB may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or products and services, LCNB may invest significant time and resources. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. If LCNB is unable to successfully manage these risks in the development and implementation of new lines of business or new products or services, it could have a material adverse effect on LCNB’s business, financial condition, and result of operations.

The allowance for loan losses may be inadequate.

The provision for loan losses is determined by management based upon its evaluation of the amount needed to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk of losses inherent in the portfolio. In addition to historic charge-off percentages, factors taken into consideration to determine the adequacy of the allowance for loan losses include the nature, volume, and consistency of the loan portfolio, overall portfolio quality, a review of specific problem loans, the fair value of any underlying collateral, borrowers’ cash flows, and current economic conditions that may affect borrowers’ ability to make payments. Increases in the allowance result in an expense for the period. By its nature, the evaluation is imprecise and requires significant judgment. Actual results may vary significantly from management’s assumptions. If, as a result of general economic conditions or a decrease in asset quality, management determines that additional increases in the allowance for loan losses are necessary, LCNB will incur additional expenses.

LCNB’s loan portfolio includes a substantial amount of commercial and industrial loans and commercial real estate loans, which may have more risks than residential or consumer loans.

LCNB’s commercial and industrial and commercial real estate loans comprise a substantial portion of its total loan portfolio. These loans generally carry larger loan balances and involve a greater degree of financial and credit risk than home equity, residential mortgage, or consumer loans. The increased financial and credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans, the size of loan balances, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans.

The repayment of loans secured by commercial real estate is often dependent upon the successful operation, development, or sale of the related real estate or commercial business and may, therefore, be subject to adverse conditions in the real estate market or economy. If the cash flow from operations is reduced, the borrower's ability to repay the loan may be impaired. In such cases, LCNB may take one or more actions to protect its financial interest in the loan. Such actions may include foreclosure on the real estate securing the loan, taking possession of other collateral that may have been pledged as security for the loan, or modifying the terms of the loan. If foreclosed on, commercial real estate is often unique and may not be as salable as a residential home.

The fair value of LCNB's investments could decline.
Most of LCNB's investment securities portfolio is designated as available-for-sale. Accordingly, unrealized gains and losses, net of tax, in the estimated fair value of the available-for-sale portfolio is recorded as other comprehensive income, a separate component of shareholders' equity. The fair value of LCNB's investment portfolio may decline, causing a corresponding decline in shareholders' equity. Management believes that several factors will affect the fair values of the investment portfolio including, but not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation, and the slope of the interest rate yield curve. These and other factors may impact specific categories of the portfolio differently and the effect any of these factors may have on any specific category of the portfolio cannot be predicted.

Many state and local governmental authorities have experienced deterioration of financial condition in recent years due to declining tax revenues, increased demand for services, and various other factors. To the extent LCNB has any municipal securities in its portfolio from issuers who are experiencing deterioration of financial condition or who may experience future deterioration of financial condition, the value of such securities may decline and could result in other-than-temporary impairment charges, which could have an adverse effect on LCNB's financial condition and results of operations. Additionally, a general, industry-wide decline in the fair value of municipal securities could significantly affect LCNB's financial condition and results of operations.

Changes in tax law and accounting standards could materially affect LCNB's operations.
Changes in tax laws, or changes in the interpretation of existing tax laws, could materially adversely affect LCNB's operations. Similarly, new accounting standards, changes to existing accounting standards, and changes to the methods of preparing financial statements could impact LCNB's reported financial condition and results of operations. These factors are outside LCNB's control and it is impossible to predict changes that may occur and the effect of such changes.

The Tax Cuts and Jobs Act went into effect on January 1, 2018 and significantly impacted the federal income taxation of LCNB and its customers. While there are benefits to LCNB from the new law, including a reduction of its federal income tax rate, there are also adverse consequences, including an elimination of certain deductible expenses. There is also substantial uncertainty regarding the consequences of the new law on LCNB and its customer base.

LCNB is subject to environmental liability risk associated with lending activities.
A significant portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Bank may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Bank to incur substantial expenses and may materially reduce the affected property's value or limit the Bank's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Bank's exposure to environmental liability. Although the Bank has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on LCNB's financial condition and results of operations.

The banking industry is highly regulated.
LCNB is subject to regulation, supervision, and examination by the Federal Reserve Board and the Bank is subject to regulation, supervision, and examination by the OCC. LCNB and the Bank are also subject to regulation and examination by the FDIC as the deposit insurer. The CFPB is responsible for most consumer protection laws and has broad authority, with certain exceptions, to regulate financial products offered by banks. Federal and state laws and regulations govern numerous matters including, but not limited to, changes in the ownership or control of banks, maintenance of adequate capital, permissible business operations, maintenance of deposit insurance, protection of customer financial privacy, the level of reserves held against deposits, restrictions on dividend payments, the making of loans, and the acceptance of deposits. See the previous section titled “Supervision and Regulation” for more information on this subject.

Federal regulators may initiate various enforcement actions against a financial institution that violates laws or regulations or that operates in an unsafe or unsound manner. These enforcement actions may include, but are not limited to, the assessment of civil money penalties, the issuance of cease-and-desist or removal orders, and the imposition of written agreements.

Proposals to change the laws governing financial institutions are periodically introduced in Congress and proposals to change regulations are periodically considered by the regulatory bodies. Such future legislation and/or changes in regulations could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The likelihood of any major changes in the future and their effects are impossible to predict.

FDIC deposit insurance assessments may materially increase in the future.
Deposits of LCNB are insured up to statutory limits by the FDIC and, accordingly, LCNB and other banks and financial institutions pay quarterly premiums to the FDIC to maintain the Deposit Insurance Fund. The likelihood and extent of future rate increases are indeterminable.

Future growth and expansion opportunities may contain risks.
From time to time LCNB may seek to acquire other financial institutions or parts of those institutions or may open new branch offices. It may also consider and enter into new lines of business or offer new products or services. Such activities involve a number of risks, which may include potential inaccuracies in estimates and judgments used to evaluate the expansion opportunity, diversion of management and employee attention, lack of experience in a new market or product or service, and difficulties in integrating a future acquisition or introducing a new product or service. There is no assurance that such growth or expansion activities will be successful or that they will achieve desired profitability levels.

LCNB’s controls and procedures may fail or be circumvented.
Management regularly reviews and updates LCNB’s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of LCNB’s controls and procedures or failure to comply with regulations related to its controls and procedures could have a material adverse effect on LCNB’s business, results of operations, and financial condition.

LCNB’s information systems may experience an interruption, cyberattack, or other breach in security.
LCNB relies heavily on communications and information systems to conduct its business. Although significant resources are devoted to maintaining and regularly updating LCNB’s data systems, there can be no assurance that these security measures will provide absolute security. Any failure, interruption, cyberattack, email phishing scam, or other breach in security of these systems could result in failures or disruptions in LCNB’s customer relationship management, general ledger, deposit, loan, and other systems. While LCNB has policies and procedures designed to prevent or limit the effect of the failure, interruption, cyberattack, or other security breach of its information systems, there can be no assurance that any such occurrences will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, cyberattacks, phishing scams, or other security breaches of LCNB’s information systems could significantly disrupt LCNB's operations, allow misappropriation of LCNB’s confidential information, allow misappropriation of customer confidential information, damage LCNB’s reputation, result in a loss of customer business, subject LCNB to additional regulatory scrutiny, or expose LCNB to significant civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations.

LCNB continually encounters technological change.
The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. LCNB's future success depends, in part, upon its ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in LCNB's operations. LCNB may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect LCNB's growth, revenue and profit.

Emergence of non-bank alternatives to the financial system.
Consumers may decide not to use banks to complete their financial transactions. Technology and other changes, including the emergence of "Fintech Companies," are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can complete transactions, such as paying bills and/or transferring funds, directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Risk factors related to LCNB's trust business.
Competition for trust business is intense. Competitors include other commercial bank and trust companies, brokerage firms, investment advisory firms, mutual fund companies, accountants, and attorneys.

LCNB's trust business is directly affected by conditions in the debt and equity securities markets. The debt and equity securities markets are affected by, among other factors, domestic and foreign economic conditions and the monetary and fiscal policies of the United States Federal government, all of which are beyond LCNB's control. Changes in economic conditions may directly affect the economic performance of the trust accounts in which clients' assets are invested. A decline in the fair value of the trust accounts caused by a decline in general economic conditions directly affects LCNB's trust fee income because such fees are primarily based on the fair value of the trust accounts. In addition, a sustained decrease in the performance of the trust accounts or a lack of sustained growth may encourage clients to seek alternative investment options.

The management of trust accounts is subject to the risk of mistaken distributions, poor investment choices, and miscellaneous other incorrect decisions. Such mistakes may give rise to surcharge actions by beneficiaries, with damages substantially in excess of the fees earned from management of the accounts.

LCNB's ability to pay cash dividends is limited.
LCNB is dependent upon the earnings of the Bank for funds to pay dividends on its common shares. The payment of dividends by LCNB and the Bank is subject to certain regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on the ability of LCNB and the Bank to satisfy these regulatory restrictions and on the Bank's earnings, capital levels, financial condition, and other factors. Although LCNB's financial earnings and financial condition have allowed it to declare and pay periodic cash dividends to shareholders, there can be no assurance that the current dividend policy or the amount of dividend distributions will continue in the future.

Climate change, severe weather, natural disasters, acts of war or terrorism, epidemics and other external events could significantly impact LCNB's business.
Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, and other adverse external events could have a significant impact on LCNB's ability to conduct business or upon third parties who perform operational services for LCNB or its customers. Such events could affect the stability of LCNB's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue, or cause LCNB to incur additional expenses.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

LCNB owns its main office in Lebanon, Ohio, which is approximately 28,000 square feet and houses its executive, wealth management, and certain administrative personnel. LCNB owns an additional 26 branch locations and leases an additional eight branch locations, pursuant to operating leases. The Oxford, Ohio location has excess space, which is currently being leased to a third party. An operations center in Lebanon, Ohio is currently being leased from the Warren County Port Authority. Upon expiration of the lease in 2027, LCNB has the option to purchase the property for $1.00. Management believes that LCNB's banking and other offices are in good condition and suitable to its needs.

**Item 3. Legal Proceedings**

Except for routine litigation incidental to its businesses, LCNB is not a party to any material pending legal proceedings and none of its property is the subject of any material proceedings.

**Item 4. Mine Safety Disclosures**

Not Applicable.

# PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

LCNB had approximately 982 registered holders of its common stock as of December 31, 2019. The number of shareholders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder. LCNB's stock trades on the NASDAQ Capital Market exchange under the symbol "LCNB."

LCNB depends on dividends from the Bank for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. National banking law limits the amount of dividends the Bank may pay to the sum of retained net income, as defined, for the current year plus retained net income for the previous two calendar years. Prior approval from the OCC, the Bank's primary regulator, would be necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated ordinary dividends to LCNB without needing to request approval.

During the period of this report, LCNB did not sell any of its securities that were not registered under the Securities Act.

On April 24, 2019, LCNB's Board of Directors authorized a share repurchase program (the "Program") that replaced and superseded LCNB's prior share repurchase programs, the "Market Repurchase Program" and the "Private Sale Repurchase Program," which were adopted in April 2001. Under the terms of the Program, LCNB is authorized to repurchase up to 500,000 of its outstanding common shares. The Program is authorized to last no longer than five years.

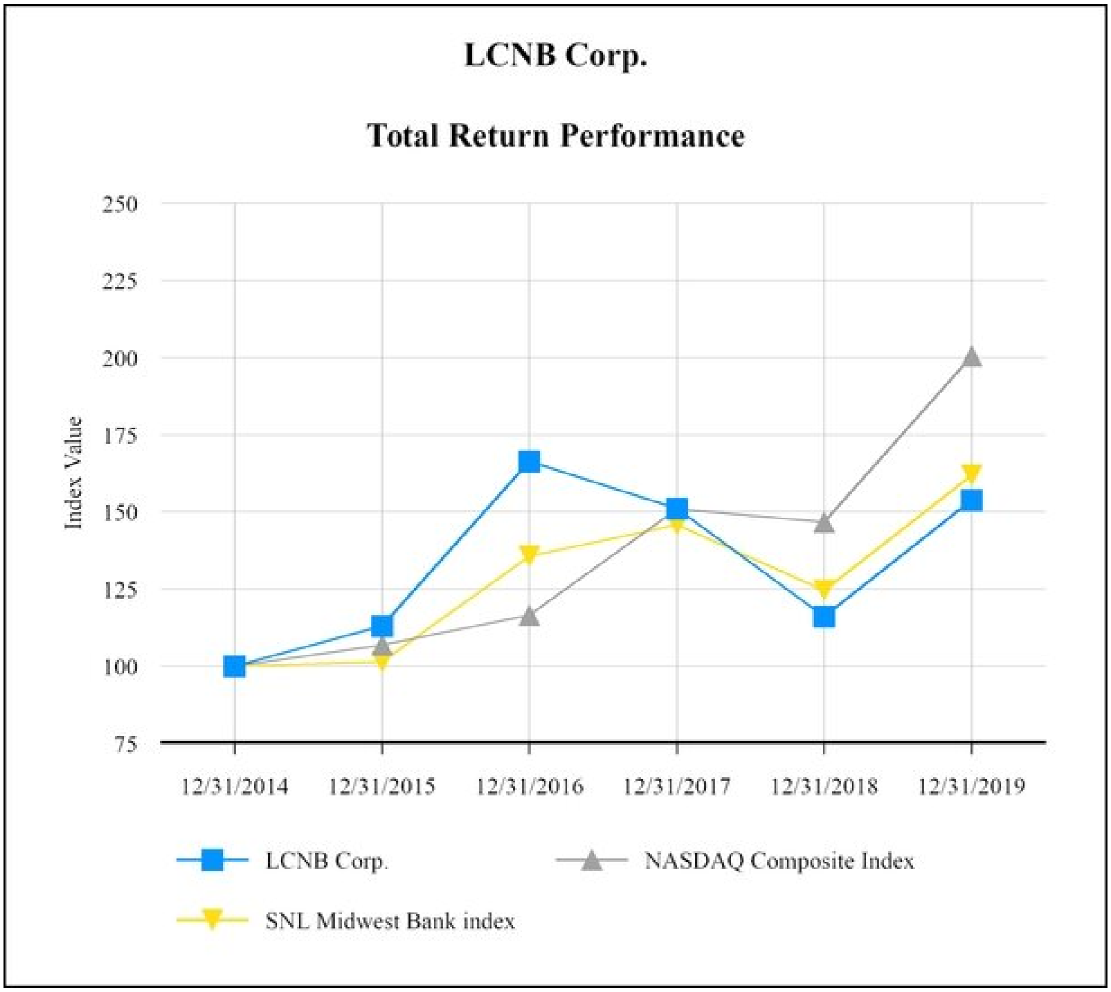
Under the Program, LCNB may purchase common shares through various means such as open market transactions, including block purchases, and privately negotiated transactions. The number of shares repurchased and the timing, manner, price and amount of any repurchases will be determined at LCNB's discretion. Factors include, but are not limited to, share price, trading volume and general market conditions, along with LCNB's general business conditions. The Program may be suspended or discontinued at any time and does not obligate LCNB to acquire any specific number of its common shares.

As part of the Program, LCNB entered into a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The 10b5-1 trading plan permits common shares to be repurchased at times that LCNB might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions. The 10b5-1 trading plan is administered by an independent broker and is subject to price, market volume and timing restrictions.

The following table sets forth information relating to purchases made under the Program during the three months ended December 31, 2019:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 2019 | — | — | — | 100,000 |
| November 2019 | — | — | — | 100,000 |
| December 2019 | — | — | — | 100,000 |

The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the NASDAQ Composite, the SNL Midwest OTC-BB and Pink Sheet Banks, and the SNL Midwest Bank indexes. This graph covers the period from December 31, 2014 through December 31, 2019. The cumulative total shareholder returns included in the graph reflect the returns for the shares of common stock of LCNB. The information provided in the graph assumes that $100 was invested on December 31, 2014 in LCNB common stock, the NASDAQ Composite, and the SNL Midwest Bank Index and that all dividends were reinvested.




| | | Period Ending | | | | | |
|---|---|---|---|---|---|---|---|
| ***Index*** | | **12/31/2014** | **12/31/2015** | **12/31/2016** | **12/31/2017** | **12/31/2018** | **12/31/2019** |
| LCNB Corp. | $ | 100.00 | 112.99 | 166.46 | 151.10 | 116.02 | 153.79 |
| NASDAQ Composite Index | $ | 100.00 | 106.96 | 116.45 | 150.96 | 146.67 | 200.49 |
| SNL Midwest Bank index | $ | 100.00 | 101.52 | 135.64 | 145.76 | 124.47 | 161.94 |

**Source: S&P Global Market Intelligence**
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**LCNB CORP. AND SUBSIDIARIES**

### Item 6. Selected Financial Data

The following represents selected consolidated financial data of LCNB for the years ended December 31, 2015 through 2019 and are derived from LCNB's consolidated financial statements. Certain prior year data presented in this table have been reclassified to conform with the current year presentation. This data should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 8 of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk included in Items 7 and 7A, respectively, of this Form 10-K, and are qualified in their entirety thereby and by other detailed information elsewhere in this Form 10-K.

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | (Dollars in thousands, except per share data) | | | | |
| **Income Statement:** | | | | | |
| Interest income | $ 65,194 | 54,594 | 44,463 | 43,750 | 42,659 |
| Interest expense | 10,788 | 6,425 | 3,599 | 3,504 | 3,328 |
| Net interest income | 54,406 | 48,169 | 40,864 | 40,246 | 39,331 |
| Provision for loan losses | 207 | 923 | 215 | 913 | 1,366 |
| Net interest income after provision for loan losses | 54,199 | 47,246 | 40,649 | 39,333 | 37,965 |
| Non-interest income | 12,348 | 11,050 | 10,458 | 10,853 | 10,123 |
| Non-interest expenses | 43,522 | 40,502 | 33,863 | 33,261 | 32,392 |
| Income before income taxes | 23,025 | 17,794 | 17,244 | 16,925 | 15,696 |
| Provision for income taxes | 4,113 | 2,949 | 4,272 | 4,443 | 4,222 |
| Net income | $ 18,912 | 14,845 | 12,972 | 12,482 | 11,474 |
| | | | | | |
| Dividends per common share | $ 0.69 | 0.65 | 0.64 | 0.64 | 0.64 |
| | | | | | |
| Earnings per common share: | | | | | |
| Basic | 1.44 | 1.24 | 1.30 | 1.26 | 1.18 |
| Diluted | 1.44 | 1.24 | 1.29 | 1.25 | 1.17 |
| | | | | | |
| **Balance Sheet:** | | | | | |
| Securities | $ 219,791 | 282,813 | 317,413 | 368,032 | 406,981 |
| Loans, net | 1,239,406 | 1,194,577 | 845,657 | 816,228 | 767,809 |
| Total assets | 1,639,308 | 1,636,927 | 1,295,638 | 1,306,799 | 1,280,531 |
| Total deposits | 1,348,280 | 1,300,919 | 1,085,821 | 1,110,905 | 1,087,160 |
| Short-term borrowings | — | 56,230 | 47,000 | 42,040 | 37,387 |
| Long-term debt | 40,994 | 47,032 | 303 | 598 | 5,947 |
| Total shareholders' equity | 228,048 | 218,985 | 150,271 | 142,944 | 140,108 |
| | | | | | |
| **Selected Financial Ratios and Other Data:** | | | | | |
| Return on average assets | 1.15% | 1.00% | 0.99% | 0.96% | 0.94% |
| Return on average equity | 8.42% | 7.90% | 8.74% | 8.60% | 8.43% |
| Equity-to-assets ratio | 13.91% | 13.38% | 11.60% | 10.94% | 10.94% |
| Dividend payout ratio | 47.92% | 52.42% | 49.23% | 50.79% | 54.24% |
| Net interest margin, fully taxable equivalent | 3.71% | 3.63% | 3.58% | 3.51% | 3.64% |

BNB merged with and into LCNB as of the close of business on April 30, 2015. As of the date of the merger, LCNB recorded additional loans of $34.7 million and additional deposits of $99.1 million.

CFB merged with and into LCNB as of the close of business on May 31, 2018. As of the date of the merger, LCNB recorded additional loans of $284.0 million, additional deposits of $244.4 million, and additional long-term debt of $22.9 million.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Introduction

The following is management's discussion and analysis of the consolidated financial condition and consolidated results of operations of LCNB. It is intended to amplify certain financial information regarding LCNB and should be read in conjunction with the consolidated financial statements and related notes contained in the 2019 Annual Report to Shareholders.

Overview

Net income for 2019 was $18,912,000 (basic and diluted earnings per share of $1.44), compared to $14,845,000 (basic and diluted earnings per share of $1.24) in 2018 and $12,972,000 (basic and diluted earnings per share of $1.30 and $1.29, respectively) in 2017.

The following items significantly affected earnings for the years indicated:

- CFB merged with and into LCNB Corp. on May 31, 2018.
- Expenses related to the merger with CFB totaled $2,123,000 during 2018.
- Other non-interest expense for 2018 included $575,000 in net losses from sales of fixed assets, primarily due to losses incurred in the sale of two office buildings. Other non-interest expense for 2017 included $154,000 in organizational costs for LCNB Risk Management, Inc. and $113,000 in losses from sales of fixed assets, primarily due to the sale of a closed office building.
- The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, lowered LCNB's federal corporate income tax rate from 34% to 21%, beginning in 2018. In addition, LCNB revalued its net deferred tax liability position at the end of 2017 to reflect the reduction in its federal corporate income tax rate and this revaluation resulted in a one-time income tax benefit of approximately $224,000, or $0.02 of basic and diluted earnings per common share for the year ended December 31, 2017.

Net Interest Income

LCNB's primary source of earnings is net interest income, which is the difference between earnings from loans and other investments and interest paid on deposits and other liabilities. The following table presents, for the years indicated, average balances for interest-earning assets and interest-bearing liabilities, the income or expense related to each item, and the resulting average yields earned or rates paid.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

| | Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | Average Outstanding Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Average Yield/ Rate |
| | (Dollars in thousands) | | | | | | | | |
| Loans (1) | $ 1,221,375 | 59,009 | 4.83% | $ 1,038,159 | 47,489 | 4.57% | $ 822,452 | 36,571 | 4.45% |
| Interest-bearing demand deposits | 8,389 | 241 | 2.87% | 5,164 | 136 | 2.63% | 7,972 | 88 | 1.10% |
| Interest-bearing time deposits | 488 | 11 | 2.25% | 4,008 | 58 | 1.45% | — | — | —% |
| Federal Reserve Bank stock | 4,652 | 279 | 6.00% | 3,268 | 196 | 6.00% | 2,732 | 164 | 6.00% |
| Federal Home Loan Bank stock | 5,108 | 249 | 4.87% | 4,346 | 259 | 5.96% | 3,638 | 182 | 5.00% |
| Investment securities: | | | | | | | | | |
| Equity securities | 4,310 | 127 | 2.95% | 3,782 | 104 | 2.75% | 3,249 | 89 | 2.74% |
| Debt securities, taxable | 159,377 | 3,601 | 2.26% | 165,300 | 3,666 | 2.22% | 205,669 | 4,239 | 2.06% |
| Debt securities, non-taxable (2) | 73,634 | 2,123 | 2.88% | 123,135 | 3,400 | 2.76% | 143,394 | 4,815 | 3.36% |
| Total earning assets | 1,477,333 | 65,640 | 4.44% | 1,347,162 | 55,308 | 4.11% | 1,189,106 | 46,148 | 3.88% |
| Non-earning assets | 169,314 | | | 145,601 | | | 123,800 | | |
| Allowance for loan losses | (4,056) | | | (3,822) | | | (3,405) | | |
| Total assets | $ 1,642,591 | | | $ 1,488,941 | | | $ 1,309,501 | | |
| | | | | | | | | | |
| Savings deposits | $ 687,458 | 2,446 | 0.36% | $ 689,322 | 1,332 | 0.19% | $ 645,471 | 594 | 0.09% |
| IRA and time certificates | 327,321 | 7,080 | 2.16% | 253,524 | 4,421 | 1.74% | 205,540 | 2,784 | 1.35% |
| Short-term borrowings | 6,064 | 227 | 3.74% | 13,967 | 311 | 2.23% | 23,976 | 209 | 0.87% |
| Long-term debt | 42,733 | 1,035 | 2.42% | 16,789 | 361 | 2.15% | 421 | 12 | 2.85% |
| Total interest-bearing liabilities | 1,063,576 | 10,788 | 1.01% | 973,602 | 6,425 | 0.66% | 875,408 | 3,599 | 0.41% |
| Demand deposits | 336,257 | | | 315,229 | | | 274,855 | | |
| Other liabilities | 18,119 | | | 12,195 | | | 10,795 | | |
| Capital | 224,639 | | | 187,915 | | | 148,443 | | |
| Total liabilities and capital | $ 1,642,591 | | | $ 1,488,941 | | | $ 1,309,501 | | |
| Net interest rate spread (3) | | | 3.43% | | | 3.45% | | | 3.47% |
| Net interest income and net interest margin on a tax equivalent basis (4) | | 54,852 | 3.71% | | 48,883 | 3.63% | | 42,549 | 3.58% |
| Ratio of interest-earning assets to interest-bearing liabilities | 138.90% | | | 138.37% | | | 135.83% | | |

(1) Includes non-accrual loans if any.
(2) Income from tax-exempt securities is included in interest income on a taxable-equivalent basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 21% for 2019 and 2018 and 34% for 2017.
(3) The net interest spread is the difference between the average rate on total interest-earning assets and interest-bearing liabilities.
(4) The net interest margin is the taxable-equivalent net interest income divided by average interest-earning assets.

