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, 2022
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**

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, determined using a per share closing price on that date of $14.95 as quoted on the NASDAQ Capital Market, was $160,326,132.

As of March 14, 2023, 11,259,642 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 24, 2023, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2022 are incorporated by reference into Part III.

LCNB CORP.

For the Year Ended December 31, 2022

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LCNB CORP. AND SUBSIDIARIES

PART I

Glossary of Abbreviations and Acronyms

AFS	Available-for-Sale
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	LCNB National Bank
BSA	Bank Secrecy Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	Consumer Financial Protection Bureau
Citizens National	Citizens National Bank
CFB	Columbus First Bancorp, Inc.
Columbus First	Columbus First Bank
Company	LCNB Corp. and its consolidated subsidiaries as a whole
CRA	Community Reinvestment Act of 1977
DEI	Diversity, Equity, and Inclusion
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Eaton National	Eaton National Bank & Trust Co.
Economic Aid Act	Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
First Capital	First Capital Bancshares, Inc.
FOMC	Federal Open Market Committee of the Federal Reserve System
GAAP	Generally Accepted Accounting Principles
ICS	Insured Cash Sweep
IRA	Individual Retirement Account
LCNB	LCNB Corp. and its consolidated subsidiaries as a whole
LIHTC	Low Income Housing Tax Credit
NOW	Negotiable Order of Withdrawal
OCC	Office of the Comptroller of the Currency
PPP	Paycheck Protection Program
SBA	Small Business Administration
SEC	Securities and Exchange Commission
TDRs	Troubled Debt Restructurings

Item 1. Business

FORWARD-LOOKING STATEMENTS

Certain statements made in this document regarding LCNB's 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", "might", "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. the ongoing uncertainties for LCNB's business, results of operations and financial condition, as well as its regulatory capital and liquidity ratios and other regulatory requirements, caused by the COVID-19 pandemic resulting from the scope and duration of the pandemic;
3. the disruption of global, national, state, and local economies associated with the COVID-19 pandemic and other geopolitical conditions, which could affect LCNB's liquidity and capital positions, impair the ability of our borrowers to repay outstanding loans, impair collateral values, and further increase the allowance for credit losses;
4. LCNB's ability to integrate future acquisitions may be unsuccessful, or may be more difficult, time-consuming, or costly than expected;
5. LCNB may incur increased loan charge-offs in the future;
6. LCNB may face competitive loss of customers;
7. changes in the interest rate environment, which may include further interest rate increases, may have results on LCNB's operations materially different from those anticipated by LCNB's market risk management functions;
8. changes in general economic conditions and increased competition could adversely affect LCNB's operating results;
9. 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;
10. LCNB may experience difficulties growing loan and deposit balances;
11. 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;
12. 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;
13. difficulties with technology or data security breaches, including cyberattacks, could negatively affect LCNB's ability to conduct business and its relationships with customers, vendors, and others;
14. adverse weather events and natural disasters and global and/or national epidemics could negatively affect LCNB's customers given its concentrated geographic scope, which could impact LCNB's operating results; and
15. government intervention in the U.S. financial system, including the effects of legislative, tax, accounting and regulatory actions and reforms, including the CARES 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, the Tax Cuts and Jobs Act, and any such future regulatory actions or reforms.

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'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 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. LCNB Risk Management, Inc., a captive insurance agency, was incorporated in Nevada by LCNB Corp. during the second quarter of 2017.

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. Consumer lending activities include automobile, boat, home improvement and personal loans.

The Wealth 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, 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, 2022, the Bank had:

- 30 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,
- a vacant lot in Chillicothe, Ohio for future construction,
- and 35 ATMs.

The Hunter Office, located in Warren County, closed at the end of the business day on January 12, 2023.

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, Financial Technology or "FinTech" 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, availability of electronic banking services, the quality and scope of the services rendered, and the convenience of banking facilities and electronic banking technologies.

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 DIF of 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 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 Corp. 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 $250,000 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, 2022, 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.

On October 18, 2022, the FDIC issued a final rule that will increase the initial base deposit insurance assessment rate paid by insured depository institutions by two basis points, beginning with the first quarterly assessment period of 2023. According to the FDIC, the proposal increases the likelihood that its designated reserve ratio will reach the required minimum level of 1.35% by the statutory deadline of September 30, 2028 and will support progress toward achieving the long-term goal of a 2% ratio. LCNB's initial base deposit insurance rate will increase from three to five basis points when the final rule takes effect. The increase will remain in effect until the long-term goal of a 2% FDIC designated reserve ratio is achieved. Progressively lower assessment rates will take effect when the reserve ratio reaches 2% and again when the reserve ratio reaches 2.5%.

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. LCNB has never received an "in danger of default" categorization.

Dividends

LCNB Corp. is a legal entity separate and distinct from the Bank. LCNB Corp. receives most of its revenue from dividends paid to it by the Bank. During the years ended December 31, 2022, 2021 and 2020, dividends paid by LCNB National Bank to LCNB Corp. totaled $16,950,000, $15,000,000, and $11,250,000, respectively.

Described below are some of the laws and regulations that apply when either LCNB Corp. 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." 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).

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 Corp. 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%. 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.”

See Note 14 - Regulatory Matters of the consolidated financial statements for more information concerning LCNB's compliance with regulatory capital ratios.

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. LCNB Corp. and the Bank have not opted 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, 2022.

Community Reinvestment Act of 1977

The 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 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 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 an independent federal agency called the Consumer Financial Protection Bureau, 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.

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. At this time, LCNB and the Bank do not expect material costs and effects to result from any federal, state, or local environmental laws that may be enacted.

Human Capital

As of December 31, 2022, LCNB employed 309 full-time equivalent employees working throughout the ten Ohio counties in which LCNB operates. LCNB considers these individuals the most important influence contributing to the Bank's success and is committed to investing in their ongoing growth and development.

LCNB fosters a welcoming environment that celebrates diversity, equity, and inclusion for all. Through an ongoing partnership with the National Conference for Community and Justice of Greater Dayton, its employee-based DE&I Council is working to expand education and sharing experiences; to acknowledge, celebrate, and encourage diverse backgrounds interests, and lifestyles; to broaden recruitment efforts with a focus on growing diverse talent; and to communicate and share LCNB's overall commitment to diversity, equity and inclusion.

LCNB places a high priority on training and development and has enjoyed a long history of promoting from within the organization, as evidenced by the executive management team, which averages 22 years of tenure with LCNB. Through a blend of strong internal talent and diverse new talent, the Bank has been able to successfully navigate the ongoing challenges related to talent depth. As LCNB grows and develops new products and services, the Bank continues to seek innovative, cost effective, and efficient ways to educate and develop its employees. Through a blend of online education, interactive training sessions, and experiential learning, LCNB provides opportunities for those who desire to fine-tune existing skills as well as those who desire to prepare for the next steps along their career path.

LCNB values and invests in overall employee well-being and satisfaction, providing compensation and benefits that are competitive with those provided by other financial institutions and major employers within LCNB's market area. In addition to traditional benefits, which include health, dental, life, vision, and long-term disability insurance, LCNB offers other voluntary coverages. Some of these benefits are paid by the Bank, others are shared cost, and some are employee-paid. LCNB also provides all employees access to a personal care advocate through the LCNB Care Center. Advocates provide independent, confidential support in navigating all aspects of health care benefits. Additional benefits include a matching 401-K plan, a performance bonus plan, and tuition reimbursement plans.

LCNB has an active Wellness Committee comprised of employees from across the Bank. The committee promotes activities, education, and consultation that improve the health and lives of employees and their families. A no-cost Employee Assistance Program (EAP) offers benefits that are available to both full-time and part-time employees and members of their households. Services include 24/7 access to licensed mental health professionals, ongoing personal coaching sessions, and referrals to additional support resources based on needs. As part of evolving wellness efforts, LCNB provides employees with an interactive online Health and Wellness Portal, which offers employees access to personalized one-on-one sessions with a certified health coach, trainer, licensed dietician, or registered nurse.

Fostering and enhancing a culture of open and transparent communication remains extremely important to the Bank. In 2020, the Bank initiated quarterly Town Hall Meetings and weekly informational emails from senior management that allowed all employees to participate and receive information. These initiatives were very valuable during the Pandemic and the Bank continues both to this day. The Bank will do the same in 2023 along with some smaller scheduled group meetings at various locations within our market areas to further communicate important initiatives and information. In addition, senior management is available to participate in department and branch staff meetings upon request.

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.

Contractual maturities of debt securities at December 31, 2022, were as follows. Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations. Weighted average yield is based on amortized cost.

	Available-for-Sale			Held-to-Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)					
U.S. Treasury notes:						
Within one year	$ 10,350	10,196	1.93 %	$ —	—	— %
One to five years	49,260	44,255	0.92 %	—	—	— %
Five to ten years	25,317	21,996	1.32 %	—	—	— %
After ten years	—		— %	—	—	— %
Total U.S. Treasury notes	84,927	76,447	1.16 %	—	—	— %
U.S. Agency notes:						
Within one year	—	—	— %	—	—	— %
One to five years	61,735	54,509	0.90 %	—	—	— %
Five to ten years	27,425	23,467	1.54 %	—	—	— %
After ten years	—	—	— %	—	—	— %
Total U.S. Agency notes	89,160	77,976	1.09 %	—	—	— %
Corporate bonds:						
Within one year	—	—	— %	—	—	— %
One to five years	—	—	— %	—	—	— %
Five to ten years	7,450	6,685	4.24 %	—	—	— %
After ten years	—	—	— %	—	—	— %
Total corporate bonds	7,450	6,685	4.24 %	—	—	— %
Municipal securities, tax-exempt (1):						
Within one year	1,356	1,345	3.04 %	755	752	1.87 %
One to five years	4,181	4,090	2.62 %	3,628	3,475	2.46 %
Five to ten years	2,625	2,454	1.99 %	1,994	1,847	4.97 %
After ten years	730	635	3.77 %	10,070	9,789	4.47 %
Total Municipal securities	8,892	8,524	2.59 %	16,447	15,863	3.97 %
Municipal securities, taxable:						
Within one year	1,487	1,463	2.41 %	—	—	— %
One to five years	17,850	16,450	2.25 %	—	—	— %
Five to ten years	27,219	22,865	2.17 %	446	391	2.98 %
After ten years	—	—	— %	2,985	2,631	6.45 %
Total Municipal securities	46,556	40,778	2.21 %	3,431	3,022	6.00 %
U.S. Agency mortgage-backed securities	90,746	79,440	2.19 %	—	—	— %
Totals	$ 327,731	289,850	1.69 %	19,878	18,885	4.32 %

(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, 2022.

Loan Portfolio

The following table summarizes loan maturities and sensitivities to interest rate change at December 31, 2022 (in thousands):

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Totals
Maturing in one year or less	$ 18,761	34,293	3,596	1,297	5,864	81	63,892
Maturing after one year through five years	55,814	109,483	11,937	21,260	3,476	—	201,970
Maturing after five years through 15 years	45,423	385,058	129,363	5,857	733	—	566,434
Maturing after 15 years	329	407,421	161,232	—	—	—	568,982
Totals	$ 120,327	936,255	306,128	28,414	10,073	81	1,401,278
Loans maturing beyond one year:							
Fixed rate	$ 47,781	326,368	172,115	27,117	1,839	—	575,220
Variable rate	53,785	575,594	130,417	—	2,370	—	762,166
Totals	$ 101,566	901,962	302,532	27,117	4,209	—	1,337,386

Allocation of the Allowance for Loan Losses

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

	At December 31,			
	2022		2021	
	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	$ 1,300	8.6 %	$ 1,095	7.4 %
Commercial, secured by real estate	3,609	66.9 %	3,607	64.9 %
Residential real estate	624	21.8 %	665	24.4 %
Consumer	86	2.0 %	105	2.5 %
Agricultural	22	0.7 %	30	0.8 %
Other loans, including deposit overdrafts	5	— %	4	— %
Total	$ 5,646	100.0 %	$ 5,506	100.0 %
Ratio of the allowance for loan losses to total loans outstanding	0.40 %		0.40 %	
Ratio of the allowance for loan losses to total non-accrual loans	1,443.99 %		371.71 %	

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 estimated amount of uninsured deposits including related interest accrued and unpaid was $212.7 million and $222.2 million at December 31, 2022 and 2021, respectively.

The following table presents an estimate of the contractual maturities of time deposits that exceed the FDIC insurance limit of $250,000 at December 31, 2022:

	(In thousands)
Maturity within 3 months	$ 1,721
After 3 but within 6 months	2,491
After 6 but within 12 months	1,272
After 12 months	8,265
	$ 13,749

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.

Risks Related to Economic and Market Conditions

The ultimate long-term impact on LCNB's business and financial results from the ongoing COVID-19 pandemic will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The effects of the ongoing recovery from the COVID-19 pandemic are still evolving and not fully known. We may experience further disruptions in economic activity, adverse effects on the functioning of financial markets, impacts on interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in this Form 10-K could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk, human capital and self-insurance. The uncertain future development of the recovery could materially and adversely affect our business, operations, operating results, financial condition, liquidity, and capital levels.

Weakness in the economy and in the real estate market, including weakness specific to our geographic footprint, may affect us, including requiring us to record additional loan loss provisions or to charge off loans.

LCNB's success depends, in part, on economic and political conditions, local and national, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy and other factors beyond LCNB's control may affect its deposit levels and composition, demand for loans, the ability of borrowers to repay their loans, and the value of the collateral securing the loans it makes. Economic turmoil in different regions of the world affect the economy and stock prices in the United States, which can affect LCNB's earnings and capital and the ability of its customers to repay loans. Due to LCNB's volume of real estate loans, declining real estate values could affect the value of property used as collateral as well as LCNB's ability to sell the collateral upon foreclosure.

If the strength of the United States economy in general and the strength of the local economies in which LCNB conducts operations, which are primarily in Southwestern and South Central Ohio, decline, this could result in, among other things, a deterioration of credit quality or a reduced demand for credit, including a resultant effect on the loan portfolio and allowance for credit losses. These factors could also result in higher delinquencies and greater charge-offs in future periods, which would materially affect LCNB's financial condition and results of operations.

