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, 2023
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, 2023, determined using a per share closing price on that date of $14.76 as quoted on the NASDAQ Capital Market, was $154,001,456.

As of March 15, 2024, 13,224,276 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 22, 2024, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2023 are incorporated by reference into Part III.

LCNB CORP.

For the Year Ended December 31, 2023

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PART I

Glossary of Abbreviations and Acronyms

ACL	Allowance for Credit Losses
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
CECL	Current Expected Credit Losses
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	Consumer Financial Protection Bureau
Citizens National	Citizens National Bank
CFB	Columbus First Bancorp, Inc.
CNNB	Cincinnati Bancorp, Inc.
Company	LCNB Corp. and its consolidated subsidiaries as a whole
CRA	Community Reinvestment Act of 1977
DCF	Discounted Cash Flow
DDA	Demand Deposit Account
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
FFIEC	Financial Institutions Examination Council
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
HTM	Held-to-Maturity
ICS	Insured Cash Sweep
IRA	Individual Retirement Account
LCNB	LCNB Corp. and its consolidated subsidiaries as a whole
LDA	Loss Driver Analysis
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
NOW	Negotiable Order of Withdrawal
OCC	Office of the Comptroller of the Currency
PCD	Purchased Credit Deteriorated
PD	Probability of Default
PPP	Paycheck Protection Program
SEC	Securities and Exchange Commission
WARM	Weighted Average Remaining Maturity

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. LCNB’s ability to integrate recent and future acquisitions may be unsuccessful, or may be more difficult, time-consuming, or costly than expected;
3. LCNB may incur increased loan charge-offs in the future and the allowance for credit losses may be inadequate;
4. LCNB may face competitive loss of customers;
5. 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;
6. changes in general economic conditions and increased competition could adversely affect LCNB’s operating results;
7. changes in regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact LCNB’s operating results;
8. LCNB may experience difficulties maintaining and growing loan and deposit balances;
9. United States trade relations with foreign countries could negatively impact the financial condition of LCNB's customers, which could adversely affect LCNB 's operating results and financial condition;
10. global geopolitical relations and/or conflicts could create financial market uncertainty and have negative impacts on commodities and currency, which could adversely affect LCNB's operating results and financial condition;
11. 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;
12. 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
13. government intervention in the U.S. financial system, including the effects of legislative, tax, accounting, and regulatory actions and reforms, including 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, changes in deposit insurance premium levels, 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 and Northern Kentucky. At December 31, 2023, the Bank had:

- 34 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 in Ohio and one office in Boone County, Kentucky,
- an Operations Center in Warren County, Ohio,
- a lot currently undergoing construction for a future office that will replace the current downtown Chillicothe, Ohio office,
- and 38 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. 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 increased 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 new assessment rate 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. 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, 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, 2023, 2022, and 2021, dividends paid by LCNB National Bank to LCNB Corp. totaled $29,000,000, $16,950,000, and $15,000,000, respectively.

Described below are some of the laws and regulations that apply when either LCNB Corp. or the Bank pay or is 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. If dividends exceed net profit for a year, a bank is generally not required to carry forward the negative amount resulting from such excess if the bank can attribute the excess to the preceding two years. If the excess is greater than the bank's previously undistributed net income for the preceding two years, prior OCC approval of the dividend is required and a negative amount would be carried forward in future dividend calculations. 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 15 - Regulatory Matters and Impact on Payment of Dividends 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, 2023.

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.

On October 24, 2023, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC released a final rule that significantly changes how all but the smallest banks will be evaluated for compliance with the CRA. Under the new regulations, banks with $2 billion or more in assets will be evaluated under a Retail Lending Test, a Retail Services and Products Test, a Community Development Financing Test, and a Community Development Services Test. Banks with total assets of $600 million or more and less than $2 billion will be evaluated under the Retail Lending Test and, at the bank's option, either the current Intermediate Bank Community Development Test or the new Community Development Financing Test. The final rule takes effect on April 1, 2024 with staggered compliance dates of January 1, 2026 and January 1, 2027.

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 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.

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.

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, 2023, LCNB employed 345 full-time and 35 part-time employees working throughout the ten Ohio counties and one Kentucky county 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 23 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 COVID-19 pandemic and the Bank continues both to this day. The Bank will do the same in 2024 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, 2023, 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	$ 6,591	6,418	0.83 %	$ —	—	— %
One to five years	67,813	61,784	1.08 %	—	—	— %
Five to ten years	—	—	— %	—	—	— %
After ten years	—	—	— %	—	—	— %
Total U.S. Treasury notes	74,404	68,202	1.06 %	—	—	— %
U.S. Agency notes:						
Within one year	9,037	8,705	0.44 %	—	—	— %
One to five years	74,970	67,641	1.05 %	—	—	— %
Five to ten years	4,971	4,555	2.87 %	—	—	— %
After ten years	—	—	— %	—	—	— %
Total U.S. Agency notes	88,978	80,901	1.09 %	—	—	— %
Corporate bonds:						
Within one year	—	—	— %	—	—	— %
One to five years	—	—	— %	—	—	— %
Five to ten years	7,450	6,534	4.24 %	—	—	— %
After ten years	—	—	— %	—	—	— %
Total corporate bonds	7,450	6,534	4.24 %	—	—	— %
Municipal securities, tax-exempt (1):						
Within one year	837	830	3.01 %	1,469	1,442	3.08 %
One to five years	3,262	3,208	2.75 %	1,319	1,270	3.16 %
Five to ten years	3,317	3,133	2.38 %	2,456	2,339	4.63 %
After ten years	—	—	— %	8,336	7,661	4.48 %
Total Municipal securities	7,416	7,171	2.62 %	13,580	12,712	4.23 %
Municipal securities, taxable:						
Within one year	2,731	2,685	2.59 %	—	—	— %
One to five years	23,370	21,790	2.20 %	—	—	— %
Five to ten years	18,822	16,528	2.15 %	393	348	2.96 %
After ten years	—	—	— %	2,890	2,619	6.45 %
Total Municipal securities	44,923	41,003	2.20 %	3,283	2,967	6.03 %
U.S. Agency mortgage-backed securities	81,634	72,790	2.22 %	—	—	— %
Totals	$ 304,805	276,601	1.66 %	16,863	15,679	4.58 %

(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, 2023.

Loan Portfolio

The following table summarizes loan maturities and sensitivities to interest rate change at December 31, 2023 (in thousands):

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Totals
Maturing in one year or less	$ 18,820	39,071	8,113	1,824	7,035	82	74,945
Maturing after one year through five years	74,559	131,584	14,743	17,457	2,172	—	240,515
Maturing after five years through 15 years	27,162	452,686	143,891	6,319	1,793	—	631,851
Maturing after 15 years	—	482,303	293,857	—	—	—	776,160
Totals	$ 120,541	1,105,644	460,604	25,600	11,000	82	1,723,471
Loans maturing beyond one year:							
Fixed rate	$ 45,638	349,387	223,198	23,776	3,044	—	645,043
Variable rate	56,083	717,186	229,293	—	921	—	1,003,483
Totals	$ 101,721	1,066,573	452,491	23,776	3,965	—	1,648,526

Allocation of the Allowance for Credit Losses on Loans

The following table presents the allocation of the allowance for credit losses on loans:

	At December 31,					
	2023		2022		2021	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Commercial and industrial	$ 1,039	7.0 %	$ 1,300	8.6 %	$ 1,095	7.4 %
Commercial, secured by real estate	5,414	64.3 %	3,609	66.9 %	3,607	64.9 %
Residential real estate	3,816	26.6 %	624	21.8 %	665	24.4 %
Consumer	238	1.5 %	86	2.0 %	105	2.5 %
Agricultural	18	0.6 %	22	0.7 %	30	0.8 %
Other loans, including deposit overdrafts	—	— %	5	— %	4	— %
Total	$ 10,525	100.0 %	$ 5,646	100.0 %	$ 5,506	100.0 %
Ratio of the allowance for credit losses to total loans outstanding	0.61 %		0.40 %		0.40 %	
Ratio of the allowance for credit losses to total non-accrual loans	13,090.42 %		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 $203.9 million and $212.7 million at December 31, 2023 and 2022, 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, 2023:

	(In thousands)
Maturity within 3 months	$ 1,661
After 3 but within 6 months	9,236
After 6 but within 12 months	17,339
After 12 months	8,475
	$ 36,711

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

Outbreaks of communicable diseases, (such as COVID-19 and its variants), have led to periods of significant volatility in financial and other markets, adversely affected our ability to conduct normal business, adversely affected our clients, and may harm our businesses, financial condition and results of operations.
Pandemics and widespread outbreaks of communicable diseases (such as COVID-19, influenza and other respiratory diseases) have caused and may continue to cause significant disruption in the international and United States economies and financial markets, including in the regions in which the Company operates. The spread of these diseases, including COVID variants, has caused illness and death and led to quarantines, cancellation of events and travel, business shutdowns, reduction in business activity and financial transactions, supply chain interruptions, and overall economic and financial market instability. In response to the COVID-19 pandemic, the governments of the states in which we have branches, and most other states, periodically took preventative or protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forego their time outside of their homes, and ordering temporary closures of businesses that have been deemed to be non-essential. These restrictions and other consequences of public health issues resulted in significant adverse effects for many different types of businesses, and resulted in a significant number of layoffs and furloughs of employees nationwide and in the regions in which we operate, which, in turn, impacted our customer base. To the extent similar widespread health related events occur in the future, we could experience material and adverse effects on our business, operations, operating results, financial condition, liquidity, and capital levels as a result.
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Weakness in the economy and in the real estate market, including weakness specific to LCNB's geographic footprint, may negatively affect it's financial condition and earnings.
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 and Northern Kentucky, 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 loan borrowers will not experience financial difficulties or that properties securing loans will not suffer 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.

Approximately 98.2% of our total commercial loans or about 64.3% of our total loans relate to commercial real estate. 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 deteriorate. 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 that could negatively affect us.
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 could impair LCNB's ability to fund operations and could jeopardize financial results.
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 and Northern Kentucky, 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 15 - Regulatory Matters and Impact on Payment of Dividends 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 credit 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 100 basis points during 2023. Further rate increases may occur during 2024.

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 credit 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, in Franklin County, Ohio, and in Boone County, Kentucky, 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 credit losses may be inadequate.
The provision for credit losses is determined by management based upon its evaluation of the amount needed to maintain the allowance for credit 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 credit 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 credit 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.

Risks Related to Recent Events Impacting the Financial Services Industry
Recent events impacting the financial services industry, including the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank, have led to a decrease in confidence in banks among consumer and commercial depositors, other counterparties and investors, as well as caused significant disruption, volatility, and reduced valuations of equity and other securities of banks and bank holding companies in the capital markets. These events are occurring during a period of continued rises to interest rates which, among other things, have resulted in unrealized losses in longer-duration securities and loans held by banks, increased competition for bank deposits, and the possibility of an increase in the risk of a potential recession. These recent events have, and could continue to have, an adverse impact on the market price and volatility of LCNB's common stock.

These recent events may also result in potentially adverse changes to laws and/or regulations governing banks and bank holding companies or result in the imposition of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on LCNB's business. LCNB may be impacted by concerns from depositors, investors, and other counterparties regarding the soundness or creditworthiness of other financial institutions, which could cause substantial and cascading disruption within the financial markets and increase Company expenses.

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 increased 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. The likelihood and extent of any further rate increases in the future are indeterminable.

Failure to adopt new technologies may result in customer dissatisfaction.
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 may result in customer disintermediation.
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 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

We recognize the critical importance of cybersecurity in safeguarding our business operations, intellectual property, and sensitive information. Our cybersecurity risk management and strategy are integral to our overall risk management framework. The following outlines our approach to identifying, assessing, and mitigating cybersecurity risks.