The following table presents the changes in interest income and expense for each major category of interest-earning assets and interest-bearing liabilities and the amount of change attributable to volume and rate changes for the years indicated.  Changes not solely attributable to rate or volume have been allocated to volume and rate changes in proportion to the relationship of absolute dollar amounts of the changes in each.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 vs. 2018 | | | 2018 vs. 2017 | | |
| | Increase (decrease) due to | | | Increase (decrease) due to | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| | (In thousands) | | | | | |
| Interest income attributable to: | | | | | | |
| Loans (1) | $ 8,738 | 2,782 | 11,520 | 9,840 | 1,078 | 10,918 |
| Interest-bearing demand deposits | 92 | 13 | 105 | (40) | 88 | 48 |
| Interest-bearing time deposits | (68) | 21 | (47) | 58 | — | 58 |
| Federal Reserve Bank stock | 83 | — | 83 | 32 | — | 32 |
| Federal Home Loan Bank stock | 41 | (51) | (10) | 39 | 38 | 77 |
| Investment securities: | | | | | | |
| Equity securities | 15 | 8 | 23 | 15 | — | 15 |
| Debt securities, taxable | (133) | 68 | (65) | (878) | 305 | (573) |
| Debt securities, non-taxable (2) | (1,421) | 144 | (1,277) | (627) | (788) | (1,415) |
| Total interest income | 7,347 | 2,985 | 10,332 | 8,439 | 721 | 9,160 |
| Interest expense attributable to: | | | | | | |
| Savings deposits | (4) | 1,118 | 1,114 | 43 | 695 | 738 |
| IRA and time certificates | 1,456 | 1,203 | 2,659 | 734 | 903 | 1,637 |
| Short-term borrowings | (230) | 146 | (84) | (116) | 218 | 102 |
| Long-term debt | 623 | 51 | 674 | 353 | (4) | 349 |
| Total interest expense | 1,845 | 2,518 | 4,363 | 1,014 | 1,812 | 2,826 |
| Net interest income | $ 5,502 | 467 | 5,969 | 7,425 | (1,091) | 6,334 |

(1) Non-accrual loans, if any, are included in average loan balances.

(2) Change in interest income from non-taxable investment securities is computed based on interest income determined on a taxable-equivalent yield basis.  Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 21% for 2019 and 2018 and 34% for 2017.

**2019 vs. 2018.** Net interest income on a fully tax-equivalent basis for 2019 totaled $54,852,000, an increase of $5,969,000 from 2018.  The increase resulted from an increase in total taxable-equivalent interest income of $10,332,000, partially offset by an increase in total interest expense of $4,363,000.

The increase in total interest income was due primarily to a $11,520,000 increase in loan interest income caused by a $183.2 million increase in average loans and secondarily to a 26 basis point (a basis point equals 0.01%) increase in the average rate earned on loans. Loans obtained through the merger with CFB were a significant component of the increase in average loans. Partially offsetting the increase in loan interest income was a $1,277,000 decrease in taxable-equivalent interest income from non-taxable debt securities. Interest income from non-taxable investment securities decreased due to a $49.5 million decrease in average non-taxable debt securities, slightly offset by a 12 basis point increase in the average rate earned on these securities. The decrease in non-taxable debt securities were invested in the loan portfolio and used to pay down short-term borrowings.

The increase in total interest expense was primarily due to a $1,114,000 increase in interest paid on savings deposits, a $2,659,000 increase in interest paid on IRA and time certificates, and a $674,000 increase in interest paid on long-term debt. Interest paid on savings deposits increased primarily due to a 17 basis point increase in the average rate paid. Interest paid on IRA and time certificates increased due to a $73.8 million increase in the average balance and to a 42 basis point increase in the average rate paid. Increases in average rates paid for savings deposits and IRA and time certificates were primarily due to increases in market rates. Deposits obtained through the merger with CFB were a significant component of the increases in savings deposits and IRA and time certificates. Interest paid on long-term debt increased primarily due to $25.9 million increase in the average balance and secondarily to a 27 basis point increase in the average rate paid. The average balance on long-term debt increased due to $25.0 million in new borrowings obtained in December 2018 and to borrowings obtained through the merger with CFB, partially offset by borrowings that matured.

**2018 vs. 2017.** Net interest income on a fully tax-equivalent basis for 2018 totaled $48,883,000, an increase of $6,334,000 from 2017. The increase resulted from an increase in total taxable-equivalent interest income of $9,160,000, partially offset by an increase in total interest expense of $2,826,000.

The increase in total interest income was due primarily to a $10,918,000 increase in loan interest income caused by a $215.7 million increase in average loans and secondarily to a 12 basis point increase in the average rate earned on loans. Loans obtained through the merger with CFB were a significant component of the increase in average loans. Partially offsetting the increase in loan interest income was a $573,000 decrease in interest income from taxable debt securities and a $1,415,000 decrease in taxable-equivalent interest income from non-taxable debt securities. Interest income from taxable investment securities decreased due to a $40.4 million decrease in average taxable investment securities, partially offset by a 16 basis point increase in the average rate earned on these securities. Interest income from non-taxable investment securities decreased due to a $20.3 million decrease in average non-taxable debt securities and to a 60 basis point decrease in the average rate earned on these securities. One of the reasons for the 60 basis point decrease in the average rate earned on non-taxable debt securities was the decrease in the federal corporate tax rate to 21%, which decreased the effective yield earned on these securities. Decreases in debt securities were invested in the loan portfolio and used to pay down short-term borrowings.

The increase in total interest expense was primarily due to a $738,000 increase in interest paid on savings deposits and to a $1,637,000 increase in interest paid on IRA and time certificates. Interest paid on savings deposits increased due to a 10 basis point increase in the average rate paid and to a $43.8 million increase in average balances outstanding. Interest paid on IRA and time certificates increased due to a 39 basis point increase in the average rate paid and to a $48.0 million increase in average balances outstanding. Increases in average rates paid was primarily due to increases in market rates. Deposits obtained through the merger with CFB were a significant component of the increases in savings deposits and IRA and time certificates.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Provisions and Allowance for Loan Losses

The following table presents the total loan loss provision and the other changes in the allowance for loan losses for the years 2015 through 2019:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Balance – Beginning of year | $ 4,046 | 3,403 | 3,575 | 3,129 | 3,121 |
| Loans charged off: | | | | | |
| Commercial and industrial | 47 | — | — | 234 | 100 |
| Commercial, secured by real estate | 143 | 145 | 462 | 185 | 1,133 |
| Residential real estate | 272 | 234 | 225 | 127 | 304 |
| Consumer | 24 | 135 | 90 | 85 | 52 |
| Agricultural | — | — | — | — | 67 |
| Other loans, including deposit overdrafts | 181 | 179 | 138 | 119 | 74 |
| Total loans charged off | 667 | 693 | 915 | 750 | 1,730 |
| Recoveries: | | | | | |
| Commercial and industrial | — | 1 | 99 | 26 | 7 |
| Commercial, secured by real estate | 56 | 239 | 113 | 98 | 96 |
| Residential real estate | 297 | 71 | 140 | 52 | 107 |
| Consumer | 32 | 13 | 114 | 53 | 60 |
| Agricultural | — | — | — | — | 67 |
| Other loans, including deposit overdrafts | 74 | 89 | 62 | 54 | 35 |
| Total recoveries | 459 | 413 | 528 | 283 | 372 |
| Net charge offs | 208 | 280 | 387 | 467 | 1,358 |
| Provision charged to operations | 207 | 923 | 215 | 913 | 1,366 |
| Balance - End of year | $ 4,045 | 4,046 | 3,403 | 3,575 | 3,129 |
| Ratio of net charge-offs during the period to average loans outstanding | 0.02% | 0.03% | 0.05% | 0.06% | 0.18% |
| Ratio of allowance for loan losses to total loans at year-end | 0.33% | 0.34% | 0.40% | 0.44% | 0.41% |

Charge-offs for the commercial, secured by real estate category had an elevated balance during 2015 due to the sale of impaired loans.

Charge-offs and recoveries classified as “Other” include charge-offs and recoveries on checking and NOW account overdrafts. LCNB charges off such overdrafts when considered uncollectible, but no later than 60 days from the date first overdrawn.

LCNB continuously reviews the loan portfolio for credit risk through the use of its lending and loan review functions. Independent loan reviews analyze specific loans, providing validation that credit risks are appropriately identified and reported to the Loan Committee and Board of Directors. In addition, the Board of Directors’ Audit Committee receives loan review reports throughout each year. New credits meeting specific criteria are analyzed prior to origination and are reviewed by the Loan Committee and Board of Directors.

Inputs from all of the Bank's credit risk identification processes are used by management to analyze and validate the adequacy and methodology of the allowance quarterly.  The analysis includes two basic components: specific allocations for individual loans and general loss allocations for pools of loans based on average historic loss ratios for the sixty preceding months adjusted for identified economic and other risk factors.  Due to the number, size, and complexity of loans within the loan portfolio, there is always a possibility of inherent undetected losses.

Non-Interest Income

A comparison of non-interest income for 2019, 2018, and 2017 is as follows:

| | | | | Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs. 2018 | 2018 vs. 2017 |
| | | | (In thousands) | | |
| Fiduciary income | $ 4,354 | 3,958 | 3,473 | 396 | 485 |
| Service charges and fees on deposit accounts | 5,875 | 5,590 | 5,236 | 285 | 354 |
| Net gains (losses) on sales of securities | (41) | (8) | 233 | (33) | (241) |
| Bank owned life insurance income | 943 | 738 | 867 | 205 | (129) |
| Net gains from sales of loans | 328 | 223 | 166 | 105 | 57 |
| Other operating income | 889 | 549 | 483 | 340 | 66 |
| Total non-interest income | 12,348 | 11,050 | 10,458 | 1,298 | 592 |

Reasons for changes include:

- Fiduciary income increased during 2019 and 2018 due to increases in the fair value of trust and brokerage assets managed.
- Service charges and fees increased during 2019 due to fee income recognized on the Insured Cash Sweep ("ICS") deposit program, fees received from debit card usage, and incentive income received on co-branded Mastercards. These increases were partially offset by decreases in service charges on deposit accounts, ATM surcharge fees, and overdraft fees. The increase during 2018 was primarily due to fees earned from the ICS deposit program that was introduced during the second quarter 2017 and from an increase in debit card income. Debit card income benefited from more cards outstanding due to the merger with CFB and greater depositor utilization of the cards.
- Net gains (losses) on sales of securities were less during 2019 and 2018 as compared to 2017 primarily due to market pricing at the times of the sales. Dollar volume of sales for 2019, 2018, and 2017 were, respectively, $84.6 million, $8.6 million, and $43.0 million.
- Bank owned life insurance income was greater during 2019 primarily due to $12.0 million of new policies purchased at the beginning of the third quarter 2019. Income decreased in 2018 as compared to 2017 primarily due to the absence of mortality benefits recognized during 2017. No mortality benefits were received in 2019 or 2018.
- Other operating income was higher in 2019 primarily due to an increase in the fair value of equity security investments.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Non-Interest Expense

A comparison of non-interest expense for 2019, 2018, and 2017 is as follows:

| | 2019 | 2018 | 2017 | Increase (Decrease) 2019 vs. 2018 | Increase (Decrease) 2018 vs. 2017 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Salaries and employee benefits | $ 25,320 | 21,279 | 18,585 | 4,041 | 2,694 |
| Equipment expenses | 1,209 | 1,138 | 1,172 | 71 | (34) |
| Occupancy expense, net | 2,961 | 2,861 | 2,613 | 100 | 248 |
| State financial institutions tax | 1,669 | 1,197 | 1,137 | 472 | 60 |
| Marketing | 1,319 | 1,119 | 873 | 200 | 246 |
| Amortization of intangibles | 1,043 | 922 | 751 | 121 | 171 |
| FDIC premiums | 225 | 419 | 423 | (194) | (4) |
| ATM expense | 580 | 580 | 572 | — | 8 |
| Computer maintenance and supplies | 1,094 | 990 | 882 | 104 | 108 |
| Telephone expense | 707 | 649 | 735 | 58 | (86) |
| Contracted services | 1,865 | 1,547 | 1,255 | 318 | 292 |
| Other real estate owned | 53 | 20 | 10 | 33 | 10 |
| Merger-related expenses | 114 | 2,123 | 118 | (2,009) | 2,005 |
| Other non-interest expense | 5,363 | 5,658 | 4,737 | (295) | 921 |
| Total non-interest expense | 43,522 | 40,502 | 33,863 | 3,020 | 6,639 |

Reasons for changes include:

- Salaries and employee benefits were 19.0% greater in 2019 than in 2018 and 14.5% greater in 2018 than in 2017. The increases for both years were primarily due to salary and wage increases, incentive payment increases, and newly hired employees, including additional business development positions and CFB employees retained. An increase in health insurance costs also contributed to the increase. The number of full-time equivalent employees was 332 at December 31, 2019, 325 at December 31, 2018, and 310 at December 31, 2017.
- Occupancy expense for 2019 increased primarily due to increased branch rental expense and increased charges for maintenance and repairs. Occupancy expense for 2018 increased primarily due to increased branch rental expense and increased depreciation of bank premises. The increase in branch rental expense primarily reflects rent paid for the new Worthington Office, previously the CFB Office.
- State financial institutions tax expense increased in 2019 due to a larger capital base (Ohio financial institutions tax is based on capital, not income), largely due to stock issued to CFB stockholders during 2018 as merger consideration.
- Marketing expense increased in 2019 and 2018 primarily due to promotion costs for new checking products introduced in 2018, increased marketing activities in the Columbus area, and expanded use of television, radio, and digital media.
- FDIC premiums were lower in 2019 as compared to 2018 and 2017 due to small bank assessment credits received from the FDIC during 2019 because the Deposit Insurance Fund was above the mandated level of 1.35%.
- Computer maintenance and supplies increased in 2019 and 2018 due to increased technology and software related expenditures designed to offer technological convenience to customers, to protect the integrity of LCNB's data systems and software, and to protect the confidentiality of customer information.
- Contracted services increased in 2019 and 2018 due to additional fees paid for loan and deposit system upgrades and improvements and to general price increases on other contracted services.
- Merger-related expenses for 2019, 2018, and 2017 are due to the acquisition of CFB and are primarily comprised of various professional fees, costs to prepare and distribute the proxy statement/prospectus, and costs to merge CFB's data system into LCNB's system.
- Other non-interest expense for 2018 included $575,000 in net losses from sales of fixed assets, primarily due to the sale of two office buildings. Other non-interest expense for 2017 included $154,000 in organizational costs for LCNB Risk Management, Inc. and $113,000 in losses from sales of fixed assets, primarily due to the sale of a closed office building.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Income Taxes

LCNB's effective tax rates for the years ended December 31, 2019, 2018, and 2017 were 17.9%, 16.6%, and 24.8%, respectively. The difference between the statutory rate of 21% for 2019 and 2018 and the effective tax rate is primarily due to tax-exempt interest income from municipal securities, tax-exempt earnings from bank owned life insurance, tax-exempt earnings from LCNB Risk Management, Inc., and tax credits and losses related to investments in affordable housing tax credit limited partnerships. The difference between the statutory rate of 34% in 2017 and the effective tax rate is primarily due to the same reasons noted above.

As a result of the Tax Cuts and Jobs Act that was signed into law on December 22, 2017, LCNB revalued its net deferred tax liability position to reflect the reduction in its federal corporate income tax rate from 34% to 21%. This revaluation resulted in a one-time income tax benefit of approximately $224,000, or $0.02 of basic and diluted earnings per common share, for the year ended December 31, 2017.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Financial Condition

A comparison of balance sheet line items at December 31, 2019 and 2018 is as follows (in thousands):

| | December 31, 2019 | December 31, 2018 | Difference $ | Difference % |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Total cash and cash equivalents | 20,765 | 20,040 | 725 | 3.62 % |
| Interest-bearing time deposits | — | 996 | (996) | (100.00)% |
| Investment securities: | | | | |
| Equity securities with a readily determinable fair value, at fair value | 2,312 | 2,078 | 234 | 11.26 % |
| Equity securities without a readily determinable fair value, at cost | 2,099 | 2,099 | — | — % |
| Debt securities, available-for-sale, at fair value | 178,000 | 238,421 | (60,421) | (25.34)% |
| Debt securities, held-to-maturity, at cost | 27,525 | 29,721 | (2,196) | (7.39)% |
| Federal Reserve Bank stock, at cost | 4,652 | 4,653 | (1) | (0.02)% |
| Federal Home Loan Bank stock, at cost | 5,203 | 4,845 | 358 | 7.39 % |
| Loans, net | 1,239,406 | 1,194,577 | 44,829 | 3.75 % |
| Premises and equipment, net | 34,787 | 32,627 | 2,160 | 6.62 % |
| Operating lease right-of-use assets | 5,444 | — | 5,444 | — % |
| Goodwill | 59,221 | 59,221 | — | — % |
| Core deposit and other intangibles | 4,006 | 5,042 | (1,036) | (20.55)% |
| Bank owned life insurance | 41,667 | 28,723 | 12,944 | 45.06 % |
| Other assets | 14,221 | 13,884 | 337 | 2.43 % |
| Total assets | 1,639,308 | 1,636,927 | 2,381 | 0.15 % |
| | | | | |
| **LIABILITIES:** | | | | |
| Deposits: | | | | |
| Non-interest-bearing | 354,391 | 322,571 | 31,820 | 9.86 % |
| Interest-bearing | 993,889 | 978,348 | 15,541 | 1.59 % |
| Total deposits | 1,348,280 | 1,300,919 | 47,361 | 3.64 % |
| Short-term borrowings | — | 56,230 | (56,230) | (100.00)% |
| Long-term debt | 40,994 | 47,032 | (6,038) | (12.84)% |
| Operating leases liability | 5,446 | — | 5,446 | — % |
| Accrued interest and other liabilities | 16,540 | 13,761 | 2,779 | 20.19 % |
| Total liabilities | 1,411,260 | 1,417,942 | (6,682) | (0.47)% |
| | | | | |
| **TOTAL SHAREHOLDERS' EQUITY** | 228,048 | 218,985 | 9,063 | 4.14 % |
| Total liabilities and shareholders' equity | 1,639,308 | 1,636,927 | 2,381 | 0.15 % |

Reasons for changes include:

- Interest-bearing time deposits were obtained through the merger with CFB. This line item represents certificates of deposit with individual balances of less than $250,000 invested in various financial institutions. Management decided not to renew matured certificates.
- Debt securities, available-for-sale, decreased due to sales of securities with a total book value of $84.6 million and maturities and calls of securities totaling $17.2 million. These decreases were partially offset by the purchase of new securities totaling $47.3 million and by a net increase in fair values totaling $6.9 million. The net funds received were invested in the loan portfolio and used to help pay down short-term borrowings and long-term debt.
- Federal Home Loan Bank stock increased due to the purchase of additional shares.
- Net loans increased due to organic growth in the loan portfolio.
- Premises and equipment, net increased primarily due to Main Office remodeling costs, partially offset by depreciation expense.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

- LCNB adopted ASU No. 2016-02, "Leases (Topic 842)" on January 1, 2019 and recorded operating lease right-of-use assets representing its right to use the underlying assets for the terms of the leases and an operating leases liability representing its liability to make lease payments. See Note 1 -Basis of Presentation - Accounting Changes and Note 8 - Leases for more information.
- Core deposit and other intangibles decreased due to amortization of core deposit intangibles.
- Bank owned life insurance increased due to the purchase of $12.0 million in new policies at the beginning of the third quarter 2019.
- Total deposits increased partially due to a $28.8 million increase in public fund deposits by local government entities and partially due to organic growth. Public fund deposits can be relatively volatile due to seasonal tax collections and the financial needs of the local entities. Historically, these deposits tend to be at their lowest balances at year-ends. This increase was partially offset by a decline in ICS reciprocal accounts deposited with LCNB. The reciprocal deposits were allowed to decrease because management utilized other sources of liquidity, including the decrease in debt securities, available-for-sale.
- The decrease in short-term borrowings was funded primarily by the increase in total deposits and the decrease in debt securities, available-for-sale.
- Long-term debt decreased due to payoffs of matured debt. There were no new borrowings during 2019.
- Total shareholders' equity increased primarily due to earnings retained during 2019 and to a $5.5 million increase in accumulated other comprehensive income (loss), net of taxes caused by market-driven increases in the fair value of LCNB's debt security investments. These increases were partially offset by common stock repurchased and dividends paid to shareholders.

Liquidity

LCNB Corp. depends on dividends from the Bank for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. Federal banking law limits the amount of dividends the Bank may pay to the sum of retained net income for the current year plus retained net income for the previous two years. Prior approval from the OCC, the Bank's primary regulator, is necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated dividends to LCNB without needing to request approval. The Bank is not aware of any reasons why it would not receive such approval, if required.

Effective liquidity management ensures that cash is available to meet the cash flow needs of borrowers and depositors, as well as meeting LCNB's operating cash needs. Primary funding sources include customer deposits with the Bank, short-term and long-term borrowings from the Federal Home Loan Bank, short-term line of credit arrangements totaling $55.5 million with two correspondent banks, and interest and repayments received from LCNB's loan and investment portfolios.

Total remaining borrowing capacity with the Federal Home Loan Bank at December 31, 2019 was approximately $88.4 million. One of the factors limiting remaining borrowing capacity is ownership of FHLB stock. LCNB could increase its borrowing capacity by purchasing additional FHLB stock. Additional borrowings of approximately $55.5 million were available through the line of credit arrangements at year-end.

Management closely monitors the level of liquid assets available to meet ongoing funding needs. It is management's intent to maintain adequate liquidity so that sufficient funds are readily available at a reasonable cost. LCNB experienced no liquidity or operational problems as a result of current liquidity levels.