There is no assurance that LCNB's non-impaired loans will not become impaired or that impaired loans will not suffer further deterioration in value. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may result in increased charge-offs. These fluctuations are not predictable, cannot be controlled, and may have a material impact on LCNB's operations and financial condition even if other favorable events occur.

Declining values of real estate, increases in unemployment, insurance market disruptions, and the related effects on local economies may increase LCNB's credit losses, which would negatively affect financial results.
LCNB offers a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer, and other loans. Many loans are secured by real estate (both residential and commercial) within LCNB's market area. A major change in the real estate market, such as deterioration in the value of collateral or in the local or national economy, could affect LCNB's ability to liquidate foreclosed property, which in turn could impact LCNB's results of operations and financial condition. Additionally, increases in unemployment also may affect the ability of certain clients to repay loans and the financial results of commercial clients in localities with higher unemployment, may result in loan defaults and foreclosures and may impair the value of loan collateral. Loan defaults and foreclosures are unavoidable in the banking industry. LCNB cannot fully eliminate credit risk and, as a result, credit losses may increase in the future.

Risks Related to LCNB's Operations

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 can involve a greater degree of financial and credit risk than home equity, residential mortgage, or consumer loans. The potential for 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, and the effects of general economic conditions on businesses and loans secured by income-producing properties. In order to mitigate these heightened risks, LCNB continually evaluates and monitors 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 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 be difficult to liquidate.

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.

Liquidity risk is inherent in LCNB's primary business.
LCNB faces liquidity risk, which is the possibility that LCNB may not be able to meet its obligations as they come due, both to creditors and customers, or may not be able to fully capitalize on growth opportunities because of a lack of liquidity. A lack of liquidity may be caused by an inability to favorably liquidate assets or obtain adequate financing on a timely basis, at a reasonable cost and on other reasonable terms, and within acceptable risk tolerances.

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 electronic 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’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.

LCNB must compete to hire and retain employees.
LCNB’s success depends, in large part, on its ability to attract, retain, motivate, and develop key employees. Competition for key employees is ongoing and LCNB may not be able to attract, retain, or hire the key employees who are wanted or needed, which may also negatively impact its ability to execute identified business strategies. Because LCNB operates primarily in Southwestern and South Central Ohio, its hiring pool is also limited by those markets. Competition for key employees may require LCNB to offer higher compensation to attract or retain key employees, which may adversely affect salaries and employee benefit costs.

Various restrictions on the compensation which may be paid to certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, LCNB’s incentive compensation structure is subject to review by regulators, who may identify deficiencies in the structure or issue additional guidance on LCNB’s compensation practices, causing LCNB to make changes that may affect its ability to offer competitive compensation to these individuals or that place it at a disadvantage to non-financial service competitors. LCNB’s ability to attract and retain talented employees may be affected by these restrictions or any new executive compensation limits or regulations.

Risk factors related to LCNB’s Wealth Management business.

LCNB's Wealth Management business is subject to intense competition, general market risk, and inherent risks to the business of managing trust accounts.
Competition for wealth management business is intense. Competitors include other commercial bank and trust companies, brokerage firms, investment advisory firms, mutual fund companies, accountants, and attorneys.

LCNB’s Wealth Management 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, political uncertainties, and the monetary and fiscal policies of the United States 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.

General Risk Factors

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 14 - 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.

Changes in economic or political conditions could adversely affect LCNB's earnings.
LCNB's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that LCNB offers, is highly dependent upon the business environment in the markets where LCNB operates and in the United States as a whole. Recessions, periods of unemployment, changes in interest rates, inflationary pressures, money supply, and other factors beyond LCNB's control may adversely affect its asset quality, deposit levels, loan demand, and earnings. Inflationary pressures directly affect the level of interest rates earned from loans and investments and paid for deposits and borrowings. In addition, salaries and employee benefits and other non-interest expenses tend to increase during periods of inflation.

Adverse changes in the economy may have a negative effect on the ability of borrowers to make timely repayments of their loans, increasing the risk of loan defaults and losses. Because LCNB has a significant amount of commercial and residential real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. As a result, LCNB may need to increase its allowance for loan losses, negatively affecting earnings.

LCNB's earnings are significantly affected by market interest rates.
The FOMC increased the Federal Funds target range by 425 basis points during 2022 in an effort to dampen increasing inflation rates and by another 25 basis points during the first quarter of 2023. Further rate increases may continue throughout 2023.

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.

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 and industrial loans and commercial real estate 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 is intense.
The banking industry and related financial service providers operate in a highly competitive market. LCNB competes with financial service providers such as other commercial banks, savings and loan associations, credit unions, mortgage banking firms, Financial Technology or “FinTech” companies, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries.

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. Nonfinancial institution competitors may have fewer regulatory constraints and, due to technology related product delivery systems, a greater access to customers and lower cost structures.

Many of LCNB’s competitors include major financial institutions that have been in business for many years and have established customer bases, broader geographic service areas, 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. 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 Wealth Management 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, Wealth Management, 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 LCNB 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.

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.

LCNB investments in equity securities with readily determinable fair values are recorded at fair value with changes in fair value recognized in earnings. Accordingly, declines in the fair value of LCNB's equity investments will immediately decrease net income.

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.

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 approving a loan or 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 DIF. On October 18, 2022, the FDIC issued a final rule that will increase the initial base deposit insurance assessment rate paid by insured depository institutions by two basis points, beginning with the first quarterly assessment period of 2023. On March 12, 2023, the FDIC made a joint statement with the Department of the Treasury and the Board of Governors of the Federal Reserve that any losses to the DIF in connection with support for uninsured depositors in connection with the Signature Bank and Silicon Valley Bank closures will be recovered by a special assessment paid by insured depository institutions. The likelihood and extent of any further rate increases in the future are indeterminable.

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.

Climate change, severe weather, natural disasters, acts of war or terrorism, epidemics and other external events could significantly impact LCNB's business.
Climate change presents multi-faceted risks, including operational risk from the physical effects of climate events on LCNB and its customers' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, LCNB's carbon footprint, and LCNB's business relationships with clients who operate in carbon-intensive industries.

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

None.

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 22 branch locations and leases an additional seven branch locations, pursuant to operating leases. The Main Office and Oxford, Ohio locations have excess space that is currently being leased to third parties. 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. LCNB also owns a vacant lot in Chillicothe, Ohio. Current plans are to construct a new office which will replace the current downtown Chillicothe Office. Management believes that LCNB's banking and other offices are in good condition and suitable to its needs.

The Hunter Office, located in Franklin, Ohio, closed at the end of the business day on January 12, 2023.

All of LCNB's ATMs were replaced during 2020 using a lease/outsourcing arrangement with a third party vendor.

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 914 registered holders of its common stock as of December 31, 2022. 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.

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 LCNB's Board of Directors ("Compensation Committee"). 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.

On May 27, 2022, 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 replaced and superseded LCNB's prior share repurchase program, which was adopted in January 2021.

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.

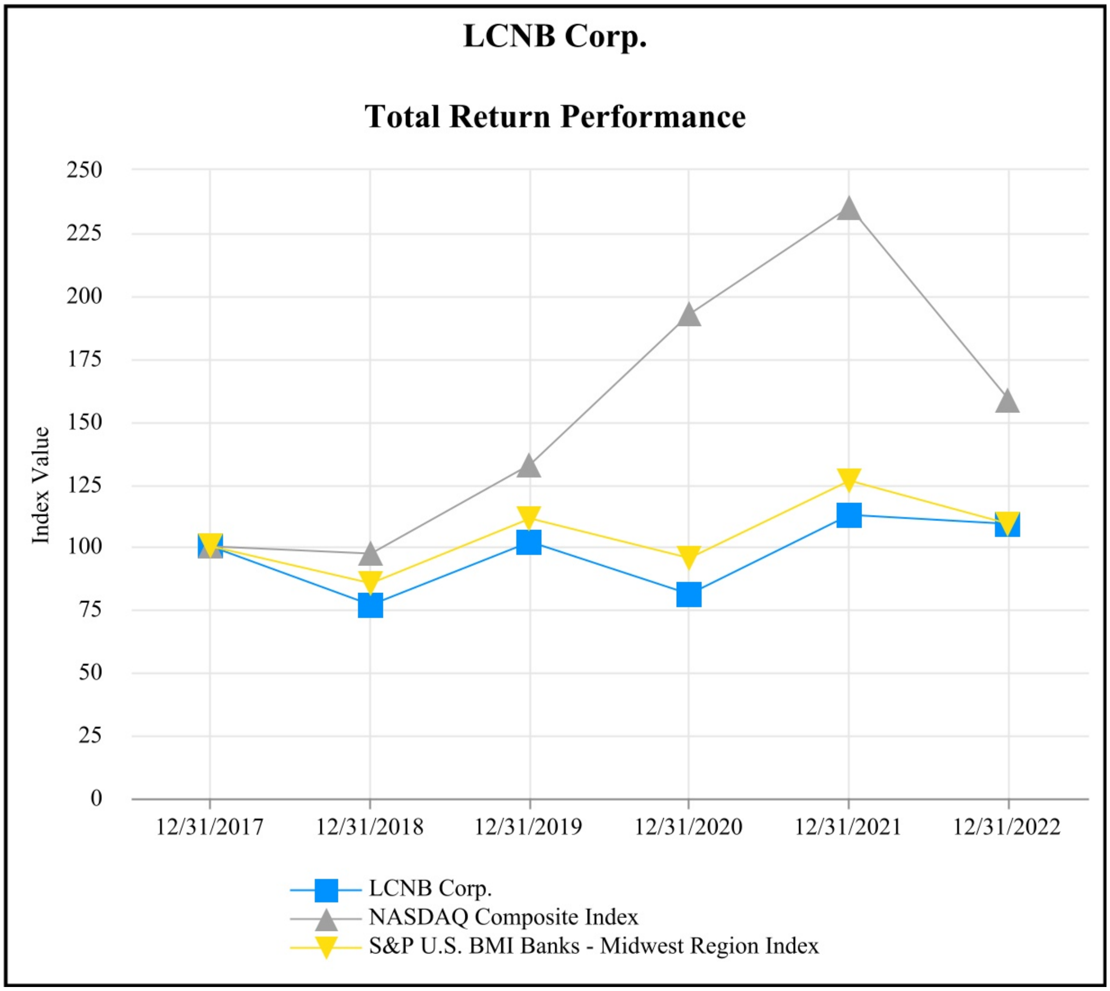
As part of the Program, LCNB entered into a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The 10b5-1 trading plan permits common shares to be repurchased at times that LCNB might otherwise be precluded from doing so under insider trading laws 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, 2022:

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 1 - October 31, 2022	26,343	$ 16.51	26,343	352,889
November 1 - November 30, 2022	—	$ —	—	352,889
December 1 - December 31, 2022	13,835	$ 17.57	13,835	339,054

The Program expired on or around December 31, 2022 and was replaced with a new share repurchase program that was authorized by the Board of Directors on February 27, 2023. The new share repurchase program authorizes the repurchase of up to 500,000 shares of common stock.

The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the NASDAQ Composite Index and the S&P U.S. BMI Banks - Midwest Region Index. This graph covers the period from December 31, 2017 through December 31, 2022. 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, 2017 in LCNB common stock, the NASDAQ Composite Index, and the S&P U.S. BMI Banks - Midwest Region Index and that all dividends were reinvested.



		Period Ending					
Index		**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**
LCNB Corp.	$	100.00	76.75	101.79	81.23	112.73	108.93
NASDAQ Composite Index	$	100.00	97.16	132.81	192.47	235.15	158.65
S&P U.S. BMI Banks - Midwest Region Index	$	100.00	85.39	111.10	95.52	126.19	108.91

Source: S&P Global Market Intelligence

Item 6. [Reserved]

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

Introduction

This discussion and analysis of the consolidated financial condition and consolidated results of operations of LCNB is intended to amplify certain financial information regarding LCNB and should be read in conjunction with the consolidated financial statements and related notes thereto contained in this Annual Report to Shareholders on Form 10-K.

Overview

Net income for 2022 was $22,128,000 (basic and diluted earnings per share of $1.93), compared to $20,974,000 (basic and diluted earnings per share of $1.66) in 2021 and $20,075,000 (basic and diluted earnings per share of $1.55) in 2020 .

The following items affected financial position and results of operations for the years indicated:

- Net loans increased 2.3% to $1.40 billion at December 31, 2022 compared to $1.36 billion at December 31, 2021.
- Total assets increased 0.8% to $1.92 billion at December 31, 2022 compared to $1.90 billion at December 31, 2021.
- Net interest income in 2022 was $61,042,000, compared to $57,124,000 in 2021 and $56,218,000 in 2020.
- Net gains from sales of loans totaled $196,000 in 2022, $852,000 in 2021, and $2,297,000 in 2020. Gains were higher in 2021 and 2020 primarily due to the volume of loans sold.
- Other non-interest expense for 2022 included $471,000 in losses from the sales of two office buildings as a result of LCNB's branch consolidation strategy.
- Gains from sales of other real estate owned was $889,000 in 2022.