We conduct regular risk assessments to identify and evaluate potential cybersecurity threats and vulnerabilities. Our assessments consider the evolving threat landscape, the sensitivity of our data, and the potential impact on business operations. These risk assessments help us develop our Information Security Program.

We leverage threat intelligence sources to stay informed about emerging cyber threats. This proactive approach allows us to anticipate and respond to potential risks promptly.

Our cybersecurity controls are designed to protect against unauthorized access, data breaches, and other cyber threats. These controls encompass a multi-layered defense strategy, including firewalls, intrusion detection systems, encryption, and continuous monitoring.

We recognize that employees are a critical line of defense. Regular training programs ensure that our staff is aware of cybersecurity best practices, social engineering tactics, and the importance of safeguarding sensitive information. In the event of a cybersecurity incident, we have a well-defined incident response plan. This plan includes a structured approach to containing, eradicating, and recovering from the incident, as well as communication protocols with stakeholders.

To further mitigate the potential financial impacts of cybersecurity incidents, we maintain cybersecurity insurance coverage. This coverage is regularly reviewed and adjusted to align with the evolving threat landscape and our risk profile.

We are committed to a culture of continuous improvement in our cybersecurity practices. Regular evaluations, feedback mechanisms, and participation in industry collaborations help us adapt and enhance our strategy in response to emerging threats.

Our cybersecurity risk management and strategy reflect our dedication to maintaining the confidentiality, integrity, and availability of our information assets. We believe that our proactive approach positions us well to navigate the evolving cybersecurity landscape.

Governance

Our cybersecurity strategy is underpinned by a robust governance framework overseen by the Board of Directors. The Board plays an active role in shaping cybersecurity policies, conducting regular reviews of the effectiveness of our cybersecurity program, and ensuring its alignment with overarching business objectives. This governance ensures a comprehensive and proactive approach to managing cybersecurity risks.

The Privacy Committee, in conjunction with the Information Security Officer, plays a pivotal role in the assessment and management of cybersecurity risks. Regular committee meetings are conducted to discuss and analyze the evolving threat landscape. These meeting minutes are systematically reported up to the Executive and Board levels, ensuring that key decision-makers are well-informed and can provide strategic guidance.

Our first line of defense against cybersecurity threats involves leveraging our workforce and engaging various Third Parties. Employees play a crucial role in maintaining a vigilant stance, while external partners contribute specialized expertise to enhance our overall cybersecurity posture. This collaborative approach strengthens our defense mechanisms against evolving cyber threats.

Internal and external audits serve as essential tools to evaluate the efficacy of our cybersecurity processes. These audits are conducted periodically to identify vulnerabilities, assess compliance with established policies, and ensure the effectiveness of implemented security controls. The insights gained from audits contribute to the continuous improvement and refinement of our cybersecurity measures.

Our bank is equipped with a cadre of IT professionals boasting extensive industry experience in cybersecurity. These dedicated individuals bring years of knowledge to the table, staying abreast of the latest developments in the field. Their expertise enhances our ability to address emerging threats proactively and reinforces the resilience of our cybersecurity framework.

In summary, our governance structure ensures that cybersecurity is a top-level priority, with the Board, committees, employees, and external partners collaborating seamlessly to safeguard our systems and data. Through continuous evaluation, robust defense mechanisms, and a skilled workforce, we remain committed to maintaining the highest standards of cybersecurity in alignment with our business objectives.

Item 2. Properties

LCNB owns its main office in Lebanon, Ohio, which is approximately 28,000 square feet and houses its executive, wealth management, and certain administrative personnel. LCNB owns an additional 26 branch locations and leases an additional 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 is currently constructing a new office in Chillicothe, Ohio, 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.

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 1,056 registered holders of its common stock as of March 14, 2024. 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. If dividends exceed retained net income for a year, a bank is generally not required to carry forward the negative amount resulting from such excess if the bank can attribute the excess to the preceding two years. If the excess is greater than the bank's previously undistributed net income for the preceding two years, prior OCC approval of the dividend is required and a negative amount would be carried forward in future dividend calculations. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines.

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 February 27, 2023, LCNB's Board of Directors authorized a new Issuer Stock Repurchase Plan Agreement (the "Plan"). Under the terms of the Plan, LCNB is authorized to repurchase up to 500,000 of its outstanding common shares. The Plan replaced and superseded LCNB's prior Issuer Stock Repurchase Plan Agreement, which was adopted in May 27, 2022.

Under the Plan, 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 Plan 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 Plan, 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.

No purchases were made under the Program during the three months ended December 31, 2023. The maximum number of shares that may yet be purchased under the Program is 315,047.

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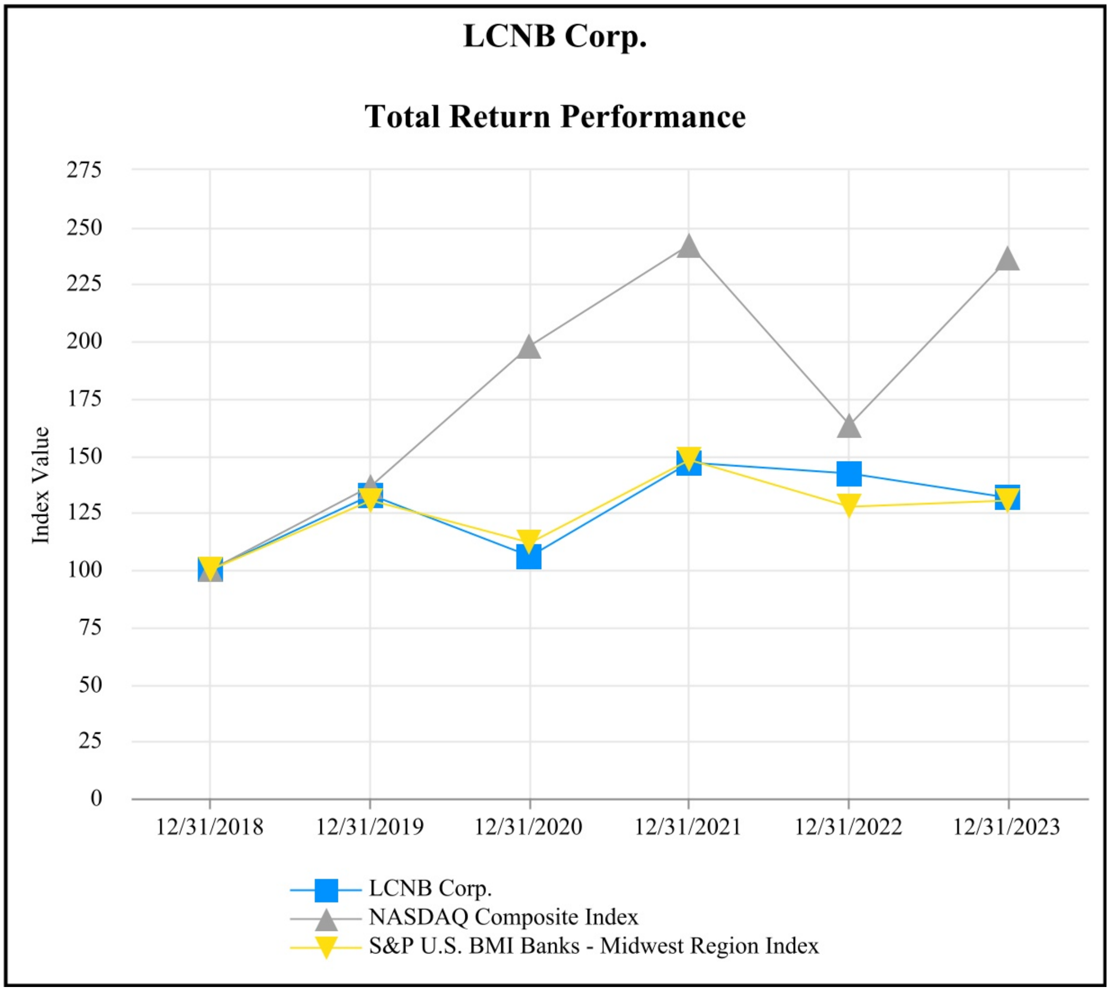
The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the NASDAQ Composite Index and the S&P U.S. BMI Banks - Midwest Region Index. This graph covers the period from December 31, 2018 through December 31, 2023. The cumulative total shareholder returns 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, 2018 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		**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023**
LCNB Corp.	$	100.00	132.62	105.83	146.87	141.92	131.31
NASDAQ Composite Index	$	100.00	136.69	198.10	242.03	163.28	236.17
S&P U.S. BMI Banks - Midwest Region Index	$	100.00	130.10	111.85	147.78	127.53	130.20

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 2023 was $12,628,000 (basic and diluted earnings per share of $1.10), compared to $22,128,000 (basic and diluted earnings per share of $1.93) in 2022 and $20,974,000 (basic and diluted earnings per share of $1.66) in 2021.

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

- Cincinnati Bancorp, Inc. merged with and into LCNB Corp. on November 1, 2023.
- Eagle Financial Bancorp, Inc. is expected to merge with and into LCNB Corp. during the second quarter 2024.
- Merger related expenses connected with the above two acquisitions totaled $4,656,000 during 2023.
- Net interest income in 2023 was $56,349,000, compared to $61,042,000 in 2022 and $57,124,000 in 2021.
- The provision for credit losses in 2023 totaled $2,077,000, compared to a provision of $250,000 for 2022 and a recovery of $269,000 for 2021. Included in the provision for credit losses for 2023 was a $1,722,000 provision expense related to loans acquired through the Cincinnati Federal acquisition that were not considered purchased with credit deterioration ("non-PCD loans").
- Net gains from sales of loans totaled $697,000 in 2023, $196,000 in 2022, and $852,000 in 2021. Gains were lower in 2022 primarily due to the volume of loans sold.
- Other non-interest expense for 2023 was partially offset by a $425,000 gain recognized on the sale of an office building as a result of LCNB's branch consolidation strategy.
- 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.
- Other non-interest expense for 2022 was partially offset by an $889,000 gain recognized from the sale of other real estate owned.