Commitments to extend credit at December 31, 2019 totaled $276.4 million, including standby letters of credit totaling $883,000, and are more fully described in Note 14 - Commitments and Contingent Liabilities to LCNB's consolidated financial statements. Since many commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table provides information concerning LCNB's contractual obligations at December 31, 2019:

| | Total | 1 year or less | Over 1 through 3 years | Over 3 through 5 years | More than 5 years |
|---|---|---|---|---|---|
| | | Payments due by period | | | |
| | | | (In thousands) | | |
| Short-term borrowings | $ — | — | — | — | — |
| Long-term debt obligations | 40,994 | 18,998 | 16,996 | 5,000 | — |
| Operating lease obligations | 11,683 | 458 | 654 | 472 | 10,099 |
| Estimated pension plan contribution for 2019 | 205 | 205 | — | — | — |
| Funding commitments for affordable housing tax credit limited partnerships | 4,596 | 1,396 | 2,197 | 418 | 585 |
| Estimated capital expenditure obligations | 1,820 | 1,820 | — | — | — |
| Certificates of deposit: | | | | | |
| $100,000 and over | 157,591 | 104,588 | 36,917 | 15,819 | 267 |
| Other time certificates | 166,537 | 99,955 | 47,076 | 18,511 | 995 |
| Total | $ 383,426 | 227,420 | 103,840 | 40,220 | 11,946 |

The following table provides information concerning LCNB's commitments at December 31, 2019:

| | Total Amounts Committed | 1 year or less | Over 1 through 3 years | Over 3 through 5 years | More than 5 years |
|---|---|---|---|---|---|
| | | Amount of Commitment Expiration Per Period | | | |
| | | | (In thousands) | | |
| Commitments to extend credit | $ 55,865 | 55,865 | — | — | — |
| Unused lines of credit | 219,677 | 68,621 | 102,795 | 20,849 | 27,412 |
| Standby letters of credit | 883 | 883 | — | — | — |
| Total | $ 276,425 | 125,369 | 102,795 | 20,849 | 27,412 |

Capital Resources

LCNB and the Bank are required by banking regulators to meet certain minimum levels of capital adequacy. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on LCNB's and the Bank's financial statements. These minimum levels are expressed in the form of certain ratios. Capital is separated into Tier 1 capital (essentially shareholders' equity less goodwill and other intangibles) and Tier 2 capital (essentially the allowance for loan losses limited to 1.25% of risk-weighted assets). Common Equity Tier 1 Capital is the sum of common stock, related surplus, and retained earnings, net of treasury stock, accumulated other comprehensive income, and other adjustments. The first three ratios, which are based on the degree of credit risk in the Bank's assets, provide for weighting assets based on assigned risk factors and include off-balance sheet items such as loan commitments and stand-by letters of credit. Information summarizing the regulatory capital of the Bank at December 31, 2019 and 2018 and corresponding regulatory minimum requirements is included in Note 15 - Regulatory Matters of the consolidated financial statements.

The FDIC, the insurer of deposits in financial institutions, has adopted a risk-based insurance premium system based in part on an institution's capital adequacy. Under this system, a depository institution is required to pay successively higher premiums depending on its capital levels and its supervisory rating by its primary regulator. It is management's intention to maintain sufficient capital to permit the Bank to maintain a "well capitalized" designation, which is the FDIC's highest rating.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

On April 24, 2019, LCNB's Board of Directors authorized a share repurchase program (the “Program”). Under the terms of the Program, LCNB is authorized to repurchase up to 500,000 of its outstanding common shares. The Program is authorized to last no longer than five years. The Program replaced and superseded LCNB’s prior share repurchase programs, the “Market Repurchase Program” and the “Private Sale Repurchase Program,” which were adopted in April 2001.

Under the Program, LCNB may purchase common shares through various means such as open market transactions, including block purchases, and privately negotiated transactions. The number of shares repurchased and the timing, manner, price and amount of any repurchases will be determined at LCNB's discretion. Factors include, but are not limited to, share price, trading volume and general market conditions, along with LCNB’s general business conditions. The Program may be suspended or discontinued at any time and does not obligate LCNB to acquire any specific number of its common shares.

As part of the Program, LCNB entered into a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The 10b5-1 trading plan permits common shares to be repurchased at times that LCNB might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions. The 10b5-1 trading plan is administered by an independent broker and is subject to price, market volume and timing restrictions.

LCNB established an Ownership Incentive Plan during 2002 that allowed for stock-based awards to eligible employees.  Under the plan, awards could be in the form of stock options, share awards, and/or appreciation rights. The plan provided for the issuance of up to 200,000 shares, as restated for a stock dividend.  The plan expired on April 16, 2012. Any outstanding unexercised options, however, continue to be exercisable in accordance with their terms.

The 2015 Ownership Incentive Plan (the "2015 Plan") was approved by LCNB's shareholders at the annual meeting on April 28, 2015 and allows for stock-based awards to eligible employees, as determined by the Compensation Committee of the Board of Directors. Awards may be made in the form of stock options, appreciation rights, restricted shares, and/or restricted share units. The 2015 Plan provides for the issuance of up to 450,000 shares. The 2015 Plan will terminate on April 28, 2025 and is subject to earlier termination by the Compensation Committee.

Critical Accounting Policies

The accounting policies of LCNB conform to U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management’s estimates. As this information changes, management’s estimates and assumptions used to prepare LCNB’s financial statements and related disclosures may also change. The most significant accounting policies followed by LCNB are presented in Note One of the Notes to Consolidated Financial Statements included herein. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified (i) the determination of the allowance for loan losses and (ii) income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

Allowance for Loan Losses.  The allowance for loan losses is established through a provision for loan losses charged to expense.  Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely.  Subsequent recoveries, if any, are credited to the allowance.  The allowance is an amount that management believes will be adequate to absorb inherent losses in the loan portfolio, based on evaluations of the collectability of loans and prior loan loss experience.  The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.  This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components.  The specific component relates to loans that are classified as doubtful, substandard, or special mention.  For such loans an allowance is established when the discounted cash flows or collateral value is lower than the carrying value of that loan.  The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, which include trends in underperforming loans, trends in the volume and terms of loans, economic trends and conditions, concentrations of credit, trends in the quality of loans, and borrower financial statement exceptions.

Based on its evaluations, management believes that the allowance for loan losses will be adequate to absorb estimated losses inherent in the current loan portfolio.

Acquired Credit Impaired Loans. LCNB accounts for acquisitions using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be measured at their fair values at the acquisition date. Acquired loans are reviewed to determine if there is evidence of deterioration in credit quality since inception and if it is probable that LCNB will be unable to collect all amounts due under the contractual loan agreements. The analysis includes expected prepayments and estimated cash flows including principal and interest payments at the date of acquisition. The amount in excess of the estimated future cash flows is not accreted into earnings. The amount in excess of the estimated future cash flows over the book value of the loan is accreted into interest income over the remaining life of the loan (accretable yield). LCNB records these loans on the acquisition date at their net realizable value. Thus, an allowance for estimated future losses is not established on the acquisition date. Subsequent to the date of acquisition, expected future cash flows on loans acquired are updated and any losses or reductions in estimated cash flows which arise subsequent to the date of acquisition are reflected as a charge through the provision for loan losses. An increase in the expected cash flows adjusts the level of the accretable yield recognized on a prospective basis over the remaining life of the loan. Due to the number, size, and complexity of loans within the acquired loan portfolio, there is always a possibility of inherent undetected losses.

Accounting for Intangibles. LCNB’s intangible assets at December 31, 2019 are composed primarily of goodwill and core deposit intangibles related to acquisitions of other financial institutions. It also includes mortgage servicing rights recorded from sales of fixed-rate mortgage loans to the Federal Home Loan Mortgage Corporation and mortgage servicing rights acquired through the acquisition of Eaton National and CFB. Goodwill is not subject to amortization, but is reviewed annually for impairment. Core deposit intangibles are being amortized on a straight line basis over their respective estimated weighted average lives. Mortgage servicing rights are capitalized by allocating the total cost of loans between mortgage servicing rights and the loans based on their estimated fair values. Capitalized mortgage servicing rights are amortized to loan servicing income in proportion to and over the period of estimated servicing income, subject to periodic review for impairment.

Fair Value Accounting for Debt Securities. Debt securities classified as available-for-sale are carried at estimated fair value. Unrealized gains and losses, net of taxes, are reported as accumulated other comprehensive income or loss in shareholders’ equity. Fair value is estimated using market quotations for U.S. Treasury investments. Fair value for the majority of the remaining available-for-sale securities is estimated using the discounted cash flow method for each security with discount rates based on rates observed in the market.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk for LCNB is primarily interest rate risk. LCNB attempts to mitigate this risk through asset/liability management strategies designed to decrease the vulnerability of its earnings to material and prolonged changes in interest rates. LCNB does not use derivatives such as interest rate swaps, caps or floors to hedge this risk. LCNB has not entered into any market risk instruments for trading purposes.

The Bank's Asset and Liability Management Committee ("ALCO") primarily uses a combination of Interest Rate Sensitivity Analysis (IRSA) and Economic Value of Equity (EVE) analysis for measuring and managing interest rate risk. The IRSA model is used to estimate the effect on net interest income during a one-year period of instantaneous and sustained movements in interest rates, also called interest rate shocks, of 100, 200, 300, and 400 basis points. Management considers the results of any downward scenarios of more than 200 basis points to not be meaningful in the current interest rate environment. The base projection uses a current interest rate scenario. As shown below, the December 31, 2019 IRSA indicates that an increase in interest rates at all shock levels will have a positive effect on net interest income and a decrease in interest rates at all shock levels will also have a positive effect on net interest income. The changes in net interest income for all rate assumptions are within LCNB’s acceptable ranges.

| Rate Shock Scenario in Basis Points | Amount (In thousands) | $ Change in Net Interest Income | % Change in Net Interest Income |
|---|---|---|---|
| Up 400 | $ 60,688 | 1,947 | 3.31% |
| Up 300 | 60,203 | 1,462 | 2.49% |
| Up 200 | 59,709 | 968 | 1.65% |
| Up 100 | 59,208 | 467 | 0.80% |
| Base | 58,741 | — | —% |
| Down 100 | 58,845 | 104 | 0.18% |
| Down 200 | 59,028 | 287 | 0.49% |

IRSA shows the effect on net interest income during a one-year period only. A more long-range model is the EVE analysis, which shows the estimated present value of future cash inflows from interest-earning assets less the present value of future cash outflows for interest-bearing liabilities for the same rate shocks. As shown below, the December 31, 2019 EVE analysis indicates that an increase or decrease in interest rates would have a positive effect on the EVE for all shock levels. The changes in the EVE for all rate assumptions are within LCNB’s acceptable ranges.

| Rate Shock Scenario in Basis Points | Amount (In thousands) | $ Change in EVE | % Change in EVE |
|---|---|---|---|
| Up 400 | $ 246,911 | 5,169 | 2.14% |
| Up 300 | 247,498 | 5,756 | 2.38% |
| Up 200 | 246,705 | 4,963 | 2.05% |
| Up 100 | 243,619 | 1,877 | 0.78% |
| Base | 241,742 | — | —% |
| Down 100 | 247,533 | 5,791 | 2.40% |
| Down 200 | 264,576 | 22,834 | 9.45% |

The IRSA and EVE simulations discussed above are not projections of future income or equity and should not be relied on as being indicative of future operating results. Assumptions used, including the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment or replacement of asset and liability cash flows, are inherently uncertain and, as a result, the models cannot precisely measure future net interest income or equity. Furthermore, the models do not reflect actions that borrowers, depositors, and management may take in response to changing economic conditions and interest rate levels.

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

LCNB Corp. ("LCNB") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. Management of LCNB and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15f. LCNB's internal control over financial reporting is a process designed under the supervision of LCNB's Chief Executive Officer and the Chief Financial Officer. The purpose is to provide reasonable assurance to the Board of Directors regarding the reliability of financial reporting and the preparation of LCNB's consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management maintains internal controls over financial reporting. The internal controls contain control processes and actions are taken to correct deficiencies as they are identified. The internal controls are evaluated on an ongoing basis by LCNB's management and Audit Committee. Even effective internal controls, no matter how well designed, have inherent limitations – including the possibility of circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to financial statement preparation. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed LCNB's internal controls as of December 31, 2019, in relation to criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2019, LCNB's internal control over financial reporting met the criteria.

BKD LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of LCNB's internal control over financial reporting as of December 31, 2019.

Submitted by:

LCNB Corp.

| | |
|---|---|
| /s/ Eric J. Meilstrup | /s/ Robert C. Haines II |
| Eric J. Meilstrup | Robert C. Haines II |
| President & Chief Executive Officer | Executive Vice President & |
| March 4, 2020 | Chief Financial Officer |
| | March 4, 2020 |

## Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee
LCNB Corp.
Lebanon, Ohio

***Opinion on the Internal Control Over Financial Reporting***

We have audited LCNB Corp.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated March 4, 2020, expressed an unqualified opinion thereon.

***Basis for Opinion***

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

***Definitions and Limitations of Internal Control Over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

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.

/s/ BKD, LLP

**BKD, LLP**

Cincinnati, Ohio
March 4, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee
LCNB Corp.
Lebanon, Ohio

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of LCNB Corp. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 4, 2020, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BKD, LLP

**BKD, LLP**

We have served as the Company’s auditor since 2014.

Cincinnati, Ohio
March 4, 2020

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LCNB CORP. AND SUBSIDIARIES

## FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### LCNB CORP. AND SUBSIDIARIES
### CONSOLIDATED BALANCE SHEETS
At December 31,
(Dollars in thousands)

| | 2019 | 2018 |
|---|---|---|
| **ASSETS:** | | |
| Cash and due from banks | $ 17,019 | 18,310 |
| Interest-bearing demand deposits | 3,746 | 1,730 |
| Total cash and cash equivalents | 20,765 | 20,040 |
| | | |
| Interest-bearing time deposits | — | 996 |
| Investment securities: | | |
| Equity securities with a readily determinable fair value, at fair value | 2,312 | 2,078 |
| Equity securities without a readily determinable fair value, at cost | 2,099 | 2,099 |
| Debt securities, available-for-sale, at fair value | 178,000 | 238,421 |
| Debt securities, held-to-maturity, at cost | 27,525 | 29,721 |
| Federal Reserve Bank stock, at cost | 4,652 | 4,653 |
| Federal Home Loan Bank stock, at cost | 5,203 | 4,845 |
| Loans, net | 1,239,406 | 1,194,577 |
| Premises and equipment, net | 34,787 | 32,627 |
| Operating lease right-of-use assets | 5,444 | — |
| Goodwill | 59,221 | 59,221 |
| Core deposit and other intangibles | 4,006 | 5,042 |
| Bank owned life insurance | 41,667 | 28,723 |
| Other assets | 14,221 | 13,884 |
| **TOTAL ASSETS** | $ 1,639,308 | 1,636,927 |
| | | |
| **LIABILITIES:** | | |
| Deposits: | | |
| Non-interest-bearing | $ 354,391 | 322,571 |
| Interest-bearing | 993,889 | 978,348 |
| Total deposits | 1,348,280 | 1,300,919 |
| Short-term borrowings | — | 56,230 |
| Long-term debt | 40,994 | 47,032 |
| Operating lease liabilities | 5,446 | — |
| Accrued interest and other liabilities | 16,540 | 13,761 |
| **TOTAL LIABILITIES** | 1,411,260 | 1,417,942 |
| | | |
| **COMMITMENTS AND CONTINGENT LIABILITIES** | — | — |
| | | |
| **SHAREHOLDERS' EQUITY:** | | |
| Preferred shares - no par value, authorized 1,000,000 shares, none outstanding | — | — |
| Common shares - no par value; authorized 19,000,000 shares at December 31, 2019 and 2018; issued 14,111,810 and 14,070,303 shares at December 31, 2019 and 2018, respectively | 141,791 | 141,170 |
| Retained earnings | 104,431 | 94,547 |
| Treasury shares at cost, 1,175,027 and 775,027 shares at December 31, 2019 and 2018, respectively | (18,847) | (12,013) |
| Accumulated other comprehensive income (loss), net of taxes | 673 | (4,719) |
| **TOTAL SHAREHOLDERS' EQUITY** | 228,048 | 218,985 |
| | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 1,639,308 | 1,636,927 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**LCNB CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
For the years ended December 31,
(Dollars in thousands, except per share data)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **INTEREST INCOME:** | | | |
| Interest and fees on loans | $ 59,009 | 47,489 | 36,571 |
| Dividends on equity securities: | | | |
| With a readily determinable fair value | 62 | 65 | 63 |
| Without a readily determinable fair value | 65 | 39 | 26 |
| Interest on debt securities: | | | |
| Taxable | 3,601 | 3,666 | 4,239 |
| Non-taxable | 1,677 | 2,686 | 3,130 |
| Interest on interest-bearing time deposits | 11 | 58 | — |
| Other investments | 769 | 591 | 434 |
| TOTAL INTEREST INCOME | 65,194 | 54,594 | 44,463 |
| **INTEREST EXPENSE:** | | | |
| Interest on deposits | 9,526 | 5,753 | 3,378 |
| Interest on short-term borrowings | 227 | 311 | 209 |
| Interest on long-term debt | 1,035 | 361 | 12 |
| TOTAL INTEREST EXPENSE | 10,788 | 6,425 | 3,599 |
| NET INTEREST INCOME | 54,406 | 48,169 | 40,864 |
| PROVISION FOR LOAN LOSSES | 207 | 923 | 215 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 54,199 | 47,246 | 40,649 |
| **NON-INTEREST INCOME:** | | | |
| Fiduciary income | 4,354 | 3,958 | 3,473 |
| Service charges and fees on deposit accounts | 5,875 | 5,590 | 5,236 |
| Net gains (losses) on sales of securities | (41) | (8) | 233 |
| Bank owned life insurance income | 943 | 738 | 867 |
| Net gains from sales of loans | 328 | 223 | 166 |
| Other operating income | 889 | 549 | 483 |
| TOTAL NON-INTEREST INCOME | 12,348 | 11,050 | 10,458 |
| **NON-INTEREST EXPENSE:** | | | |
| Salaries and employee benefits | 25,320 | 21,279 | 18,585 |
| Equipment expenses | 1,209 | 1,138 | 1,172 |
| Occupancy expense, net | 2,961 | 2,861 | 2,613 |
| State financial institutions tax | 1,669 | 1,197 | 1,137 |
| Marketing | 1,319 | 1,119 | 873 |
| Amortization of intangibles | 1,043 | 922 | 751 |
| FDIC premiums | 225 | 419 | 423 |
| ATM expense | 580 | 580 | 572 |
| Computer maintenance and supplies | 1,094 | 990 | 882 |
| Telephone expense | 707 | 649 | 735 |
| Contracted services | 1,865 | 1,547 | 1,255 |
| Other real estate owned | 53 | 20 | 10 |
| Merger-related expenses | 114 | 2,123 | 118 |
| Other non-interest expense | 5,363 | 5,658 | 4,737 |
| TOTAL NON-INTEREST EXPENSE | 43,522 | 40,502 | 33,863 |
| **INCOME BEFORE INCOME TAXES** | 23,025 | 17,794 | 17,244 |

| | | | |
|---|---|---|---|
| PROVISION FOR INCOME TAXES | 4,113 | 2,949 | 4,272 |
| **NET INCOME** | $ 18,912 | 14,845 | 12,972 |
| | | | |
| Earnings per common share: | | | |
| Basic | $ 1.44 | 1.24 | 1.30 |
| Diluted | 1.44 | 1.24 | 1.29 |
| Weighted average common shares outstanding: | | | |
| Basic | 13,078,920 | 11,935,350 | 10,005,575 |
| Diluted | 13,082,893 | 11,942,253 | 10,012,511 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**LCNB CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
For the years ended December 31,
(Dollars in thousands)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net income | $ 18,912 | 14,845 | 12,972 |
| Other comprehensive income (loss): | | | |
| Net unrealized gain (loss) on available-for-sale securities (net of taxes of $1,450, $(516), and $285 for 2019, 2018, and 2017, respectively) | 5,456 | (1,939) | 585 |
| Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of $(9), $(2), and $81 for 2019, 2018 and 2017, respectively) | 32 | 6 | (152) |
| Change in nonqualified pension plan unrecognized net gain (loss) and unrecognized prior service cost (net of taxes of $(26), $21, and $(53) for 2019, 2018, and 2017, respectively) | (96) | 81 | (158) |
| Other comprehensive income (loss) | 5,392 | (1,852) | 275 |
| **TOTAL COMPREHENSIVE INCOME** | $ 24,304 | 12,993 | 13,247 |

**SUPPLEMENTAL INFORMATION:**

| | | | |
|---|---|---|---|
| COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX, AS OF YEAR-END: | | | |
| Net unrealized gain (loss) on securities available-for-sale | $ 857 | (4,631) | (2,200) |
| Net unfunded liability for nonqualified pension plan | (184) | (88) | (142) |
| Balance at year-end | $ 673 | (4,719) | (2,342) |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**LCNB CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
For the years ended December 31,
(Dollars in thousands, except share data)

| | Common Shares Outstanding | Common Shares | Retained Earnings | Treasury Shares | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | **9,998,025** | **$ 76,490** | **80,736** | **(11,665)** | **(2,617)** | **142,944** |
| Net income | | | 12,972 | | | 12,972 |
| Other comprehensive loss, net of taxes | | | | | 275 | 275 |
| Dividend Reinvestment and Stock Purchase Plan | 17,609 | 360 | | | | 360 |
| Exercise of stock options | 3,398 | 51 | | | | 51 |
| Compensation expense relating to stock options | | 1 | | | | 1 |
| Compensation expense relating to restricted stock | 4,027 | 75 | | | | 75 |
| Common stock dividends, $0.64 per share | | | (6,407) | | | (6,407) |
| **Balance, December 31, 2017** | **10,023,059** | **76,977** | **87,301** | **(11,665)** | **(2,342)** | **150,271** |
| | | | | | | |
| Cumulative effect of changes in accounting principles (1) | | | 525 | | (525) | — |
| Balance at December 31, 2017, as adjusted | 10,023,059 | 76,977 | 87,826 | (11,665) | (2,867) | 150,271 |
| Net income | | | 14,845 | | | 14,845 |
| Other comprehensive income, net of taxes | | | | | (1,852) | (1,852) |
| Dividend Reinvestment and Stock Purchase Plan | 22,936 | 416 | | | | 416 |
| Stock issued for acquisition of Columbus First Bancorp, Inc. | 3,253,060 | 63,598 | | | | 63,598 |
| Exercise of stock options | 6,987 | 72 | | | | 72 |
| Repurchase of common stock | (21,400) | | | (348) | | (348) |
| Compensation expense relating to restricted stock | 10,634 | 107 | | | | 107 |
| Common stock dividends, $0.65 per share | | | (8,124) | | | (8,124) |
| **Balance, December 31, 2018** | **13,295,276** | **141,170** | **94,547** | **(12,013)** | **(4,719)** | **218,985** |
| | | | | | | |
| Net income | | | 18,912 | | | 18,912 |
| Other comprehensive loss, net of taxes | | | | | 5,392 | 5,392 |
| Dividend Reinvestment and Stock Purchase Plan | 25,629 | 446 | | | | 446 |
| Exercise of stock options | 3,374 | 41 | | | | 41 |
| Repurchase of common stock | (400,000) | | | (6,834) | | (6,834) |
| Compensation expense relating to restricted stock | 12,504 | 134 | | | | 134 |
| Common stock dividends, $0.69 per share | | | (9,028) | | | (9,028) |
| **Balance, December 31, 2019** | **12,936,783** | **$ 141,791** | **104,431** | **(18,847)** | **673** | **228,048** |

(1) Represents the impact of adopting Accounting Standards Update No. 2018-02 and No. 2016-01. See Note 1 of the consolidated financial statements for more information.

The accompanying notes to consolidated financial statements are an integral part of these statements.