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,								
	2022			2021			2020		
	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)	$ 1,380,272	$ 59,247	4.29 %	$ 1,329,072	$ 56,142	4.22 %	$ 1,306,314	$ 59,267	4.54 %
Interest-bearing demand deposits	9,027	166	1.84 %	14,876	48	0.32 %	20,808	83	0.40 %
Federal Reserve Bank stock	4,652	279	6.00 %	4,652	279	6.00 %	4,652	279	6.00 %
Federal Home Loan Bank stock	4,716	196	4.16 %	5,203	104	2.00 %	5,203	117	2.25 %
Investment securities:									
Equity securities	4,451	85	1.91 %	4,576	72	1.57 %	4,303	91	2.11 %
Debt securities, taxable	293,700	5,027	1.71 %	272,251	3,668	1.35 %	148,415	2,916	1.96 %
Debt securities, non-taxable (2)	27,532	953	3.46 %	32,937	1,094	3.32 %	38,439	1,300	3.38 %
Total earning assets	1,724,350	65,953	3.82 %	1,663,567	61,407	3.69 %	1,528,134	64,053	4.19 %
Non-earning assets	196,710			193,311			183,819		
Allowance for loan losses	(5,629)			(5,701)			(5,029)		
Total assets	$ 1,915,431			$ 1,851,177			$ 1,706,924		
NOW and money fund deposits	$ 516,949	1,372	0.27 %	$ 463,636	556	0.12 %	$ 391,490	838	0.21 %
Savings deposits	449,841	618	0.14 %	407,298	599	0.15 %	323,867	595	0.18 %
IRA and time certificates	172,119	1,692	0.98 %	214,344	2,423	1.13 %	289,775	5,201	1.79 %
Short-term borrowings	14,482	416	2.87 %	821	6	0.73 %	372	7	1.88 %
Long-term debt	17,910	613	3.42 %	16,148	469	2.90 %	34,265	921	2.69 %
Total interest-bearing liabilities	1,171,301	4,711	0.40 %	1,102,247	4,053	0.37 %	1,039,769	7,562	0.73 %
Noninterest-bearing demand deposits	513,400			482,402			407,961		
Other liabilities	22,459			25,705			22,798		
Capital	208,271			240,823			236,396		
Total liabilities and capital	$ 1,915,431			$ 1,851,177			$ 1,706,924		
Net interest rate spread (3)			3.42 %			3.32 %			3.46 %
Net interest income and net interest margin on a tax equivalent basis (4)		$ 61,242	3.55 %		$ 57,354	3.45 %		$ 56,491	3.70 %
Ratio of interest-earning assets to interest-bearing liabilities	147.22 %			150.93 %			146.97 %		

(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%.
(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.

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

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,					
	2022 vs. 2021			2021 vs. 2020		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income attributable to:						
Loans (1)	$ 2,187	918	3,105	1,018	(4,143)	(3,125)
Interest-bearing demand deposits	(26)	144	118	(21)	(14)	(35)
Federal Home Loan Bank stock	(11)	103	92	—	(13)	(13)
Investment securities:						
Equity securities	(2)	15	13	5	(24)	(19)
Debt securities, taxable	307	1,052	1,359	1,878	(1,126)	752
Debt securities, non-taxable (2)	(186)	45	(141)	(183)	(23)	(206)
Total interest income	2,269	2,277	4,546	2,697	(5,343)	(2,646)
Interest expense attributable to:						
NOW and money fund deposits	71	745	816	134	(416)	(282)
Savings deposits	60	(41)	19	136	(132)	4
IRA and time certificates	(440)	(291)	(731)	(1,147)	(1,631)	(2,778)
Short-term borrowings	349	61	410	5	(6)	(1)
Long-term debt	55	89	144	(521)	69	(452)
Total interest expense	95	563	658	(1,393)	(2,116)	(3,509)
Net interest income	$ 2,174	1,714	3,888	4,090	(3,227)	863

(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%.

2022 vs. 2021. Net interest income on a fully tax-equivalent basis for 2022 totaled $61,242,000, an increase of $3,888,000 from 2021. The increase resulted from an increase in total taxable-equivalent interest income of $4,546,000, partially offset by an increase in total interest expense of $658,000.

The increase in total interest income was due primarily to a $3,105,000 increase in interest income from loans and a $1,359,000 increase in interest income from taxable debt securities. Loan interest increased due to a $51.2 million increase in average loans and to a 7 basis point increase in the average rate earned. The average rate earned includes loan prepayment fees, which increased from $601,000 for 2021 to $1,025,000 for 2022. Interest income from taxable debt securities increased due to a $21.4 million increase in average securities and to a 36 basis point increase in the average rate earned on these securities.

The increase in total interest expense was primarily due to an $816,000 increase in interest paid on NOW and money fund deposits, a $410,000 increase in interest paid on short-term borrowings, and a $144,000 increase in interest paid on long-term debt, partially offset by a $731,000 decrease in interest paid on IRA and time certificates. Interest paid on NOW and money fund deposits increased due to a $53.3 million increase in average balances and to a 15 basis point increase in the average rate paid. Interest paid on IRA and time certificates decreased due to a $42.2 million decrease in average deposit balances and to a 15 basis point decrease in the average rate paid. Interest paid on short-term borrowings increased due to a $13.7 million increase in average balances and to a 214 basis point increase in the average rate paid. Interest paid on long-term debt increased due to a $1.8 million increase in average balances and to a 52 basis point increase in the average rate paid.

The increased rates paid on interest-bearing liabilities and the increased yield earned on interest-earning assets is largely the result of higher market interest rates that were caused by FOMC increases in the federal funds target rate totaling 425 basis points during 2022.

2021 vs. 2020. Net interest income on a fully tax-equivalent basis for 2021 totaled $57,354,000, an increase of $863,000 from 2020. The increase resulted from a decrease in total interest expense of $3,509,000, partially offset by a decrease in total taxable-equivalent interest income of $2,646,000.

The decrease in total interest income was due primarily to a $3,125,000 decrease in interest income from loans and a $206,000 decrease in interest income from non-taxable debt securities, partially offset by a $752,000 increase in interest income from taxable debt securities. Loan interest decreased due to a 32 basis point decrease in the average rate earned, partially offset by a $22.8 million increase in average loans and by fees recognized from PPP loans of $1,655,000. Interest income from non-taxable debt securities decreased due to a $5.5 million decrease in average securities and to a 6 basis point decrease in the average rate earned on these securities. Interest income from taxable debt securities increased due to an $123.8 million increase in average securities, partially offset by a 61 basis point decrease in the average rate earned on these securities.

The decrease in total interest expense was primarily due to a $2,778,000 decrease in interest paid on IRA and time certificates, a $452,000 decrease in interest paid on long-term debt, and a $282,000 decrease in interest paid on NOW and money fund deposits. Interest paid on IRA and time certificates decreased due to a 66 basis point decrease in the average rate paid and to a $75.4 million decrease in average deposit balances. Interest paid on long-term debt decreased due to an $18.1 million decrease in average balances, partially offset by 21 basis point increase in the average rate paid. Interest paid on NOW and money fund deposits decreased due to a 9 basis point decrease in the average rate paid, partially offset by a $72.1 million increase in average balances. Decreases in average rates paid for IRA and time certificates and NOW and money fund deposits were primarily due to decreases in market rates. The increase in the average paid on long-term debt reflects the maturity of comparatively lower rate debt during the year. No new debt was obtained during 2021.

Provisions and Allowance for Loan Losses

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, graded, and reported to the Loan Committee, Board of Directors, and the Audit Committee of the Board of Directors. New credits meeting specific criteria are analyzed prior to origination and are reviewed by the Loan Committee, the Loan Committee of the Board of Directors, and the Board of Directors.

The total provision for loan losses is determined based upon management's evaluation as to the amount needed to maintain the allowance for loan losses at a level considered appropriate in relation to the risk of losses inherent in the portfolio. For analysis purposes, the loan portfolio is separated into pools of similar loans. These pools include commercial and industrial loans, owner occupied commercial real estate loans, non-owner occupied commercial real estate loans, real estate loans secured by farms, real estate loans secured by multi-family dwellings, residential real estate loans secured by senior liens on 1-4 family dwellings, residential real estate loans secured by junior liens on 1-4 family dwellings, home equity line of credit loans, consumer loans, loans for agricultural purposes not secured by real estate, construction loans secured by 1-4 family dwellings, construction loans secured by other real estate, and several smaller classifications. Within each pool of loans, LCNB examines a variety of factors to determine the adequacy of the allowance for loan losses, including historic charge-off percentages, overall pool quality, a review of specific problem loans, current economic trends and conditions that may affect borrowers' ability to pay, and the nature, volume, and consistency of the loan pool.

LCNB recorded net provision for loans losses for 2022 of $250,000, compared to a $269,000 net recovery for 2021 and a $2,014,000 provision for 2020. The 2020 period included qualitative adjustments for estimated impacts from the economic downturn caused by the COVID-19 pandemic. Calculating an appropriate level for the allowance and provision for loan losses involves a high degree of management judgment and is, by its nature, imprecise. Revisions may be necessary as more information becomes available.

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

Non-Interest Income

A comparison of non-interest income for 2022, 2021, and 2020 is as follows:

				Increase (Decrease)	
	2022	2021	2020	2022 vs. 2021	2021 vs. 2020
			(In thousands)		
Fiduciary income	$ 6,468	6,674	5,009	(206)	1,665
Service charges and fees on deposit accounts	6,190	6,036	5,482	154	554
Net gains on sales of debt securities	—	303	221	(303)	82
Bank owned life insurance income	1,074	1,074	1,441	—	(367)
Net gains from sales of loans	196	852	2,297	(656)	(1,445)
Other operating income	360	1,293	1,291	(933)	2
Total non-interest income	$ 14,288	16,232	15,741	(1,944)	491

Reasons for changes include:

- Fiduciary income decreased during 2022 primarily due to decreases in the fair values of trust and brokerage assets managed, on which fees are based. The decreases in fair value are primarily due to an overall decrease in the market values of equity and debt securities caused by general economic conditions. The decreases in fair value were partially offset by an increase in the number of wealth management accounts. Fiduciary income increased during 2021 due to a combination of new accounts and increases in the fair value of assets managed.
- Service charges and fees on deposit accounts increased during 2022 primarily due to an increase in the volume of overdraft fees collected and fees recognized in relation to the ICS deposit program, partially offset by an overall decrease in service charges collected on deposit accounts. Service charges and fees on deposit accounts increased during 2021 primarily due to increases in fees received from debit card usage, partially offset by a decrease in fee income recognized on the ICS deposit program.
- Net gains on sales of debt securities were less during 2022 as compared to 2021 and 2020 because no securities were sold during 2022.
- Bank owned life insurance income was greater in 2020 primarily due to a mortality benefit received. No mortality benefits were received during 2022 or 2021.
- Net gains from sales of loans were greater during 2020 as compared to 2022 and 2021 primarily due to the lower volume of loans sold.
- Other operating income decreased in 2022, as compared to 2021 and 2020, primarily because LCNB recognized $292,000 in losses on equity securities during 2022 as compared to $142,000 and $675,000 in gains during 2021 and 2020, respectively. In addition, other operating income for 2021 included a one-time Ohio Financial Institutions Tax refund of $508,000.

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 2022, 2021, and 2020 is as follows:

	2022	2021	2020	Increase (Decrease) 2022 vs. 2021	2021 vs. 2020
			(In thousands)		
Salaries and employee benefits	$ 28,483	27,616	27,178	867	438
Equipment expenses	1,629	1,678	1,377	(49)	301
Occupancy expense, net	3,067	2,949	2,875	118	74
State financial institutions tax	1,740	1,758	1,708	(18)	50
Marketing	1,184	1,239	1,254	(55)	(15)
Amortization of intangibles	478	1,043	1,046	(565)	(3)
FDIC premiums	530	492	256	38	236
ATM expense	1,370	1,416	1,028	(46)	388
Computer maintenance and supplies	1,114	1,213	1,107	(99)	106
Telephone expense	240	420	706	(180)	(286)
Contracted services	2,503	2,430	1,821	73	609
Other real estate owned, net	(866)	2	(6)	(868)	8
Other non-interest expense	6,662	5,784	5,435	878	349
Total non-interest expense	$ 48,134	48,040	45,785	94	2,255

Reasons for changes include:

- Salaries and employee benefits were 3.1% greater in 2022 than in 2021 and 1.6% greater in 2021 than in 2020. The increase in 2022 was primarily due to overall wage and benefit increases, increased compensation expense recognized on restricted stock grants, increased pension expense, and to a higher amount of personnel expenses deferred in 2021 attributable to the high volume of PPP loans originated in that period. The increase in 2021 was primarily due to increased employer taxes on employee payroll, increased compensation expense recognized on restricted stock grants, and increased health insurance costs.
- Equipment expenses decreased during 2022 as compared to 2021 primarily due to decreased depreciation charges for furniture and equipment and decreased maintenance and repair costs, partially offset by increased equipment rental costs. Equipment expenses increased during 2021 as compared to 2020 primarily due to increased depreciation charges for furniture and equipment and increased equipment rental costs. During 2020, LCNB replaced ATMs that it had previously owned with new ATMs obtained through an outsourcing arrangement.
- Amortization of intangibles decreased during 2022 because the core deposit intangibles from the First Capital Bancshares, Inc. and Eaton National Bank & Trust Co. acquisitions amortized in full during the first quarter 2022.
- FDIC premiums were higher in 2022 and 2021 as compared to 2020 because LCNB received small bank assessment credits from the FDIC during the first and second quarters of 2020 and the third and fourth quarters of 2019. Premium payments returned to their normal levels after the second quarter 2020.
- ATM expense was higher in 2022 and 2021 than in 2020 partially due to a strategic decision to outsource LCNB's ATM operations to a third-party vendor, relieving LCNB branch personnel from various ATM maintenance responsibilities. The transition took place gradually during 2020 and all ATMs were outsourced during 2021.
- Telephone expense was lower in 2022 and 2021, as compared to 2020, due to connection modifications.
- Contracted services were greater in 2022 and 2021, as compared to 2020, due to additional fees paid for data services and general price increases on other contracted services. Fees for recruitment services were also part of the increase during 2021.
- Other real estate owned, net for 2022 is primarily due to a gain recognized on the sale of foreclosed property, slightly offset by other expenses recognized on such property.

- Other non-interest expense for 2022 included $471,000, in losses from the sales of two office buildings as a result of LCNB's office consolidation strategy. Legal and accounting fees also increased during 2022, partially offset by lower printing and supply costs. Other non-interest expense increased in 2021, as compared to 2020, primarily due to increased ATM maintenance costs due to the outsourcing agreement, increased costs to support LCNB's electronic banking products, increased printing and supply costs, and increased legal fees.

On October 18, 2022, the FDIC issued a final rule that will increase the initial base deposit insurance assessment rate paid by insured depository institutions by two basis points, beginning with the first quarterly assessment period of 2023. According to the FDIC, the proposal increases the likelihood that its designated reserve ratio will reach the required minimum level of 1.35% by the statutory deadline of September 30, 2028 and will support progress toward achieving the long-term goal of a 2% ratio. LCNB's current initial base deposit insurance rate is three basis points and it will increase to five basis points when the final rule takes effect. If the increased rate had been in effect for the assessments paid in 2022, LCNB estimates that it would have paid approximately $349,000 in additional premiums. The increase will remain in effect until the long-term goal of a 2% FDIC designated reserve ratio is achieved. Progressively lower assessment rates will take effect when the reserve ratio reaches 2% and again when the reserve ratio reaches 2.5%.