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,								
	2023			2022			2021		
	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)	$ 1,467,981	$ 71,894	4.90 %	$ 1,380,272	$ 59,247	4.29 %	$ 1,329,072	$ 56,142	4.22 %
Interest-bearing demand deposits	13,039	734	5.63 %	9,027	166	1.84 %	14,876	48	0.32 %
Federal Reserve Bank stock	4,722	283	5.99 %	4,652	279	6.00 %	4,652	279	6.00 %
Federal Home Loan Bank stock	8,293	590	7.11 %	4,716	196	4.16 %	5,203	104	2.00 %
Investment securities:									
Equity securities	3,879	175	4.51 %	4,451	85	1.91 %	4,576	72	1.57 %
Debt securities, taxable	277,157	5,235	1.89 %	293,700	5,027	1.71 %	272,251	3,668	1.35 %
Debt securities, non-taxable (2)	24,031	871	3.62 %	27,532	953	3.46 %	32,937	1,094	3.32 %
Total earning assets	1,799,102	79,782	4.43 %	1,724,350	65,953	3.82 %	1,663,567	61,407	3.69 %
Non-earning assets	210,509			196,995			193,597		
Allowance for credit losses	(8,046)			(5,629)			(5,701)		
Total assets	$ 2,001,565			$ 1,915,716			$ 1,851,463		
Interest-bearing demand and money market deposits	$ 535,865	7,850	1.46 %	$ 516,949	1,372	0.27 %	$ 463,636	556	0.12 %
Savings deposits	398,299	725	0.18 %	449,841	618	0.14 %	407,298	599	0.15 %
IRA and time certificates	233,604	7,996	3.42 %	172,119	1,692	0.98 %	214,344	2,423	1.13 %
Short-term borrowings	75,383	4,060	5.39 %	14,482	416	2.87 %	821	6	0.73 %
Long-term debt	56,798	2,619	4.61 %	17,910	613	3.42 %	16,148	469	2.90 %
Total interest-bearing liabilities	1,299,949	23,250	1.79 %	1,171,301	4,711	0.40 %	1,102,247	4,053	0.37 %
Noninterest-bearing demand deposits	472,232			513,400			482,402		
Other liabilities	21,557			22,744			25,991		
Capital	207,827			208,271			240,823		
Total liabilities and capital	$ 2,001,565			$ 1,915,716			$ 1,851,463		
Net interest rate spread (3)			2.64 %			3.42 %			3.32 %
Net interest income and net interest margin on a tax equivalent basis (4)		$ 56,532	3.14 %		$ 61,242	3.55 %		$ 57,354	3.45 %
Ratio of interest-earning assets to interest-bearing liabilities	138.40 %			147.22 %			150.93 %		

(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,					
	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income attributable to:						
Loans (1)	$ 3,930	8,717	12,647	2,187	918	3,105
Interest-bearing demand deposits	101	467	568	(26)	144	118
Federal Reserve Bank stock	4	—	4	—	—	—
Federal Home Loan Bank stock	203	191	394	(11)	103	92
Investment securities:						
Equity securities	(12)	102	90	(2)	15	13
Debt securities, taxable	(293)	501	208	307	1,052	1,359
Debt securities, non-taxable (2)	(125)	43	(82)	(186)	45	(141)
Total interest income	3,808	10,021	13,829	2,269	2,277	4,546
Interest expense attributable to:						
Interest-bearing demand and money market deposits	52	6,426	6,478	71	745	816
Savings deposits	(77)	184	107	60	(41)	19
IRA and time certificates	793	5,511	6,304	(440)	(291)	(731)
Short-term borrowings	3,016	628	3,644	349	61	410
Long-term debt	1,729	277	2,006	55	89	144
Total interest expense	5,513	13,026	18,539	95	563	658
Net interest income	$ (1,705)	(3,005)	(4,710)	2,174	1,714	3,888

(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%.

2023 vs. 2022. Net interest income on a fully tax-equivalent basis for 2023 totaled $56,532,000, a decrease of $4,710,000 from 2022. The decrease resulted from an increase in total taxable-equivalent interest income of $13,829,000, which was more than offset by an increase in total interest expense of $18,539,000.

The increase in total interest income was due primarily to a $12,647,000 increase in interest income from loans due to an $87.7 million increase in average loans and to a 61 basis point increase in the average rate earned. Average loans increased due to organic growth in the portfolio and to loans acquired through the merger with CNNB.

The increase in total interest expense was primarily due to a $6,478,000 increase in interest paid on interest-bearing demand and money market deposits, a $6,304,000 increase in interest paid on IRA and time certificates, a $3,644,000 increase in interest paid on short-term borrowings, and a $2,006,000 increase in interest paid on long-term debt. Interest paid on interest-bearing demand and money market deposits increased due to an $18.9 million increase in average balances and to a 119 basis point increase in the average rate paid. Interest paid on IRA and time certificates increased due to a $61.5 million increase in average deposit balances and to a 244 basis point increase in the average rate paid. Interest paid on short-term borrowings increased due to a $60.9 million increase in average balances and to a 251 basis point increase in the average rate paid. Interest paid on long-term debt increased due to a $38.9 million increase in average balances and to a 119 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 Targeted Federal Funds rate. The Targeted Federal Funds rate increased by 425 basis points during 2022 and by an additional 100 basis points during 2023.

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 market 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 market 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.

Allowance for Credit 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 credit losses is determined based upon management's evaluation as to the amount needed to maintain the allowance for credit 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 credit 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 provisions for credit losses totaling $2,077,000 for 2023, compared to a $250,000 provision for 2022 and a $269,000 net recovery for 2021. Included in the provision for credit losses for 2023 was a $1,722,000 provision expense related to non-PCD loans acquired through the Cincinnati Federal acquisition. Calculating an appropriate level for the allowance and provision for credit losses involves a high degree of management judgment and is, by its nature, imprecise. Revisions may be necessary as more information becomes available.

Non-Interest Income

A comparison of non-interest income for 2023, 2022, and 2021 is as follows:

	2023	2022	2021	Increase (Decrease) 2023 vs. 2022	Increase (Decrease) 2022 vs. 2021
			(In thousands)		
Fiduciary income	$ 7,091	6,468	6,674	623	(206)
Service charges and fees on deposit accounts	5,856	6,190	6,036	(334)	154
Net gains on sales of debt securities	—	—	303	—	(303)
Bank owned life insurance income	1,136	1,074	1,074	62	—
Net gains from sales of loans	697	196	852	501	(656)
Other operating income	631	360	1,293	271	(933)
Total non-interest income	$ 15,411	14,288	16,232	1,123	(1,944)

Reasons for changes include:

- Fiduciary income increased during 2023 primarily due to increases in the fair values of trust and brokerage assets managed, on which fees are based. The increases in fair value are due to the opening of new Wealth Management customer accounts and to an increase in the market values of managed assets. Fiduciary income decreased during 2022 primarily due to decreases in the fair values of trust and brokerage assets managed 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.
- Service charges and fees on deposit accounts decreased during 2023 primarily due to decreases in most fee categories, including fees received from check cards, ATM usage fees, and deposit account fees in general. 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.
- Net gains from sales of loans were greater during 2023 and 2021 as compared to 2022 primarily due to the volume of loans sold.
- Other operating income increased in 2023 as compared to 2022 primarily because of realized and unrealized net gains on equity securities, reflecting a partial recovery in market values. Other operating income decreased in 2022 as compared to 2021 primarily because LCNB recognized $292,000 in losses on equity securities during 2022 as compared to $142,000 in gains during 2021. 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 2023, 2022, and 2021 is as follows:

	2023	2022	2021	Increase (Decrease) 2023 vs. 2022	Increase (Decrease) 2022 vs. 2021
			(In thousands)		
Salaries and employee benefits	$ 29,108	28,483	27,616	625	867
Equipment expenses	1,616	1,629	1,678	(13)	(49)
Occupancy expense, net	3,301	3,067	2,949	234	118
State financial institutions tax	1,628	1,740	1,758	(112)	(18)
Marketing	1,101	1,184	1,239	(83)	(55)
Amortization of intangibles	532	478	1,043	54	(565)
FDIC premiums	932	530	492	402	38
ATM expense	1,112	1,370	1,416	(258)	(46)
Computer maintenance and supplies	1,358	1,114	1,213	244	(99)
Contracted services	2,776	2,503	2,430	273	73
Other real estate owned, net	4	(866)	2	870	(868)
Merger-related expenses	4,656	—	—	4,656	—
Other non-interest expense	6,299	6,902	6,204	(603)	698
Total non-interest expense	$ 54,423	48,134	48,040	6,289	94

Reasons for changes include:

- Salaries and employee benefits were 2.2% greater in 2023 than in 2022 and 3.1% greater in 2022 than in 2021. The increase in 2023 was primarily due to overall wage and benefit increases, a higher number of employees during November and December as a result of the CNNB merger, and a higher amount recognized for 401-K plan matching. These increases were partially offset by decreased pension and health insurance expenses and to a higher amount of personnel expenses deferred during 2023 as a cost of loan originations. 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.
- Occupancy expense, net increased during 2023 and 2022 due to a higher amount of maintenance and repair costs on LCNB's properties in general as well as incremental expenses related to the CNNB acquisition in 2023.
- State financial institutions tax, which is based on year-end capital levels, decreased during 2023 as compared to 2022 due to reductions in capital caused by treasury share purchases during 2022 and a decrease in the fair value of debt securities during 2022, which was recorded net of taxes as an increase in accumulated other comprehensive loss, a component of capital.
- Amortization of intangibles decreased during 2022 as compared to 2021 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 of 2022.
- FDIC insurance premiums increased in 2023 because of a two basis point increase in the FDIC's initial base deposit insurance assessment rate that took effect at the beginning of 2023.
- 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.
- Merger-related expenses reflect costs incurred in connection with the acquisitions of Cincinnati Bancorp, Inc., which closed on November 1, 2023, and Eagle Financial Bancorp, Inc., which is anticipated to close during the second quarter of 2024.
- Other non-interest expense decreased during 2023 primarily due to a $425,000 gain recognized on the sale of an office building that was closed as a result of LCNB's office consolidation strategy, which was netted against other non-interest expense for accounting purposes. Other non-interest expense for 2022 included $471,000 in losses from the sales of two closed office buildings.

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

Income Taxes

LCNB's effective tax rates for the years ended December 31, 2023, 2022, and 2021 were 17.2%, 17.9%, and 18.0%, 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.

Financial Condition

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

	2023	2022	Difference $	Difference %
ASSETS:				
Total cash and cash equivalents	$ 39,723	22,701	17,022	74.98 %
Investment securities:				
Equity securities with a readily determinable fair value, at fair value	1,336	2,273	(937)	(41.22)%
Equity securities without a readily determinable fair value, at cost	3,666	2,099	1,567	74.65 %
Debt securities, available-for-sale, at fair value	276,601	289,850	(13,249)	(4.57)%
Debt securities, held-to-maturity, at cost	16,858	19,878	(3,020)	(15.19)%
Federal Reserve Bank stock, at cost	5,086	4,652	434	9.33 %
Federal Home Loan Bank stock, at cost	15,176	4,415	10,761	243.74 %
Loans, net	1,712,946	1,395,632	317,314	22.74 %
Premises and equipment, net	36,302	33,042	3,260	9.87 %
Operating lease right-of-use assets	6,000	6,525	(525)	(8.05)%
Goodwill	79,509	59,221	20,288	34.26 %
Core deposit and other intangibles, net	9,494	1,827	7,667	419.65 %
Bank owned life insurance	49,847	44,298	5,549	12.53 %
Interest receivable	8,405	7,482	923	12.34 %
Other assets, net	30,643	25,503	5,140	20.15 %
Total assets	$ 2,291,592	1,919,398	372,194	19.39 %
LIABILITIES:				
Deposits:				
Non-interest-bearing	$ 462,267	505,824	(43,557)	(8.61)%
Interest-bearing	1,362,122	1,099,146	262,976	23.93 %
Total deposits	1,824,389	1,604,970	219,419	13.67 %
Short-term borrowings	97,395	71,455	25,940	36.30 %
Long-term debt	113,123	19,072	94,051	493.14 %
Operating leases liability	6,261	6,647	(386)	(5.81)%
Accrued interest and other liabilities	15,121	16,579	(1,458)	(8.79)%
Total liabilities	2,056,289	1,718,723	337,566	19.64 %
SHAREHOLDERS' EQUITY:				
Common shares	173,637	144,069	29,568	20.52 %
Retained earnings	140,017	139,249	768	0.55 %
Treasury shares, at cost	(56,015)	(52,689)	(3,326)	6.31 %
Accumulated other comprehensive loss, net of taxes	(22,336)	(29,954)	7,618	(25.43)%
Total shareholders' equity	235,303	200,675	34,628	17.26 %
Total liabilities and shareholders' equity	$ 2,291,592	1,919,398	372,194	19.39 %

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

Reasons for changes include:

- Debt securities, available-for-sale, decreased due to maturities, paydowns, calls, and decreases in market valuation. There were no security purchases during 2023.
- Federal Home Loan Bank stock increased due to the addition of stock previously held by Cincinnati Federal and to the purchase of additional stock to support additional borrowings and loans sold to the FHLB, partially offset by the FHLB's repurchase of excess stock.
- Net loans increased due to loans obtained through the merger with CNNB and to organic growth in the loan portfolio. Offsetting the increases were a $2,196,000 increase to the allowance for credit losses on loans due to the adoption of ASC 326, a $493,000 increase to the allowance for purchased credit deteriorated loans obtained in the merger with CNNB, and a $1,722,000 provision for credit losses on non-PCD loans obtained in the merger with CNNB.
- Goodwill increased due to additional goodwill recorded as a result of the merger with CNNB.
- Core deposit and other intangibles increased due to the additions of a core deposit intangible and mortgage servicing rights obtained in the merger with CNNB.
- Bank owned life insurance increased primarily due to additional policies obtained in the merger with CNNB and secondarily due to increases in the cash values of the policies. No new policies were purchased during 2023.
- Other assets increased primarily due to current and deferred tax assets recorded as a result of the CNNB merger.
- Total deposits increased primarily due to additional deposits obtained as a result of the CNNB merger. Generally, non-interest and interest-bearing demand deposits and savings account balances decreased during the year, while money market accounts and IRA and time certificates increased as depositors sought higher interest rates.
- Short-term borrowings and long-term debt increased primarily to support an increase in liquidity and to support growth in the loan portfolio, as the increase in net loans was greater than the increase in deposits. LCNB assumed approximately $56.0 million in short-term borrowings, largely paid off by year-end, and $6.0 million in long-term debt as a result of the merger with CNNB.
- Common shares increased primarily because 2,042,598 shares of LCNB common stock valued at $28,576,000 were issued to CNNB shareholders to effectuate the merger.
- Treasury shares increased because of the repurchase of 199,913 shares of common stock during 2023, which represents almost 1.8% of shares outstanding at December 31, 2022.
- Accumulated other comprehensive loss, net of taxes increased because of market-driven partial recoveries 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. If dividends exceed net profit for a year, a bank is generally not required to carry forward the negative amount resulting from such excess if the bank can attribute the excess to the preceding two years. If the excess is greater than the bank's previously undistributed net income for the preceding two years, prior OCC approval of the dividend is required and a negative amount would be carried forward in future dividend calculations. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines.

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 $85.0 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, 2023 was approximately $89.2 million. Additional borrowings of approximately $63.6 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.

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

Commitments to extend credit at December 31, 2023 totaled $267.4 million and are more fully described in Note 14 - Commitments and Contingent Liabilities to LCNB's consolidated financial statements. Since many commitments to extend credit may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The following table provides information concerning LCNB's commitments at December 31, 2023:

			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	$	45,406	45,406	—	—	—
Unused lines of credit		222,006	73,699	57,943	17,776	72,588
Standby letters of credit		5	5	—	—	—
Total	$	267,417	119,110	57,943	17,776	72,588

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 credit 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, 2023 and 2022 and corresponding regulatory minimum requirements is included in Note 15 - Regulatory Matters and Impact on Payment of Dividends.

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.

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.

Business Combinations. Assets acquired, including identified intangible assets such as core deposit intangibles, and liabilities assumed as a result of a merger or acquisition transaction are recorded at their estimated fair values. The difference between the consideration paid and the net fair value of assets acquired and liabilities assumed is recorded as goodwill. Management engages third-party specialists to assist in the development of fair value estimates. Significant estimates and assumptions used to value acquired assets and liabilities assumed include, but are not limited to, projected cash flows, future growth rates, repayment rates, default rates and losses assuming default, discount rates, and realizable collateral values. The allowance for credit losses for PCD loans is recognized within acquisition accounting. The allowance for credit losses for non-PCD assets is recognized as provision for credit losses in the same reporting period as the merger or acquisition. Fair value adjustments are amortized or accreted into the income statement over the estimated lives of the acquired assets and assumed liabilities. The purchase date valuations and any subsequent adjustments determine the amount of goodwill recognized in connection with the merger or acquisition.

Preliminary estimates of fair values may be adjusted for a period of time no greater than one year subsequent to the merger or acquisition date if new information is obtained about facts and circumstances that existed as of the merger or acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period.

Allowance for Credit Losses. The allowance is maintained at a level LCNB management believes is adequate to absorb estimated credit losses identified and inherent in the loan portfolio. The allowance is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit 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 estimated losses over the contractual terms 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 and forecasted 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.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. This ASU (as subsequently amended by ASU 2018-19) significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This standard replaced the "incurred loss" approach with an "expected loss" model. Referred to as the CECL model, this standard applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures. The standard also expanded disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance. In addition, entities need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

LCNB adopted CECL effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the incurred loss accounting standards. The transition adjustment of the CECL adoption included an increase in the allowance of $2.4 million, and a $1.9 million decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the Consolidated Balance Sheet, with the $0.5 million tax impact portion being recorded as part of the deferred tax asset in other assets in the Consolidated Balance Sheet.

See Note 1- Basis of Presentation - Adoption of New Accounting Pronouncements in this Annual Report on Form 10-K for further detailed descriptions of LCNB's estimation process and methodology related to the allowance. See also Note 4 – Loans in this Annual Report on Form 10-K for further information regarding LCNB's loan portfolio and allowance.

Accounting for Intangibles. LCNB’s intangible assets are composed primarily of goodwill and core deposit intangibles related to acquisitions of other financial institutions.

Accounting rules require LCNB to determine the fair value of all the assets and liabilities of an acquired entity, and to record their fair value on the date of acquisition. LCNB employs a variety of means in determining fair value, including the use of discounted cash flow analysis, market comparisons and projected future revenue streams. For those items for which management concludes that LCNB has the appropriate expertise to determine fair value, management may choose to use its own calculation of fair value. In other cases, where the fair value is not readily determined, consultation with outside parties is used to determine fair value. Once valuations have been determined, the net difference between the price paid for the acquired entity and the fair value of the balance sheet is recorded as goodwill. Goodwill is assessed at least annually for impairment, with any such impairment recognized in the period identified. A more frequent assessment is performed if there are material changes in the market place or within the organizational structure.

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 triggering events or circumstances have occurred that indicate the remaining useful life or carrying value of the amortizing intangible should be revised.

Fair Value Accounting for Debt Securities. Debt securities classified as available-for-sale are recorded at fair value with unrealized gains and losses recorded in other comprehensive income (loss), net of tax. Available-for-sale debt securities in unrealized loss positions are evaluated to determine if the decline in fair value should be recorded in income or in other comprehensive income (loss). LCNB first determines if it intends to sell or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. If neither of these criteria is met, LCNB evaluates whether the decline in fair value resulted from credit factors. In making this determination, management considers, among other factors, the extent to which fair value is less than the amortized cost basis, any changes to the rating of the security by rating agencies, and any adverse conditions specifically related to the security or issuer. If the present value of cash flows expected to be collected is less than the amortized cost basis, a provision is recorded to the allowance for credit losses. Any decline in fair value not recorded through an allowance for credit losses is recognized in accumulated other comprehensive income (loss), net of applicable taxes.

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, 2023 IRSA indicates that an increase in interest rates will have a negative effect on net interest income and a 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	Limits
Up 300	62,684	(5,018)	(7.41)%	20 %
Up 200	64,289	(3,413)	(5.04)%	15 %
Up 100	65,797	(1,905)	(2.81)%	10 %
Base	67,702	—	— %	— %
Down 100	68,623	921	1.36 %	10 %
Down 200	70,044	2,342	3.46 %	15 %
Down 300	71,496	3,794	5.60 %	20 %

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, 2023 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 upward rate shocks are within LCNB's acceptable ranges. The changes in the EVE for all downward rate shocks are outside LCNB's acceptable ranges as shown below. Management has determined the downward shifts to be acceptable due to the positive nature of the results.

Rate Shock Scenario in Basis Points	Amount (In thousands)	$ Change in EVE	% Change in EVE	Limits
Up 300	127,089	(32,877)	(20.55)%	25 %
Up 200	144,143	(15,823)	(9.89)%	20 %
Up 100	160,341	375	0.23 %	15 %
Base	159,966	—	— %	— %
Down 100	190,962	30,996	19.38 %	15 %
Down 200	205,572	45,606	28.51 %	20 %
Down 300	222,367	62,401	39.01 %	25 %

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 Stockholders and Board of Directors of LCNB Corp.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of LCNB Corp. and its subsidiaries (the "Company") as of December 31, 2023 and 2022, the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2023, 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, 2023 and December 31, 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Corporation has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 326, Financial Instruments - Credit Losses ("ASC 326"). The Corporation adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

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 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.

To the Stockholders and Board of Directors of LCNB Corp.

Such procedures included 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.

Critical Audit Matter

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate 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 Credit Losses on Collectively Evaluated Loans – Refer to Notes 1 and 4 to the financial statements

Critical Audit Matter Description

Management's estimate of the allowance for credit losses (ACL), 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 include actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Company operates that affect the collectability of financial assets; the effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics; and model risk including statistical risk, reversion risk, timing risk, and model limitation risk.

Significant judgment was required by management in the selection and application of key metrics used to derive the quantitative portion of the ACL. Accordingly, performing audit procedures to evaluate the Company's estimated ACL 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 ACL included, but were not limited to, the following:

- We tested the design and operating effectiveness of management's controls over the determination of the current quantitative assumptions and 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 reasonableness of significant assumptions used in the quantitative analysis.

To the Stockholders and Board of Directors of LCNB Corp.

- Evaluation of the reasonableness of 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.

Valuation of the Acquired Loan Portfolio – Refer to Note 2 to the financial statements

Critical Audit Matter Description

As described in Note 2 to the consolidated financial statements, during 2023 the Company acquired Cincinnati Bancorp, Inc. In connection with the acquisition, management estimated the fair value of acquired loans based on a discounted cash flow methodology that involves assumptions about credit risk, repayments, discount rates, and net losses upon default.

Significant judgment was required by management in the selection and application of certain subjective assumptions. Accordingly, performing audit procedures to evaluate the Company's estimate of the fair value of acquired loans 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 accounting for the acquired loan portfolio included, but was not limited to, the following:

- We tested the design and operating effectiveness of controls including management's review of the fair value calculations performed by a third-party valuation specialist, completeness and accuracy of data, and key assumptions and inputs used in the estimate.
- We tested management's process for estimating the fair value of acquired loans including:
  - Involvement of valuation specialists to assist us in testing management's methodology and significant assumptions used in the estimate.
  - Assessment of management's selection of valuation methodology and application of significant assumptions.
  - Evaluation of the completeness and accuracy of data used in the estimate.
  - Evaluation of the relevance and reliability of information used in the development of the estimate.
  - Evaluation of the reasonableness of significant assumptions used in the estimate, including comparison to third party market sources, where available, and comparison to independently developed assumptions.