**LCNB CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the years ended December 31,
(Dollars in thousands)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 18,912 | 14,845 | 12,972 |
| Adjustments to reconcile net income to net cash flows from operating activities- | | | |
| Depreciation, amortization and accretion | 3,244 | 4,073 | 3,308 |
| Provision for loan losses | 207 | 923 | 215 |
| Impact of Tax Cuts and Jobs Act on Accumulated Other Comprehensive Income | — | — | 486 |
| Deferred income tax provision | 419 | 228 | 1,478 |
| Increase in cash surrender value of bank owned life insurance | (943) | (738) | (760) |
| Bank owned life insurance death benefits in excess of cash surrender value | — | — | (107) |
| Realized (gain) loss from equity securities | (264) | 73 | (15) |
| Realized (gain) loss from sales of debt securities available-for-sale | 41 | 8 | (218) |
| Realized (gain) loss from sale of premises and equipment | (1) | 575 | 113 |
| Realized loss from sale and impairment of other real estate owned and repossessed assets | 44 | 14 | 3 |
| Origination of mortgage loans for sale | (16,418) | (8,924) | (7,513) |
| Realized gains from sales of loans | (328) | (223) | (166) |
| Proceeds from sales of loans | 16,590 | 9,033 | 7,588 |
| Compensation expense related to stock options | — | — | 1 |
| Compensation expense related to restricted stock | 134 | 107 | 75 |
| Changes in: | | | |
| Accrued income receivable | 230 | 215 | (4) |
| Other assets | (1,373) | (1,811) | (269) |
| Other liabilities | 1,474 | 1,344 | 948 |
| TOTAL ADJUSTMENTS | 3,056 | 4,897 | 5,163 |
| NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | 21,968 | 19,742 | 18,135 |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Proceeds from sales of equity securities | 398 | 127 | 43 |
| Proceeds from sales of debt securities available-for-sale | 84,521 | 8,545 | 43,203 |
| Proceeds from maturities and calls of debt securities: | | | |
| Available-for-sale | 28,942 | 24,249 | 25,012 |
| Held-to-maturity | 10,766 | 6,281 | 14,057 |
| Purchases of equity securities | (367) | (1,118) | (80) |
| Purchases of debt securities: | | | |
| Available-for-sale | (47,270) | — | (26,932) |
| Held-to-maturity | (8,570) | (3,431) | (5,625) |
| Proceeds from maturities of interest-bearing time deposits | 996 | 9,354 | — |
| Proceeds from redemption of Federal Reserve Bank stock | 1 | — | — |
| Purchase of Federal Reserve Bank stock | — | (1,921) | — |
| Purchase of Federal Home Loan Bank stock | (358) | — | — |
| Net increase in loans | (44,093) | (65,842) | (29,692) |
| Purchase of bank owned life insurance | (12,000) | — | — |
| Proceeds from bank owned life insurance mortality benefits | — | — | 189 |
| Proceeds from sales of other real estate owned and repossessed assets | 19 | 21 | 971 |
| Purchases of premises and equipment | (3,934) | (600) | (6,617) |
| Proceeds from sales of premises and equipment | 5 | 651 | 272 |
| Net cash received from acquisition of Columbus First Bancorp, Inc. | — | 12,896 | — |
| NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES | 9,056 | (10,788) | 14,801 |

| | | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Net increase (decrease) in deposits | | 47,361 | (29,332) | (25,084) |
| Net increase (decrease) in short-term borrowings | | (56,230) | (770) | 4,960 |
| Proceeds from long-term debt | | — | 31,000 | — |
| Principal payments on long-term debt | | (6,055) | (7,214) | (295) |
| Proceeds from issuance of common stock | | 76 | 65 | 41 |
| Repurchase of common stock | | (6,834) | (348) | — |
| Proceeds from exercise of stock options | | 41 | 72 | 51 |
| Cash dividends paid on common stock | | (8,658) | (7,773) | (6,088) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | (30,299) | (14,300) | (26,415) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | 725 | (5,346) | 6,521 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 20,040 | 25,386 | 18,865 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ | 20,765 | 20,040 | 25,386 |

**LCNB CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

For the years ended December 31,

(Dollars in thousands)

| | | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | | |
| CASH PAID DURING THE YEAR FOR: | | | | |
| Interest | $ | 10,480 | 5,908 | 3,577 |
| Income taxes | | 3,471 | 1,950 | 2,185 |
| | | | | |
| **SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITY:** | | | | |
| Transfer from loans to other real estate owned and repossessed assets | | 17 | 244 | 974 |
| Right-of-use assets obtained in exchange for lease obligations | | 5,775 | — | — |
| | | | | |
| **LCNB purchased all of the common stock of Columbus First Bancorp, Inc. on May 31, 2018. In conjunction with the acquisition, liabilities were assumed as follows:** | | | | |
| Fair value of assets acquired | | | 342,256 | |
| Less common stock issued | | | 63,598 | |
| Less cash paid for the common stock | | | 783 | |
| Liabilities assumed | | | 277,875 | |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

LCNB Corp. (the "Company" or “LCNB”), an Ohio corporation formed in December 1998, is a financial holding company whose principal activity is the ownership of LCNB National Bank (the "Bank"). The Bank was founded in 1877 and provides full banking services, including trust and brokerage services, to customers primarily in Southwestern Ohio and Franklin County Ohio and contiguous areas.

**BASIS OF PRESENTATION**
The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions are eliminated in consolidation. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and with general practices in the banking industry.

Certain prior period data presented in the financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income.

**USE OF ESTIMATES**
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**
For purposes of reporting cash flows, cash and cash equivalents include cash, balances due from banks, federal funds sold, and interest-bearing demand deposits with original maturities of twelve months or less. Deposits with other banks routinely have balances greater than FDIC insured limits. Management considers the risk of loss to be very low with respect to such deposits.

**INVESTMENT SECURITIES**
Certain municipal debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, a separate component of shareholders’ equity. Amortization of premiums and accretion of discounts are recognized as adjustments to interest income using the level-yield method. Realized gains or losses from the sale of securities are recorded on the trade date and are computed using the specific identification method.

Declines in the fair value of debt securities below their cost that are deemed to be other-than-temporarily impaired, and for which the Company does not intend to sell the securities and it is not more likely than not that the securities will be sold before the anticipated recovery of the impairment, are separated into losses related to credit factors and losses related to other factors. The losses related to credit factors are recognized in earnings and losses related to other factors are recognized in other comprehensive income. In estimating other than temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management determined that no such impairment adjustment was required to be made in the Company's consolidated statements of income as of December 31, 2019, 2018, and 2017.

Beginning January 1, 2018, equity securities are measured at fair value with changes in fair value recognized in net income.

Federal Home Loan Bank ("FHLB") stock is an equity interest in the Federal Home Loan Bank of Cincinnati. It can be sold only at its par value of $100 per share and only to the FHLB or to another member institution. In addition, the equity ownership rights are more limited than would be the case for a public company because of the oversight role exercised by the Federal Housing Finance Agency in the process of budgeting and approving dividends. Federal Reserve Bank stock is similarly restricted in marketability and value. Both investments are carried at cost, which is their par value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

FHLB and Federal Reserve Bank stock are both subject to minimum ownership requirements by member banks. The required investments in common stock are based on predetermined formulas.

**LOANS**
The Company's loan portfolio includes most types of commercial and industrial loans, commercial loans secured by real estate, residential real estate loans, consumer loans, agricultural loans and other types of loans. Most of the properties collateralizing the loan portfolio are located within the Company's market area.

Loans are stated at the principal amount outstanding, net of unearned income, deferred origination fees and costs, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. The delinquency status of a loan is based on contractual terms and not on how recently payments have been received. Generally, a loan is placed on non-accrual status when it is classified as impaired or there is an indication that the borrower's cash flow may not be sufficient to make payments as they come due, unless the loan is well secured and in the process of collection. Subsequent cash receipts on non-accrual loans are recorded as a reduction of principal and interest income is recorded once principal recovery is reasonably assured. The current year's accrued interest on loans placed on non-accrual status is charged against earnings. Previous years' accrued interest is charged against the allowance for loan losses. Non-accrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer a reasonable doubt as to the timely collection of interest or principal.

Loan origination fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of loan yields. These amounts are being amortized over the lives of the related loans.

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses.

Loans acquired from mergers are recorded at fair value with no carryover of the acquired entity's previously established allowance for loan losses. The excess of expected cash flows over the estimated fair value of acquired loans is recognized as interest income over the remaining contractual lives of the loans using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows result in the recognition of additional interest income over the then-remaining contractual lives of the loans. Management estimates the cash flows expected to be collected at acquisition using a third-party risk model, which incorporates the estimate of key assumptions, such as default rates, severity, and prepayment speeds.

Impaired loans acquired are accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 310-30. Factors considered in evaluating whether an acquired loan was impaired include delinquency status and history, updated borrower credit status, collateral information, and current loan-to-value information. The difference between contractually required payments at the time of acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. The interest component of the cash flows expected to be collected is referred to as the accretable yield and is recognized as interest income over the remaining contractual life of the loan using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows will result in a reclassification from the nonaccretable difference to the accretable yield.

**ALLOWANCE FOR LOAN LOSSES**
The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Consumer loans are charged off when they reach 120 days past due. Subsequent recoveries, if any, are credited to the allowance.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The provision for loan losses is determined by management based upon its evaluation of the amount needed to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk of losses inherent in the portfolio. Current methodology used by management to estimate the allowance takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, historic categorical trends, current delinquency levels as related to historical levels, portfolio growth rates, changes in composition of the portfolio, the current economic environment, as well as current allowance adequacy in relation to the portfolio. Management is cognizant that reliance on historical information coupled with the cyclical nature of the economy, including credit cycles, affects the allowance. Management considers all of these factors prior to making any adjustments to the allowance due to the subjectivity and imprecision involved in allocation methodology. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are specifically reviewed for impairment. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers loans not specifically reviewed for impairment and homogeneous loan pools, such as residential real estate and consumer loans. The general component is measured for each loan category separately based on each category’s average of historical loss experience over a trailing sixty month period, adjusted for qualitative factors. Such qualitative factors may include current economic conditions if different from the five-year historical loss period, trends in underperforming loans, trends in volume and terms of loan categories, concentrations of credit, and trends in loan quality.

A loan is considered impaired when management believes, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. An impaired loan is measured by the present value of expected future cash flows using the loan's effective interest rate. An impaired collateral-dependent loan may be measured based on collateral value. Smaller-balance homogeneous loans, including residential mortgage and consumer installment loans, which are not evaluated individually are collectively evaluated for impairment.

**PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is computed on both the straight-line and accelerated methods over the estimated useful lives of the assets, generally 15 to 40 years for premises and 3 to 10 years for equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs incurred for maintenance and repairs are expensed as incurred. Premises and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset may not be recoverable.

**OTHER REAL ESTATE OWNED**

Other real estate owned includes properties acquired through foreclosure. Such property is held for sale and is initially recorded at fair value, less costs to sell, establishing a new cost basis. Fair value is primarily based on a property appraisal obtained at the time of transfer and any periodic updates that may be obtained thereafter. The allowance for loan losses is charged for any write down of the loan’s carrying value to fair value at the date of transfer. Any subsequent reductions in fair value and expenses incurred from holding other real estate owned are charged to other non-interest expense. Costs, excluding interest, relating to the improvement of other real estate owned are capitalized. Gains and losses from the sale of other real estate owned are included in other non-interest expense.

**GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill is the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is not amortized, but is instead subject to an annual review for impairment.

Mortgage servicing rights on originated mortgage loans that have been sold are initially recorded at their estimated fair values. Mortgage servicing rights are amortized to loan servicing income in proportion to and over the period of estimated servicing income. Such assets are periodically evaluated as to the recoverability of their carrying value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The Company's other intangible assets relate to core deposits acquired from business combinations. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Management evaluates whether events or circumstances have occurred that indicate the remaining useful life or carrying value of the amortizing intangible should be revised.

**BANK OWNED LIFE INSURANCE**

The Company has purchased life insurance policies on certain officers of the Company. The Company is the beneficiary of these policies and has recorded the estimated cash surrender value in other assets in the consolidated balance sheets. Income on the policies, based on the increase in cash surrender value and any incremental death benefits, is included in non-interest income in the consolidated statements of income.

**AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIP**

LCNB has elected to account for its investment in an affordable housing tax credit limited partnership using the proportional amortization method described in FASB Accounting Standards Update ("ASU") 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (A Consensus of the FASB Emerging Issues Task Force)." Under the proportional amortization method, an investor amortizes the initial cost of the investment to income tax expense in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The investment in the limited partnership is included in other assets and the unfunded amount is included in accrued interest and other liabilities in LCNB's consolidated balance sheets.

**FAIR VALUE MEASUREMENTS**

Accounting guidance establishes a fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. A financial instrument's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three broad input levels are:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are unobservable for the asset or liability.

Accounting guidance permits, but does not require, companies to measure many financial instruments and certain other items, including loans and debt securities, at fair value. The decision to elect the fair value option is made individually for each instrument and is irrevocable once made. Changes in fair value for the selected instruments are recorded in earnings. The Company did not select any financial instruments for the fair value election in 2019 or 2018.

Beginning January 1, 2018, equity securities are required to be measured at fair value with changes in fair value recognized in net income.

**ADVERTISING EXPENSE**

Advertising costs are expensed as incurred and are recorded as a marketing expense, a component of non-interest expense.

**PENSION PLANS**

Eligible employees of the Company hired before 2009 participate in a multiple-employer qualified noncontributory defined benefit retirement plan. This plan is accounted for as a multi-employer plan because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

Citizens National had a qualified noncontributory, defined benefit pension plan, which has been assumed by the Company, that covers eligible employees hired before May 1, 2005. This is a single employer plan.

**TREASURY STOCK**

Common shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the weighted average method.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**STOCK OPTIONS AND RESTRICTED STOCK AWARD PLANS**
The cost of employee services received in exchange for stock option grants is the grant-date fair value of the award estimated using an option-pricing model. The compensation cost for restricted stock awards is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The estimated cost is recognized on a straight-line basis over the period the employee is required to provide services in exchange for the award, usually the vesting period. The Company uses a Black-Scholes pricing model and related assumptions for estimating the fair value of stock option grants and a five-year vesting period for stock options and restricted stock.

**REVENUE RECOGNITION**
FASB ASC No. 606, "Revenue from Contracts with Customers" ("ASC No. 606") provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, including loans and investment securities, are not included in the scope of ASC No. 606. The adoption of ASC No. 606 did not result in a change to the accounting for any of LCNB's revenue streams that are within the scope of the amendments. Revenue-generating activities that are within the scope of ASC 606 and that are presented as non-interest income in LCNB's consolidated statements of income include:

- Fiduciary income - this includes periodic fees due from trust and investment services customers for managing the customers' financial assets. Fees are generally charged on a quarterly or annual basis and are recognized ratably throughout the period, as the services are provided on an ongoing basis.
- Service charges and fees on deposit accounts - these include general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer, or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

**INCOME TAXES**
Deferred income taxes are determined using the asset and liability method of accounting. Under this method, the net deferred tax asset or liability is determined based on the tax effects of temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Management analyzes material tax positions taken in any income tax return for any tax jurisdiction and determines the likelihood of the positions being sustained in a tax examination. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

**EARNINGS PER SHARE**
Basic earnings per share allocated to common shareholders is calculated using the two-class method and is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is adjusted for the dilutive effects of stock based compensation and is calculated using the two-class method or the treasury stock method. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock based compensation with the proceeds used to purchase treasury shares at the average market price for the period.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

*FASB Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)"*
ASU No. 2016-02 was issued in February 2016 and was adopted by LCNB as of January 1, 2019. It requires a lessee to recognize in the statement of financial position a liability to make lease payments ("the lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. When measuring assets and liabilities arising from a lease, the lessee should include payments to be made in optional periods only if the lessee is reasonably certain, as defined, to exercise an option to the lease or not to exercise an option to terminate the lease. Optional payments to purchase the underlying asset should be included if the lessee is reasonably certain it will exercise the purchase option. Most variable lease payments should be excluded except for those that depend on an index or a rate or are in substance fixed payments.

A lessee shall classify a lease as a finance lease if it meets any of five listed criteria:
1. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
2. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
3. The lease term is for the major part of the remaining economic life of the underlying asset.
4. The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
5. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

For finance leases, a lessee shall recognize in the statement of income interest on the lease liability separately from amortization of the right-of-use asset. Amortization of the right-of-use asset shall be on a straight-line basis, unless another basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. If the lease does not meet any of the five criteria, the lessee shall classify it as an operating lease and shall recognize a single lease cost on a straight-line basis over the lease term.

LCNB adopted this update using a modified retrospective approach, as defined, and elected not to restate comparable prior periods. The update provides for a number of practical expedients that can be used to simplify the transition to the new standard. LCNB elected a package of practical expedients that allowed it to not reassess whether an existing contract is or contains a lease, to not reassess previous lease classifications, and to not reassess initial direct costs. LCNB also elected a practical expedient that allowed it to use hindsight when determining lease terms. LCNB did not elect a practical expedient that would have allowed it to not reassess certain land easements, as this expedient was not applicable to it.

LCNB has adopted an accounting policy election to not recognize lease assets and lease liabilities for leases with a term of 12 months or less. Lease expense for such leases will generally be recognized on a straight-line basis over the lease term.

*ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)"*
ASU No. 2014-09 was issued in May 2014 and was adopted by LCNB as of January 1, 2018. It supersedes most current revenue recognition guidance for contracts to transfer goods or services or other nonfinancial assets. Lease contracts, insurance contracts, and most financial instruments are not included in the scope of this update. ASU No. 2014-09 provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Additional disclosures providing information about contracts with customers are required. Adoption did not have a material impact on LCNB's results of operations or financial position.

*ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"*
ASU No. 2016-01 was issued in January 2016 and was adopted by LCNB as of January 1, 2018. It applies to all entities that hold financial assets or owe financial liabilities. It makes targeted changes to generally accepted accounting principles for public companies as follows:
1. Requires most equity investments to be measured at fair value with changes in fair value recognized in net income.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2. Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.
3. Eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
4. Requires use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
5. Requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
6. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
7. Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

Adoption of ASU No. 2016-01 did not have a material impact on LCNB's results of operations or financial position. Upon adoption on January 1, 2018, LCNB reclassified net unrealized gain on equity securities, net of taxes, of $33,000 from accumulated other comprehensive income into retained earnings. Before adoption, equity securities were included with investment securities, available for sale in the consolidated balance sheets and dividends received were included in interest on investment securities, taxable in the consolidated statements of income. After adoption, equity securities are separate line items in the consolidated balance sheets and the consolidated statements of income. Changes in the fair value of equity securities are included in other operating income in the consolidated statements of income.

*ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost"*
ASU No. 2017-07 was issued in March 2017 and was adopted by LCNB as of January 1, 2018. It applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. The amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, as defined, are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update are to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement. Adoption of ASU No. 2017-07 did not have a material impact on LCNB's results of operations or financial position.

*ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting"*
ASU No. 2017-09 was issued in May 2017 and was adopted by LCNB on January 1, 2018. It applies to any entity that changes the terms or conditions of a share-based payment award. The amendments in this update provide that an entity would not apply modification accounting under the guidance in Topic 718 if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments are to be applied prospectively and are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Adoption of ASU No. 2017-09 did not have a material impact on LCNB's results of operations or financial position.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*
ASU No. 2018-02 was issued in February 2018 and is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted and LCNB early adopted the ASU as of January 1, 2018. ASU No. 2018-02 addresses a narrow-scope financial reporting issue that arose as a consequence of the passage of H.R. 1, known as the “Tax Cuts and Jobs Act.” Generally Accepted Accounting Principles requires adjustment of deferred tax assets and liabilities for the effect of a change in tax laws or rates with the effect to be included in income from continuing operations in the reporting period that includes the enactment date. This guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income rather than in income from continuing operations. As a consequence, the tax effects of items within accumulated other comprehensive income, referred to as stranded tax effects in the update, do not reflect the appropriate tax rate. The amendments in ASU No. 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. Because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. Upon adoption, LCNB reclassified stranded tax effects of $492,000 into retained earnings as of January 1, 2018.

**RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE**

*ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*
ASU No. 2016-13 was issued in June 2016 and, once effective, will significantly change current guidance for recognizing impairment of financial instruments. Current guidance requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. ASU No. 2016-13 replaces the incurred loss impairment methodology with a new current expected credit loss ("CECL") methodology that reflects expected credit losses over the lives of the loans and requires consideration of a broader range of information to inform credit loss estimates. The ASU requires an organization to estimate all expected credit losses for financial assets measured at amortized cost, including loans and held-to-maturity debt securities, based on historical experience, current conditions, and reasonable and supportable forecasts. Additional disclosures are required.

ASU No. 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Under the new guidance, entities will determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. Any credit loss will be recognized as an allowance for credit losses on available-for-sale debt securities rather than as a direct reduction of the amortized cost basis of the investment, as is currently required. As a result, entities will recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings rather than as interest income over time, as currently required.

ASU No. 2016-13 eliminates the current accounting model for purchased credit impaired loans and debt securities. Instead, purchased financial assets with credit deterioration will be recorded gross of estimated credit losses as of the date of acquisition and the estimated credit losses amounts will be added to the allowance for credit losses. Thereafter, entities will account for additional impairment of such purchased assets using the models listed above.

Originally, ASU No. 2016-13 would have taken effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. At their meeting on October 16, 2019, FASB approved a final ASU delaying the effective date for several major standards, including ASU No. 2016-13, if certain qualifications are met. The new effective date for SEC filers eligible to be smaller reporting companies ("SRC"), as defined, will be fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted. As an SRC, LCNB intends to adopt ASU No. 2016-13 for the fiscal year, and interim periods within the fiscal year, beginning after December 15, 2022.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

LCNB has created a cross-functional CECL Committee, which reports to the Audit Committee, composed of members from the lending, trust, and finance departments. The CECL Committee has selected a vendor to assist in implementation of and ongoing compliance with the new requirements. It has completed analyzing its data collection efforts, selected a calculation model, and is currently analyzing its pool segmentation and reporting mechanisms for adoption of the new methodology. While the committee and management expect that the implementation of ASU No. 2016-13 will increase the balance of the allowance for loan losses, they are continuing to evaluate the potential impact on LCNB's results of operations and financial position. The financial statement impact of this new standard cannot be reasonably estimated at this time.

*ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"*
ASU No. 2017-04 was issued in January 2017 and applies to public and other entities that have goodwill reported in their financial statements. To simplify the subsequent measurement of goodwill, this ASU eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is an SEC filer should adopt the amendments in this update on a prospective basis for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Adoption of ASU No. 2017-04 is not expected to have a material impact on LCNB's results of operations or financial position.

*ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement"*
ASU No. 2018-13 was issued in August 2018 and applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. The amendments in this update modify fair value disclosure requirements, including the deletion, modification, and addition of certain targeted disclosures. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the update and delay adoption of the additional disclosures until the effective date. The amendments are to be applied on a retrospective basis to all periods presented upon adoption, except for certain amendments described in the update that are to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. Adoption of ASU No. 2018-13 will not have a material impact on LCNB's results of operations or financial position.

*ASU No. 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans"*
ASU No. 2018-14 was issued in August 2018. The amendments in this update modify disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including the deletion, modification, and addition of certain targeted disclosures. The amendments are effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. The amendments are to be applied on a retrospective basis to all periods presented upon adoption. Adoption of ASU No. 2018-14 will not have a material impact on LCNB's results of operations or financial position.

*ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"*
ASU No. 2018-15 was issued in August 2018 and applies to entities that are a customer in a hosting arrangement, as defined, that is accounted for as a service contract. The amendments in this update require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Capitalized implementation costs are to be expensed over the term of the hosting arrangement. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Adoption of ASU No. 2018-15 is not expected to have a material impact on LCNB's results of operations or financial position.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"*
ASU No. 2019-12 was issued in December 2019 and simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifies and amends certain other guidance. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. Adoption of ASU No. 2019-12 is not expected to have a material impact on LCNB's results of operations or financial position.

## NOTE 2 – ACQUISITIONS

On December 20, 2017, LCNB and Columbus First Bancorp, Inc. ("CFB") entered into an Agreement and Plan of Merger ("Merger Agreement") pursuant to which CFB merged with and into LCNB on May 31, 2018. LCNB entered into this transaction with the expectation that it would be accretive to income and expand its presence in the Columbus market area. Immediately following the merger of CFB into LCNB, Columbus First Bank, a wholly-owned subsidiary of CFB, merged into the Bank. Columbus First Bank operated from one full-service office located in Worthington, Ohio. That office became a branch of the Bank after the merger.

Under the terms of the Merger Agreement, the shareholders of CFB received two shares of LCNB common shares for each outstanding CFB common share. Unexercised stock options of CFB were canceled in exchange for a cash payment.