On March 12, 2023, the FDIC made a joint statement with the Department of the Treasury and the Board of Governors of the Federal Reserve that any losses to the DIF in connection with support for uninsured depositors in connection with the Signature Bank and Silicon Valley Bank closures will be recovered by a special assessment paid by insured depository institutions. The timing and amount of the special assessment cannot be determined at this time.

On September 2, 2022, the OCC announced reduced assessment rates for OCC-chartered community banks, such as LCNB. Effective with the March 2023 assessment, the OCC will make a 40% reduction in assessments based on the first $200 million in bank assets and a 20% reduction for assets between $200 million and $20 billion. If the new rates had been in effect for the 2022 assessments, LCNB estimates that it would have paid approximately $72,000 less than the amounts actually paid.

Income Taxes

LCNB's effective tax rates for the years ended December 31, 2022, 2021, and 2020 were 17.9%, 18.0%, and 16.9%, respectively. The difference between the statutory rate of 21% 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. A one-time tax benefit recognized as a result of certain provisions in the CARES Act also contributed to the difference during 2020.

Financial Condition

A comparison of balance sheet line items at December 31, 2022 and 2021 is as follows (in thousands):

	December 31, 2022	December 31, 2021	Difference $	Difference %
ASSETS:				
Total cash and cash equivalents	$ 22,701	18,136	4,565	25.17 %
Investment securities:				
Equity securities with a readily determinable fair value, at fair value	2,273	2,546	(273)	(10.72)%
Equity securities without a readily determinable fair value, at cost	2,099	2,099	—	— %
Debt securities, available-for-sale, at fair value	289,850	308,177	(18,327)	(5.95)%
Debt securities, held-to-maturity, at cost	19,878	22,972	(3,094)	(13.47)%
Federal Reserve Bank stock, at cost	4,652	4,652	—	— %
Federal Home Loan Bank stock, at cost	4,415	5,203	(788)	(15.15)%
Loans, net	1,395,632	1,363,939	31,693	2.32 %
Premises and equipment, net	33,042	35,385	(2,343)	(6.62)%
Operating lease right-of-use assets	6,248	6,357	(109)	(1.71)%
Goodwill	59,221	59,221	—	— %
Core deposit and other intangibles, net	1,827	2,473	(646)	(26.12)%
Bank owned life insurance	44,298	43,224	1,074	2.48 %
Interest receivable	7,482	7,999	(517)	(6.46)%
Other assets, net	25,503	21,246	4,257	20.04 %
Total assets	$ 1,919,121	1,903,629	15,492	0.81 %
LIABILITIES:				
Deposits:				
Non-interest-bearing	$ 505,824	501,531	4,293	0.86 %
Interest-bearing	1,099,146	1,127,288	(28,142)	(2.50)%
Total deposits	1,604,970	1,628,819	(23,849)	(1.46)%
Short-term borrowings	71,455	—	71,455	— %
Long-term debt	19,072	10,000	9,072	90.72 %
Operating leases liability	6,370	6,473	(103)	(1.59)%
Accrued interest and other liabilities	16,579	19,733	(3,154)	(15.98)%
Total liabilities	1,718,446	1,665,025	53,421	3.21 %
SHAREHOLDERS' EQUITY:				
Common shares	144,069	143,130	939	0.66 %
Retained earnings	139,249	126,312	12,937	10.24 %
Treasury shares, at cost	(52,689)	(29,029)	(23,660)	81.50 %
Accumulated other comprehensive loss, net of taxes	(29,954)	(1,809)	(28,145)	1,555.83 %
Total shareholders' equity	200,675	238,604	(37,929)	(15.90)%
Total liabilities and shareholders' equity	$ 1,919,121	1,903,629	15,492	0.81 %

Reasons for changes include:

- Debt securities, available-for-sale, decreased primarily due to decreases in fair values totaling $35.9 million and maturities and calls totaling $20.7 million, partially offset by new purchases totaling $39.3 million.
- Federal Home Loan Bank stock decreased because excess shares over the minimum required investment were redeemed by the Federal Home Loan Bank of Cincinnati, partially offset by new purchases.
- Net loans increased due to organic growth in the loan portfolio. Most of the growth occurred in the commercial and industrial and commercial real estate loan portfolios, partially offset by a decrease in the residential real estate loan portfolio.
- Core deposit and other intangibles decreased due to amortization of core deposit intangibles.

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

- Bank owned life insurance increased due to increases in the cash values of the policies. No new policies were purchased during 2022.
- Other assets increased primarily due to an increase in net deferred tax assets caused by an increase in the net unrealized loss incurred by LCNB's available-for-sale debt securities portfolio. In addition, LCNB made an additional $2.0 milllion commitment in Affordable Housing Tax Credit Limited Partnerships. These increases were partially offset by a decrease in a clearing account.
- LCNB experienced disintermediation in all interest-bearing deposit categories during 2022 as a result of general increases in market interest rates caused by the FOMC's efforts to reduce inflation through periodic increases in the Federal Funds rate. Deposit decreases were partially offset by a $32.1 million increase in ICS reciprocal account deposits.
- Short-term borrowings increased primarily as a result of deposit disintermediation and were used to fund loan growth and treasury share purchases.
- Long-term debt increased due to a new $15 million term loan borrowed from a correspondent financial institution and was used to fund treasury share purchases. This new debt was partially offset by the payment in full of a matured $5 million Federal Home Loan Bank advance.
- Accrued interest and other liabilities decreased due to a combination of a decrease in LIHTC liabilities due to funding payments made during 2022 and a reclassification of net deferred federal income taxes from a net liability at December 31, 2021 to a net asset at December 31, 2022.
- Treasury shares increased because of the repurchase of 1,212,634 shares of common stock during 2022, which represents 9.8% of shares outstanding at December 31, 2021.
- Accumulated other comprehensive loss, net of taxes increased because of market-driven decreases in the fair value of LCNB's available-for-sale debt securities investments.

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 Corp. 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, pay dividends to shareholders, and meet 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 $60.0 million with three 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, 2022 was approximately $160.6 million. Additional borrowings of approximately $38.5 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. Management believes LCNB has the ability to generate and obtain adequate amounts of liquidity to meet its requirements in the short and long-term.

Commitments to extend credit at December 31, 2022 totaled $321.4 million and are more fully described in Note 13 - 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 amount does 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 commitments at December 31, 2022:

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	1 year or less	Over 1 through 3 years	Over 3 through 5 years	More than 5 years
			(In thousands)		
Commitments to extend credit	$ 24,436	24,436	—	—	—
Unused lines of credit	297,000	96,082	140,195	13,371	47,352
Standby letters of credit	5	5	—	—	—
Total	$ 321,441	120,523	140,195	13,371	47,352

Capital Resources

The Bank is 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, 2022 and 2021 and corresponding regulatory minimum requirements is included in Note 14 - 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.

On May 27, 2022, 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 replaced and superseded LCNB’s prior share repurchase program, which was adopted on August 24, 2020.

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 Program expired on or around December 31, 2022 and was replaced with a new share repurchase program that was authorized by the Board of Directors on February 27, 2023. The new share repurchase program authorizes the repurchase of up to 500,000 shares of common stock.

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.

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

Critical Accounting Estimates

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 1 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 the items described below 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.

Accounting for Intangibles. LCNB's intangible assets at December 31, 2022 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 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. A review for impairment may be conducted more frequently than annually if circumstances indicate a possible impairment. Impairment indicators that may be considered include the condition of the economy and banking industry; estimated future cash flows; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of LCNB's stock; and other relevant events. These and other factors could lead to a conclusion that goodwill is impaired, which would require LCNB to write off the difference between the estimated fair value of the Company and the carrying value.
Core deposit intangibles are being amortized on a straight line basis over their respective estimated weighted average lives.

Core deposit intangibles acquired from business combinations are initially measured at their estimated fair values and are then 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.

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, and 300 basis points. The base projection uses a current interest rate scenario. As shown below, the December 31, 2022 IRSA indicates that an increase in interest rates or a 100 or 200 basis point decrease in interest rates will have a negative effect on net interest income and a 300 basis point decrease in interest rates will 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 300	69,387	(766)	(1.09)%
Up 200	69,580	(573)	(0.82)%
Up 100	69,660	(493)	(0.70)%
Base	70,153	—	— %
Down 100	69,873	(280)	(0.40)%
Down 200	70,122	(31)	(0.04)%
Down 300	70,496	343	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, 2022 EVE analysis indicates that an increase in interest rates of 200 or 300 basis points will have a negative effect on the EVE and that a 100 basis point increase or a decrease in interest rates will have a positive effect. 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 300	169,977	(21,337)	(11.15)%
Up 200	182,709	(8,605)	(4.50)%
Up 100	194,580	3,266	1.71 %
Base	191,314	—	— %
Down 100	216,143	24,829	12.98 %
Down 200	227,070	35,756	18.69 %
Down 300	217,336	26,022	13.60 %

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 Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of LCNB Corp. (the "Company") as of December 31, 2022, the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("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 the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Factors on Collectively Evaluated Loans

Critical Audit Matter Description

As described in Notes 1 and 3 to the financial statements, management's estimate of the allowance for loan losses (ALL) at December 31, 2022, includes a reserve on collectively evaluated loans. The reserve on collectively evaluated loans is based on historical loss rates adjusted for qualitative factors. Management's adjustment for qualitative factors is based on 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.

Significant judgment was required by management in the selection and application of subjective qualitative factor adjustments. Accordingly, performing audit procedures to evaluate the Company's estimated ALL involved a high degree of auditor judgment and required significant effort, including the involvement of professionals with specialized skill and knowledge.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the Company's estimate of the ALL included, but was not limited to, the following:

- We tested the design and operating effectiveness of management's controls over the determination of the current qualitative factor adjustments.
- We tested the process for determining reserves on collectively evaluated loans including:
  - Evaluation of the appropriateness of management's methodology.
  - Testing the completeness and accuracy of data utilized by management.
  - Evaluation of the relevance and reliability of information used by management in the development of the estimate.
  - Evaluation of the reasonableness of significant qualitative adjustment factors, including consideration of whether the adjustments applied were reasonable given portfolio composition; relevant external factors, including economic conditions; and consideration of historical or recent experience and conditions and events affecting the Company.

/s/ Plante & Moran PLLC

We have served as the Company's auditor since 2022.

Auburn Hills, Michigan
March 15, 2023

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 sheet of LCNB Corp. (the "Company") as of December 31, 2021, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2021, 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, 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ FORVIS, LLP
(Formerly BKD, LLP)

We served as the Company's auditor from 2014 to 2022.

Cincinnati, Ohio
March 9, 2022

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

		2022	2021
ASSETS:			
Cash and due from banks	$	20,244	16,810
Interest-bearing demand deposits		2,457	1,326
Total cash and cash equivalents		22,701	18,136
Investment securities:			
Equity securities with a readily determinable fair value, at fair value		2,273	2,546
Equity securities without a readily determinable fair value, at cost		2,099	2,099
Debt securities, available-for-sale, at fair value		289,850	308,177
Debt securities, held-to-maturity, at cost		19,878	22,972
Federal Reserve Bank stock, at cost		4,652	4,652
Federal Home Loan Bank stock, at cost		4,415	5,203
Loans, net		1,395,632	1,363,939
Premises and equipment, net		33,042	35,385
Operating lease right-of-use assets		6,248	6,357
Goodwill		59,221	59,221
Core deposit and other intangibles, net		1,827	2,473
Bank owned life insurance		44,298	43,224
Interest receivable		7,482	7,999
Other assets, net		25,503	21,246
TOTAL ASSETS	$	1,919,121	1,903,629
LIABILITIES:			
Deposits:			
Non-interest-bearing	$	505,824	501,531
Interest-bearing		1,099,146	1,127,288
Total deposits		1,604,970	1,628,819
Short-term borrowings		71,455	—
Long-term debt		19,072	10,000
Operating lease liabilities		6,370	6,473
Accrued interest and other liabilities		16,579	19,733
TOTAL LIABILITIES		1,718,446	1,665,025
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, 2022 and 2021; issued 14,270,550 and 14,213,792 shares at December 31, 2022 and 2021, respectively; outstanding 11,259,080 and 12,414,956 at December 31, 2022 and 2021, respectively		144,069	143,130
Retained earnings		139,249	126,312
Treasury shares at cost, 3,011,470 and 1,798,836 shares at December 31, 2022 and 2021, respectively		(52,689)	(29,029)
Accumulated other comprehensive loss, net of taxes		(29,954)	(1,809)
TOTAL SHAREHOLDERS' EQUITY		200,675	238,604
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	1,919,121	1,903,629

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)

	2022	2021	2020
INTEREST INCOME:			
Interest and fees on loans	$ 59,247	56,142	59,267
Dividends on equity securities:			
With a readily determinable fair value	56	51	54
Without a readily determinable fair value	29	21	37
Interest on debt securities:			
Taxable	5,027	3,668	2,916
Non-taxable	753	864	1,027
Other investments	641	431	479
TOTAL INTEREST INCOME	65,753	61,177	63,780
INTEREST EXPENSE:			
Interest on deposits	3,682	3,578	6,634
Interest on short-term borrowings	416	6	7
Interest on long-term debt	613	469	921
TOTAL INTEREST EXPENSE	4,711	4,053	7,562
NET INTEREST INCOME	61,042	57,124	56,218
PROVISION FOR (RECOVERY OF) LOAN LOSSES	250	(269)	2,014
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) LOAN LOSSES	60,792	57,393	54,204
NON-INTEREST INCOME:			
Fiduciary income	6,468	6,674	5,009
Service charges and fees on deposit accounts	6,190	6,036	5,482
Net gains on sales of debt securities, available-for-sale	—	303	221
Bank owned life insurance income	1,074	1,074	1,441
Net gains from sales of loans	196	852	2,297
Other operating income	360	1,293	1,291
TOTAL NON-INTEREST INCOME	14,288	16,232	15,741
NON-INTEREST EXPENSE:			
Salaries and employee benefits	28,483	27,616	27,178
Equipment expenses	1,629	1,678	1,377
Occupancy expense, net	3,067	2,949	2,875
State financial institutions tax	1,740	1,758	1,708
Marketing	1,184	1,239	1,254
Amortization of intangibles	478	1,043	1,046
FDIC insurance premiums, net	530	492	256
ATM expense	1,370	1,416	1,028
Computer maintenance and supplies	1,114	1,213	1,107
Telephone expense	240	420	706
Contracted services	2,503	2,430	1,821
Other real estate owned	(866)	2	(6)
Other non-interest expense	6,662	5,784	5,435
TOTAL NON-INTEREST EXPENSE	48,134	48,040	45,785
INCOME BEFORE INCOME TAXES	26,946	25,585	24,160
PROVISION FOR INCOME TAXES	4,818	4,611	4,085
NET INCOME	$ 22,128	20,974	20,075
Earnings per common share:			
Basic	$ 1.93	1.66	1.55
Diluted	1.93	1.66	1.55
Weighted average common shares outstanding:			
Basic	11,410,981	12,589,605	12,914,277
Diluted	11,410,981	12,589,613	12,914,584