/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)

	2023	2022
ASSETS:		
Cash and due from banks	$ 36,535	20,244
Interest-bearing demand deposits	3,188	2,457
Total cash and cash equivalents	39,723	22,701
Investment securities:		
Equity securities with a readily determinable fair value, at fair value	1,336	2,273
Equity securities without a readily determinable fair value, at cost	3,666	2,099
Debt securities, available-for-sale, at fair value	276,601	289,850
Debt securities, held-to-maturity, at cost, net of allowance for credit losses of $5 at December 31, 2023	16,858	19,878
Federal Reserve Bank stock, at cost	5,086	4,652
Federal Home Loan Bank stock, at cost	15,176	4,415
Loans, net of allowance for credit losses of $10,525 and $5,646 at December 31, 2023 and 2022, respectively	1,712,946	1,395,632
Premises and equipment, net	36,302	33,042
Operating lease right-of-use assets	6,000	6,525
Goodwill	79,509	59,221
Core deposit and other intangibles, net	9,494	1,827
Bank owned life insurance	49,847	44,298
Interest receivable	8,405	7,482
Other assets, net	30,643	25,503
TOTAL ASSETS	$ 2,291,592	1,919,398
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 462,267	505,824
Interest-bearing	1,362,122	1,099,146
Total deposits	1,824,389	1,604,970
Short-term borrowings	97,395	71,455
Long-term debt	113,123	19,072
Operating lease liabilities	6,261	6,647
Accrued interest and other liabilities	15,121	16,579
TOTAL LIABILITIES	2,056,289	1,718,723
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, 2023 and 2022; issued 16,384,952 and 14,270,550 shares at December 31, 2023 and 2022, respectively; outstanding 13,173,569 and 11,259,080 at December 31, 2023 and 2022, respectively	173,637	144,069
Retained earnings	140,017	139,249
Treasury shares at cost, 3,211,383 and 3,011,470 shares at December 31, 2023 and 2022, respectively	(56,015)	(52,689)
Accumulated other comprehensive loss, net of taxes	(22,336)	(29,954)
TOTAL SHAREHOLDERS' EQUITY	235,303	200,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,291,592	1,919,398

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)

	2023	2022	2021
INTEREST INCOME:			
Interest and fees on loans	$ 71,894	59,247	56,142
Dividends on equity securities:			
With a readily determinable fair value	43	56	51
Without a readily determinable fair value	132	29	21
Interest on debt securities:			
Taxable	5,235	5,027	3,668
Non-taxable	688	753	864
Other investments	1,607	641	431
TOTAL INTEREST INCOME	79,599	65,753	61,177
INTEREST EXPENSE:			
Interest on deposits	16,571	3,682	3,578
Interest on short-term borrowings	4,060	416	6
Interest on long-term debt	2,619	613	469
TOTAL INTEREST EXPENSE	23,250	4,711	4,053
NET INTEREST INCOME	56,349	61,042	57,124
PROVISION FOR (RECOVERY OF) CREDIT LOSSES	2,077	250	(269)
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) CREDIT LOSSES	54,272	60,792	57,393
NON-INTEREST INCOME:			
Fiduciary income	7,091	6,468	6,674
Service charges and fees on deposit accounts	5,856	6,190	6,036
Net gains on sales of debt securities, available-for-sale	—	—	303
Bank owned life insurance income	1,136	1,074	1,074
Net gains from sales of loans	697	196	852
Other operating income	631	360	1,293
TOTAL NON-INTEREST INCOME	15,411	14,288	16,232
NON-INTEREST EXPENSE:			
Salaries and employee benefits	29,108	28,483	27,616
Equipment expenses	1,616	1,629	1,678
Occupancy expense, net	3,301	3,067	2,949
State financial institutions tax	1,628	1,740	1,758
Marketing	1,101	1,184	1,239
Amortization of intangibles	532	478	1,043
FDIC insurance premiums, net	932	530	492
ATM expense	1,112	1,370	1,416
Computer maintenance and supplies	1,358	1,114	1,213
Contracted services	2,776	2,503	2,430
Other real estate owned	4	(866)	2
Merger-related expenses	4,656	—	—
Other non-interest expense	6,299	6,902	6,204
TOTAL NON-INTEREST EXPENSE	54,423	48,134	48,040
INCOME BEFORE INCOME TAXES	15,260	26,946	25,585
PROVISION FOR INCOME TAXES	2,632	4,818	4,611
NET INCOME	$ 12,628	22,128	20,974
Earnings per common share:			
Basic	$ 1.10	1.93	1.66
Diluted	1.10	1.93	1.66
Weighted average common shares outstanding:			
Basic	11,417,857	11,410,981	12,589,605
Diluted	11,417,857	11,410,981	12,589,613

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)

	2023	2022	2021
Net income	$ 12,628	22,128	20,974
Other comprehensive income (loss):			
Net unrealized gain (loss) on available-for-sale securities (net of tax expense (benefit) of $2,032, $(7,546), and $(1,501) for 2023, 2022, and 2021, respectively)	7,646	(28,391)	(5,645)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of $0, $0, and $64 for 2023, 2022 and 2021, respectively)	—	—	(239)
Change in nonqualified pension plan unrecognized net gain (loss) and unrecognized prior service cost (net of tax expense (benefit) of $(7), $65, and $9 for 2023, 2022, and 2021, respectively)	(28)	246	32
Other comprehensive income (loss)	7,618	(28,145)	(5,852)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 20,246	(6,017)	15,122

	2023	2022	2021
SUPPLEMENTAL INFORMATION:			
COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAXES, AS OF YEAR-END:			
Net unrealized gain (loss) on securities available-for-sale	$ (22,281)	(29,927)	(1,536)
Net unfunded liability for nonqualified pension plan	(55)	(27)	(273)
Balance at year-end	$ (22,336)	(29,954)	(1,809)

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, 2021	**12,858,325**	**$ 142,443**	**115,058**	**(20,719)**	**4,043**	**240,825**
Net income	—	—	20,974	—	—	20,974
Other comprehensive loss, 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**
Cumulative change in accounting principle - ASC 326	—	—	(1,922)	—	—	(1,922)
Balance at January 1, 2023, adjusted	11,259,080	144,069	137,327	(52,689)	(29,954)	198,753
Net income	—	—	12,628	—	—	12,628
Other comprehensive income, net of taxes	—	—	—	—	7,618	7,618
Dividend Reinvestment and Stock Purchase Plan	27,654	428	—	—	—	428
Stock issued for acquisition of Cincinnati Bancorp, Inc.	2,042,598	28,577				28,577
Repurchase of common stock	(199,913)	—	—	(3,326)	—	(3,326)
Compensation expense relating to restricted stock	44,150	563	—	—	—	563
Common stock dividends, $0.85 per share	—	—	(9,938)	—	—	(9,938)
Balance, December 31, 2023	**13,173,569**	**$ 173,637**	**140,017**	**(56,015)**	**(22,336)**	**235,303**

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)

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 12,628	22,128	20,974
Adjustments to reconcile net income to net cash flows from operating activities-			
Depreciation, amortization and accretion	2,989	2,744	2,612
Provision for (recovery of) credit losses	2,077	250	(269)
Deferred income tax provision (benefit)	(323)	(345)	294
Increase in cash surrender value of bank owned life insurance	(1,136)	(1,074)	(1,074)
Realized and unrealized (gains) losses from equity securities, net	5	292	(141)
Realized gains from sales of debt securities available-for-sale, net	—	—	(303)
Realized (gains) losses from sales of premises and equipment, net	(422)	455	(6)
Realized gains from sales of other real estate owned	—	(889)	—
Origination of mortgage loans for sale	(4,306)	(8,855)	(33,824)
Realized gains from sales of loans	(697)	(196)	(852)
Proceeds from sales of loans	4,346	8,953	34,268
Compensation expense related to restricted stock	563	531	249
Changes in:			
Accrued income receivable	245	517	338
Other assets	8,694	2,453	(4,208)
Accrued interest and other liabilities	(3,961)	(1,722)	(237)
TOTAL ADJUSTMENTS	8,074	3,114	(3,153)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	20,702	25,242	17,821
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of equity securities	963	—	—
Proceeds from sales of debt securities, available-for-sale	5,210	—	21,235
Proceeds from maturities, calls, and paydowns of debt securities:			
Available-for-sale	22,609	20,680	33,093
Held-to-maturity	3,295	4,317	4,285
Purchases of equity securities	(1,598)	(19)	(16)
Purchases of debt securities:			
Available-for-sale	(497)	(39,331)	(161,786)
Held-to-maturity	(280)	(1,223)	(2,447)
Purchase of Federal Reserve Bank stock	(434)	—	—
Proceeds from redemption of Federal Home Loan Bank stock	1,369	1,162	—
Purchase of Federal Home Loan Bank stock	(4,622)	(374)	—
Net increase in loans	(83,709)	(31,720)	(67,649)
Proceeds from sales of other real estate owned	—	1,605	—
Purchases of premises and equipment	(2,606)	(884)	(1,940)
Proceeds from sales of premises and equipment	654	875	6
Cash and cash equivalents acquired, net of cash paid for acquisition	1,893	—	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(57,753)	(44,912)	(175,219)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	8,887	(23,849)	173,396
Net increase (decrease) in short-term borrowings	(30,059)	71,455	—
Proceeds from issuance of long-term debt	95,000	15,000	—
Principal payments on long-term debt	(6,919)	(5,928)	(12,000)
Proceeds from issuance of common stock	428	408	434
Repurchase of common stock	(3,326)	(23,660)	(8,310)
Proceeds from exercise of stock options	—	—	4
Cash dividends paid on common stock	(9,938)	(9,191)	(9,720)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	54,073	24,235	143,804
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,022	4,565	(13,594)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,701	18,136	31,730
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 39,723	22,701	18,136

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

	2023	2022	2021
SUPPLEMENTAL CASH FLOW INFORMATION:			

CASH PAID DURING THE YEAR FOR:			
Interest	$ 21,740	4,677	4,228
Income taxes	2,735	4,130	3,665
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

See Note 2 - Business Combinations regarding non-cash transactions included in the acquisition.

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, Franklin County Ohio, Boone County, Kentucky 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 balance sheets for operating lease right-of-use assets and operating lease liabilities have been reclassified to conform with the current year presentation. Certain prior period data presented in the deferred tax assets and liabilities table included in Note 12 - Taxes has 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.

INVESTMENT SECURITIES
The Company adopted ASC 326 on January 1, 2023. It significantly changed guidance for recognizing impairment of financial instruments, including debt securities classified as held-to-maturity ("HTM") or available-for-sale ("AFS").

Certain municipal debt securities that management has the positive intent and ability to hold to maturity are classified as HTM and recorded at amortized cost. Debt securities not classified as HTM are classified as AFS 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.

Expected credit losses on HTM municipal debt securities are measured on a collective basis by major security types. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Substantially all of LCNB's portfolio of held-to-maturity municipal debt securities were issued by local municipalities and governmental authorities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For AFS debt securities in an unrealized loss position, LCNB first assesses whether it intends to sell or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, LCNB evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of expected cash flows is less that the amortized cost basis, a provision for credit losses is recorded for the amount of the difference. Any impairment that is not recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense or recovery. Losses are charged against the allowance when management believes the uncollectibility of an available-for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Prior to the adoption of ASC 326, declines in the fair value of debt securities below their cost that were deemed to be other-than-temporarily impaired, and for which the Company did not intend to sell the securities and it was not more likely than not that the securities would be sold before the anticipated recovery of the impairment, were separated into losses related to credit factors and losses related to other factors. The losses related to credit factors were recognized in earnings and losses related to other factors were recognized in other comprehensive income. In estimating other than temporary impairment losses, management considered the length of time and the extent to which the fair value had 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 and 2021.

Accrued interest receivable on HTM securities totaled $58,000 and $62,000 at December 31, 2023 and 2022, respectively, and accrued interest receivable on AFS debt securities totaled $1.0 million and $1.1 million at December 31, 2023 and 2022, respectively, and are reported in interest receivable in the Consolidated Balance Sheets. Management has made the accounting policy election to exclude accrued interest receivable on HTM and AFS securities from the estimate of credit losses as accrued interest is written off in a timely manner when deemed uncollectible.

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

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 credit 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 credit 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 credit losses on loans.

Loans acquired from mergers are recorded at fair value with no carryover of the acquired entity's previously established allowance for credit 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 credit 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.

Loans acquired from mergers that have experienced more than insignificant credit deterioration since origination are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through a provision for credit losses.