The merger with CFB was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid were recorded at their estimated fair values as of the merger date. The estimated fair values reported in LCNB's Form 10-Q for the quarterly period ended June 30, 2018 were preliminary, as the pricing study had not been finalized at that time. The following table summarizes the preliminary balances at June 30, 2018, revisions to the preliminary balances, and the balances at December 31, 2018 (in thousands):

| | June 30, 2018 | Fair Value Adjustments | December 31, 2018 |
|---|---|---|---|
| **Consideration Paid:** | | | |
| Common shares issued (3,253,060 shares issued at $19.55 per share) | 63,598 | — | 63,598 |
| Cash paid to cancel share based payment awards | 783 | — | 783 |
| | 64,381 | — | 64,381 |
| | | | |
| **Identifiable Assets Acquired:** | | | |
| Cash and cash equivalents | 13,679 | — | 13,679 |
| Interest-bearing time deposits | 10,350 | — | 10,350 |
| Federal Home Loan Bank stock | 1,207 | — | 1,207 |
| Loans, net | 282,748 | (615) | 282,133 |
| Loans held for sale, net | 1,819 | — | 1,819 |
| Premises and equipment | 102 | — | 102 |
| Core deposit intangible | 2,089 | 88 | 2,177 |
| Other real estate owned | 35 | — | 35 |
| Deferred income taxes | — | 352 | 352 |
| Other assets | 2,022 | (658) | 1,364 |
| Total identifiable assets acquired | 314,051 | (833) | 313,218 |
| | | | |
| **Liabilities Assumed:** | | | |
| Deposits | 245,036 | (606) | 244,430 |
| Short-term borrowings | 10,000 | — | 10,000 |
| Long-term debt | 22,920 | 23 | 22,943 |
| Deferred income taxes | 200 | (200) | — |
| Other liabilities | 491 | 11 | 502 |
| Total liabilities assumed | 278,647 | (772) | 277,875 |
| | | | |
| **Total Identifiable Net Assets Acquired** | 35,404 | (61) | 35,343 |
| | | | |
| **Goodwill resulting from merger** | 28,977 | 61 | 29,038 |

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

**NOTE 2 – ACQUISITIONS** (Continued)

As permitted by ASC No. 805-10-25, Business Combinations, the above estimated amounts could be adjusted up to one year after the closing date of the acquisition to reflect any new information obtained about facts and circumstances existing at the acquisition date. Any changes in the estimated fair values were recognized in the period the adjustment was identified. This adjustment period closed on May 31, 2019. There were no revisions to estimated amounts during 2019.

The amount of goodwill recorded reflects LCNB's expansion in the Columbus market and related synergies that are expected to result from the acquisition and represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill will not be amortizable on LCNB's financial records and will not be deductible for tax purposes. Goodwill will be subject to an annual test for impairment and the amount impaired, if any, will be charged to expense at the time of impairment. The core deposit intangible will be amortized over the estimated weighted average economic life of the various core deposit types.

Direct costs related to the acquisition were expensed as incurred and are recorded as a merger-related expense in the consolidated statements of income.

CFB's results of operations are included in the consolidated statements of income from May 31, 2018 , the effective date of the merger.

**NOTE 3 - INVESTMENT SECURITIES**

The amortized cost and estimated fair value of equity and debt securities at December 31 are summarized as follows (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2019** | | | | |
| **Debt Securities Available-for-Sale:** | | | | |
| U.S. Treasury notes | $ 2,273 | 36 | — | 2,309 |
| U.S. Agency notes | 48,745 | 273 | 34 | 48,984 |
| U.S. Agency mortgage-backed securities | 83,977 | 672 | 243 | 84,406 |
| Municipal securities: | | | | |
| Non-taxable | 22,174 | 161 | 14 | 22,321 |
| Taxable | 19,746 | 269 | 35 | 19,980 |
| | $ 176,915 | 1,411 | 326 | 178,000 |
| | | | | |
| **Debt Securities Held-to-Maturity:** | | | | |
| Municipal securities: | | | | |
| Non-taxable | $ 24,300 | 343 | 5 | 24,638 |
| Taxable | 3,225 | 25 | — | 3,250 |
| | $ 27,525 | 368 | 5 | 27,888 |
| | | | | |
| **2018** | | | | |
| **Debt Securities Available-for-Sale:** | | | | |
| U.S. Treasury notes | $ 2,278 | — | 43 | 2,235 |
| U.S. Agency notes | 80,708 | — | 2,368 | 78,340 |
| U.S. Agency mortgage-backed securities | 57,584 | 7 | 1,981 | 55,610 |
| Municipal securities: | | | | |
| Non-taxable | 86,059 | 77 | 1,422 | 84,714 |
| Taxable | 17,654 | 102 | 234 | 17,522 |
| | $ 244,283 | 186 | 6,048 | 238,421 |
| | | | | |
| **Debt Securities Held-to-Maturity:** | | | | |
| Municipal securities: | | | | |
| Non-taxable | $ 26,021 | 84 | 635 | 25,470 |
| Taxable | 3,700 | — | 146 | 3,554 |
| | $ 29,721 | 84 | 781 | 29,024 |

**NOTE 3 - INVESTMENT SECURITIES** (Continued)

Information concerning debt securities with gross unrealized losses at December 31, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

| | Less Than Twelve Months | | Twelve Months or More | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **2019** | | | | |
| **Available-for-Sale:** | | | | |
| U.S. Treasury notes | $ — | — | — | — |
| U.S. Agency notes | 3,586 | 11 | 11,939 | 23 |
| U.S. Agency mortgage-backed securities | 10,555 | 10 | 19,233 | 233 |
| Municipal securities: | | | | |
| Non-taxable | 2,631 | 2 | 1,257 | 12 |
| Taxable | 5,067 | 35 | 450 | — |
| | $ 21,839 | 58 | 32,879 | 268 |
| **Held-to-Maturity:** | | | | |
| Municipal securities: | | | | |
| Non-taxable | $ 54 | — | 2,660 | 5 |
| Taxable | — | — | — | — |
| | $ 54 | — | 2,660 | 5 |
| **2018** | | | | |
| **Available-for-Sale:** | | | | |
| U.S. Treasury notes | $ — | — | 2,235 | 43 |
| U.S. Agency notes | 4,988 | 7 | 73,351 | 2,361 |
| U.S. Agency mortgage-backed securities | 137 | — | 55,217 | 1,981 |
| Municipal securities: | | | | |
| Non-taxable | 14,264 | 49 | 58,211 | 1,373 |
| Taxable | — | — | 14,407 | 234 |
| | $ 19,389 | 56 | 203,421 | 5,992 |
| **Held-to-Maturity:** | | | | |
| Municipal securities: | | | | |
| Non-taxable | $ 366 | 1 | 18,588 | 634 |
| Taxable | 400 | 1 | 3,154 | 145 |
| | $ 766 | 2 | 21,742 | 779 |

Management has determined that the unrealized losses at December 31, 2019 are primarily due to fluctuations in market interest rates and do not reflect credit quality deterioration of the securities. Because the Company does not have the intent to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost, the Company does not consider these investments to be other-than-temporarily impaired.

**NOTE 3 - INVESTMENT SECURITIES** (Continued)

Contractual maturities of debt securities at December 31, 2019 were as follows (in thousands). Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

| | Available-for-Sale | | Held-to-Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due within one year | $ 11,465 | 11,473 | 2,435 | 2,438 |
| Due from one to five years | 54,816 | 55,141 | 7,404 | 7,432 |
| Due from five to ten years | 26,657 | 26,980 | 1,980 | 2,007 |
| Due after ten years | — | — | 15,706 | 16,011 |
| | 92,938 | 93,594 | 27,525 | 27,888 |
| U.S. Agency mortgage-backed securities | 83,977 | 84,406 | — | — |
| | $ 176,915 | 178,000 | 27,525 | 27,888 |

Debt securities with a market value of $123,009,000 and $106,568,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Certain information concerning the sale of equity and debt securities available-for-sale for the years ended December 31 was as follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Proceeds from sales | $ 84,521 | 8,545 | 43,246 |
| Gross realized gains | 228 | 21 | 247 |
| Gross realized losses | 269 | 29 | 14 |

Beginning January 1, 2018, equity securities with a readily determinable fair value are carried at fair value, with changes in fair value recognized in other operating income in the consolidated statements of income. Equity securities without a readily determinable fair value are measured at cost minus impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions, as defined, for identical or similar investments of the same issuer. LCNB was not aware of any impairment or observable price change adjustments that needed to be made at December 31, 2019 on its investments in equity securities without a readily determinable fair value.

The amortized cost and estimated fair value of equity securities with a readily determinable fair value at December 31 are summarized as follows (in thousands):

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Mutual funds | $ 1,371 | 1,345 | 1,651 | 1,559 |
| Equity securities | 741 | 967 | 471 | 519 |
| Total equity securities with a readily determinable fair value | $ 2,112 | 2,312 | 2,122 | 2,078 |

Certain information concerning changes in fair value of equity securities with a readily determinable fair value for the years ended December 31 was as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Net gains (losses) recognized | $ 264 | (73) |
| Less net realized gains on equity securities sold | 21 | 20 |
| Unrealized gains (losses) recognized and still held at period end | $ 285 | (93) |

## NOTE 4 - LOANS

Major classifications of loans at December 31 were as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Commercial and industrial | $ 78,306 | 77,740 |
| Commercial, secured by real estate | 804,953 | 740,647 |
| Residential real estate | 322,533 | 349,127 |
| Consumer | 25,232 | 17,283 |
| Agricultural | 11,509 | 13,297 |
| Other loans, including deposit overdrafts | 1,193 | 450 |
| | 1,243,726 | 1,198,544 |
| Deferred origination (fees) costs, net | (275) | 79 |
| | 1,243,451 | 1,198,623 |
| Less allowance for loan losses | 4,045 | 4,046 |
| Loans-net | $ 1,239,406 | 1,194,577 |

Non-accrual, past-due, and accruing restructured loans at December 31 were as follows (dollars in thousands):

| | 2019 | 2018 |
|---|---|---|
| Non-accrual loans: | | |
| Commercial and industrial | $ — | — |
| Commercial, secured by real estate | 2,467 | 1,767 |
| Residential real estate | 743 | 1,007 |
| Agricultural | — | 177 |
| Total non-accrual loans | 3,210 | 2,951 |
| Past-due 90 days or more and still accruing | — | 149 |
| Total non-accrual and past-due 90 days or more and still accruing | 3,210 | 3,100 |
| Accruing restructured loans | 6,609 | 10,516 |
| Total | $ 9,819 | 13,616 |
| Percentage of total non-accrual and past-due 90 days or more and still accruing to total loans | 0.26% | 0.26% |
| Percentage of total non-accrual, past-due 90 days or more and still accruing, and accruing restructured loans to total loans | 0.79% | 1.14% |

Interest income that would have been recorded during 2019 and 2018 if loans on non-accrual status at December 31, 2019 and 2018 had been current and in accordance with their original terms was approximately $75,000 and $187,000, respectively.

The Company is not committed to lend additional funds to debtors whose loans have been modified to provide a reduction or deferral of principal or interest because of deterioration in the financial position of the borrower.

**NOTE 4 - LOANS** (Continued)

The allowance for loan losses and recorded investment in loans for the years ended December 31 were as follows (in thousands):

| | Commercial & Industrial | Commercial, Secured by Real Estate | Residential Real Estate | Consumer | Agricultural | Other | Total |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Balance, beginning of year | $ 400 | 2,745 | 767 | 87 | 46 | 1 | 4,046 |
| Provision charged to expenses | 103 | 266 | (264) | 4 | (12) | 110 | 207 |
| Losses charged off | (47) | (143) | (272) | (24) | — | (181) | (667) |
| Recoveries | — | 56 | 297 | 32 | — | 74 | 459 |
| Balance, end of year | $ 456 | 2,924 | 528 | 99 | 34 | 4 | 4,045 |
| Individually evaluated for impairment | $ 6 | 272 | 17 | — | — | — | 295 |
| Collectively evaluated for impairment | 450 | 2,652 | 511 | 99 | 34 | 4 | 3,750 |
| Acquired credit impaired loans | — | — | — | — | — | — | — |
| Balance, end of year | $ 456 | 2,924 | 528 | 99 | 34 | 4 | 4,045 |
| Loans: | | | | | | | |
| Individually evaluated for impairment | $ 230 | 7,432 | 949 | 27 | — | — | 8,638 |
| Collectively evaluated for impairment | 77,430 | 793,191 | 319,188 | 25,328 | 11,523 | 930 | 1,227,590 |
| Acquired credit impaired loans | 711 | 3,531 | 2,718 | — | — | 263 | 7,223 |
| Balance, end of year | $ 78,371 | 804,154 | 322,855 | 25,355 | 11,523 | 1,193 | 1,243,451 |
| **2018** | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Balance, beginning of year | $ 378 | 2,178 | 717 | 76 | 53 | 1 | 3,403 |
| Provision charged to expenses | 21 | 473 | 213 | 133 | (7) | 90 | 923 |
| Losses charged off | — | (145) | (234) | (135) | — | (179) | (693) |
| Recoveries | 1 | 239 | 71 | 13 | — | 89 | 413 |
| Balance, end of year | $ 400 | 2,745 | 767 | 87 | 46 | 1 | 4,046 |
| Individually evaluated for impairment | $ 10 | 3 | 49 | — | — | — | 62 |
| Collectively evaluated for impairment | 390 | 2,742 | 718 | 87 | 46 | 1 | 3,984 |
| Acquired credit impaired loans | — | — | — | — | — | — | — |
| Balance, end of year | $ 400 | 2,745 | 767 | 87 | 46 | 1 | 4,046 |
| Loans: | | | | | | | |
| Individually evaluated for impairment | $ 268 | 15,101 | 1,558 | 36 | 177 | — | 17,140 |
| Collectively evaluated for impairment | 76,609 | 718,709 | 344,751 | 17,363 | 13,135 | 114 | 1,170,681 |
| Acquired credit impaired loans | 922 | 6,315 | 3,229 | — | — | 336 | 10,802 |
| Balance, end of year | $ 77,799 | 740,125 | 349,538 | 17,399 | 13,312 | 450 | 1,198,623 |

**NOTE 4 - LOANS** (Continued)

| | Commercial & Industrial | Commercial, Secured by Real Estate | Residential Real Estate | Consumer | Agricultural | Other | Total |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Balance, beginning of year | $ 350 | 2,179 | 885 | 96 | 60 | 5 | 3,575 |
| Provision charged to expenses | (71) | 348 | (83) | (44) | (7) | 72 | 215 |
| Losses charged off | — | (462) | (225) | (90) | — | (138) | (915) |
| Recoveries | 99 | 113 | 140 | 114 | — | 62 | 528 |
| Balance, end of year | $ 378 | 2,178 | 717 | 76 | 53 | 1 | 3,403 |
| | | | | | | | |
| Individually evaluated for impairment | $ 8 | 146 | 29 | 8 | — | — | 191 |
| Collectively evaluated for impairment | 370 | 2,032 | 688 | 68 | 53 | 1 | 3,212 |
| Acquired credit impaired loans | — | — | — | — | — | — | — |
| Balance, end of year | $ 378 | 2,178 | 717 | 76 | 53 | 1 | 3,403 |

The risk characteristics of LCNB's material loan portfolio segments were as follows:

***Commercial and Industrial Loans.*** LCNB's commercial and industrial loan portfolio consists of loans for various purposes, including loans to fund working capital requirements (such as inventory and receivables financing) and purchases of machinery and equipment. LCNB offers a variety of commercial and industrial loan arrangements, including term loans, balloon loans, and lines of credit. Most commercial and industrial loans have a fixed rate, with maturities ranging from one year to ten years. Commercial and industrial loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. Commercial and industrial loans typically are underwritten on the basis of the borrower's ability to make repayment from the cash flow of the business. Collateral, when obtained, may include liens on furniture, fixtures, equipment, inventory, receivables, or other assets. As a result, such loans involve complexities, variables, and risks that require thorough underwriting and more robust servicing than other types of loans.

***Commercial, Secured by Real Estate Loans.*** Commercial real estate loans include loans secured by a variety of commercial, retail, and office buildings, religious facilities, multifamily (more than four-family) residential properties, construction and land development loans, and other land loans. Commercial real estate loan products generally amortize over five to twenty-five years and are payable in monthly principal and interest installments. Some have balloon payments due within one to ten years after the origination date. The majority have adjustable interest rates with adjustment periods ranging from one to ten years, some of which are subject to established "floor" interest rates.

Commercial real estate loans are underwritten based on the ability of the property, in the case of income producing property, or the borrower's business to generate sufficient cash flow to amortize the debt. Secondary emphasis is placed upon global debt service, collateral value, financial strength of any and all guarantors, and other factors. Commercial real estate loans are generally originated with a 75% to 85% maximum loan to appraised value ratio, depending upon borrower occupancy.

***Residential Real Estate Loans.*** Residential real estate loans include loans secured by first or second mortgage liens on one to four-family residential property. Home equity lines of credit and mortgage loans secured by owner-occupied agricultural property are included in this category. First and second mortgage loans are generally amortized over five to thirty years with monthly principal and interest payments. Home equity lines of credit generally have a five year or less draw period with interest only payments followed by a repayment period with monthly payments based on the amount outstanding. LCNB offers both fixed and adjustable rate mortgage loans. Adjustable rate loans are available with adjustment periods ranging between one to ten years and adjust according to an established index plus a margin, subject to certain floor and ceiling rates. Home equity lines of credit have a variable rate based on the Wall Street Journal prime rate plus a margin.

LCNB does not originate reverse mortgage loans or residential real estate loans generally considered to be "subprime."

**NOTE 4 - LOANS** (Continued)

Residential real estate loans are underwritten primarily based on the borrower's ability to repay, prior credit history, and the value of the collateral. LCNB requires private mortgage insurance for first mortgage loans that have a loan to appraised value ratio of greater than 80%.

***Consumer Loans.*** LCNB's portfolio of consumer loans generally includes secured and unsecured loans to individuals for household, family and other personal expenditures. Secured loans include loans to fund the purchase of automobiles, recreational vehicles, boats, and similar acquisitions. Consumer loans made by LCNB generally have fixed rates and terms ranging up to 72 months, depending upon the nature of the collateral, size of the loan, and other relevant factors.

Consumer loans generally have higher interest rates, but pose additional risks of collectability and loss when compared to certain other types of loans. Collateral, if present, is generally subject to damage, wear, and depreciation. The borrower's ability to repay is of primary importance in the underwriting of consumer loans.

***Agricultural Loans.*** LCNB's portfolio of agricultural loans includes loans for financing agricultural production or for financing the purchase of equipment used in the production of agricultural products. LCNB's agricultural loans are generally secured by farm machinery, livestock, crops, vehicles, or other agricultural-related collateral.

The Company uses a risk-rating system to quantify loan quality. A loan is assigned to a risk category based on relevant information about the ability of the borrower to service the debt including, but not limited to, current financial information, historical payment experience, credit documentation, public information, and current economic trends. The categories used are:

- Pass – loans categorized in this category are higher quality loans that do not fit any of the other categories described below.

- Other Assets Especially Mentioned (OAEM) - loans in this category are currently protected but are potentially weak. These loans constitute a risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an undue risk in light of the circumstances surrounding a specific asset.

- Substandard – loans in this category are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the Company will sustain some loss if the deficiencies are not corrected.

- Doubtful – loans classified in this category have all the weaknesses inherent in loans classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

**NOTE 4 - LOANS** (Continued)

An analysis of the Company's loan portfolio by credit quality indicators at December 31 is as follows (in thousands):

| | Pass | OAEM | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Commercial & industrial | $ 76,236 | 233 | 1,902 | — | 78,371 |
| Commercial, secured by real estate | 789,319 | 3,007 | 11,828 | — | 804,154 |
| Residential real estate | 319,075 | 267 | 3,513 | — | 322,855 |
| Consumer | 25,342 | — | 13 | — | 25,355 |
| Agricultural | 11,523 | — | — | — | 11,523 |
| Other | 1,193 | — | — | — | 1,193 |
| Total | $ 1,222,688 | 3,507 | 17,256 | — | 1,243,451 |
| | | | | | |
| **2018** | | | | | |
| Commercial & industrial | $ 74,530 | 89 | 3,180 | — | 77,799 |
| Commercial, secured by real estate | 718,233 | 768 | 21,124 | — | 740,125 |
| Residential real estate | 344,432 | — | 5,106 | — | 349,538 |
| Consumer | 17,381 | — | 18 | — | 17,399 |
| Agricultural | 13,116 | — | 196 | — | 13,312 |
| Other | 450 | — | — | — | 450 |
| Total | $ 1,168,142 | 857 | 29,624 | — | 1,198,623 |

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

**NOTE 4 - LOANS** (Continued)

A loan portfolio aging analysis at December 31 is as follows (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Total Loans Greater Than 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| Commercial & industrial | $ 283 | — | — | 283 | 78,088 | 78,371 | — |
| Commercial, secured by real estate | 339 | — | 1,171 | 1,510 | 802,644 | 804,154 | — |
| Residential real estate | 1,573 | 260 | 423 | 2,256 | 320,599 | 322,855 | — |
| Consumer | 27 | 9 | — | 36 | 25,319 | 25,355 | — |
| Agricultural | — | — | — | — | 11,523 | 11,523 | — |
| Other | 930 | — | — | 930 | 263 | 1,193 | — |
| Total | $ 3,152 | 269 | 1,594 | 5,015 | 1,238,436 | 1,243,451 | — |
| **2018** | | | | | | | |
| Commercial & industrial | $ 626 | 173 | — | 799 | 77,000 | 77,799 | — |
| Commercial, secured by real estate | 347 | 141 | 347 | 835 | 739,290 | 740,125 | — |
| Residential real estate | 905 | 536 | 1,046 | 2,487 | 347,051 | 349,538 | 149 |
| Consumer | 14 | — | — | 14 | 17,385 | 17,399 | — |
| Agricultural | 19 | — | 178 | 197 | 13,115 | 13,312 | — |
| Other | 114 | — | — | 114 | 336 | 450 | — |
| Total | $ 2,025 | 850 | 1,571 | 4,446 | 1,194,177 | 1,198,623 | 149 |

**NOTE 4 - LOANS** (Continued)

Impaired loans, including acquired credit impaired loans, for the years ended December 31 were as follows (in thousands):

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **2019** | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial & industrial | $ 711 | 1,253 | — | 836 | 83 |
| Commercial, secured by real estate | 8,625 | 9,373 | — | 12,748 | 1,213 |
| Residential real estate | 3,118 | 3,651 | — | 3,704 | 311 |
| Consumer | 10 | 10 | — | 12 | 1 |
| Agricultural | — | — | — | — | — |
| Other | 263 | 392 | — | 310 | 35 |
| Total | $ 12,727 | 14,679 | — | 17,610 | 1,643 |
| | | | | | |
| With an allowance recorded: | | | | | |
| Commercial & industrial | $ 230 | 235 | 6 | 247 | 15 |
| Commercial, secured by real estate | 2,338 | 2,485 | 272 | 2,513 | 64 |
| Residential real estate | 549 | 549 | 17 | 528 | 35 |
| Consumer | 17 | 17 | — | 20 | 1 |
| Agricultural | — | — | — | — | — |
| Other | — | — | — | — | — |
| Total | $ 3,134 | 3,286 | 295 | 3,308 | 115 |
| | | | | | |
| Total: | | | | | |
| Commercial & industrial | $ 941 | 1,488 | 6 | 1,083 | 98 |
| Commercial, secured by real estate | 10,963 | 11,858 | 272 | 15,261 | 1,277 |
| Residential real estate | 3,667 | 4,200 | 17 | 4,232 | 346 |
| Consumer | 27 | 27 | — | 32 | 2 |
| Agricultural | — | — | — | — | — |
| Other | 263 | 392 | — | 310 | 35 |
| Total | $ 15,861 | 17,965 | 295 | 20,918 | 1,758 |

**NOTE 4 - LOANS** (Continued)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **2018** | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial & industrial | $ 926 | 1,457 | — | 945 | 71 |
| Commercial, secured by real estate | 21,266 | 22,451 | — | 17,353 | 1,136 |
| Residential real estate | 4,122 | 4,872 | — | 3,580 | 258 |
| Consumer | 13 | 13 | — | 32 | 3 |
| Agricultural | 177 | 177 | — | 177 | — |
| Other | 336 | 475 | — | 379 | 41 |
| Total | $ 26,840 | 29,445 | — | 22,466 | 1,509 |
| | | | | | |
| With an allowance recorded: | | | | | |
| Commercial & industrial | $ 264 | 269 | 10 | 279 | 17 |
| Commercial, secured by real estate | 150 | 150 | 3 | 153 | 11 |
| Residential real estate | 665 | 684 | 49 | 583 | 37 |
| Consumer | 23 | 23 | — | 24 | 1 |
| Agricultural | — | — | — | — | — |
| Other | — | — | — | — | — |
| Total | $ 1,102 | 1,126 | 62 | 1,039 | 66 |
| | | | | | |
| Total: | | | | | |
| Commercial & industrial | $ 1,190 | 1,726 | 10 | 1,224 | 88 |
| Commercial, secured by real estate | 21,416 | 22,601 | 3 | 17,506 | 1,147 |
| Residential real estate | 4,787 | 5,556 | 49 | 4,163 | 295 |
| Consumer | 36 | 36 | — | 56 | 4 |
| Agricultural | 177 | 177 | — | 177 | — |
| Other | 336 | 475 | — | 379 | 41 |
| Total | $ 27,942 | 30,571 | 62 | 23,505 | 1,575 |

**NOTE 4 - LOANS** (Continued)

| | | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|
| **2017** | | | |
| With no related allowance recorded: | | | |
| Commercial & industrial | $ | 685 | 88 |
| Commercial, secured by real estate | | 14,113 | 1,068 |
| Residential real estate | | 3,216 | 546 |
| Consumer | | 20 | 2 |
| Agricultural | | 269 | 12 |
| Other | | 441 | 55 |
| Total | $ | 18,744 | 1,771 |
| | | | |
| With an allowance recorded: | | | |
| Commercial & industrial | $ | 311 | 18 |
| Commercial, secured by real estate | | 2,739 | 45 |
| Residential real estate | | 596 | 19 |
| Consumer | | 43 | 3 |
| Agricultural | | — | — |
| Other | | — | — |
| Total | $ | 3,689 | 85 |
| | | | |
| Total: | | | |
| Commercial & industrial | $ | 996 | 106 |
| Commercial, secured by real estate | | 16,852 | 1,113 |
| Residential real estate | | 3,812 | 565 |
| Consumer | | 63 | 5 |
| Agricultural | | 269 | 12 |
| Other | | 441 | 55 |
| Total | $ | 22,433 | 1,856 |

Of the interest income recognized on impaired loans during 2019, 2018, and 2017, approximately $42,000, $89,000, and $28,000, respectively, were recognized on a cash basis. The Company continued to accrue interest on certain loans classified as impaired during 2019, 2018, and 2017 because they were restructured or considered well secured and in the process of collection.