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

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

		2022	2021	2020
Net income	$	22,128	20,974	20,075
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities (net of taxes of $(7,546), $(1,501), and $975 for 2022, 2021, and 2020, respectively)		(28,391)	(5,645)	3,666
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of $—, $64, and $46 for 2022, 2021 and 2020, respectively)		—	(239)	(175)
Change in nonqualified pension plan unrecognized net gain (loss) and unrecognized prior service cost (net of taxes of $65, $9, and $(33) for 2022, 2021, and 2020, respectively)		246	32	(121)
Other comprehensive income (loss)		(28,145)	(5,852)	3,370
TOTAL COMPREHENSIVE INCOME (LOSS)	$	(6,017)	15,122	23,445

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	$	(29,927)	(1,536)	4,348
Net unfunded liability for nonqualified pension plan		(27)	(273)	(305)
Balance at year-end	$	(29,954)	(1,809)	4,043

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, January 1, 2020	**12,936,783**	**$ 141,791**	**104,431**	**(18,847)**	**673**	**228,048**
Net income	—	—	20,075	—	—	20,075
Other comprehensive income, net of taxes	—	—	—	—	3,370	3,370
Dividend Reinvestment and Stock Purchase Plan	26,840	401	—	—	—	401
Exercise of stock options	9,593	114	—	—	—	114
Repurchase of common stock	(130,552)	—	—	(1,872)	—	(1,872)
Compensation expense relating to restricted stock	15,661	137	—	—	—	137
Common stock dividends, $0.73 per share	—	—	(9,448)	—	—	(9,448)
Balance, December 31, 2020	**12,858,325**	**142,443**	**115,058**	**(20,719)**	**4,043**	**240,825**
Net income	—	—	20,974	—	—	20,974
Other comprehensive income, net of taxes	—	—	—	—	(5,852)	(5,852)
Dividend Reinvestment and Stock Purchase Plan	24,012	434	—	—	—	434
Exercise of stock options	311	4	—	—	—	4
Repurchase of common stock	(493,257)	—	—	(8,310)	—	(8,310)
Compensation expense relating to restricted stock	25,565	249	—	—	—	249
Common stock dividends, $0.77 per share	—	—	(9,720)	—	—	(9,720)
Balance, December 31, 2021	**12,414,956**	**143,130**	**126,312**	**(29,029)**	**(1,809)**	**238,604**
Net income	—	—	22,128	—	—	22,128
Other comprehensive loss, net of taxes	—	—	—	—	(28,145)	(28,145)
Dividend Reinvestment and Stock Purchase Plan	24,204	408	—	—	—	408
Repurchase of common stock	(1,212,634)	—	—	(23,660)	—	(23,660)
Compensation expense relating to restricted stock	32,554	531	—	—	—	531
Common stock dividends, $0.81 per share	—	—	(9,191)	—	—	(9,191)
Balance, December 31, 2022	**11,259,080**	**$ 144,069**	**139,249**	**(52,689)**	**(29,954)**	**200,675**

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)

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 22,128	20,974	20,075
Adjustments to reconcile net income to net cash flows from operating activities-			
Depreciation, amortization and accretion	2,744	2,612	2,234
Provision for (recovery of) loan losses	250	(269)	2,014
Deferred income tax provision (benefit)	(345)	294	134
Increase in cash surrender value of bank owned life insurance	(1,074)	(1,074)	(1,124)
Bank owned life insurance death benefits in excess of cash surrender value	—	—	(317)
Realized and unrealized (gains) losses from equity securities, net	292	(141)	(675)
Realized gains from sales of debt securities available-for-sale, net	—	(303)	(221)
Realized (gains) losses from sales of premises and equipment, net	455	(6)	(53)
Realized gains from sale and impairment of other real estate owned and repossessed assets	(889)	—	(11)
Origination of mortgage loans for sale	(8,855)	(33,824)	(65,890)
Realized gains from sales of loans	(196)	(852)	(2,297)
Proceeds from sales of loans	8,953	34,268	67,467
Compensation expense related to restricted stock	531	249	137
Changes in:			
Accrued income receivable	517	338	(4,573)
Other assets	2,453	(4,208)	(6,795)
Accrued interest and other liabilities	(1,722)	(237)	3,573
TOTAL ADJUSTMENTS	3,114	(3,153)	(6,397)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	25,242	17,821	13,678
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of equity securities	—	—	967
Proceeds from sales of debt securities, available-for-sale	—	21,235	8,786
Proceeds from maturities, calls, and paydowns of debt securities:			
Available-for-sale	20,680	33,093	66,170
Held-to-maturity	4,317	4,285	5,297
Purchases of equity securities	(19)	(16)	(369)
Purchases of debt securities:			
Available-for-sale	(39,331)	(161,786)	(102,920)
Held-to-maturity	(1,223)	(2,447)	(2,582)
Proceeds from redemption of Federal Home Loan Bank stock	1,162	—	—
Purchase of Federal Home Loan Bank stock	(374)	—	—
Net increase in loans	(31,720)	(67,649)	(54,196)
Proceeds from bank owned life insurance mortality benefits	—	—	958
Proceeds from sales of other real estate owned and repossessed assets	1,605	—	208
Purchases of premises and equipment	(884)	(1,940)	(2,791)
Proceeds from sales of premises and equipment	875	6	421
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(44,912)	(175,219)	(80,051)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	(23,849)	173,396	107,143
Net increase in short-term borrowings	71,455	—	—
Proceeds from issuance of long-term debt	15,000	—	—
Principal payments on long-term debt	(5,928)	(12,000)	(19,000)
Proceeds from issuance of common stock	408	434	401
Repurchase of common stock	(23,660)	(8,310)	(1,872)
Proceeds from exercise of stock options	—	4	114
Cash dividends paid on common stock	(9,191)	(9,720)	(9,448)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	24,235	143,804	77,338
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,565	(13,594)	10,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,136	31,730	20,765
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 22,701	18,136	31,730

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

	2022	2021	2020
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest	$ 4,677	4,228	7,809
Income taxes	4,130	3,665	3,811
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITY:			

Transfer from loans to other real estate owned and repossessed assets		717		—	—
Right-of-use assets obtained in exchange for lease obligations	$	370	$	801	1,388

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

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 Wealth Management and Investment 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 consolidated financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income or shareholders' equity.

USE OF ESTIMATES
The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that management has determined to be critical accounting estimates are more fully described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

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, 2022, 2021, and 2020.

Equity securities with a readily determinable fair value are measured at fair value with changes in fair value recognized in net income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

LOANS HELD FOR SALE

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related mortgage loan sold, which is reduced by the cost allocated to the servicing right. LCNB generally locks in the sale price to the purchaser of the mortgage loan at the same time an interest rate commitment is made to the borrower.

FINANCIAL INSTRUMENTS AND LOAN COMMITMENTS

Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees are recorded at fair value. Reserves for unfunded commitments are recorded as an other liability on the Consolidated Balance Sheets.

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.

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

LCNB determines if a contract is a lease or contains a lease at its inception. A liability to make lease payments ("the lease liability") and a right-of-use asset representing the right to use the underlying asset for the lease term, initially measured at the present value of the lease payments, are recorded in the consolidated balance sheet. 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 contained within the contracts for its leased offices and these additional terms have been included in the calculation of the right-of-use assets and the lease liabilities. Most variable lease payments are excluded except for those that depend on an index or a rate or are in substance fixed payments.

A lease is classified as a finance lease if it meets any of five designated criteria. If the lease does not meet any of the five criteria, the lease is classified as an operating lease. All leases entered into by LCNB through December 31, 2022 are classified as operating leases. Lease expense is recognized on a straight-line basis over the lease term for operating leases. LCNB has adopted an accounting policy election to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. Lease expense for such leases is generally recognized on a straight-line basis over the lease term.

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. A review for impairment may be conducted more frequently than annually if circumstances indicate a possible impairment. Impairment indicators that may be considered include the condition of the economy and banking industry; estimated future cash flows; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of LCNB's stock, and other relevant events. These and other factors could lead to a conclusion that goodwill is impaired, which would require LCNB to write off the difference between the current estimated fair value of the Company and its carrying value.

Mortgage loan servicing rights are recognized as assets based on the allocated value of retained servicing rights on mortgage loans sold. Mortgage loan servicing rights are carried at the lower of amortized cost or fair value and are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights using groupings of the underlying mortgage loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing mortgage loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Amortization of mortgage loan servicing rights is netted against mortgage loan servicing income and recorded in other operating income in the Consolidated Statements of Income.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. Accordingly, LCNB 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 commitment 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 2022 or 2021.

SHORT-TERM BORROWINGS
Short-term borrowings consist of Federal funds purchased, Federal Home Loan Bank advances, and borrowings from non-affiliated banks. Short-term borrowings mature within one day to 365 days of the transaction date.

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

PENSION PLANS
The Company sponsors two pension plans, both of which are frozen to new participants.

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.

A company previously acquired by the Company 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

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 Wealth Management 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.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"

ASU No. 2020-04 was issued in March 2020 and provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Originally, the amendments in this update were effective for all entities as of March 12, 2020 through December 31, 2022. ASU No. 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848" extended the sunset date from December 31, 2022 to December 31, 2024. LCNB does not expect the guidance in ASU No. 2020-04 will have a material impact on its results of consolidated operations or financial position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and was adopted by LCNB on January 1, 2021. 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 to be applied on a retrospective basis to all periods presented upon adoption. Adoption of ASU No. 2018-14 did not have a material impact on LCNB's results of consolidated operations or financial position.

ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"
ASU No. 2019-12 was issued in December 2019 and adopted by LCNB on January 1, 2021. It simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifies and amends certain other guidance. Adoption of ASU No. 2019-12 did not have a material impact on LCNB's results of consolidated operations or financial position.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE
From time to time the FASB issues an ASU to communicate changes to U.S. GAAP. The following information provides brief summaries of newly issued but not yet effective ASUs that could have an effect on LCNB's financial position or results of consolidated operations:

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 became effective for LCNB on January 1, 2023. It 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.
Based on LCNB's portfolio composition at December 31, 2022 and the economic environment at that time, the expected increase in LCNB's allowance for credit losses ("ACL") for loans is approximately $2.1 million and the expected ACL for unfunded commitments is approximately $500,000 as of January 1, 2023, the date LCNB adopted CECL. Approximately $350,000 of the increase to the ACL on loans resulted from the transfer of the non-accretable purchase accounting adjustments on purchased credit impaired loans. There was no impact from adoption of CECL on securities available-for sale. As a result of the adoption of this new standard on January 1, 2023, the expected adjustment to retained earnings is a reduction of approximately $1.6 million, which is net of an approximate $450,000 deferred tax asset adjustment stemming from the adoption.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASU No. 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"
ASU No. 2022-02 was issued in March 2022. These amendments eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements and introduce new requirements for certain modifications to borrowers experiencing financial difficulties. Additionally, the amendments also require the disclosure of current-period gross charge-offs by year of origination. For entities that have adopted ASU No. 2016-13, the update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. LCNB adopted ASU No. 2022-02 on January 1, 2023 and it did not have a material impact on LCNB's results of consolidated operations, financial position, or disclosures.

NOTE 2 - INVESTMENT SECURITIES

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2022				
Debt Securities Available-for-Sale:				
U.S. Treasury notes	$ 84,927	—	8,480	76,447
U.S. Agency notes	89,160	—	11,184	77,976
Corporate Bonds	7,450	13	778	6,685
U.S. Agency mortgage-backed securities	90,746	5	11,311	79,440
Municipal securities:				
Non-taxable	8,892	—	368	8,524
Taxable	46,556	1	5,779	40,778
	$ 327,731	19	37,900	289,850
Debt Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 16,447	10	594	15,863
Taxable	3,431	—	409	3,022
	$ 19,878	10	1,003	18,885
2021				
Debt Securities Available-for-Sale:				
U.S. Treasury notes	$ 75,443	57	756	74,744
U.S. Agency notes	89,293	45	2,092	87,246
Corporate Bonds	5,200	70	118	5,152
U.S. Agency mortgage-backed securities	96,018	1,350	692	96,676
Municipal securities:				
Non-taxable	8,959	125	18	9,066
Taxable	35,208	531	446	35,293
	$ 310,121	2,178	4,122	308,177
Debt Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 19,403	98	—	19,501
Taxable	3,569	21	4	3,586
	$ 22,972	119	4	23,087

NOTE 2 - 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
2022				
Available-for-Sale:				
U.S. Treasury notes	$ 16,521	931	59,927	7,549
U.S. Agency notes	7,729	543	70,247	10,641
Corporate Bonds	2,667	283	3,255	495
U.S. Agency mortgage-backed securities	41,543	3,597	37,282	7,714
Municipal securities:				
Non-taxable	6,831	248	893	120
Taxable	22,162	1,951	18,435	3,828
	$ 97,453	7,553	190,039	30,347
Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 9,567	593	31	1
Taxable	2,811	370	212	39
	$ 12,378	963	243	40
2021				
Available-for-Sale:				
U.S. Treasury notes	$ 66,891	756	—	—
U.S. Agency notes	58,648	1,257	20,289	835
Corporate Bonds	3,898	102	484	16
U.S. Agency mortgage-backed securities	49,813	692	—	—
Municipal securities:				
Non-taxable	1,020	18	—	—
Taxable	18,434	322	3,535	124
	$ 198,704	3,147	24,308	975
Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 46	—	—	—
Taxable	271	4	—	—
	$ 317	4	—	—

NOTE 2 - INVESTMENT SECURITIES (Continued)

Unrealized losses at December 31, 2022 have not been recognized into income because the Company does not have the intent to sell the securities, it is likely that the Company will not be required to sell the securities prior to the anticipated recovery of their amortized costs, and the decline in fair values is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. Fair value is expected to recover as the securities approach their maturities.