ALLOWANCE FOR CREDIT LOSSES ON LOANS

The allowance for credit losses ("ACL") is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes that the uncollectability of a loan balance is confirmed. Consumer loans are charged off when they reach 120 days past due. Subsequent recoveries, if any, are credited to the allowance. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Under ASC 326, management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as changes in external conditions, such as changes in unemployment rates, property values, or other

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

relevant factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.
The allowance for credit losses is measured on a pool basis when similar risk characteristics exist. LCNB has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Portfolio Segment	Pool	Methodology	Loss Driver(s)
Commercial & industrial	Commercial & Industrial	Discounted Cash Flow	Weighted Combined MSA Unemployment and Coincident Economic Activity (CEA) Index for Ohio
Commercial & industrial	Commercial & Industrial - Banc Alliance/Alliance Partners Program	Discounted Cash Flow	Weighted Combined MSA Unemployment and Coincident Economic Activity (CEA) Index for Ohio
Commercial, secured by real estate	Commercial Real Estate (CRE) Non-Owner Occupied	Discounted Cash Flow	Weighted Combined MSA Unemployment
Commercial, secured by real estate	Commercial Real Estate (CRE) Owner Occupied	Discounted Cash Flow	Weighted Combined MSA Unemployment and Moody's Commercial Real Estate Price Indexes (CREPI) - US Commercial
Commercial, secured by real estate	Farm Real Estate	Discounted Cash Flow	Weighted Combined MSA Unemployment
Commercial, secured by real estate	Multifamily	Discounted Cash Flow	Weighted Combined MSA Unemployment
Commercial, secured by real estate	Other Construction, Land Development, and Other Land	Discounted Cash Flow	Weighted Combined MSA Unemployment and Weighted Combined MSA Home Price Index
Residential real estate	Real Estate Mortgage	Discounted Cash Flow	Weighted Combined MSA Unemployment
Residential real estate	Second Mortgage (Residential)	Discounted Cash Flow	Weighted Combined MSA Unemployment
Residential real estate	Home Equity Line of Credit	Discounted Cash Flow	Weighted Combined MSA Unemployment
Residential real estate	Residential 1-4 Family Construction	Discounted Cash Flow	Weighted Combined MSA Unemployment and Weighted Combined MSA Home Price Index
Consumer	Installment - Direct and ODP (Consumer)	Discounted Cash Flow	Weighted Combined MSA Unemployment
Consumer	Letter of Credit	Discounted Cash Flow/Manual	N/A
Consumer	Demand Deposit Account Overdrafts	Manual	N/A
Agricultural	Ag Production and Other Farm	Discounted Cash Flow	Weighted Combined MSA Unemployment
Purchased Credit Deteriorated	PCD - Residential Real Estate	Manual	N/A
Purchased Credit Deteriorated	PCD - Loans Valued Individually	Manual	N/A
Purchased Credit Deteriorated	PCD - Other	Manual	N/A
Other	Other Loans	Remaining Life	N/A

***"MSA" referenced above combines forecasts for Cincinnati, Dayton and Columbus metro areas.**
****"Weighted" referenced above refers to weighted average of baseline and alternative scenarios**

Management has chosen the discounted cash flow ("DCF") methodology to estimate the quantitative portion of the allowance for credit losses on loans for all loan pools. A Loss Driver Analysis ("LDA") was performed for each segment to identify potential loss drivers and create a regression model for use in forecasting cash flows. The LDA for all DCF-based pools utilized LCNB's data and peer data from the Federal Financial Institutions Examination Council's ("FFIEC") Call Report filings.

In creating the DCF model, as well as reviewing the model quarterly, management established a two-quarter reasonable and supportable forecast period with a six-quarter straight line reversion to the long-term historical average. Due to the infrequency of losses within the farm real estate and agricultural loan portfolios, LCNB elected to use peer data for a more statistically sound calculation.

Key assumptions in the DCF model include the probability of default ("PD"), loss given default ("LGD"), and prepayment/curtailment rates. The model-driven PD and LGD are derived using company specific and peer historical data. Prepayment and curtailment rates were calculated using third party studies of LCNB's data.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected credit losses are estimated over the contractual term of the loans, adjusted for prepayments when appropriate. The contractual term excludes extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Qualitative factors for the DCF methodology includes the following:

- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Company operates that affect the collectability of financial assets;
- The effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics;
- Model risk including statistical risk, reversion risk, timing risk, and model limitation risk;
- Changes in the nature and volume of the portfolio and terms of loans; and
- The lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date adjusted for estimated selling costs.

Prior to the adoption of ASC 326, the provision for loan losses was 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. The methodology used by management to estimate the allowance took 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 economic environment, as well as allowance adequacy in relation to the portfolio.

The allowance consisted of specific and general components. The specific component related to loans that were specifically reviewed for impairment. For such loans, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered loans not specifically reviewed for impairment and homogeneous loan pools, such as residential real estate and consumer loans. The general component was 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 have included 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 was considered impaired when management believed, based on information and events current at the time, that it was probable that the Bank would be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. An impaired loan was measured by the present value of expected future cash flows using the loan's effective interest rate. An impaired collateral-dependent loan was usually measured based on collateral value. Smaller-balance homogeneous loans, including residential mortgage and consumer installment loans, which were not evaluated individually were collectively evaluated for impairment.

Accrued int erest receivable totaling $7.3 million at December 31, 2023 was excluded from the amortized cost basis of the estimate of credit losses and is reported in interest receivable on the consolidated condensed balance sheets. Loans are generally placed on non-accrual status at 90 days past due or when the borrower's ability to repay becomes doubtful. When a loan is placed on non-accrual status, any accrued interest is reversed and charged against interest income.

ALLOWANCE FOR CREDIT LOSSES ON OFF-BALANCE SHEET CREDIT EXPOSURES
Per the guidance in ASC 326, LCNB estimates expected credit losses over the contractual period during which it is exposed to credit risk by a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for (or recovery of) credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate is made of expected

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

credit losses on commitments expected to be funded over their estimated lives. Funding rates are based on a historical analysis of the Company's portfolio, while estimates of credit losses are determined using the same loss rates as funded loans.

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" in 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.

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, 2023 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 credit 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

MORTGAGE SERVICING RIGHTS
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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2023 or 2022.

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 three pension plans, all 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.

Two companies previously acquired by the Company had defined benefit pension plans, which were assumed by the Company.

TREASURY STOCK

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

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 FROM CONTRACTS WITH CUSTOMERS

LCNB record's revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, LCNB must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as, the performance obligation is satisfied. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LCNB's primary sources of revenue are derived from interest and dividends earned on loans, securities, and other financial instruments that are not within the scope of Topic 606. LCNB has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income is not necessary.

LCNB generally satisfies its performance obligations on contracts with customers as services are rendered, and the transaction prices are typically fixed and charged either on a periodic basis, generally monthly, or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic *606* that significantly affects the determination of the amount and timing of revenue from contracts with customers.

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
Financial Accounting Standards (“FASB”) Accounting Standards Update (“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 has adopted the standard and utilized the LIBOR transition relief allowed under ASU 2020-04 and ASU 2020-06. The impact was immaterial, as all loans indexed to LIBOR were transitioned to another referenced index, predominately the Secured Overnight Financing Rate ("SOFR") for one, three, and six months. In all instances, LCNB was able to meet the criteria for the practical expedients and there was no impact on its results of consolidated operations or financial position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASC 326")

The Company adopted ASC 326 on January 1, 2023. It significantly changed guidance for recognizing impairment of financial instruments. Previous guidance required an "incurred loss" methodology for recognizing credit losses that delayed recognition until it was probable a loss had been incurred. ASC 326 replaced the incurred loss impairment methodology with a new "current expected credit loss" ("CECL") methodology that reflects expected credit losses over the lives of the credit instruments and requires consideration of a broader range of information to estimate credit losses. ASC 326 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. It also applies to off-balance sheet credit exposures, such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. ASC 326 also made changes to the accounting for credit losses on available-for-sale debt securities. Additional disclosures are required.

LCNB adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable guidance. The following table shows the impact of adopting ASC 326 on January 1, 2023 (in thousands):

	As Reported Pre-ASC 326	Impact of ASC 326 Adoption	As Reported Under ASC 326
Assets:			
Loans, gross of allowance	$ 1,401,278	341	1,401,619
ACL on loans	(5,646)	(2,196)	(7,842)
ACL on debt securities, held to maturity	—	(7)	(7)
Deferred tax assets, net	6,639	511	7,150
Liabilities:			
ACL on off-balance sheet credit exposures	—	571	571
Shareholders' Equity:			
Retained earnings	139,249	(1,922)	137,327

Federal banking regulatory agencies allow an optional phase-in period of three years for banks to absorb the impact to regulatory capital of implementing CECL. LCNB has elected not to exercise this option and the full impact of adopting ASU No. 2016-13 is included in regulatory capital as of December 31, 2023. Adoption of the ASU did not materially affect LCNB's regulatory capital ratios.

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 and became effective for LCNB on January 1, 2023. These amendments eliminated previous troubled debt restructuring ("TDR") recognition and measurement guidance and, instead, required 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 disclosure requirements for certain modifications to borrowers experiencing financial difficulties. Additionally, the amendments require the disclosure of current-period gross charge-offs by year of origination. Adoption of ASU No. 2022-02 did not have a material impact on LCNB's results of consolidated operations or financial position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)"
ASU No. 2023-02 was issued in March 2023 and allows reporting entities the option to use the proportional amortization method to account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met, regardless of the tax credit program from which the income tax credits are received. The proportional amortization method was previously limited to Low-Income Housing Tax Credit investments. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. LCNB does not expect adoption of ASU No. 2023-02 to have a material impact on its results of consolidated operations or financial position.

ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures"
ASU 2023-07 was issued in November 2023 and changes the requirements for segment disclosures, primarily through enhancing disclosure requirements for significant segment expenses, enhancing interim disclosure requirements, clarifying circumstances in which an entity can disclose multiple segment measures of profit or loss, providing new segment disclosure requirements for entities with a single reportable segment, and modifying other disclosure requirements. A public entity
should apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption
is permitted.

NOTE 2 - BUSINESS COMBINATIONS

Cincinnati Bancorp, Inc.
On November 1, 2023, LCNB acquired Cincinnati Bancorp, Inc. ("CNNB"), the holding company for Cincinnati Federal a federally chartered stock savings and loan association. Under the terms of the definitive merger agreement, CNNB merged with and into LCNB Corp., immediately followed by the merger of Cincinnati Federal with and into LCNB National Bank. CNNB operated four full-service offices in Cincinnati, Ohio and one full-service office in Florence, Kentucky, which became offices of LCNB after the merger. The merger significantly increased LCNB's existing presence in the Cincinnati market and expanded LCNB's community banking franchise across the Ohio River into the Northern Kentucky market.

CNNB results of operations were included in LCNB's results beginning November 1, 2023. Net interest income and net loss for CNNB were approximately $1,512,000 and $231,000, respectively, since the date of merger through December 31, 2023 and are included in LCNB's Consolidated Statement of Income.

Under the terms of the merger agreement, CNNB shareholders had the opportunity to elect to receive either 0.9274 shares of LCNB stock or $17.21 in cash for each share of CNNB common stock owned, subject to the limitation that 80% of the consideration be in the form of LCNB common stock and 20% of the consideration be in the form of cash. The fair value of the common stock issued as part of the consideration was determined on the basis of the closing price of LCNB's common stock on the acquisition date.