From time to time, the terms of certain loans are modified as troubled debt restructurings ("TDRs") where concessions are granted to borrowers experiencing financial difficulties. The modification of the terms of such loans may have included one, or a combination of, the following: a temporary or permanent reduction of the stated interest rate of the loan, an increase in the stated rate of interest lower than the current market rate for new debt with similar risk, forgiveness of principal, an extension of the maturity date, or a change in the payment terms.

**NOTE 4 - LOANS** (Continued)

Loan modifications that were classified as troubled debt restructurings during the years ended December 31 were as follows (dollars in thousands):

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Recorded Balance | Post-Modification Recorded Balance | Number of Loans | Pre-Modification Recorded Balance | Post-Modification Recorded Balance |
| Commercial and industrial | — | $ — | $ — | — | $ — | $ — |
| Commercial, secured by real estate | 2 | 258 | 258 | — | — | — |
| Residential real estate | 3 | 120 | 120 | 3 | 505 | 505 |
| Consumer | — | — | — | 1 | 1 | 1 |
| Totals | 5 | $ 378 | $ 378 | 4 | $ 506 | $ 506 |

Post-modification balances of newly restructured troubled debt by type of modification for the years ended December 31 were as follows (in thousands):

| | Term Modification | Rate Modification | Interest Only | Principal Forgiveness | Combination | Total Modifications |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Commercial & industrial | $ — | — | — | — | — | — |
| Commercial, secured by real estate | — | — | — | — | 258 | 258 |
| Residential real estate | 120 | — | — | — | — | 120 |
| Consumer | — | — | — | — | — | — |
| Total | $ 120 | — | — | — | 258 | 378 |
| | | | | | | |
| **2018** | | | | | | |
| Commercial & industrial | $ — | — | — | — | — | — |
| Commercial, secured by real estate | — | — | — | — | — | — |
| Residential real estate | 380 | — | — | — | 125 | 505 |
| Consumer | — | — | — | — | 1 | 1 |
| Total | $ 380 | — | — | — | 126 | 506 |

LCNB is not committed to lend additional funds to borrowers whose loan terms were modified in a troubled debt restructuring.

There were no troubled debt restructurings that subsequently defaulted within twelve months of the restructuring date for the years ended December 31, 2019 and 2018. Two commercial, secured by real estate loans to the same borrower totaling $1,236.000 that were modified during the fourth quarter 2016 subsequently defaulted in February 2017.

All troubled debt restructurings are considered impaired loans. The allowance for loan loss on such restructured loans is based on the present value of future expected cash flows.

Information concerning the post-modification balances of loans that were modified during the year ended December 31 and that were determined to be troubled debt restructurings follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Impaired loans without a valuation allowance at the end of the period | 252 | 380 |
| Impaired loans with a valuation allowance at the end of the period | 89 | 126 |

**NOTE 4 - LOANS** (Continued)

Mortgage loans sold to and serviced for the Federal Home Loan Mortgage Corporation and other investors are not included in the accompanying consolidated balance sheets. The unpaid principal balances of those loans at December 31, 2019 and 2018 were approximately $93,596,000 and $97,685,000, respectively.

Mortgage servicing right assets are included in core deposit and other intangibles in the consolidated balance sheets. Amortization of mortgage servicing rights is an adjustment to loan servicing income, which is included with other operating income in the consolidated statements of income. Activity in the mortgage servicing rights portfolio during the years ended December 31 was as follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Balance, beginning of year | $ 475 | 396 | 428 |
| Amount obtained through a merger | — | 91 | — |
| Amount capitalized to mortgage servicing rights | 156 | 113 | 91 |
| Amortization of mortgage servicing rights | (148) | (125) | (123) |
| Balance, end of year | $ 483 | 475 | 396 |

**NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS**

Loans acquired through mergers are recorded at fair value with no carryover of the acquired entity's previously established allowance for loan losses. The excess of expected cash flows over the estimated fair value of acquired loans is recognized as interest income over the remaining contractual lives of the loans using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows result in the recognition of additional interest income over the then-remaining contractual lives of the loans.

Impaired loans acquired are accounted for under FASB ASC No. 310-30. Factors considered in evaluating whether an acquired loan was impaired include delinquency status and history, updated borrower credit status, collateral information, and updated loan-to-value information. The difference between contractually required payments at the time of acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. The interest component of the cash flows expected to be collected is referred to as the accretable yield and is recognized as interest income over the remaining contractual life of the loan using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows will result in a reclassification from the nonaccretable difference to the accretable yield.

The following table provides certain information at the acquisition date on loans acquired from CFB, not including loans considered to be impaired (in thousands):

| | |
|---|---|
| Contractually required principal at acquisition | 281,639 |
| Less fair value adjustment | 1,801 |
| Fair value of acquired loans | 279,838 |
| | |
| Contractual cash flows not expected to be collected | 1,905 |

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

**NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS** (continued)

The following table provides details at the acquisition date on acquired impaired loans obtained through the merger with CFB that are accounted for in accordance with FASB ASC No. 310-30 (in thousands):

| | |
|---|---|
| Contractually required principal at acquisition | 4,989 |
| Less contractual cash flows not expected to be collected (nonaccretable difference) | 906 |
| Expected cash flows at acquisition | 4,083 |
| Less interest component of expected cash flows (accretable discount) | 151 |
| Fair value of acquired impaired loans | 3,932 |

**NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS** (continued)

The following table provides, as of December 31, the major classifications of loans acquired that are accounted for in accordance with FASB ASC 310-30 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| **Acquired from First Capital Bancshares, Inc.** | | |
| Commercial & industrial | $ 5 | 13 |
| Commercial, secured by real estate | 792 | 818 |
| Residential real estate | 551 | 911 |
| Other loans, including deposit overdrafts | — | — |
| Total | $ 1,348 | 1,742 |
| | | |
| **Acquired from Eaton National Bank & Trust Co.** | | |
| Commercial & industrial | $ 423 | 503 |
| Commercial, secured by real estate | 815 | 1,547 |
| Residential real estate | 685 | 784 |
| Other loans, including deposit overdrafts | 263 | 336 |
| Total | $ 2,186 | 3,170 |
| | | |
| **Acquired from BNB Bancorp, Inc.** | | |
| Commercial & industrial | $ — | — |
| Commercial, secured by real estate | 1,219 | 1,396 |
| Residential real estate | 100 | 158 |
| Other loans, including deposit overdrafts | — | — |
| Total | $ 1,319 | 1,554 |
| | | |
| **Acquired from Columbus First Bancorp, Inc.** | | |
| Commercial & industrial | $ 283 | 406 |
| Commercial, secured by real estate | 705 | 2,554 |
| Residential real estate | 1,382 | 1,376 |
| Other loans, including deposit overdrafts | — | — |
| Total | $ 2,370 | 4,336 |
| | | |
| **Total** | | |
| Commercial & industrial | $ 711 | 922 |
| Commercial, secured by real estate | 3,531 | 6,315 |
| Residential real estate | 2,718 | 3,229 |
| Other loans, including deposit overdrafts | 263 | 336 |
| Total | $ 7,223 | 10,802 |

The following table provides the outstanding balance and related carrying amount for acquired impaired loans at December 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Outstanding balance | $ 9,139 | 13,371 |
| Carrying amount | 7,223 | 10,802 |

**NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS** (continued)

Activity during 2019 and 2018 for the accretable discount related to acquired impaired loans is as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Accretable discount, beginning of year | $ 743 | 669 |
| Accretable discount acquired during period | — | 151 |
| Reclass from nonaccretable discount to accretable discount | 243 | 4 |
| Disposals | 1 | — |
| Less accretion | (507) | (81) |
| Accretable discount, end of year | $ 480 | 743 |

**NOTE 6 – OTHER REAL ESTATE OWNED**

Other real estate owned includes property acquired through foreclosure or deed-in-lieu of foreclosure and are included in other assets in the consolidated balance sheets. Changes in other real estate owned were as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 244 | — |
| Additions | — | 244 |
| Additions due to merger | — | 35 |
| Reductions due to sales | — | (35) |
| Balance, end of year | $ 244 | 244 |

The total recorded investment in residential consumer mortgage loans secured by residential real estate that was in the process of foreclosure at December 31, 2019 was $214,000.

**NOTE 7 - PREMISES AND EQUIPMENT**

Premises and equipment at December 31 are summarized as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Land | $ 8,000 | 8,000 |
| Buildings | 31,007 | 30,903 |
| Equipment | 16,885 | 16,089 |
| Construction in progress | 2,976 | 142 |
| Total | 58,868 | 55,134 |
| Less accumulated depreciation | 24,081 | 22,507 |
| Premises and equipment, net | $ 34,787 | 32,627 |

Depreciation charged to expense was $1,770,000 in 2019, $1,776,000 in 2018, and $1,549,000 in 2017.

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

## NOTE 8 - LEASES

LCNB has capitalized operating leases for its Otterbein, Fairfield, Barron Street, and Worthington offices, for the land at its Oxford and Oakwood offices, and for certain office equipment. The Oakwood lease has a remaining term of seventeen years with options to renew for six additional periods of five years each. The Oxford lease has a remaining term of forty-one years with no renewal options. The other leases have remaining terms of less than one year up to six years, some of which contain options to renew the leases for additional five-year periods.

Right-of-use assets represent LCNB's right to use the underlying assets for their lease terms and lease liabilities represent the obligation to make lease payments. They are recognized using the present value of lease payments over the lease terms. The discount rate is LCNB's incremental borrowing rate for periods similar to the respective lease terms. LCNB management is reasonably certain that it will exercise the renewal options for the offices named above and these additional terms have been included in the calculation of the right-of-use assets and the lease liabilities. The lease for the Fairfield Office is for a period of one year and LCNB management has elected the short-term measurement and recognition exception permitted by ASC 842 and has not calculated a right-of-use asset or lease liability for this office.

Lease expenses for offices are included in the consolidated condensed statements of income in occupancy expense, net and lease expenses for equipment are included in equipment expenses. Components of lease expense for the year ended December 31, 2019 are as follows (in thousands):

| | |
|---|---|
| Operating lease expense | $ 561 |
| Short-term lease expense | 49 |
| Variable lease expense | 10 |
| Other | 7 |
| Total lease expense | $ 627 |

Other information related to leases at December 31, 2019 were as follows (dollars in thousands):

| | |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 480 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | $ 5,775 |
| Weighted average remaining lease term in years for operating leases | 39 years |
| Weighted average discount rate for operating leases | 3.69% |

Future payments due under operating leases as of December 31, 2019 are as follows (in thousands):

| | |
|---|---|
| 2020 | $ 458 |
| 2021 | 396 |
| 2022 | 258 |
| 2023 | 235 |
| 2024 | 237 |
| Thereafter | 10,099 |
| | 11,683 |
| Less effects of discounting | 6,237 |
| Operating lease liabilities recognized | $ 5,446 |

Rental expense for all leased branches and equipment was approximately $627,000 in 2019, $519,000 in 2018, and $569,000 in 2017.

During the fourth quarter 2019, LCNB signed an ATM outsourcing agreement, effective January 1, 2020, under which an outside vendor will provide an ATM bundled program, including ATM equipment, maintenance services, and software services, for ten ATMs. A right-of-use asset and a corresponding liability will be recorded in the first quarter 2020.

## NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 59,221 | $ 30,183 |
| Additions from acquisitions | — | 29,038 |
| Balance, end of year | $ 59,221 | $ 59,221 |

Other intangible assets in the consolidated balance sheets at December 31, 2019 and 2018 were as follows (in thousands):

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
| Core deposit intangibles | $ 8,544 | 5,021 | 3,523 | 8,544 | 3,977 | 4,567 |
| Mortgage servicing rights | 1,237 | 754 | 483 | 1,483 | 1,008 | 475 |
| Total | $ 9,781 | 5,775 | 4,006 | 10,027 | 4,985 | 5,042 |

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of December 31, 2019 is as follows (in thousands):

| | |
|---|---|
| 2020 | $ 1,160 |
| 2021 | 1,143 |
| 2022 | 545 |
| 2023 | 504 |
| 2024 | 388 |

## NOTE 10 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIPS

LCNB is a limited partner in limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of the investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants.

The following table presents the balances of LCNB's affordable housing tax credit investment and related unfunded commitment at December 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Affordable housing tax credit investment | $ 7,000 | 5,000 |
| Less amortization | 810 | 492 |
| Net affordable housing tax credit investment | $ 6,190 | 4,508 |
| | | |
| Unfunded commitment | $ 4,596 | 3,372 |

**NOTE 10 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIPS** (continued)

The net affordable housing tax credit investment is included in other assets and the unfunded commitment is included in accrued interest and other liabilities in the Consolidated Balance Sheets.

LCNB expects to fund the unfunded commitment over eleven years.

The following table presents other information relating to LCNB's affordable housing tax credit investment for the years indicated (in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Tax credits and other tax benefits recognized | $ 387 | 267 | 180 |
| Tax credit amortization expense included in provision for income taxes | 318 | 261 | 138 |

**NOTE 11 - TIME DEPOSITS**

Contractual maturities of time deposits at December 31, 2019 were as follows (in thousands):

| | |
|---|---|
| 2020 | $ 204,543 |
| 2021 | 56,137 |
| 2022 | 27,856 |
| 2023 | 30,769 |
| 2024 | 3,561 |
| Thereafter | 1,262 |
| | $ 324,128 |

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2019 and 2018 was $52,832,000 and $39,361,000, respectively.

**NOTE 12 - BORROWINGS**

Funds borrowed from the FHLB at December 31 by year of maturity were as follows (dollars in thousands):

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Outstanding Balance | Average Rate | Outstanding Balance | Average Rate |
| Maturing within one year | 18,998 | 2.40% | 6,052 | 1.74% |
| Maturing one year through two years | 11,996 | 2.42% | 18,988 | 2.40% |
| Maturing two years through three years | 5,000 | 2.97% | 11,992 | 2.42% |
| Maturing three years through four years | 5,000 | 3.02% | 5,000 | 2.97% |
| Maturing four years through five years | — | —% | 5,000 | 3.02% |
| Total | $ 40,994 | 2.55% | $ 47,032 | 2.45% |

All advances from the FHLB are secured by a blanket pledge of the Company's 1-4 family first lien mortgage loans in the amount of approximately $283 million and $303 million at December 31, 2019 and 2018, respectively. Additionally, the Company was required to hold minimum levels of FHLB stock, based on the outstanding borrowings. Total remaining borrowing capacity, including short-term borrowing arrangements, at December 31, 2019 was approximately $88.4 million. One of the factors limiting remaining borrowing capacity is ownership of FHLB stock. The Company could increase its remaining borrowing capacity by purchasing additional FHLB stock.

Short-term borrowings at December 31 were as follows (dollars in thousands):

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Line of credit | $ — | —% | $ 4,230 | 3.00% |
| FHLB short-term advance | — | —% | 52,000 | 2.48% |
| | $ — | —% | $ 56,230 | 2.52% |

At December 31, 2019, the Company had short-term borrowing arrangements with two financial institutions and the Federal Home Loan Bank of Cincinnati ("FHLB"). The first arrangement is a short-term line of credit for a maximum amount of $25 million at the interest rate in effect at the time of the borrowing. The second arrangement is a short-term line of credit for a maximum amount of $30 million at an interest rate equal to the lending institution's federal funds rate plus a spread of 50 basis points.

Under the terms of the Cash Management Advance program with the FHLB, the Company can borrow up to $81.7 million in short-term advances, subject to total remaining borrowing capacity limitations. The Company has the option of selecting a variable rate of interest for up to 90 days or a fixed rate of interest for up to 30 days. The interest rate is the published rate in effect at the time of the advance. This agreement expires on August 28, 2020. Under the terms of a separate REPO Based Advance program, also with the FHLB, the Company can borrow up to $81.2 million in short-term advances, subject to total remaining borrowing capacity limitations. The company can select terms ranging from one day to one year. The interest rate is the published rate in effect at the time of the advance. This agreement expired on February 12, 2020 and was renewed for an additional year.

## NOTE 13 - INCOME TAXES

The provision for federal income taxes consists of (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Income taxes currently payable | $ 3,694 | 2,721 | 3,018 |
| Revaluation of net deferred tax liability | — | — | (224) |
| Deferred income tax provision (benefit) | 419 | 228 | 1,478 |
| Provision for income taxes | $ 4,113 | 2,949 | 4,272 |

A reconciliation between the statutory income tax and the Company's effective tax rate follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Statutory tax rate | 21.0 % | 21.0 % | 34.0 % |
| Increase (decrease) resulting from - | | | |
| Tax exempt interest | (1.4)% | (3.1)% | (6.0)% |
| Tax exempt income on bank owned life insurance | (0.9)% | (0.9)% | (1.7)% |
| Revaluation of net deferred tax liability | — % | — % | (1.3)% |
| Captive insurance premium income | (0.8)% | (0.9)% | (0.9)% |
| Other – net | — % | 0.5 % | 0.7 % |
| Effective tax rate | 17.9 % | 16.6 % | 24.8 % |

Deferred tax assets and liabilities, included in the Consolidated Balance Sheets with accrued interest and other liabilities in 2019 and other assets in 2018, consist of the following at December 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 849 | 849 |
| Net unrealized losses on investment securities available-for-sale | — | 1,240 |
| Fair value adjustment on loans acquired from mergers | 451 | 723 |
| Write-down of other real estate owned | 10 | — |
| Deferred compensation | 706 | 706 |
| Other | 459 | 432 |
| | 2,475 | 3,950 |
| Deferred tax liabilities: | | |
| Depreciation of premises and equipment | (1,621) | (1,551) |
| Net unrealized gains on investment securities available-for-sale | (270) | — |
| Amortization of intangibles | (1,537) | (1,499) |
| Prepaid expenses | (246) | (243) |
| Deferred loan fees | — | (1) |
| FHLB stock dividends | (216) | (216) |
| Fair value adjustment on securities acquired from mergers | (3) | (6) |
| | (3,893) | (3,516) |
| Net deferred tax (liabilities) assets | $ (1,418) | 434 |

**NOTE 13 - INCOME TAXES** (continued)

As of December 31, 2019 and 2018 there were no unrecognized tax benefits and the Company does not anticipate the total amount of unrecognized tax benefits will significantly change within the next twelve months. There were no amounts recognized for interest and penalties in the consolidated statements of income for the three-year period ended December 31, 2019.

The Company is no longer subject to examination by federal tax authorities for years before 2016.

The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017. Among other changes, the Tax Act reduced the US Federal corporate tax rate from 35% to 21%. At December 31, 2017, the Company had substantially completed its accounting for the tax effects of enactment of the Tax Act. For deferred tax assets and liabilities, amounts were remeasured based on the rates expected to reverse in the future, which is 21%.

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES**

LCNB is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contract amount of those instruments.

The Bounce Protection product, a customer deposit overdraft program, is offered as a service and does not constitute a contract between the customer and LCNB.

LCNB uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent off-balance-sheet credit risk at December 31 were as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Commitments to extend credit: | | |
| Commercial loans | $ 50,235 | 23,978 |
| Other loans: | | |
| Fixed rate | 4,431 | 2,961 |
| Adjustable rate | 1,199 | 1,077 |
| Unused lines of credit: | | |
| Fixed rate | 28,796 | 31,446 |
| Adjustable rate | 174,577 | 169,031 |
| Unused overdraft protection amounts on demand and NOW accounts | 16,304 | 16,249 |
| Standby letters of credit | 883 | 1,080 |
| | $ 276,425 | 245,822 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract or agreement. Unused lines of credit include amounts not drawn on line of credit loans. Commitments to extend credit and unused lines of credit generally have fixed expiration dates or other termination clauses.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees generally are fully secured and have varying maturities.

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**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES** (continued)

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; residential realty; and income-producing commercial properties.

Capital expenditures include: the construction or acquisition of new office buildings; improvements to LCNB's offices; purchases of furniture and equipment; and additions or improvements to LCNB's information technology system. Commitments outstanding for capital expenditures as of December 31, 2019 totaled approximately $1,820,000, which includes remodeling the Main Office in Lebanon, Ohio.

The Company and the Bank are parties to various claims and proceedings arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such proceedings and claims will not be material to LCNB's consolidated financial position or results of operations.

**NOTE 15 - REGULATORY MATTERS**

The Federal Reserve Act requires depository institutions to maintain cash reserves with the Federal Reserve Bank. In 2019 and 2018, the Bank maintained average reserve balances of $8,518,000 and $4,982,000, respectively. The reserve balances at December 31, 2019 and 2018 were $5,927,000 and $1,433,000, respectively.

The principal source of income and funds for LCNB Corp. is dividends paid by the Bank. The payment of dividends is subject to restriction by regulatory authorities. For 2020, the restrictions generally limit dividends to the aggregate of net income for the year 2020 plus the net earnings retained for 2019 and 2018. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. At December 31, 2019, approximately $14,598,000 of the Bank's earnings retained was available for dividends in 2020 under this guideline. Dividends in excess of these limitations would require the prior approval of the Comptroller of the Currency.

The Bank must meet certain minimum capital requirements set by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's and Bank's financial statements. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

A new rule requiring a Capital Conservation Buffer began phase-in on January 1, 2016 and was fully implemented at the beginning of 2019. Under the fully-implemented rule, a financial institution will need to maintain a Capital Conservation Buffer composed of Common Equity Tier 1 Capital of at least 2.5% above its minimum risk-weighted capital requirements to avoid limitations on its ability to make capital distributions, including dividend payments to shareholders and certain discretionary bonus payments to executive officers. A financial institution with a buffer below 2.5% will be subject to increasingly stringent limitations on capital distributions as the buffer approaches zero.