Contractual maturities of debt securities at December 31, 2022 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	$ 13,193	13,004	755	752
Due from one to five years	133,026	119,304	3,628	3,475
Due from five to ten years	90,036	77,467	2,440	2,238
Due after ten years	730	635	13,055	12,420
	236,985	210,410	19,878	18,885
U.S. Agency mortgage-backed securities	90,746	79,440	—	—
	$ 327,731	289,850	19,878	18,885

Debt securities with a market value of $166,412,000 and $128,426,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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

	2022	2021	2020
Proceeds from sales	$ —	21,235	8,786
Gross realized gains	—	365	221
Gross realized losses	—	62	—

Realized gains or losses from the sale of securities are computed using the specific identification method.

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, 2022 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):

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual funds	$ 1,429	1,234	1,410	1,379
Equity securities	778	1,039	778	1,167
Total equity securities with a readily determinable fair value	$ 2,207	2,273	2,188	2,546

NOTE 2 - INVESTMENT SECURITIES (Continued)

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):

	2022	2021	2020
Net gains (losses) recognized	$ (292)	141	675
Less net realized gains on equity securities sold	—	—	658
Unrealized gains (losses) recognized and still held at period end	$ (292)	141	17

NOTE 3 - LOANS

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

	2022	2021
Commercial and industrial	$ 120,327	101,598
Commercial, secured by real estate	936,255	887,679
Residential real estate	306,128	335,106
Consumer	28,414	34,291
Agricultural	10,073	10,649
Other loans, including deposit overdrafts	81	122
	1,401,278	1,369,445
Less allowance for loan losses	5,646	5,506
Loans-net	$ 1,395,632	1,363,939

Loans in the above table are shown net of deferred origination fees and costs. Deferred origination fees, net of related costs, were $980,000 and $961,000 at December 31, 2022 and 2021, respectively.

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(Continued)

NOTE 3 - LOANS (Continued)

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

	2022	2021
Non-accrual loans:		
Commercial, secured by real estate	$ 319	1,182
Residential real estate	72	299
Total non-accrual loans	391	1,481
Past-due 90 days or more and still accruing	39	56
Total non-accrual and past-due 90 days or more and still accruing	430	1,537
Accruing restructured loans	1,376	2,622
Total	$ 1,806	4,159
Ratio of total non-accrual loans to total loans	0.03 %	0.11 %
Ratio of total non-accrual loans, past-due 90 days or more and still accruing, and accruing restructured loans to total loans	0.13 %	0.30 %

Interest income that would have been recorded during 2022 and 2021 if loans on non-accrual status at December 31, 2022 and 2021 had been current and in accordance with their original terms was approximately $32,000 and $31,000, respectively.

NOTE 3 - 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
2022							
Allowance for loan losses:							
Balance, beginning of year	$ 1,095	3,607	665	105	30	4	5,506
Provision for (recovery of) loan losses	205	69	(81)	(12)	(8)	77	250
Losses charged off	—	(67)	(5)	(37)	—	(157)	(266)
Recoveries	—	—	45	30	—	81	156
Balance, end of year	$ 1,300	3,609	624	86	22	5	5,646
Individually evaluated for impairment	$ 4	11	6	—	—	—	21
Collectively evaluated for impairment	1,296	3,598	618	86	22	5	5,625
Acquired credit impaired loans	—	—	—	—	—	—	—
Balance, end of year	$ 1,300	3,609	624	86	22	5	5,646
Loans:							
Individually evaluated for impairment	$ 114	963	482	—	—	—	1,559
Collectively evaluated for impairment	119,799	934,568	304,770	28,414	10,073	81	1,397,705
Acquired credit impaired loans	414	724	876	—	—	—	2,014
Balance, end of year	$ 120,327	936,255	306,128	28,414	10,073	81	1,401,278
Ratio of net charge-offs to average loans	— %	0.01 %	(0.01)%	0.02 %	— %	100.00 %	0.01 %
2021							
Allowance for loan losses:							
Balance, beginning of year	$ 816	3,903	837	153	28	(9)	5,728
Provision for (recovery of) loan losses	279	(375)	(190)	(45)	2	60	(269)
Losses charged off	—	(112)	(28)	(9)	—	(105)	(254)
Recoveries	—	191	46	6	—	58	301
Balance, end of year	$ 1,095	3,607	665	105	30	4	5,506
Individually evaluated for impairment	$ 5	11	9	—	—	—	25
Collectively evaluated for impairment	1,090	3,596	656	105	30	4	5,481
Acquired credit impaired loans	—	—	—	—	—	—	—
Balance, end of year	$ 1,095	3,607	665	105	30	4	5,506
Loans:							
Individually evaluated for impairment	$ 155	2,945	559	—	—	—	3,659
Collectively evaluated for impairment	101,355	883,122	333,384	34,291	10,649	122	1,362,923
Acquired credit impaired loans	88	1,612	1,163	—	—	—	2,863
Balance, end of year	$ 101,598	887,679	335,106	34,291	10,649	122	1,369,445
Ratio of net charge-offs to average loans	— %	(0.01)%	(0.01)%	0.01 %	— %	16.24 %	— %

NOTE 3 - LOANS (Continued)

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
2020							
Allowance for loan losses:							
Balance, beginning of year	$ 456	2,924	528	99	34	4	4,045
Provision for (recovery of) loan losses	342	1,332	239	62	(6)	45	2,014
Losses charged off	(13)	(353)	(5)	(30)	—	(140)	(541)
Recoveries	31	—	75	22	—	82	210
Balance, end of year	$ 816	3,903	837	153	28	(9)	5,728
Individually evaluated for impairment	$ 8	17	27	—	—	—	52
Collectively evaluated for impairment	808	3,886	810	153	28	(9)	5,676
Acquired credit impaired loans	—	—	—	—	—	—	—
Balance, end of year	$ 816	3,903	837	153	28	(9)	5,728
Ratio of net charge-offs to average loans	(0.02)%	0.04 %	(0.02)%	0.02 %	— %	10.83 %	0.03 %

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

Commercial & Industrial Loans. LCNB's commercial and industrial loan portfolio consists of loans for various purposes, including, for example, 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. Commercial & industrial loans can have a fixed or variable rate, with maturities ranging from one to ten years. Commercial & industrial loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. Commercial & 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.

This category includes PPP loans that were authorized under the CARES Act and updated by the Economic Aid Act. The PPP was implemented by the SBA with support from the Department of the Treasury and provided small businesses that were negatively impacted by the COVID-19 pandemic with government guaranteed and potentially forgivable loans that could be used to pay up to eight or twenty-four weeks, depending on the date of the loan, of payroll costs including benefits. Funds could also be used to pay interest on mortgages, rent, utilities, covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures. LCNB originated 316 PPP loans with original balances totaling $45.5 million during 2020 and originated an additional 358 loans with original balances totaling $38.3 million during the first half of 2021. Outstanding PPP loans at December 31, 2022 and 2021 totaled $40,000 and $6,935,000, respectively, and unrecognized fees at those dates totaled $4,000 and $272,000, respectively.

Commercial, Secured by Real Estate Loans. Commercial real estate loans include loans secured by a variety of commercial, retail and office buildings, religious facilities, hotels, multifamily (more than four-family) residential properties, construction and land development loans, and other land loans. Mortgage loans secured by owner-occupied agricultural property are included in this category. 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 and liquidity 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.

NOTE 3 - LOANS (Continued)

Residential Real Estate Loans. Residential real estate loans include loans secured by first or second mortgage liens on one to four-family residential properties. Home equity lines of credit 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 fifteen 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.

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 generally requires private mortgage insurance for first mortgage loans that have a loan to appraised value ratio of greater than 80% or may require other credit enhancements for second lien mortgage loans.

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.

LCNB 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 LCNB will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified in this category have all the weaknesses inherent in loans classified as 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.

NOTE 3 - 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
2022					
Commercial & industrial	$ 114,573	3,744	2,010	—	120,327
Commercial, secured by real estate	913,375	15,344	7,536	—	936,255
Residential real estate	304,513	—	1,615	—	306,128
Consumer	28,411	—	3	—	28,414
Agricultural	10,073	—	—	—	10,073
Other	81	—	—	—	81
Total	$ 1,371,026	19,088	11,164	—	1,401,278
2021					
Commercial & industrial	$ 98,694	2,757	147	—	101,598
Commercial, secured by real estate	851,709	22,336	13,634	—	887,679
Residential real estate	332,962	—	2,144	—	335,106
Consumer	34,281	—	10	—	34,291
Agricultural	10,649	—	—	—	10,649
Other	122	—	—	—	122
Total	$ 1,328,417	25,093	15,935	—	1,369,445

LCNB generally performs a classification of assets review, including the regulatory classification of assets, on an ongoing basis. The results of the classification of assets review are validated annually by an independent third party loan review firm. In the event of a difference in rating or classification between those assigned by the internal and external resources, the Company will utilize the more critical or conservative rating or classification. Loans with regulatory classifications are presented monthly to the Board of Directors.

LCNB 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, 2022
(Continued)

NOTE 3 - 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
2022							
Commercial & industrial	$ —	—	—	—	120,327	120,327	—
Commercial, secured by real estate	—	—	—	—	936,255	936,255	—
Residential real estate	81	—	79	160	305,968	306,128	39
Consumer	117	3	—	120	28,294	28,414	—
Agricultural	—	—	—	—	10,073	10,073	—
Other	81	—	—	81	—	81	—
Total	$ 279	3	79	361	1,400,917	1,401,278	39
2021							
Commercial & industrial	$ —	—	—	—	101,598	101,598	—
Commercial, secured by real estate	181	—	784	965	886,714	887,679	—
Residential real estate	1,130	1	109	1,240	333,866	335,106	51
Consumer	22	5	5	32	34,259	34,291	5
Agricultural	—	—	—	—	10,649	10,649	—
Other	122	—	—	122	—	122	—
Total	$ 1,455	6	898	2,359	1,367,086	1,369,445	56

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(Continued)

NOTE 3 - 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
2022					
With no related allowance recorded:					
Commercial & industrial	$ 414	523	—	311	145
Commercial, secured by real estate	1,042	1,255	—	2,220	357
Residential real estate	1,173	1,379	—	1,306	234
Consumer	—	—	—	—	—
Agricultural	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 2,629	3,157	—	3,837	736
With an allowance recorded:					
Commercial & industrial	$ 114	119	4	135	8
Commercial, secured by real estate	645	645	11	663	43
Residential real estate	185	185	6	194	11
Consumer	—	—	—	—	—
Agricultural	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 944	949	21	992	62
Total:					
Commercial & industrial	$ 528	642	4	446	153
Commercial, secured by real estate	1,687	1,900	11	2,883	400
Residential real estate	1,358	1,564	6	1,500	245
Consumer	—	—	—	—	—
Agricultural	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 3,573	4,106	21	4,829	798

NOTE 3 - LOANS (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2021					
With no related allowance recorded:					
Commercial & industrial	$ 88	316	—	236	83
Commercial, secured by real estate	3,897	4,736	—	5,978	411
Residential real estate	1,501	1,857	—	2,553	227
Consumer	—	—	—	1	—
Agricultural	—	—	—	—	—
Other	—	—	—	144	127
Total	$ 5,486	6,909	—	8,912	848
With an allowance recorded:					
Commercial & industrial	$ 155	160	5	175	10
Commercial, secured by real estate	660	660	11	674	36
Residential real estate	221	221	9	230	13
Consumer	—	—	—	—	—
Agricultural	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 1,036	1,041	25	1,079	59
Total:					
Commercial & industrial	$ 243	476	5	411	93
Commercial, secured by real estate	4,557	5,396	11	6,652	447
Residential real estate	1,722	2,078	9	2,783	240
Consumer	—	—	—	1	—
Agricultural	—	—	—	—	—
Other	—	—	—	144	127
Total	$ 6,522	7,950	25	9,991	907

NOTE 3 - LOANS (Continued)

		Average Recorded Investment	Interest Income Recognized
2020			
With no related allowance recorded:			
Commercial & industrial	$	1,044	335
Commercial, secured by real estate		7,070	731
Residential real estate		3,290	316
Consumer		10	1
Agricultural		—	—
Other		234	36
Total	$	11,648	1,419
With an allowance recorded:			
Commercial & industrial	$	212	12
Commercial, secured by real estate		1,517	18
Residential real estate		404	18
Consumer		3	—
Agricultural		—	—
Other		—	—
Total	$	2,136	48
Total:			
Commercial & industrial	$	1,256	347
Commercial, secured by real estate		8,587	749
Residential real estate		3,694	334
Consumer		13	1
Agricultural		—	—
Other		234	36
Total	$	13,784	1,467

Of the interest income recognized on impaired loans during 2022, 2021, and 2020, approximately $5,000, $37,000, and $34,000, respectively, were recognized on a cash basis. The Company continued to accrue interest on certain loans classified as impaired during 2022, 2021, and 2020 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 3 - LOANS (Continued)

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

	2022			2021			2020		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	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	—	$ —	$ —	—	$ —	$ —	1	$ 5	$ 4
Commercial, secured by real estate	—	—	—	—	—	—	1	1,525	1,525
Residential real estate	—	—	—	3	97	101	1	14	14
Consumer	—	—	—	—	—	—	—	—	—
Totals	—	$ —	$ —	3	$ 97	$ 101	3	$ 1,544	$ 1,543

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
2022						
Commercial & industrial	$ —	—	—	—	—	—
Commercial, secured by real estate	—	—	—	—	—	—
Residential real estate	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$ —	—	—	—	—	—
2021						
Commercial & industrial	$ —	—	—	—	—	—
Commercial, secured by real estate	—	—	—	—	—	—
Residential real estate	32	—	—	—	69	101
Consumer	—	—	—	—	—	—
Total	$ 32	—	—	—	69	101
2020						
Commercial & industrial	$ —	—	—	—	4	4
Commercial, secured by real estate	—	—	—	—	1,525	1,525
Residential real estate	—	—	—	—	14	14
Consumer	—	—	—	—	—	—
Total	$ —	—	—	—	1,543	1,543

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, 2022, 2021, or 2020.