NOTE 2 - BUSINESS COMBINATIONS (continued)

The following table summarizes the fair value of the total consideration transferred as a part of the CNNB acquisition and the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction (in thousands):

Consideration:	
Cash consideration	$ 9,475
Common stock (2,042,598 shares issued at $13.99 per share)	28,576
Fair value of total consideration transferred	38,051
Identifiable Assets Acquired:	
Cash and cash equivalents	11,368
Debt securities, available-for-sale	5,210
Federal Home Loan Bank stock	7,508
Loans, net	236,692
Premises and equipment	2,767
Operating lease right-of-use assets	64
Core deposit and other intangibles	8,391
Bank owned life insurance	4,413
Deferred income taxes	4,451
Other assets	12,950
Total identifiable assets acquired	293,814
Liabilities Assumed:	
Deposits	210,532
Short-term borrowings	55,999
Long-term debt	5,963
Operating lease liabilities	68
Other liabilities	3,489
Total liabilities assumed	276,051
Total Identifiable Net Assets Acquired	17,763
Goodwill Resulting From Merger	$ 20,288

The fair value and gross contractual amounts of non-PCD loans as of the acquisition date was $231.9 million and $258.6 million, respectively. LCNB recorded a provision for credit losses on these loans of $1,722,000.

As permitted by ASC No. 805-10-25, Business Combinations, the above estimated amounts may be adjusted up to one year after the closing date of the transaction to reflect any new information obtained about facts and circumstances existing at the acquisition date. As such, any changes in the estimated fair value of assets, including acquired loans, will be recognized in the period the adjustment is identified.

NOTE 2 - BUSINESS COMBINATIONS (continued)

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

Direct expenses related to the CNNB acquisition totaled $4,514,000 during the year ended December 31, 2023 and were expensed as incurred and are recorded as Merger-related expenses in the consolidated statements of income.

The following table presents supplemental pro-forma information as if the acquisition had occurred at the beginning of 2022 (in thousands). The unaudited pro forma information includes adjustments for interest income on loans acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expenses on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

	2023	2022
Net interest income	$ 63,487	68,765
Net income	13,924	22,894
Net income per share, basic and diluted	$ 1.03	1.70

Eagle Financial Bancorp, Inc.
On November 29, 2023, LCNB and Eagle Financial Bancorp, Inc. (“EFBI”), the holding company for EAGLE.bank, signed a definitive merger agreement whereby EFBI will merge with and into LCNB in a stock-and-cash transaction. The transaction is expected to close during the second quarter 2024.

Subject to the terms of the merger agreement, which has been approved by the Board of Directors of each company, EFBI shareholders will have the opportunity to elect to receive either 1.1401 shares of LCNB stock, $19.10 per share in cash for each share of EFBI common stock owned, or a combination thereof subject to at least 60%, but not more than 70%, of the shares of EFBI being exchanged for LCNB common stock. As of September 30, 2023, EFBI reported 1,342,275 shares of common stock outstanding, as well as 115,807 options with a weighted average strike price of $16.18 per share (each option carries that right to purchase one EFBI share). Any unexercised stock options of EFBI will be canceled, prior to the effective time of the merger, in exchange for a cash payment per option equal to the difference between $19.10 and the exercise price of the option.

EAGLE.bank operates three full-service banking offices in Cincinnati, Ohio. EFBI had approximately $175.8 million in assets, $139.2 million in net loans, $135.0 million of deposits, and $26.3 million in consolidated stockholders’ equity as of September 30, 2023. When completed, the transaction will increase LCNB’s presence in the Cincinnati market.

Direct expenses related to the EFBI acquisition totaled $142,000 during the year ended December 31, 2023 and were expensed as incurred and are recorded as Merger-related expenses in the consolidated statements of income.

NOTE 3 - 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
2023				
Debt Securities Available-for-Sale:				
U.S. Treasury notes	$ 74,404	—	6,202	68,202
U.S. Agency notes	88,978	—	8,077	80,901
Corporate Bonds	7,450	—	916	6,534
U.S. Agency mortgage-backed securities	81,634	2	8,846	72,790
Municipal securities:				
Non-taxable	7,416	—	245	7,171
Taxable	44,923	1	3,921	41,003
	$ 304,805	3	28,207	276,601
Debt Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 13,580	4	872	12,712
Taxable	3,283	—	316	2,967
	$ 16,863	4	1,188	15,679
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

The Company estimated the expected credit losses at December 31, 2023 to be immaterial based on the composition of the securities portfolio.

NOTE 3 - INVESTMENT SECURITIES (Continued)

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

	Less Than Twelve Months		Twelve Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023				
Available-for-Sale:				
U.S. Treasury notes	$ —	—	68,202	6,202
U.S. Agency notes	—	—	80,901	8,077
Corporate Bonds	734	16	5,800	900
U.S. Agency mortgage-backed securities	—	—	72,287	8,846
Municipal securities:				
Non-taxable	1,540	10	5,631	235
Taxable	—	—	40,392	3,921
	$ 2,274	26	273,213	28,181
Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 6,012	476	5,975	396
Taxable	—	—	2,966	316
	$ 6,012	476	8,941	712
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

NOTE 3 - INVESTMENT SECURITIES (Continued)

At December 31, 2023, LCNB’s securities portfolio consisted of 207 securities, 176 of which were in an unrealized loss position. At December 31, 2022, LCNB's securities portfolio consisted of 196 securities, 187 of which were in an unrealized loss position. After considering the issuers of the securities, LCNB management determined that that the unrealized losses were due to changing interest rate environments. At December 31, 2023, as LCNB had no intent to sell its debt securities before recovery of their cost basis and as it was more likely than not that it will not be required to sell its debt securities before recovery of the cost basis, no unrealized losses were deemed to represent credit losses.

Contractual maturities of debt securities at December 31, 2023 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	$ 19,196	18,638	1,469	1,442
Due from one to five years	169,415	154,423	1,319	1,270
Due from five to ten years	34,560	30,750	2,849	2,687
Due after ten years	—	—	11,226	10,280
	223,171	203,811	16,863	15,679
U.S. Agency mortgage-backed securities	81,634	72,790	—	—
	$ 304,805	276,601	16,863	15,679

Debt securities with a market value of $124,367,000 and $166,412,000 at December 31, 2023 and 2022, 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):

	2023	2022	2021
Proceeds from sales	$ 5,210	—	21,235
Gross realized gains	—	—	365
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, 2023 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):

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual funds	$ 1,415	1,240	1,429	1,234
Equity securities	10	96	778	1,039
Total equity securities with a readily determinable fair value	$ 1,425	1,336	2,207	2,273

LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 3 - 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):

	2023	2022	2021
Net gains (losses) recognized during the period on equity securities	$ (5)	(292)	141
Less net losses recognized on equity securities sold during the period	(61)	—	—
Net unrealized gains (losses) recognized during the reporting period on equity securities still held at period end	$ 56	(292)	141

NOTE 4 - LOANS

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

	2023	2022
Commercial and industrial	$ 120,541	120,327
Commercial, secured by real estate:		
Owner occupied	206,705	208,485
Non-owner occupied	501,108	420,075
Farmland	37,367	36,340
Multi-family	240,033	189,917
Construction loans secured by 1-4 family dwellings	9,058	7,786
Construction loans secured by other real estate	111,373	73,652
Residential real estate		
Secured by senior liens on 1-4 family dwellings	402,026	269,822
Secured by junior liens on 1-4 family dwellings	19,999	10,197
Home equity line-of-credit loans	38,579	26,109
Consumer	25,600	28,414
Agricultural	11,000	10,073
Other loans, including deposit overdrafts	82	81
	1,723,471	1,401,278
Less allowance for credit losses	10,525	5,646
Loans-net	$ 1,712,946	1,395,632

Loans in the above table are shown net of deferred origination fees and costs. Deferred origination fees, net of related costs, were $181,000 and $980,000 at December 31, 2023 and 2022, respectively.

NOTE 4 - LOANS (Continued)

Non-accrual loans by class of receivable at December 31 were as follows (dollars in thousands):

	2023			2022		
	Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized	Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized
Commercial and industrial	$ —	—	—	—	—	3
Commercial, secured by real estate						
Owner occupied	—	—	—	231	231	15
Non-owner occupied	—	—	—	—	—	—
Farmland	51	51	26	88	88	12
Multi-family	—	—	—	—	—	—
Construction loans secured by 1-4 family dwellings	—	—	—	—	—	—
Construction loans secured by other real estate	—	—	—	—	—	—
Residential real estate						
Secured by senior liens on 1-4 family dwellings	29	29	—	72	72	4
Secured by junior liens on 1-4 family dwellings	—	—	—	—	—	—
Home equity line-of-credit loans	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Agricultural	—	—	—	—	—	—
Total non-accrual loans	$ 80	80	26	391	391	34

Two residential real estate loans secured by senior liens on 1-4 family dwellings were added to the non-accrual classification during the first quarter of 2023. Accrued interest reversed and charged against interest income for these loans totaled approximately $3,000. Both loans were paid in full during the third quarter 2023. An additional residential real estate loan was added to the non-accrual classification during the fourth quarter of 2023. Accrued interest reversed and charged against interest income for this loan was approximately $4,000.

Interest income that would have been recorded during 2023 and 2022 if loans on non-accrual status at December 31, 2023 and 2022 had been current and in accordance with their original terms was approximately $14,000 and $32,000, respectively.

The ratio of non-accrual loans to total loans outstanding at December 31, 2023 and 2022 was —% and 0.01%, respectively.

ALLOWANCE FOR CREDIT LOSSES

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. A provision for credit losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within Note 1 – Basis of Presentation - Adoption of New Accounting Pronouncements included in this Form 10-K.

During the first quarter of 2023, the Company adopted ASU 2016-13, including the CECL methodology for estimating the ACL. This standard was adopted using a modified retrospective approach on January 1, 2023. See Note 1 - Basis of Presentation - Adoption of New Accounting Pronouncements for a summary of the impact adoption of ASU 2016-13 had on LCNB's ACL, retained earnings, and deferred taxes.

NOTE 4 - LOANS (Continued)

QUANTITATIVE CONSIDERATIONS
The ACL is primarily calculated utilizing a DCF model. Key inputs and assumptions used in this model are discussed below:

- Forecast model - For each portfolio segment, an LDA was performed in order to identify appropriate loss drivers and create a regression model for use in forecasting cash flows. The LDA analysis utilized peer FFIEC Call Report data for all pools. The Company plans to update the LDA when materially relevant.
- Probability of default – PD is the probability that an asset will be in default within a given time frame. The Company has defined default as when a charge-off has occurred, a loan goes to non-accrual status, a loan is greater than 90 days past due, or financial difficulty modification status change. The forecast model is utilized to estimate PDs.
- Loss given default – LGD is the percentage of the asset not expected to be collected due to default. The LGD is derived from company specific and peer loss data.
- Prepayments and curtailments – Prepayments and curtailments are calculated based on the Company's own data. This analysis is updated when materially relevant.
- Forecast and reversion – the Company as of January 1, 2023 established a one-quarter reasonable and supportable forecast period with a one-quarter straight line reversion to the long-term historical average. As of December 31, 2023, the Company established a two-quarter reasonable and supportable forecast period with a six-quarter straight line reversion to the long-term historical average. Extending the forecast and reversion periods from previous quarters has differing effects on pools based on the economic indicators used and the relation of the selected forecast range to the historical average. For example, the historical average for the bank's unemployment indicator is 5.88%, which is higher than the forecasted range utilized. The extended forecast and reversion period ultimately decreases the reserve associated with the unemployment factor when compared to the historical average.
    - The historical averages for LCNB's economic indicators are unemployment – 5.88%, change in Coincident Economic Activity – 1.81%, change in Commercial Real Estate Price Indexes – 5.43%, and change in Home Price Index – 3.38%
- Economic forecast – the Company utilizes a third party to provide economic forecasts under various scenarios, which are assessed against economic indicators and management's observations in the market. As of January 1, 2023, the date of CECL adoption, the Company selected a forecast which forecasted unemployment at 4.16%, the change in Coincident Economic Activity at 1.77%, the change in Commercial Real Estate Price Indexes at 9.35%, and the change in Home Price Index at -1.17% during the forecast periods. As of December 31, 2023, the Company selected a forecast which forecasts unemployment between 4.21% and 4.55%, the change in Coincident Economic Activity between 0.62% and 1.91%, the change in Commercial Real Estate Price Indexes between -8.56% and -6.64%, and the change in the Home Price Index between 0.09% and 4.47% during the forecast periods. Management believes that the resulting quantitative reserve appropriately balances economic indicators with identified risks.