For various regulatory purposes, financial institutions are classified into categories based upon capital adequacy:

| | Minimum Requirement | Minimum Requirement with Capital Conservation Buffer | To Be Considered Well-Capitalized |
|---|---|---|---|
| Ratio of Common Equity Tier 1 Capital to risk-weighted assets | 4.5% | 7.0% | 6.5% |
| Ratio of tier 1 capital to risk-weighted assets | 6.0% | 8.5% | 8.0% |
| Ratio of total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets | 8.0% | 10.5% | 10.0% |
| Leverage ratio (tier 1 capital to adjusted quarterly average total assets) | 4.0% | N/A | 5.0% |

**NOTE 15 - REGULATORY MATTERS** (continued)

As of the most recent notification from its regulators, the Bank was categorized as "well-capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since the last notification that would change the Bank's category.

A summary of the regulatory capital of the Bank at December 31 follows (dollars in thousands):

| | 2019 | 2018 |
|---|---|---|
| Regulatory Capital: | | |
| Shareholders' equity | 222,065 | 215,395 |
| Goodwill and other intangible assets | (62,744) | (63,788) |
| Accumulated other comprehensive (income) loss | (673) | 4,719 |
| Tier 1 risk-based capital | 158,648 | 156,326 |
| Eligible allowance for loan losses | 4,045 | 4,046 |
| Total risk-based capital | 162,693 | 160,372 |
| Capital Ratios: | | |
| Common Equity Tier 1 Capital to risk-weighted assets | 12.21% | 12.65% |
| Tier 1 capital to risk-weighted assets | 12.21% | 12.65% |
| Total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets | 12.52% | 12.98% |
| Leverage ratio (tier 1 capital to adjusted quarterly average total assets) | 10.06% | 9.96% |

LCNB Corp. filed a Registration Statement on Form S-3 with the SEC on July 27, 2011 to register 400,000 shares for use in its Amended and Restated Dividend Reinvestment and Stock Purchase Plan (the "Amended Plan"). Formerly LCNB purchased the shares needed for its Dividend and Stock Purchase Plan in the secondary market. Under the Amended Plan, LCNB has the option of purchasing shares in the secondary market, using treasury shares, or issuing new shares.

**NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Changes in accumulated other comprehensive income (loss) for 2019 and 2018 were as follows (in thousands):

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Unrealized Gains and Losses on Available-for-Sale Securities | Changes in Pension Plan Assets and Benefit Obligations | Total | Unrealized Gains and Losses on Available-for-Sale Securities | Changes in Pension Plan Assets and Benefit Obligations | Total |
| Balance at beginning of year | $ (4,631) | (88) | (4,719) | (2,200) | (142) | (2,342) |
| Cumulative effect of changes in accounting principles | — | — | — | (498) | (27) | (525) |
| Balance at beginning of period, as adjusted | (4,631) | (88) | (4,719) | (2,698) | (169) | (2,867) |
| Before reclassifications | 5,456 | (96) | 5,360 | (1,939) | 81 | (1,858) |
| Reclassifications | 32 | — | 32 | 6 | — | 6 |
| Balance at end of year | $ 857 | (184) | 673 | (4,631) | (88) | (4,719) |

**NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** (continued)

Reclassifications out of accumulated other comprehensive income (loss) during 2019 and 2018 and the affected line items in the consolidated statements of income were as follows (in thousands):

| | 2019 | 2018 | Affected Line Item in the Consolidated Statements of Income |
|---|---|---|---|
| Realized gain (loss) on sales of securities | $ 41 | (8) | Net gain on sale of securities |
| Less provision (benefit) for income taxes | 9 | (2) | Provision for income taxes |
| Reclassification adjustment, net of taxes | $ 32 | (6) | |

**NOTE 17 - RETIREMENT PLANS**

Prior to January 1, 2009, the Company had a single-employer qualified noncontributory defined benefit retirement plan that covered substantially all regular full-time employees. Effective January 1, 2009, the Company redesigned the plan and merged it into a multiple-employer plan, which is accounted for as a multi-employer plan because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. Employees hired on or after January 1, 2009 are not eligible to participate in this plan.

Effective February 1, 2009, the Company amended the plan to reduce benefits for those whose age plus vesting service equaled less than 65 at that date. Also effective February 1, 2009, an enhanced 401(k) plan was made available to those hired on or after January 1, 2009 and to those who received benefit reductions from the amendments to the noncontributory defined benefit retirement plan. Employees hired on or after January 1, 2009 receive a 50% employer match on their contributions into the 401(k) plan, up to a maximum company contribution of 3% of each individual employee's annual compensation. Employees who received a benefit reduction under the retirement plan amendments receive an automatic contribution of 5% or 7% of annual compensation, depending on the sum of an employee's age and vesting service, into the 401(k) plan, regardless of the contributions made by the employees. This contribution is made annually and these employees will not receive any employer matches to their 401(k) contributions.

Certain information pertaining to the qualified noncontributory defined benefit retirement plan is as follows:

| | |
|---|---|
| Legal name | Pentegra Defined Benefit Plan for Financial Institutions |
| Plan's employer identification number | 13-5645888 |
| Plan number | 333 |

The plan is at least 80% funded as of July 1, 2019 and 2018. A funding improvement or rehabilitation plan has not been implemented, nor has a surcharge been paid to the plan. The Company's contributions to the qualified noncontributory defined benefit retirement plan do not represent more than 5% of total contributions to the plan.

Funding and administrative costs of the qualified noncontributory defined benefit retirement plan and 401(k) plan charged to salaries and employee benefits in the consolidated statements of income for the years ended December 31 were as follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Qualified noncontributory defined benefit retirement plan | $ 1,039 | 1,048 | 1,054 |
| 401(k) plan | 524 | 457 | 374 |

The Company expects a minimum contribution of $205,000 to the qualified noncontributory defined benefit retirement plan in 2020.

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**NOTE 17 - RETIREMENT PLANS** (continued)

Citizens National had a qualified noncontributory defined benefit pension plan which covered employees hired before May 1, 2005. The Company assumed this plan at the time of the merger. At December 31, 2019, the amount of the liability for this plan was $69,000, representing the funded status of the plan.

The Bank has a benefit plan which permits eligible officers to defer a portion of their compensation. The deferred compensation balance, which accrues interest at 8% annually, is distributable in cash after retirement or termination of employment. The amount of such deferred compensation liability at December 31, 2019 and 2018 was $3,362,000 and $3,364,000, respectively.

The Bank also has supplemental income plans which provide certain employees an amount based on a percentage of average compensation, payable in accordance with individually defined schedules upon retirement. The projected benefit obligation included in other liabilities for the supplemental income plans at December 31, 2019 and 2018 is $998,000 and $1,092,000, respectively. The average discount rate used to determine the present value of the obligations was approximately 5.2% in 2019 and 5.2% in 2018. The service cost associated with the plans was $0 for 2019, $0 for 2018, and $0 for 2017. Interest costs were $52,000, $59,000, and $62,000 for 2019, 2018, and 2017, respectively.

The deferred compensation plan and supplemental income plans are nonqualified and unfunded. Participation in each plan is limited to a select group of management.

Effective February 1, 2009, the Company established a nonqualified defined benefit retirement plan, which is also unfunded, for certain highly compensated employees. The nonqualified plan ensures that participants receive the full amount of benefits to which they would have been entitled under the noncontributory defined benefit retirement plan in the absence of limits on benefit levels imposed by certain sections of the Internal Revenue Code.

The components of net periodic pension cost of the nonqualified defined benefit retirement plan for the years ended December 31 are summarized as follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Service cost | $ — | — | — |
| Interest cost | 77 | 69 | 69 |
| Amortization of unrecognized (gain) loss | — | 16 | — |
| Net periodic pension cost | $ 77 | 85 | 69 |

A reconciliation of changes in the projected benefit obligation of the nonqualified defined benefit retirement plan at December 31 follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Projected benefit obligation at beginning of year | $ 1,900 | 1,971 | 1,727 |
| Service cost | — | — | — |
| Interest cost | 77 | 69 | 69 |
| Actuarial (gain) or loss | 122 | (86) | 238 |
| Benefits paid | (54) | (54) | (63) |
| Projected benefit obligation at end of year | $ 2,045 | 1,900 | 1,971 |

Amounts recognized in other liabilities in the consolidated balance sheets for the nonqualified defined benefit retirement plan at December 31, 2019 and 2018 were $2,045,000 and $1,900,000, respectively.

The accumulated benefit obligation for the nonqualified defined benefit retirement plan at December 31, 2019 and 2018 was $2,045,000 and $1,900,000, respectively.

**NOTE 17 - RETIREMENT PLANS** (continued)

Amounts recognized in accumulated other comprehensive income, net of tax, at December 31 for the nonqualified defined benefit retirement plan consists of (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net actuarial loss | $ 184 | 88 | 141 |

The estimated unrecognized net actuarial gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2020 for the nonqualified defined benefit retirement plan is $1,000.

Key weighted-average assumptions used to determine the benefit obligation and net periodic pension costs for the nonqualified defined benefit retirement plan for the years ended December 31 were as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Benefit obligation: | | | |
| Discount rate | 3.22% | 4.22% | 3.60% |
| Salary increase rate | —% | 2.00% | 2.00% |
| | | | |
| Net periodic pension cost: | | | |
| Discount rate | 4.22% | 3.60% | 4.14% |
| Salary increase rate | 2.00% | 2.00% | 2.00% |
| Amortization period in years | 1.00 | 1.00 | 1.00 |

The nonqualified defined benefit retirement plan is not funded. Therefore no contributions will be made in 2020. Estimated future benefit payments reflecting expected future service for the years ended after December 31, 2019 are (in thousands):

| | |
|---|---|
| 2020 | $ 145 |
| 2021 | 145 |
| 2022 | 145 |
| 2023 | 145 |
| 2024 | 145 |
| 2025-2029 | 694 |

**NOTE 18 - STOCK-BASED COMPENSATION**

LCNB established an Ownership Incentive Plan (the "2002 Plan") during 2002 that allowed for stock-based awards to eligible employees, as determined by the Board of Directors. The awards were in the form of stock options, share awards, and/or appreciation rights. The 2002 Plan provided for the issuance of up to 200,000 shares. The 2002 Plan expired on April 16, 2012. Any outstanding unexercised options, however, continue to be exercisable in accordance with their terms.

The 2015 Ownership Incentive Plan (the "2015 Plan") was approved by LCNB's shareholders at the annual meeting on April 28, 2015 and allows for stock-based awards to eligible employees, as determined by the Compensation Committee of the Board of Directors. Awards may be made in the form of stock options, appreciation rights, restricted shares, and/or restricted share units. The 2015 Plan provides for the issuance of up to 450,000 shares of common stock. The 2015 Plan will terminate on April 28, 2025 and is subject to earlier termination by the Compensation Committee.

Stock-based awards may be in the form of treasury shares or newly issued shares.

**NOTE 18 - STOCK-BASED COMPENSATION** (continued)

LCNB has not granted stock options since 2012. Option awards granted to date under the 2002 Plan vest ratably over a five year period and expire ten years after the date of grant. Stock options outstanding at December 31, 2019 were as follows:

| | Outstanding Stock Options | | | Exercisable Stock Options | | |
|---|---|---|---|---|---|---|
| Exercise Price Range | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| $11.00 - 12.99 | 9,904 | 11.96 | 1.1 | 9,904 | 11.96 | 1.1 |

The following table summarizes stock option activity for the years indicated:

| | 2019 | | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) (1) | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) (1) | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) (1) |
| Outstanding at January 1, | 13,278 | 11.98 | | 20,265 | $ 11.42 | | 24,669 | $ 12.17 | |
| Exercised | (3,374) | 12.05 | | (6,987) | 10.34 | | (3,398) | 14.94 | |
| Expired | — | — | | — | — | | (1,006) | 17.88 | |
| Outstanding at December 31, | 9,904 | 11.96 | $ 73 | 13,278 | 11.98 | $ 42 | 20,265 | 11.42 | $ 183 |
| Exercisable at December 31, | 9,904 | 11.96 | 73 | 13,278 | 11.98 | 42 | 20,265 | 11.42 | 183 |

(1) Aggregate Intrinsic Value is defined as the amount by which the current market value of the underlying stock exceeds the exercise price of the option.

The following table provides information related to stock options exercised during the years indicated (in thousands):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Intrinsic value of options exercised | $ 20 | 50 | 25 |
| Cash received from options exercised | 41 | 72 | 51 |
| Tax benefit realized from options exercised | 3 | 7 | 5 |

Total expense related to options included in salaries and wages in the consolidated statements of income for the years ended December 31, 2019, 2018, and 2017 was $0, $0, and $1,000, respectively. The related tax benefit for 2019, 2018, and 2017 was $0, $0, and $0, respectively. Compensation costs related to option awards were recognized in full during the first quarter 2017.

Restricted stock awards granted under the 2015 Plan were as follows:

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Outstanding at January 1, | 16,958 | $ 18.94 | 8,817 | $ 16.44 | 8,624 | $ 15.47 |
| Granted | 12,504 | 16.95 | 10,634 | 19.20 | 4,027 | 22.60 |
| Vested | (11,710) | 18.19 | (2,493) | 17.38 | (3,834) | 16.73 |
| Forfeited | — | — | — | — | — | — |
| Outstanding at December 31, | 17,752 | $ 18.03 | 16,958 | $ 18.94 | 8,817 | $ 16.44 |

**NOTE 18 - STOCK-BASED COMPENSATION** (continued)

Total expense related to restricted stock awards included in salaries and wages in the consolidated statements of income for the years ended December 31, 2019, 2018, and 2017 was $134,000, $107,000, and $75,000 respectively. The related tax benefit for the years ended December 31, 2019, 2018, and 2017 was $28,000, $23,000, and $26,000, respectively. Unrecognized compensation expense for restricted stock awards was $259,000 at December 31, 2019 and is expected to be recognized over a period of 4.2 years.

**NOTE 19 - EARNINGS PER SHARE**

LCNB has granted restricted stock awards with non-forfeitable dividend rights, which are considered participating securities. Accordingly, earnings per share is computed using the two-class method as required by FASB ASC 260-10-45. Basic earnings per common share is calculated by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period, which excludes the participating securities. Diluted earnings per common share is adjusted for the dilutive effects of stock options, warrants, and restricted stock. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock options and warrants with proceeds used to purchase treasury shares at the average market price for the period.

Earnings per share for the years ended December 31 were calculated as follows (in thousands, except share and per share data):

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net income | $ 18,912 | 14,845 | 12,972 |
| Less allocation of earnings and dividends to participating securities | 31 | 18 | 7 |
| Net income allocated to common shareholders | 18,881 | 14,827 | 12,965 |
| | | | |
| Weighted average common shares outstanding, gross | 13,100,161 | 11,950,360 | 10,011,358 |
| Less average participating securities | 21,241 | 15,010 | 5,783 |
| Weighted average number of shares outstanding used in the calculation of basic earnings per common share | 13,078,920 | 11,935,350 | 10,005,575 |
| Add dilutive effect of: | | | |
| Stock options | 3,973 | 6,903 | 6,936 |
| Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share | 13,082,893 | 11,942,253 | 10,012,511 |
| | | | |
| Earnings per common share: | | | |
| Basic | $ 1.44 | 1.24 | 1.30 |
| Diluted | 1.44 | 1.24 | 1.29 |

## NOTE 20 - RELATED PARTY TRANSACTIONS

LCNB has entered into related party transactions with various directors and executive officers. Management believes these transactions do not involve more than a normal risk of collectability or present other unfavorable features. The following table provides a summary of the loan activity for these officers and directors for the years ended December 31 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Beginning balance | $ 2,438 | 1,870 |
| New loans and advances | 609 | 419 |
| Change in composition of related parties | — | 1,052 |
| Reductions | (667) | (903) |
| Ending Balance | $ 2,380 | 2,438 |

Deposits from executive officers, directors and related interests of such persons held by the Company at December 31, 2019 and 2018 amounted to $3,168,000 and $2,849,000, respectively.

## NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

LCNB measures certain assets at fair value using various valuation techniques and assumptions, depending on the nature of the asset. Fair value is defined as the price that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date.

The inputs to the valuation techniques used to measure fair value are assigned to one of three broad levels:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs may include quoted prices for similar assets in active markets, quoted prices for identical assets or liabilities in markets that are not active, inputs other than quoted prices (such as interest rates or yield curves) that are observable for the asset or liability, and inputs that are derived from or corroborated by observable market data.
- Level 3 – inputs that are unobservable for the asset or liability.

Equity Securities with a Readily Determinable Fair Value
Equity securities with a readily determinable fair value are reported at fair value with changes in fair value reported in other operating income in the consolidated statements of income. Fair values for trust preferred and equity securities are determined based on market quotations (level 1). LCNB has invested in two mutual funds that are traded in active markets and their fair values are based on market quotations (level 1). Investments in another two mutual funds are measured at fair value using net asset values ("NAV") and are considered level 1 because the NAVs are determined and published and are the basis for current transactions.

Debt Securities, Available-for-Sale
The majority of LCNB's financial debt securities are classified as available-for-sale. The securities are reported at fair value with unrealized holding gains and losses reported net of income taxes in accumulated other comprehensive income (loss). LCNB utilizes a pricing service for determining the fair values of its debt securities. Methods and significant assumptions used to estimate fair value are as follows:

- Fair value for U.S. Treasury notes are determined based on market quotations (level 1).

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

- Fair values for the other debt securities are calculated using the discounted cash flow method for each security. The discount rates for these cash flows are estimated by the pricing service using rates observed in the market (level 2). Cash flow streams are dependent on estimated prepayment speeds and the overall structure of the securities given existing market conditions.

Assets Recorded at Fair Value on a Nonrecurring Basis
Assets that may be recorded at fair value on a nonrecurring basis include impaired loans, other real estate owned, and other repossessed assets.

A loan is considered impaired when management believes it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent, if this value is less than the loan balance. These inputs are considered to be level 3.

Other real estate owned is adjusted to fair value, less costs to sell, upon transfer of the loan to foreclosed assets, usually based on an appraisal of the property. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Other repossessed assets are valued at estimated sales prices, less costs to sell. The inputs for real estate owned and other repossessed assets are considered to be level 3.

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**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

The following table summarizes the valuation of LCNB's assets recorded at fair value by input levels as of December 31 (in thousands):

| | | Fair Value Measurements at the End of the Reporting Period Using | | |
|---|---|---|---|---|
| | Fair Value Measurements | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **2019** | | | | |
| Recurring fair value measurements: | | | | |
| Equity securities with a readily determinable fair value: | | | | |
| Equity securities | $ 967 | 967 | — | — |
| Mutual funds | 45 | 45 | — | — |
| Mutual funds measured at net asset value | 1,300 | 1,300 | — | — |
| | | | | |
| Debt securities available-for-sale: | | | | |
| U.S. Treasury notes | 2,309 | 2,309 | — | — |
| U.S. Agency notes | 48,984 | — | 48,984 | — |
| U.S. Agency mortgage-backed securities | 84,406 | — | 84,406 | — |
| Municipal securities: | | | | |
| Non-taxable | 22,321 | — | 22,321 | — |
| Taxable | 19,980 | — | 19,980 | — |
| Total recurring fair value measurements | $ 180,312 | 4,621 | 175,691 | — |
| | | | | |
| Nonrecurring fair value measurements: | | | | |
| Impaired loans | $ 2,840 | — | — | 2,840 |
| Other real estate owned and repossessed assets | 197 | — | — | 197 |
| Total nonrecurring fair value measurements | $ 3,037 | — | — | 3,037 |
| | | | | |
| **2018** | | | | |
| Recurring fair value measurement: | | | | |
| Equity securities with a readily determinable fair value: | | | | |
| Trust preferred securities | — | — | — | — |
| Equity securities | 519 | 519 | — | — |
| Mutual funds | 39 | 39 | — | — |
| Mutual funds measured at net asset value | 1,520 | 1,520 | — | — |
| | | | | |
| Debt securities available-for-sale: | | | | |
| U.S. Treasury notes | $ 2,235 | 2,235 | — | — |
| U.S. Agency notes | 78,340 | — | 78,340 | — |
| U.S. Agency mortgage-backed securities | 55,610 | — | 55,610 | — |
| Municipal securities: | | | | |
| Non-taxable | 84,714 | — | 84,714 | — |
| Taxable | 17,522 | — | 17,522 | — |
| Total recurring fair value measurements | $ 240,499 | 4,313 | 236,186 | — |
| | | | | |
| Nonrecurring fair value measurements: | | | | |
| Impaired loans | $ 1,039 | — | — | 1,039 |
| Other real estate owned and repossessed assets | 244 | — | — | 244 |
| Total nonrecurring fair value measurements | $ 1,283 | — | — | 1,283 |

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**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2019 and 2018 (dollars in thousands):

| | | | | Range | | |
|---|---|---|---|---|---|---|
| | Fair Value | Valuation Technique | Unobservable Inputs | High | Low | Weighted Average |
| **2019** | | | | | | |
| Impaired loans | $ 1,931 | Estimated sales price | Adjustments for comparable properties, discounts to reflect current market conditions | Not applicable | | |
| | 909 | Discounted cash flows | Discount rate | 8.25% | 4.50% | 6.83% |
| Other real estate owned | 197 | Estimated sales price | Adjustments for comparable properties, discounts to reflect current market conditions | Not applicable | | |
| **2018** | | | | | | |
| Impaired loans | $ 45 | Estimated sales price | Adjustments for comparable properties, discounts to reflect current market conditions | Not applicable | | |
| | 994 | Discounted cash flows | Discount rate | 8.25% | 4.50% | 6.86% |
| Other real estate owned | 244 | Estimated sales price | Adjustments for comparable properties, discounts to reflect current market conditions | | | |

**LCNB CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2019**
**(Continued)**

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

Carrying amounts and estimated fair values of financial instruments as of December 31 were as follows (in thousands):

| | | | Fair Value Measurements at the End of the Reporting Period Using | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **2019** | | | | | |
| FINANCIAL ASSETS: | | | | | |
| Cash and cash equivalents | $ 20,765 | 20,765 | 20,765 | — | — |
| Debt securities, held-to-maturity | 27,525 | 27,888 | — | — | 27,888 |
| Federal Reserve Bank stock | 4,652 | 4,652 | 4,652 | — | — |
| Federal Home Loan Bank stock | 5,203 | 5,203 | 5,203 | — | — |
| Loans, net | 1,239,406 | 1,252,156 | — | — | 1,252,156 |
| Accrued interest receivable | — | 3,911 | — | 3,911 | — |
| | | | | | |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits | 1,348,280 | 1,352,061 | 1,024,162 | 327,899 | — |
| Long-term debt | 40,994 | 41,487 | — | 41,487 | — |
| Accrued interest payable | — | 705 | — | 705 | — |
| | | | | | |
| **2018** | | | | | |
| FINANCIAL ASSETS: | | | | | |
| Cash and cash equivalents | $ 20,040 | 20,040 | 20,040 | — | — |
| Debt securities, held-to-maturity | 29,721 | 29,024 | — | — | 29,024 |
| Federal Reserve Bank stock | 4,653 | 4,653 | 4,653 | — | — |
| Federal Home Loan Bank stock | 4,845 | 4,845 | 4,845 | — | — |
| Loans, net | 1,194,577 | 1,183,041 | — | — | 1,183,041 |
| Accrued interest receivable | 4,317 | 4,317 | — | 4,317 | — |
| | | | | | |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits | 1,300,919 | 1,301,298 | 1,004,057 | 297,241 | — |
| Short-term borrowings | 56,230 | 56,230 | 56,230 | — | — |
| Long-term debt | 47,032 | 48,255 | — | 48,255 | — |
| Accrued interest payable | 690 | 690 | — | 690 | — |

The fair values of off-balance-sheet financial instruments such as loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of such instruments were not material at December 31, 2019 and 2018.