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.

NOTE 3 - LOANS (Continued)

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):

	2022	2021
Impaired loans without a valuation allowance at the end of the period	—	101
Impaired loans with a valuation allowance at the end of the period	—	—

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, 2022 and 2021 were approximately $148,412,000 and $149,382,000, respectively.

NOTE 4 - ACQUIRED CREDIT IMPAIRED LOANS

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):

	2022	2021
Acquired from First Capital Bancshares, Inc.		
Commercial & industrial	$ 68	1
Commercial, secured by real estate	—	—
Residential real estate	262	398
Total	$ 330	399
Acquired from Eaton National Bank & Trust Co.		
Commercial & industrial	$ 284	—
Commercial, secured by real estate	68	310
Residential real estate	456	463
Total	$ 808	773
Acquired from BNB Bancorp, Inc.		
Commercial & industrial	$ —	—
Commercial, secured by real estate	623	688
Residential real estate	61	51
Total	$ 684	739
Acquired from Columbus First Bancorp, Inc.		
Commercial & industrial	$ 62	87
Commercial, secured by real estate	33	614
Residential real estate	97	251
Total	192	952
Total		
Commercial & industrial	$ 414	88
Commercial, secured by real estate	724	1,612
Residential real estate	876	1,163
Total	$ 2,014	2,863

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

	2022	2021
Outstanding balance	$ 2,396	3,769
Carrying amount	2,014	2,863

NOTE 4 - ACQUIRED CREDIT IMPAIRED LOANS (continued)

Activity during 2022 and 2021 for the accretable discount related to acquired impaired loans is as follows (in thousands):

	2022	2021
Accretable discount, beginning of year	$ 116	182
Reclass from nonaccretable discount to accretable discount	407	266
Less accretion	(490)	(332)
Accretable discount, end of year	$ 33	116

NOTE 5 – 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):

	2022	2021
Balance, beginning of year	$ —	197
Additions	717	—
Reductions due to sales	(717)	(197)
Balance, end of year	$ —	—

There were no residential consumer mortgage loans secured by residential real estate in the process of foreclosure at December 31, 2022.

NOTE 6 - PREMISES AND EQUIPMENT

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

	2022	2021
Land	$ 8,222	8,512
Buildings	30,148	31,296
Equipment	17,266	17,272
Construction in progress	4,558	4,100
Total	60,194	61,180
Less accumulated depreciation	27,152	25,795
Premises and equipment, net	$ 33,042	35,385

Depreciation charged to expense was $1,897,000 in 2022, $1,931,000 in 2021, and $1,834,000 in 2020.

NOTE 7 - LEASES

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

Lease expenses for offices are included in the Consolidated Statements of Income in occupancy expense, net and lease expenses for equipment and ATMs are included in equipment expenses. Components of lease expense for the years ended December 31 are as follows (in thousands):

	2022	2021
Operating lease expense	$ 616	840
Short-term lease expense	243	48
Variable lease expense	4	4
Other	11	10
Total lease expense	$ 874	902

Other information related to leases at December 31, 2022 is as follows (dollars in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 623
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 370
Weighted average remaining lease term in years for operating leases	33.4
Weighted average discount rate for operating leases	3.46 %

Future payments due under operating leases as of December 31, 2022 are as follows (in thousands):

2023	$ 665
2024	675
2025	471
2026	333
2027	311
Thereafter	9,966
	12,421
Less effects of discounting	6,051
Operating lease liabilities recognized	$ 6,370

Rental expense for all leased branches and equipment was approximately $874,000 in 2022, $902,000 in 2021, and $731,000 in 2020.

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

LCNB performs an impairment test of the carrying value of goodwill annually in the fourth quarter or sooner if circumstances indicate a possible impairment. Impairment indicators that may be considered include the condition of the economy and banking industry; estimated future cash flows; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of LCNB's stock and other relevant events. These and other factors could lead to a conclusion that goodwill is impaired, which would require LCNB to write off the difference between the estimated fair value of the Company and its carrying value.

Other intangible assets in the Consolidated Balance Sheets at December 31 were as follows (in thousands):

	2022			2021		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	$ 8,544	7,588	956	8,544	7,110	1,434
Mortgage servicing rights	2,408	1,537	871	2,323	1,284	1,039
Total	$ 10,952	9,125	1,827	10,867	8,394	2,473

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of December 31, 2022 is as follows (in thousands):

2023	$ 647
2024	514
2025	302
2026	113
2027	86

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):

	2022	2021	2020
Balance, beginning of year	$ 1,039	976	483
Amount capitalized to mortgage servicing rights	100	409	719
Amortization of mortgage servicing rights	(268)	(346)	(226)
Balance, end of year	$ 871	1,039	976

NOTE 9 - 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):

	2022	2021
Affordable housing tax credit investment	$ 16,950	14,950
Less amortization	3,268	2,126
Net affordable housing tax credit investment	$ 13,682	12,824
Unfunded commitment	$ 7,185	8,655

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 ten 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,		
	2022	2021	2020
Tax credits and other tax benefits recognized	$ 1,394	995	612
Tax credit amortization expense included in provision for income taxes	1,142	806	510

NOTE 10 - TIME DEPOSITS

Contractual maturities of time deposits at December 31, 2022 were as follows (in thousands):

2023	$ 80,283
2024	51,886
2025	8,108
2026	9,028
2027	5,683
Thereafter	1,512
	$ 156,500

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2022 and 2021 was $16,139,000 and $25,123,000, respectively.

NOTE 11 - BORROWINGS

Long-term debt at December 31 was as follows (in thousands):

	2022	2021
FHLB advances	$ 5,000	10,000
Term loan	14,072	—
Total long-term debt	$ 19,072	10,000

The FHLB advances at December 31, 2022 and 2021 had respective weighted average interest rates of 3.02% and 3.00%. 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 $270 million and $303 million at December 31, 2022 and 2021, respectively. Total remaining borrowing capacity, including short-term borrowing arrangements, at December 31, 2022 was approximately $160.6 million.

The term loan with a correspondent financial institution bears a fixed interest rate of 4.25%, amortizes quarterly, and has a final balloon payment due on June 15, 2025.

Contractual maturities of long-term debt at December 31 by year of maturity were as follows (dollars in thousands):

	2022	2021
Maturing within one year	$ 6,918	5,000
Maturing one year through two years	2,001	5,000
Maturing two years through three years	10,153	—
Total	$ 19,072	10,000

Short-term borrowings at December 31, 2022 were as follows (dollars in thousands):

	2022	
	Outstanding Balance	Average Rate
Lines of credit	$ 18,455	5.00 %
FHLB short-term advances	50,000	4.40 %
Revolving line of credit	3,000	7.25 %
	$ 71,455	4.67 %

At December 31, 2022, the Company had two short-term line of credit borrowing arrangements with unrelated financial institutions. Under the terms of the first arrangement, the Company can borrow up to $25 million at the interest rate in effect at the time of the borrowing. There were no advances outstanding under this line of credit at December 31, 2022. Under the terms of the second arrangement, the Company can borrow up to $30 million at an interest rate equal to the lending institution's federal funds rate (4.50% at December 31, 2022) plus a spread of 50 basis points. At December 31, 2022, the outstanding balance of this arrangement totaled $18.5 million. The Company had no short-term borrowings outstanding at December 31, 2021.

At December 31, 2022, LCNB Corp. had a short-term revolving line of credit arrangement with a financial institution for a maximum amount of $5 million at an interest rate equal to the Wall Street Journal Prime Rate minus 25 basis points, This agreement expires on June 15, 2023.

NOTE 11 - BORROWINGS (continued)

At December 31, 2022, LCNB had 2 short-term borrowing arrangements with the FHLB of Cincinnati. Under the terms of a REPO Based Advance program, LCNB can borrow up to $87.1 million in short-term advances, subject to total remaining borrowing capacity limitations. Available terms range from one day to one year. The interest rate is the published rate in effect at the time of the advance. Under the terms of a Cash Management Advance program, LCNB can borrow up to $87.1 million in short-term advances, subject to total remaining borrowing capacity limitations. LCNB can select a variable rate of interest for up to 90 days or a fixed rate of interest for a maximum of 30 days. The interest rate is the published rate in effect at the time of the advance. Both arrangements expired on February 8, 2023 and were renewed for another year..

NOTE 12 - INCOME TAXES

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

	2022	2021	2020
Income taxes currently payable	$ 5,162	4,317	3,951
Deferred income tax provision (benefit)	(344)	294	134
Provision for income taxes	$ 4,818	4,611	4,085

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

	2022	2021	2020
Statutory tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) resulting from -			
Tax exempt interest	(0.6)%	(0.7)%	(0.9)%
Tax exempt income on bank owned life insurance	(0.8)%	(0.9)%	(1.3)%
Captive insurance premium income	(0.9)%	(0.8)%	(0.8)%
Affordable housing tax credit limited partnerships	(0.8)%	(0.6)%	(0.4)%
Tax benefit from certain provisions of the CARES Act	— %	— %	(0.8)%
Other – net	— %	— %	1.0 %
Effective tax rate	17.9 %	18.0 %	17.8 %

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NOTE 12 - INCOME TAXES (continued)

Deferred tax assets and liabilities, included in the Consolidated Balance Sheets with other assets, net in 2022 and accrued interest and other liabilities in 2021, consist of the following at December 31 (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 1,186	1,156
Net unrealized losses on investment securities available-for-sale	7,955	408
Fair value adjustment on loans acquired from mergers	40	103
Deferred compensation	602	630
Minimum pension liability	7	73
Operating lease right-of-use assets	1,338	1,359
Other	165	96
	11,293	3,825
Deferred tax liabilities:		
Depreciation of premises and equipment	(1,174)	(1,595)
Amortization of intangibles	(1,643)	(1,518)
Prepaid expenses	(316)	(323)
FHLB stock dividends	(183)	(216)
Operating lease liabilities	(1,338)	(1,359)
	(4,654)	(5,011)
Net deferred tax assets (liabilities)	$ 6,639	(1,186)

As of December 31, 2022 and 2021 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, 2022.

The Company is no longer subject to examination by federal tax authorities for years before 2019.

NOTE 13 - 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.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

	2022	2021
Commitments to extend credit:		
Commercial loans	$ 22,823	82,578
Other loans:		
Fixed rate	191	5,196
Adjustable rate	1,422	2,784
Unused lines of credit:		
Fixed rate	41,558	32,655
Adjustable rate	238,876	150,746
Unused overdraft protection amounts on demand and NOW accounts	16,566	16,711
Standby letters of credit	5	5
	$ 321,441	290,675

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.

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, 2022 totaled approximately $419,000.

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 14 - REGULATORY MATTERS AND IMPACT ON PAYMENT OF DIVIDENDS

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 2023, the restrictions generally limit dividends to the aggregate of net income for the year 2023 plus the net earnings retained for 2022 and 2021. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. At December 31, 2022, approximately $12,947,000 of the Bank’s earnings retained was available for dividends in 2023 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.

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NOTE 14 - REGULATORY MATTERS AND IMPACT ON PAYMENT OF DIVIDENDS (continued)

In addition to the minimum capital requirements, a financial institution needs 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 %

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.

On September 17, 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations, as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The simplified rule was designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. It could be used beginning with the March 31, 2020 Call Report. Qualifications to use the simplified approach include having a tier 1 leverage ratio of greater than 9%, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. LCNB qualifies to use the simplified measure, but did not opt in for the December 31, 2022 or 2021 regulatory capital calculations.

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

	2022	2021
Regulatory Capital:		
Shareholders' equity	$ 213,052	234,451
Goodwill and other intangible assets	(60,177)	(60,655)
Accumulated other comprehensive (income) loss	29,945	1,809
Tier 1 risk-based capital	182,820	175,605
Eligible allowance for loan losses	5,646	5,506
Total risk-based capital	$ 188,466	181,111
Capital Ratios:		
Common Equity Tier 1 Capital to risk-weighted assets	11.94 %	12.25 %
Tier 1 capital to risk-weighted assets	11.94 %	12.25 %
Total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets	12.31 %	12.64 %
Leverage ratio (tier 1 capital to adjusted quarterly average total assets)	9.72 %	9.58 %

NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for 2022 and 2021 were as follows (in thousands):

	2022			2021		
	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	$ (1,536)	(273)	(1,809)	4,348	(305)	4,043
Before reclassifications	(28,391)	246	(28,145)	(5,645)	32	(5,613)
Reclassifications	—	—	—	(239)	—	(239)
Balance at end of year	$ (29,927)	(27)	(29,954)	(1,536)	(273)	(1,809)

Reclassifications out of accumulated other comprehensive loss during 2022 and 2021 and the affected line items in the Consolidated Statements of Income were as follows (in thousands):

	2022	2021	Affected Line Item in the Consolidated Statements of Income
Net gains on sales of debt securities	$ —	303	Net gains (losses) on sales of debt securities
Less provision for income taxes	—	64	Provision for income taxes
Reclassification adjustment, net of taxes	$ —	239	

NOTE 16 - 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 do 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

NOTE 16 - RETIREMENT PLANS (continued)

The plan is at least 80% funded as of July 1, 2022 and 2021. 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):

	2022	2021	2020
Qualified noncontributory defined benefit retirement plan	$ 1,298	1,178	1,111
401(k) plan	636	610	590

The Company expects a minimum contribution of $184,000 to the qualified noncontributory defined benefit retirement plan in 2023.

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, 2022 and 2021, the amount of the liability for this plan was, respectively, $128,000 and $128,000, 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, 2022 and 2021 was $2,867,000 and $3,002,000, 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, 2022 and 2021 is $689,000 and $798,000, respectively. The average discount rate used to determine the present value of the obligations was approximately 5.1% in 2022 and 5.0% in 2021. There were no service costs associated with the plans for 2022, 2021, or 2020. Interest costs were $36,000, $42,000, and $48,000 for 2022, 2021, and 2020, 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):

	2022	2021	2020
Service cost	$ —	—	—
Interest cost	54	52	63
Amortization of unrecognized (gain) loss	8	8	2
Net periodic pension cost	$ 62	60	65

NOTE 16 - RETIREMENT PLANS (continued)

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

	2022	2021	2020
Projected benefit obligation at beginning of year	$ 1,999	2,124	2,045
Service cost	—	—	—
Interest cost	54	52	63
Actuarial (gain) or loss	(303)	(33)	155
Benefits paid	(144)	(144)	(139)
Projected benefit obligation at end of year	$ 1,606	1,999	2,124

Projected benefit obligations for the nonqualified defined benefit retirement plan are included in other liabilities in the Consolidated Balance Sheets.

The accumulated benefit obligation for the nonqualified defined benefit retirement plan at December 31, 2022 and 2021 was $1,606,000 and $1,999,000, respectively.

At December 31, 2022 and 2021, unrecognized net loss of $27,000 and $273,000, respectively, was included in accumulated other comprehensive income (loss).

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

	2022	2021	2020
Net actuarial (gain) or loss	$ (246)	(32)	122

The estimated unrecognized net actuarial gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2023 for the nonqualified defined benefit retirement plan is $0.

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:

	2022	2021	2020
Benefit obligation:			
Discount rate	5.02 %	2.83 %	2.52 %
Salary increase rate	— %	— %	— %
Net periodic pension cost:			
Discount rate	2.83 %	2.52 %	3.22 %
Salary increase rate	— %	— %	— %
Amortization period in years	19.41	20.16	21.24

NOTE 16 - RETIREMENT PLANS (continued)

The nonqualified defined benefit retirement plan is not funded. Therefore no contributions will be made in 2023.

Estimated future benefit payments reflecting expected future service for the years ended after December 31, 2022 are (in thousands):

2023	$	144
2024		144
2025		144
2026		143
2027		142
2028-2032		648

NOTE 17 - 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, continued to be exercisable in accordance with their terms and the last of the options were exercised during 2021.

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 LCNB's Board of Directors ("Compensation Committee"). 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.

LCNB has not granted stock options since 2012.

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

	2021		2020	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1,	311	$ 12.60	9,904	$ 11.96
Exercised	(311)	12.60	(9,593)	11.94
Expired	—	—	—	—
Outstanding at December 31,	—	$ —	311	$ 12.60
Exercisable at December 31,	—	$ —	311	$ 12.60

NOTE 17 - STOCK-BASED COMPENSATION (continued)

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

	2021	2020
Intrinsic value of options exercised	$ 1	46
Cash received from options exercised	4	114
Tax benefit realized from options exercised	—	5

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:

	2022		2021		2020	
	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,	44,512	$ 17.08	28,596	$ 17.42	17,752	$ 18.03
Granted	32,554	19.25	26,321	16.85	19,211	16.87
Vested	(18,752)	18.01	(9,649)	17.49	(4,817)	17.83
Forfeited	—	—	(756)	16.86	(3,550)	16.9
Outstanding at December 31,	58,314	$ 17.99	44,512	$ 17.08	28,596	$ 17.42

Total expense related to restricted stock awards included in salaries and wages in the Consolidated Statements of Income for the years ended December 31, 2022, 2021, and 2020 was $531,000, $249,000, and $137,000 respectively. The related tax benefit for the years ended December 31, 2022, 2021, and 2020 was $111,000, $52,000, and $29,000, respectively. Unrecognized compensation expense for restricted stock awards was $701,000 at December 31, 2022 and is expected to be recognized over a period of 4.2 years.

NOTE 18 - 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 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):

	2022	2021	2020
Net income	$ 22,128	20,974	20,075
Less allocation of earnings and dividends to participating securities	114	75	45
Net income allocated to common shareholders	$ 22,014	20,899	20,030
Weighted average common shares outstanding, gross	11,469,676	12,635,013	12,943,622
Less average participating securities	58,695	45,408	29,345
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	11,410,981	12,589,605	12,914,277
Add dilutive effect of:			
Stock options	—	8	307
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share	11,410,981	12,589,613	12,914,584
Earnings per common share:			
Basic	$ 1.93	1.66	1.55
Diluted	1.93	1.66	1.55

NOTE 19 - 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):

	2022	2021
Beginning balance	$ 2,125	2,929
New loans and advances	317	250
Change in composition of related parties	—	(413)
Reductions	(250)	(641)
Ending Balance	$ 2,192	2,125

Deposits from executive officers, directors and related interests of such persons held by the Company at December 31, 2022 and 2021 amounted to $2,163,000 and $3,373,000, respectively.

NOTE 20 - 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 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).
- 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 other real estate owned and other repossessed assets are considered to be level 3.

NOTE 20 - 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	Fair Value Measurements at the End of the Reporting Period Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2022				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 1,039	1,039	—	—
Mutual funds	41	41	—	—
Mutual funds measured at net asset value	1,193	1,193	—	—
Debt securities available-for-sale:				
U.S. Treasury notes	76,447	76,447	—	—
U.S. Agency notes	77,976	—	77,976	—
Corporate bonds	6,685	—	6,685	—
U.S. Agency mortgage-backed securities	79,440	—	79,440	—
Municipal securities:				
Non-taxable	8,524	—	8,524	—
Taxable	40,778	—	40,778	—
Total recurring fair value measurements	$ 292,123	78,720	213,403	—
Nonrecurring fair value measurements:				
Impaired loans	$ 923	—	—	923
Total nonrecurring fair value measurements	$ 923	—	—	923
2021				
Recurring fair value measurement:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 1,167	1,167	—	—
Mutual funds	51	51	—	—
Mutual funds measured at net asset value	1,328	1,328	—	—
Debt securities available-for-sale:				
U.S. Treasury notes	74,744	74,744	—	—
U.S. Agency notes	87,246	—	87,246	—
Corporate bonds	5,152	—	5,152	—
U.S. Agency mortgage-backed securities	96,676	—	96,676	—
Municipal securities:				
Non-taxable	9,066	—	9,066	—
Taxable	35,293	—	35,293	—
Total recurring fair value measurements	$ 310,723	77,290	233,433	—
Nonrecurring fair value measurements:				
Impaired loans	$ 1,011	—	—	1,011
Total nonrecurring fair value measurements	$ 1,011	—	—	1,011

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NOTE 20 - 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, 2022 and 2021 (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Inputs	Range High	Range Low	Range Weighted Average
2022						
Impaired loans	$ —	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
	923	Discounted cash flows	Discount rate	8.13 %	4.63 %	6.04 %
2021						
Impaired loans	$ —	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
	1,011	Discounted cash flows	Discount rate	8.25 %	4.00 %	6.07 %

NOTE 20 - 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)
2022					
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 22,701	22,701	22,701	—	—
Debt securities, held-to-maturity	19,878	18,885	—	—	18,885
Loans, net	1,395,632	1,219,112	—	—	1,219,112
Accrued interest receivable	7,482	7,482	—	7,482	—
FINANCIAL LIABILITIES:					
Deposits	1,604,970	1,604,380	1,448,470	155,910	—
Long-term debt	19,072	18,573	—	18,573	—
Accrued interest payable	311	311	—	311	—
2021					
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 18,136	18,136	18,136	—	—
Debt securities, held-to-maturity	22,972	23,087	—	—	23,087
Loans, net	1,363,939	1,333,840	—	—	1,333,840
Accrued interest receivable	7,999	7,999	—	7,999	—
FINANCIAL LIABILITIES:					
Deposits	1,628,819	1,630,158	1,435,487	194,671	—
Long-term debt	10,000	10,292	—	10,292	—
Accrued interest payable	277	277	—	277	—

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, 2022 and 2021.

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.

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NOTE 21 - PARENT COMPANY FINANCIAL INFORMATION

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

Condensed Balance Sheets:

December 31,	2022	2021
Assets:		
Cash on deposit with subsidiary	$ 916	657
Cash on deposit with unrelated depository institution	620	451
Equity securities, at fair value	1,024	1,156
Investment in subsidiaries	215,222	236,401
Other assets	59	180
Total assets	$ 217,841	238,845
Liabilities:		
Short-term borrowings	$ 3,000	—
Long-term debt	14,072	—
Other liabilities	94	241
Total liabilities	17,166	241
Shareholders' equity	200,675	238,604
Total liabilities and shareholders' equity	$ 217,841	238,845

Condensed Statements of Income

Year ended December 31,	2022	2021	2020
Income:			
Dividends from subsidiaries	$ 17,850	15,820	12,070
Interest and dividends	35	34	29
Other income (loss), net	(123)	155	147
Total income	17,762	16,009	12,246
Total expenses	3,305	1,764	1,326
Income before income tax benefit and equity in undistributed income of subsidiaries	14,457	14,245	10,920
Income tax benefit	(705)	(333)	(404)
Equity in undistributed income of subsidiaries	6,966	6,396	8,751
Net income	$ 22,128	20,974	20,075

NOTE 21 - PARENT COMPANY FINANCIAL INFORMATION (continued)

Condensed Statements of Cash Flows

Year ended December 31,	2022	2021	2020
Cash flows from operating activities:			
Net income	$ 22,128	20,974	20,075
Adjustments for non-cash items -			
Increase in undistributed income of subsidiaries	(6,966)	(6,396)	(8,751)
Other, net	636	299	(88)
Net cash flows provided by operating activities	15,798	14,877	11,236
Cash flows from investing activities:			
Purchases of equity securities	—	—	(346)
Proceeds from sales of equity securities	—	—	463
Net cash flows provided by (used in) investing activities	—	—	117
Cash flows from financing activities:			
Net increase in short-term borrowings	3,000	—	—
Proceeds from long-term debt	15,000	—	—
Principal payments on long-term debt	(928)	—	—
Proceeds from issuance of common stock	409	434	401
Payments to repurchase common stock	(23,660)	(8,310)	(1,872)
Cash dividends paid on common stock	(9,191)	(9,720)	(9,448)
Other	—	4	114
Net cash flows used in financing activities	(15,370)	(17,592)	(10,805)
Net change in cash	428	(2,715)	548
Cash at beginning of year	1,108	3,823	3,275
Cash at end of year	$ 1,536	1,108	3,823

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

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, 2022, 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, 2022, LCNB’s internal control over financial reporting met the criteria.

Changes in Internal Control over Financial Reporting

During the fourth quarter 2022, 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.

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Portions of the Company's Definitive Proxy Statement included in the Notice of Annual Meeting of Shareholders to be held April 24, 2023 (the "Proxy Statement"), which will be filed no later than 120 days from the end of the fiscal year ended December 31, 2022, 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 is incorporated herein by reference under the captions "Board of Directors Meetings and Committees," and "Audit Committee Report," of the Proxy Statement.

The Code of Business Conduct and Ethics is included as Exhibit 14.1 to this Annual Report. The Code of Business Conduct and Ethics is also available online at https://www.lcnbcorp.com/corporate-profile/corporate-governance/default.aspx.

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 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-based compensation outstanding under the 2015 Plan at December 31, 2022:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	58,252	$ 17.99	328,711
Equity compensation plans not approved by security holders	—	—	—
Total	58,252	$ 17.99	328,711

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 Accountant 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.

PART IV

Item 15. Exhibit and Financial Statement Schedules

(a)1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
- Report for 2022 - Plante & Moran PLLC (PCAOB ID 166)
- Report for 2021 and 2020 - FORVIS, LLP (PCAOB ID 686)

FINANCIAL STATEMENTS
- Consolidated Balance Sheets as of December 31, 2022 and 2021.
- Consolidated Statements of Income for the Years Ended December 31, 2022, 2021, and 2020.
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021, and 2020.
- Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2022, 2021, and 2020.
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021, and 2020.
- 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 - Incorporated by reference to Registrant's Form 10-K for the fiscal year ended December 31, 2019, Exhibit 4.1.
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.

LCNB CORP. AND SUBSIDIARIES

(a) Exhibit No.	Exhibit Description
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.
10.8	Form of Business Loan Agreement between LCNB Corp. and Bankers' Bank - incorporated by reference to Registrant's Current Report on Form 8-K filed on February 14, 2022, Exhibit 10.1.
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.
21	LCNB Corp. subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	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, 2022 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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 15, 2023

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 15, 2023

/s/ Robert C. Haines II
Robert C. Haines II, Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)
March 15, 2023

/s/ Spencer S. Cropper
Spencer S. Cropper
Chairman of the Board of Directors
March 15, 2023

/s/ Michael J Johrendt
Michael J. Johrendt, Director
March 15, 2023

/s/ Mary E. Bradford
Mary E Bradford, Director
March 15, 2023

/s/ William H. Kaufman
William H. Kaufman, Director
March 15, 2023

/s/ Steve P. Foster
Steve P. Foster, Director
March 15, 2023

/s/ Anne E. Krehbiel
Anne E. Krehbiel, Director
March 15, 2023

/s/ William G. Huddle
William G. Huddle, Director
March 15, 2023

/s/ Takeitha W. Lawson
Takeitha W. Lawson, Director
March 15, 2023

/s/ Craig M. Johnson
Craig M. Johnson, Director
March 15, 2023

Stephen P. Wilson, Director
March 15, 2023

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 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-175806) and Form S-8 (No. 333-103801) of LCNB Corp. of our report dated March 15, 2023 relating to the financial statements which appear in this Form 10-K.

/s/ Plante & Moran PLLC

Auburn Hills, Michigan
March 15, 2023

EXHIBIT 23.2

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) and Form S-3 (No. 333-175806), of LCNB Corp. of our reports dated March 9, 2022 on the consolidated financial statements of LCNB Corp., as of December 31, 2021 and for each of the years in the two year period ended December 31, 2021, which reports appear in this Annual Report on Form 10-K for the year ended December 31, 2022.

/s/ FORVIS, LLP
(Formerly BKD, LLP)

Cincinnati, Ohio
March 15, 2023

EXHIBIT 31.1

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2022, 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 15, 2023

EXHIBIT 31.2

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2022, 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 15, 2023

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, 2022 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.

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

Date: March 15, 2023