Fair values of financial instruments are based on various assumptions, including the discount rate and estimates of future cash flows. Therefore, the fair values presented may not represent amounts that could be realized in actual transactions. In addition, because the required disclosures exclude certain financial instruments and all nonfinancial instruments, any aggregation of the fair value amounts presented would not represent the underlying value of the Company. The following methods and assumptions were used to estimate the fair value of certain financial instruments:

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

*Cash and cash equivalents*
The carrying amounts presented are deemed to approximate fair value.

*Equity securities without a readily determinable fair value*
Equity securities without a readily determinable fair value are measured at cost, less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investments of the same issuer.

*Debt securities, held-to-maturity*
Fair values for debt securities, held-to-maturity are based on quoted market prices for similar securities and/or discounted cash flow analysis or other methods.

*Federal Home Loan Bank and Federal Reserve Bank stock*
The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the respective redemptive provisions.

*Loans*
The estimated fair value of loans follows the guidance in ASU 2016-01, which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments. The fair value calculation discounts estimated future cash flows using rates that incorporate discounts for credit, liquidity, and marketability factors.

*Deposits*
The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities, which approximates market rates.

*Borrowings*
The carrying amounts of federal funds purchased, repurchase agreements, and U.S. Treasury demand note borrowings are deemed to approximate fair value of short-term borrowings. For long-term debt, fair values are estimated based on the discounted value of expected net cash flows using current interest rates.

*Accrued interest receivable and accrued interest payable*
Carrying amount approximates fair value.

**NOTE 22 – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following table sets forth certain quarterly results for the years ended December 31, 2019 and 2018 (dollars in thousands, except per share data):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | Sep. 30 | Dec. 31 |
| **2019** | | | | |
| Interest income | $ 16,113 | 16,328 | 16,329 | 16,424 |
| Interest expense | 2,722 | 2,738 | 2,751 | 2,577 |
| Net interest income | 13,391 | 13,590 | 13,578 | 13,847 |
| Provision for loan losses | (105) | 54 | 264 | (6) |
| Net interest income after provision | 13,496 | 13,536 | 13,314 | 13,853 |
| Total non-interest income | 2,772 | 2,998 | 3,356 | 3,222 |
| Total non-interest expenses | 10,700 | 10,833 | 10,982 | 11,007 |
| Income before income taxes | 5,568 | 5,701 | 5,688 | 6,068 |
| Provision for income taxes | 941 | 973 | 961 | 1,238 |
| Net income | $ 4,627 | 4,728 | 4,727 | 4,830 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $ 0.35 | 0.36 | 0.36 | 0.37 |
| Diluted | 0.35 | 0.36 | 0.36 | 0.37 |
| | | | | |
| **2018** | | | | |
| Interest income | $ 11,142 | 12,538 | 15,070 | 15,844 |
| Interest expense | 954 | 1,170 | 1,967 | 2,334 |
| Net interest income | 10,188 | 11,368 | 13,103 | 13,510 |
| Provision for loan losses | 79 | 224 | 659 | (39) |
| Net interest income after provision | 10,109 | 11,144 | 12,444 | 13,549 |
| Total non-interest income | 2,636 | 2,791 | 2,921 | 2,702 |
| Total non-interest expenses | 9,549 | 10,711 | 10,317 | 9,925 |
| Income before income taxes | 3,196 | 3,224 | 5,048 | 6,326 |
| Provision for income taxes | 483 | 486 | 847 | 1,133 |
| Net income | $ 2,713 | 2,738 | 4,201 | 5,193 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $ 0.27 | 0.25 | 0.32 | 0.40 |
| Diluted | 0.27 | 0.25 | 0.32 | 0.40 |

**NOTE 23 - PARENT COMPANY FINANCIAL INFORMATION**

Condensed financial information for LCNB Corp., parent company only, follows (in thousands):

**Condensed Balance Sheets:**

| December 31, | | 2019 | 2018 |
|---|---|---|---|
| Assets: | | | |
| Cash on deposit with subsidiary | $ | 3,252 | 715 |
| Cash on deposit with unrelated depository institution | | 23 | — |
| Equity securities, at fair value | | 971 | 816 |
| Investment in subsidiaries | | 223,735 | 216,830 |
| Other assets | | 84 | 624 |
| Total assets | $ | 228,065 | 218,985 |
| | | | |
| Liabilities | $ | 17 | — |
| | | | |
| Shareholders' equity | | 228,048 | 218,985 |
| Total liabilities and shareholders' equity | $ | 228,065 | 218,985 |

**Condensed Statements of Income**

| Year ended December 31, | | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Income: | | | | |
| Dividends from subsidiaries | $ | 18,300 | 10,383 | 6,800 |
| Interest and dividends | | 31 | 35 | 36 |
| Net gain on sales of securities | | — | — | 14 |
| Other income | | 215 | (66) | — |
| Total income | | 18,546 | 10,352 | 6,850 |
| | | | | |
| Total expenses | | 1,369 | 1,668 | 1,290 |
| | | | | |
| Income before income tax expense/benefit and equity in undistributed income of subsidiaries | | 17,177 | 8,684 | 5,560 |
| Income tax benefit | | 222 | 341 | 380 |
| Equity in undistributed income of subsidiaries | | 1,513 | 5,820 | 7,032 |
| Net income | $ | 18,912 | 14,845 | 12,972 |

**NOTE 23 - PARENT COMPANY FINANCIAL INFORMATION** (continued)

**Condensed Statements of Cash Flows**

| Year ended December 31, | 2019 | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 18,912 | 14,845 | 12,972 |
| Adjustments for non-cash items - | | | |
| Increase in undistributed income of subsidiaries | (1,513) | (5,820) | (7,032) |
| Other, net | 476 | (383) | 84 |
| Net cash flows provided by operating activities | 17,875 | 8,642 | 6,024 |
| | | | |
| Cash flows from investing activities: | | | |
| Purchases of equity securities | (337) | (90) | (54) |
| Proceeds from sales of equity securities | 397 | 107 | 93 |
| Investments in subsidiaries | — | — | (250) |
| Cash paid for business acquisition, net of cash received | — | (268) | — |
| Net cash flows provided by (used in) investing activities | 60 | (251) | (211) |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | 446 | 416 | 360 |
| Payments to repurchase common stock | (6,834) | (348) | — |
| Cash dividends paid on common stock | (9,028) | (8,124) | (6,407) |
| Other | 41 | 72 | 51 |
| Net cash flows used in financing activities | (15,375) | (7,984) | (5,996) |
| Net change in cash | 2,560 | 407 | (183) |
| Cash at beginning of year | 715 | 308 | 491 |
| Cash at end of year | $ 3,275 | 715 | 308 |

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

**Item 9A. Controls and Procedures**

Disclosure Controls and Procedures

An evaluation of the effectiveness of LCNB's internal controls over financial reporting was carried out under the supervision and with the participation of LCNB's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that LCNB's disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Internal Control Over Financial Reporting

Information required by this item is set forth in the "Report of Management's Assessment of Internal Control over Financial Reporting" and the "Report of Independent Registered Public Accounting Firm" included in Item 8 of this 2019 Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the fourth quarter 2019, there were no changes in LCNB's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, LCNB's internal control over financial reporting.

**Item 9B. Other Information**

None.

# PART III

Portions of the Company's Definitive Proxy Statement (the "Proxy Statement") included in the Notice of Annual Meeting of Shareholders to be held April 21, 2020, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2019, are incorporated by reference into Part III.

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item concerning the Executive Officers and Directors of the Registrant is incorporated herein by reference under the caption "Directors and Executive Officers" of the Proxy Statement.

The information required by this item concerning the Audit Committee and Code of Business Conduct and Ethics is incorporated herein by reference under the captions "Board of Directors Meetings and Committees," "Audit Committee Report," and "Code of Ethics" of the Proxy Statement.

The information required by this item concerning Delinquent Section 16(a) Reports is incorporated herein by reference under the caption "Delinquent Section 16(a) Reports" of the Proxy Statement.

## Item 11. Executive Compensation

The information contained in the Proxy Statement under the captions "Board of Directors Meetings and Committees" "Compensation Committee Interlocks and Insider Participation" "Equity Compensation Plan Information," "Compensation of Executive Officers," and "Compensation Committee Report on Executive Compensation" is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information contained in the Proxy Statement under the captions "Market Price of Stock and Dividend Data" and "Voting Securities and Principal Holders" is incorporated herein by reference.

LCNB established an Ownership Incentive Plan (the "2002 Plan") during 2002 that allowed for the issuance of up to 200,000 shares of stock-based awards to eligible employees, as determined by the Board of Directors. The awards could be in the form of stock options, share awards, and/or appreciation rights. The 2002 Plan expired on April 16, 2012. Outstanding, unexercised options continue to be exercisable in accordance with their terms.

LCNB currently maintains a compensation plan, the 2015 Ownership Incentive Plan (the "2015 Plan"), which was approved by LCNB's shareholders at the annual meeting on April 28, 2015 and allows for stock-based awards to eligible employees, as determined by the Compensation Committee of the Board of Directors. Awards may be made in the form of stock options, appreciation rights, restricted shares, and/or restricted share units. This plan provides for the issuance of up to 450,000 shares and will terminate on April 28, 2025, unless earlier terminated by the Compensation Committee.

The following table shows information relating to stock options outstanding under the 2002 Plan and 2015 Plan at December 31, 2019:

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance |
|---|---|---|---|
| Equity compensation plans approved by security holders: | | | |
| 2002 Plan | 9,904 | $ 11.96 | — |
| 2015 Plan | — | — | 406,797 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 9,904 | $ 11.96 | 406,797 |

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information contained in the Proxy Statement under the captions "Election of Directors," "Directors and Executive Officers," "Board of Directors Meetings and Committees," and "Certain Relationships and Related Transactions" is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information contained in the Proxy Statement under the captions "Independent Registered Accounting Firm" and "Board of Directors Meetings and Committees" is incorporated herein by reference.

**LCNB CORP. AND SUBSIDIARIES**

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

| | |
|---|---|
| (a)1. | Financial Statements |
| | |
| | REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM |
| | FINANCIAL STATEMENTS |
| | Consolidated Balance Sheets as of December 31, 2019 and 2018. |
| | Consolidated Statements of Income for the Years Ended December 31, 2019, 2018, and 2017. |
| | Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018, and 2017. |
| | Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2019, 2018, and 2017. |
| | Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018, and 2017. |
| | Notes to Consolidated Financial Statements |
| | |
| 2. | Financial Statement Schedules – None |
| | |
| 3. | Exhibits required by Item 601 Regulation S-K. |

| (a) Exhibit No. | Exhibit Description |
|---|---|
| 2.1 | Agreement and Plan of Merger dated as of October 9, 2012 by and between LCNB Corp. and First Capital Bancshares, Inc. – incorporated by reference to the Registrant's Form 8-K filed on October 9, 2012, Exhibit 2.1. |
| 2.2 | Stock Purchase Agreement between LCNB Corp. and Colonial Banc Corp. dated as of October 28, 2013 - incorporated by reference to the Registrant's Current Report on Form 8-K filed on October 28, 2013, Exhibit 2.1. |
| 2.3 | Agreement and Plan of Merger dated as of December 29, 2014 by and between LCNB Corp. and BNB Bancorp, Inc., - incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 2, 2015, Exhibit 2.1. |
| 2.4 | Agreement and Plan of Merger dated as of December 20, 2017 by and between LCNB Corp. and Columbus First Bancorp, Inc. - incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 21, 2017, Exhibit 2.1. |
| 3.1 | Amended and Restated Articles of Incorporation of LCNB Corp., as amended. (This document represents the Amended and Restated Articles of Incorporation of LCNB Corp. in compiled form incorporating all amendments. The compiled document has not been filed with the Ohio Secretary of State.) – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, Exhibit 3.1. |
| 3.2 | Code of Regulations of LCNB Corp. - Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, Exhibit 3(ii). |
| 4.1 | Description of Registrant's Securities |
| 10.1 | LCNB Corp. Ownership Incentive Plan - incorporated by reference to Registrant's Form DEF 14A Proxy Statement pursuant to Section 14(a), dated March 15, 2002, Exhibit A (000-26121). |
| 10.2 | LCNB Corp. 2015 Ownership Incentive Plan - incorporated by reference to Registrant's Form DEF 14A Proxy Statement pursuant to Section 14(a), dated March 13, 2015, Exhibit A (001-35292). |
| 10.3 | Form of Option Grant Agreement under the LCNB Corp. Ownership Incentive Plan - incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2005, Exhibit 10.2. |
| 10.5 | Nonqualified Executive Retirement Plan – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009, Exhibit 10.4. |
| 10.7 | Form of Restricted Share Grant Agreement under the LCNB Corp. 2015 Ownership Incentive Plan - incorporated by reference to Registrant's 2015 Form 10-K, Exhibit 10.7. |
| 14.1 | LCNB Corp. Code of Business Conduct and Ethics - incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2018, Exhibit 14.1. |

**LCNB CORP. AND SUBSIDIARIES**

| (a) Exhibit No. | Exhibit Description |
|---|---|
| 21 | LCNB Corp. subsidiaries. |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from LCNB Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019 is formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. |

**LCNB CORP. AND SUBSIDIARIES**

## 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.

LCNB Corp.
(Registrant)

/s/ Eric J. Meilstrup
Eric J. Meilstrup, President & Chief Executive Officer
March 4, 2020

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:

/s/ Eric J. Meilstrup
Eric J. Meilstrup, President, Chief Executive Officer & Director
(Principal Executive Officer)
March 4, 2020

/s/ Robert C. Haines II
Robert C. Haines II, Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)
March 4, 2020

/s/ Spencer S. Cropper
Spencer S. Cropper
Chairman of the Board of Directors
March 4, 2020

/s/ Mary E. Bradford
Mary E Bradford, Director
March 4, 2020

/s/ Steve P. Foster
Steve P. Foster, Director
March 4, 2020

/s/ William G. Huddle
William G. Huddle, Director
March 4, 2020

/s/ Craig M. Johnson
Craig M. Johnson, Director
March 4, 2020

/s/ Michael J Johrendt
Michael J. Johrendt, Director
March 4, 2020

/s/ William H. Kaufman
William H. Kaufman, Director
March 4, 2020

/s/ John H. Kochensparger III
John H. Kochensparger III, Director
March 4, 2020

/s/ Anne E. Krehbiel
Anne E. Krehbiel, Director
March 4, 2020

/s/ Stephen P. Wilson
Stephen P. Wilson, Director
March 4, 2020

**Exhibit 4.1**

# DESCRIPTION OF REGISTRANT'S SECURITIES

The following summary of LCNB Corp.'s (hereinafter referred to as "we," "our," "us," the "Company," and "LCNB") equity securities is based on and qualified by the Company's Amended and Restated Articles of Incorporation, as amended (the "Articles") and our Regulations (the "Regulations"). For a complete description of the terms and provisions of the Company's equity securities, including its capital stock, refer to the Articles and Regulations, both of which are filed as exhibits to this Annual Report on Form 10-K.

## General

The Company is incorporated in the State of Ohio. The rights of our shareholders are generally covered by Ohio law, our Articles and our Regulations. The terms of our common stock are therefore subject to Ohio law, including Ohio General Corporation Law, as amended, the common and constitutional law of Ohio, and federal law governing bank holding companies.

## Common Stock

***Authorized Capital Stock***

The Company's Articles authorize the issuance of 19,000,000 shares of common stock, no par value per share.

***Voting Rights***

Each holder of common stock has the right to cast one vote for each common stock owned on all matters submitted to a vote of shareholders. The holders of common stock have cumulative voting rights for the election of directors, provided that proper notice of the intent to exercise such cumulative voting rights is given to LCNB in accordance with Ohio General Corporate Law.

The shareholders present in person or by proxy at any meeting constitutes a quorum unless a larger proportion is required to take the action stated in the notice of the meeting, in which case, to constitute a quorum, there must be present in person or by proxy the holders of record or shares entitling them to exercise the voting power required by the Articles or applicable law to take the action stated.

***Subscription, Preemption, Conversion, Redemption, and Sinking Fund Rights***

Holders of our common stock have no subscription, preemptive, or conversion rights. There are no mandatory redemption provisions applicable to the common stock, nor sinking fund rights.

***Dividend Rights***

The holders of common stock are entitled to receive an equal amount of dividends per share if, as and when declared from time to time by our board of directors.

Our Articles permit our board of directors to set the dividend rights of preferred stock. Therefore, it is possible that holders of one or more series of preferred stock issued in the future could have dividend rights that differ from those of the holders of common stock, or could have no right to the payment of dividends. If the holders of a class or series of preferred stock is given dividend rights, the right of holders of preferred stock to receive dividends could have priority over the right of holders of the common stock to receive dividends.

***Liquidation Rights***

Each share of common stock entitles the holder thereof to share ratably in our net assets legally available for distribution to shareholders in the event of our liquidation, dissolution or winding up, after payment in full of all amounts required to be paid to creditors or provision for such payment.

***Certain Business Combination Restrictions***

Our Articles contain special voting requirements pertaining to certain business combinations. Specifically, our Articles set forth certain requirements in connection with the approval or authorization of any of the following types of business combinations with a person or entity that is a beneficial owner, directly or indirectly, of 10% or more of the outstanding shares of capital stock of LCNB:

- any merger or consolidations of LCNB;
- any sale, lease, exchange, transfer or other disposition of all, or substantially all, of the assets of LCNB;
- the issuance or transfer of any securities of LCNB to any other person or entity in exchange for assets or securities; or

- the issuance or transfer of any securities of LCNB, by LCNB, to any other person or entity for cash.

The Articles further provide that to be approved, the foregoing transactions require the affirmative vote of either (1) at least 80% of the voting power of LCNB, voting together as a single class, present or represented by proxy and entitled to vote in respect thereof, at an annual meeting or at any special meeting duly called, excluding the voting power of any such entity or person seeking such merger or combination transaction, if such person or entity owns 10% or more of the shares of LCNB entitled to vote at such annual meeting or special meeting; or (2) if a majority or more of the directors of LCNB recommend approval of the transaction, such may be taken upon approval by a majority of the voting power of LCNB, voting together as a single class, present or represented by proxy, and entitled to vote in respect thereof, at an annual meeting or at any special meeting duly called.

***Restrictions on Ownership***

The Bank Holding Company Act of 1956, as amended ("BHC Act"), generally prohibits any company that is not engaged in banking activities and activities that are permissible for a bank holding company or a financial holding company from acquiring control of LCNB. Control is generally defined as ownership of 25% or more of the voting stock or other exercise of a controlling influence. Under the BHC Act, any existing bank holding company would require the prior approval of the Federal Reserve Board of Directors before acquiring 5% or more of the voting stock of LCNB. In addition, the Change in Bank Control Act of 1978, as amended ("CBC Act"), prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Board of Directors has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board of Directors, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as LCNB, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company and require notification and non-objection by the Federal Reserve Board of Directors.

***Anti-takeover Statutes***

Certain state laws make a change in control of an Ohio corporation more difficult, even if desired by the holders of a majority of the corporation's shares. Provided below is a summary of the Ohio anti-takeover statutes:

*Ohio Control Share Acquisition Statute*. Section 1701.831 of the Ohio Revised Code, known as the "Ohio Control Share Acquisition Statute", provides that specified notice and informational filings and special shareholder meetings and voting procedures must occur before consummation of a proposed "control share acquisition". A control share acquisition is defined as any acquisition of shares of an "issuing public corporation" that would entitle the acquirer, directly or indirectly, alone or with others, to exercise or direct the voting power of the issuing public corporation in the election of directors within any of the following ranges:

- one-fifth or more, but less than one-third, of the voting power;
- one-third or more, but less than a majority, of the voting power; or
- a majority or more of the voting power.

An "issuing public corporation" is an Ohio corporation with 50 or more shareholders that has its principal place of business, principal executive offices, or substantial assets within the State of Ohio, and as to which no close corporation agreement exists. Assuming compliance with the notice and informational filing requirements prescribed by the Ohio Control Share Acquisition Statute, the proposed control share acquisition may take place only if, at a duly convened special meeting of shareholders, the acquisition is approved by both:

- a majority of the voting power of the corporation represented in person or by proxy at the meeting; and
- a majority of the voting power at the meeting exercised by shareholders, excluding:
- the acquiring shareholder,
- officers of the corporation elected or appointed by the directors of the corporation,
- employees of the corporation who are also directors of the corporation, and
- persons who acquire specified amounts of shares after the first public disclosure of the proposed control share acquisition.

Assuming compliance with the notice and information filing requirements, the proposed control share acquisition may take place only if, at a duly convened special meeting of shareholders, the acquisition is approved by both a majority of the voting power of the issuer represented at the meeting and a majority of the voting power remaining after excluding the combined voting power of the intended acquirer and the directors and officers of the issuer. The Ohio Control Share Acquisition Statute does not apply to a corporation whose articles of incorporation or regulations so provide. LCNB has not opted out of the application of the Ohio Control Share Acquisition Statute.

*Ohio Merger Moratorium Statute*. Chapter 1704 of the Ohio Revised Code, known as the "Ohio Merger Moratorium Statute", prohibits specified business combinations and transactions between an issuing public corporation and a beneficial owner of shares representing 10% or more of the voting power of the corporation in the election of directors (an "interested shareholder") for at least three years after the interested shareholder became such, unless the board of directors of the issuing public corporation approves either (1) the transaction or (2) the acquisition of the corporation's shares that resulted in the person becoming an interested shareholder, in each case before the interested shareholder became such.

For three years after a person becomes an interested shareholder, the following transactions between the corporation and the interested shareholder (or persons related to the interested shareholder) are prohibited:

- the sale or acquisition of an interest in assets meeting thresholds specified in the statute;
- mergers and similar transactions;

- a voluntary dissolution;
- the issuance or transfer of shares or any rights to acquire shares having a fair market value at least equal to 5% of the aggregate fair market value of the corporation's outstanding shares;
- a transaction that increases the interested shareholder's proportionate ownership of the corporation; and
- any other benefit that is not shared proportionately by all shareholders.

After the three-year period, transactions between the corporation and the interested shareholder are permitted if:

- the transaction is approved by the holders of shares with at least two-thirds of the voting power of the corporation in the election of directors (or a different proportion specified in the corporation's articles of incorporation), including at least a majority of the outstanding shares after excluding shares controlled by the interested shareholder; or
- the business combination results in shareholders, other than the interested shareholder, receiving a "fair market value" for their shares determined by the method described in the statute.

A corporation may elect not to be covered by the provisions of the Ohio Merger Moratorium Statute by the adoption of an appropriate amendment to its articles of incorporation. LCNB has not adopted such an amendment to opt out of the provisions of the Ohio Merger Moratorium Statute.

**EXHIBIT 21**

LCNB CORP. SUBSIDIARIES

LCNB National Bank, a national banking association, organized under the laws of the United States, and headquartered in Lebanon, Ohio.

LCNB Risk Management, Inc., organized under the laws of the State of Nevada, and headquartered in Las Vegas, Nevada.

**EXHIBIT 23**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-103801) dated March 13, 2003, and Form S-3 (No. 333-175806) dated July 27, 2011, of LCNB Corp. of our reports dated March 4, 2020 on the consolidated financial statements and internal control over financial reporting of LCNB Corp., which reports appear in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ BKD, LLP

**BKD, LLP**

Cincinnati, Ohio
March 4, 2020

**EXHIBIT 31.1**

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Meilstrup, President & Chief Executive Officer of LCNB Corp., certify, that:

1) I have reviewed this annual report on Form 10-K of LCNB Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Eric J. Meilstrup

Eric J. Meilstrup
President & Chief Executive Officer
March 4, 2020

**EXHIBIT 31.2**

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Haines II, Executive Vice President & Chief Financial Officer of LCNB Corp., certify, that:

1) I have reviewed this annual report on Form 10-K of LCNB Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert C. Haines II

Robert C. Haines II
Executive Vice President &
Chief Financial Officer
March 4, 2020

**EXHIBIT 32**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of LCNB Corp. (the "Company") on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Eric J. Meilstrup, President & Chief Executive Officer and President, and Robert C. Haines II, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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| /s/ Eric J. Meilstrup | /s/ Robert C. Haines II |
| Eric J. Meilstrup | Robert C. Haines II |
| President & Chief Executive Officer | Executive Vice President and |
| | Chief Financial Officer |

Date: March 4, 2020