QUALITATIVE CONSIDERATIONS
In addition to the quantitative model, management considers the need for qualitative adjustment for risks not considered in the DCF. Factors that are considered by management in determining loan collectability and the appropriate level of the ACL are listed below:

- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Company operates that affect the collectability of financial assets;
- The effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics;
- Model risk including statistical risk, reversion risk, timing risk and model limitation risk;
- Changes in the nature and volume of the portfolio and terms of loans; and
- The lending policies and procedures, including changes in undersriting standards and practices for collections, write-offs, and recoveries.

The following table presents activity in the allowance for credit losses and a breakdown of the recorded investment in the allowance for credit losses by portfolio segment for the three years ended December 31 and a breakdown of the recorded investment in the loan portfolio by portfolio segment for the two years ended December 31 (in thousands):

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(Continued)

NOTE 4 - LOANS (Continued)

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
2023							
Allowance for credit losses on loans:							
Balance, beginning of year, prior to adoption of ASC 326	$ 1,300	3,609	624	86	22	5	5,646
Impact of adopting ASC 326	(512)	1,440	836	446	(9)	(5)	2,196
Acquisition of Cincinnati Bancorp, Inc. - PCD Loans	—	90	403	—	—	—	493
Provision for (recovery of) credit losses	266	(176)	689	(219)	5	88	653
Acquisition of Cincinnati Bancorp, Inc. - provision for credit losses on non-PCD loans charged to expense	—	451	1,268	3	—	—	1,722
Losses charged off	(15)	—	(4)	(83)	—	(166)	(268)
Recoveries	—	—	—	5	—	78	83
Balance, end of year	$ 1,039	5,414	3,816	238	18	—	10,525
Individually evaluated for credit loss	$ 2	12	5	—	—	—	19
Collectively evaluated for credit loss	1,037	5,402	3,811	238	18	—	10,506
Balance, end of year	$ 1,039	5,414	3,816	238	18	—	10,525
Loans:							
Individually evaluated for credit loss	$ 107	3,293	537	—	—	—	3,937
Collectively evaluated for credit loss	120,434	1,102,351	460,067	25,600	11,000	82	1,719,534
Balance, end of year	$ 120,541	1,105,644	460,604	25,600	11,000	82	1,723,471
Percent of loans in each category to total loans	7.0 %	64.2 %	26.7 %	1.5 %	0.6 %	— %	100.0 %
Ratio of net charge-offs to average loans	0.01 %	— %	— %	0.28 %	— %	117.65 %	0.01 %
2022							
Allowance for credit losses on loans:							
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
Percent of loans in each category to total loans	8.6 %	66.9 %	21.8 %	2.0 %	0.7 %	— %	100.0 %
Ratio of net charge-offs to average loans	— %	0.01 %	(0.01)%	0.02 %	— %	100.00 %	0.01 %

NOTE 4 - LOANS (Continued)

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
2021							
Allowance for credit losses on loans:							
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
Balance, end of year	$ 1,095	3,607	665	105	30	4	5,506
Percent of loans in each category to total loans	7.4 %	64.8 %	24.5 %	2.5 %	0.8 %	— %	100.0 %
Ratio of net charge-offs to average loans	— %	(0.01)%	(0.01)%	0.01 %	— %	16.24 %	— %

The ratio of the allowance for credit losses for loans to total loans at December 31, 2023 and 2022 was 0.61% and 0.40%, respectively.

For collateral dependent loans where management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the loan is to be provided substantially through the operation or sale of the collateral, the allowance for credit losses is measured based on the difference between the fair value of the collateral, less costs to sell, and the amortized cost basis of the loan as of the measurement date.

The following table presents the carrying value and related allowance of collateral dependent individually evaluated loans by class segment for the years ended December 31 (in thousands):

	2023		2022	
	Carrying Value	Related Allowance	Carrying Value	Related Allowance
Commercial & industrial	$ —	—	—	—
Commercial, secured by real estate				
Owner occupied	72	—	230	—
Non-owner occupied	—	—	—	—
Farmland	51	—	88	—
Multi-family	—	—	—	—
Construction loans secured by 1-4 family dwellings	—	—	—	—
Construction loans secured by other real estate	—	—	—	
Residential real estate				
Secured by senior liens on 1-4 family dwellings	—	—	40	—
Secured by junior liens on 1-4 family dwellings	—	—	—	—
Home equity line-of-credit loans	—	—	—	—
Consumer	—	—	—	—
Agricultural	—	—	—	—
Other loans, including deposit overdrafts	—	—	—	—
Total	$ 123	—	358	—

NOTE 4 - LOANS (Continued)

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.

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.

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.

Other Loans, Including Deposit Overdrafts. Other loans may include loans that do not fit in any of the other categories, but it is primarily composed of overdrafts from transaction deposit accounts. Overdraft payments are recorded as a recovery and overdrafts are generally written off after 34 days with a negative balance.

NOTE 4 - LOANS (Continued)

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 4 - LOANS (Continued)

The following table presents the amortized cost basis of loans by vintage and credit quality indicators at December 31 (in thousands). The December 31, 2022 table is shown for comparison purposes.

	Term Loans by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
2023									
Commercial & industrial									
Pass	$ 17,169	30,518	29,587	11,426	2,732	5,641	16,919	113	114,105
OAEM	—	—	1,474	—	—	—	—	—	1,474
Substandard	—	1,813	—	105	1,592	137	1,315	—	4,962
Doubtful	—	—	—	—	—	—	—	—	—
Total	17,169	32,331	31,061	11,531	4,324	5,778	18,234	113	120,541
Gross charge-offs	—	—	—	—	—	15	—	—	15
Commercial, secured by real estate									
Pass	99,055	200,735	156,865	109,810	92,895	283,564	141,354	6,056	1,090,334
OAEM	—	7,671	—	—	—	3,004	—	—	10,675
Substandard	—	—	—	—	1,648	2,987	—	—	4,635
Doubtful	—	—	—	—	—	—	—	—	—
Total	99,055	208,406	156,865	109,810	94,543	289,555	141,354	6,056	1,105,644
Gross charge-offs	—	—	—	—	—	—	—	—	—
Residential real estate									
Pass	55,232	83,511	107,120	62,177	19,208	95,643	33,800	—	456,691
OAEM	—	—	—	—	—	18	—	—	18
Substandard	—	446	—	217	—	3,062	170	—	3,895
Doubtful	—	—	—	—	—	—	—	—	—
Total	55,232	83,957	107,120	62,394	19,208	98,723	33,970	—	460,604
Gross charge-offs	—	—	—	—	4	—	—	—	4
Consumer									
Pass	8,087	5,820	4,868	4,671	1,382	304	460	—	25,592
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	8	—	—	—	8
Doubtful	—	—	—	—	—	—	—	—	—
Total	8,087	5,820	4,868	4,671	1,390	304	460	—	25,600
Gross charge-offs	—	—	62	21	—	—	—	—	83
Agricultural									
Pass	1,883	464	197	694	46	31	7,685	—	11,000
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	1,883	464	197	694	46	31	7,685	—	11,000
Gross charge-offs	—	—	—	—	—	—	—	—	—
Other									
Pass	—	—	—	—	—	—	82	—	82
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	82	—	82
Gross charge-offs	—	—	—	—	—	—	166	—	166
Total loans	$ 181,426	330,978	300,111	189,100	119,511	394,391	201,785	6,169	1,723,471

NOTE 4 - LOANS (Continued)

	Term Loans by Origination Year								
	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
2022									
Commercial & industrial									
Pass	$ 30,132	36,341	20,936	3,632	2,499	5,630	15,403	—	114,573
OAEM	—	—	—	2,142	—	—	1,602	—	3,744
Substandard	1,540	—	106	—	—	51	313	—	2,010
Doubtful	—	—	—	—	—	—	—	—	—
Total	31,672	36,341	21,042	5,774	2,499	5,681	17,318	—	120,327
Gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial, secured by real estate									
Pass	135,503	142,446	96,272	100,363	75,387	229,175	129,274	4,955	913,375
OAEM	7,931	—	—	—	7,413	—	—	—	15,344
Substandard	—	—	—	—	—	7,536	—	—	7,536
Doubtful	—	—	—	—	—	—	—	—	—
Total	143,434	142,446	96,272	100,363	82,800	236,711	129,274	4,955	936,255
Gross charge-offs	—	—	—	—	—	67	—	—	67
Residential real estate									
Pass	27,892	86,952	54,144	17,804	13,298	78,969	24,359	1,095	304,513
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	37	—	1,572	—	6	1,615
Doubtful	—	—	—	—	—	—	—	—	—
Total	27,892	86,952	54,144	17,841	13,298	80,541	24,359	1,101	306,128
Gross charge-offs	—	—	—	—	—	—	5	—	5
Consumer									
Pass	8,786	7,561	8,108	3,145	413	316	82	—	28,411
OAEM	—	—	—	—	—	—	—	—	—
Substandard	3	—	—	—	—	—	—	—	3
Doubtful	—	—	—	—	—	—	—	—	—
Total	8,789	7,561	8,108	3,145	413	316	82	—	28,414
Gross charge-offs	—	4	24	9	—	—	—	—	37
Agricultural									
Pass	533	243	865	63	116	29	8,224	—	10,073
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	533	243	865	63	116	29	8,224	—	10,073
Gross charge-offs	—	—	—	—	—	—	—	—	—
Other									
Pass	—	—	—	—	—	—	81	—	81
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	81	—	81
Gross charge-offs	—	—	—	—	—	—	157	—	157
Total loans	$ 212,320	273,543	180,431	127,186	99,126	323,278	179,338	6,056	1,401,278

NOTE 4 - LOANS (Continued)

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.

NOTE 4 - LOANS (Continued)

A loan portfolio aging analysis by class segment 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
2023							
Commercial & industrial	$ —	—	—	—	120,541	120,541	—
Commercial, secured by real estate:							
Owner occupied	—	—	72	72	206,633	206,705	72
Non-owner occupied	2,645	—	—	2,645	498,463	501,108	—
Farmland	—	—	—	—	37,367	37,367	—
Multi-family	—	—	—	—	240,033	240,033	—
Construction loans secured by 1-4 family dwellings	—	—	—	—	9,058	9,058	—
Construction loans secured by other real estate	—	—	—	—	111,373	111,373	—
Residential real estate:							
Secured by senior liens on 1-4 family dwellings	1,020	414	29	1,463	400,563	402,026	—
Secured by junior liens on 1-4 family dwellings	27	—	—	27	19,972	19,999	—
Home equity line-of-credit loans	174	30	—	204	38,375	38,579	—
Consumer	136	—	—	136	25,464	25,600	—
Agricultural	—	—	—	—	11,000	11,000	—
Other	82	—	—	82	—	82	—
Total	$ 4,084	444	101	4,629	1,718,842	1,723,471	72
2022							
Commercial & industrial	$ —	—	—	—	120,327	120,327	—
Commercial, secured by real estate:							
Owner occupied	—	—	—	—	208,485	208,485	—
Non-owner occupied	—	—	—	—	420,075	420,075	—
Farmland	—	—	—	—	36,340	36,340	—
Multi-family	—	—	—	—	189,917	189,917	—
Construction loans secured by 1-4 family dwellings	—	—	—	—	7,786	7,786	—
Construction loans secured by other real estate	—	—	—	—	73,652	73,652	—
Residential real estate:							
Secured by senior liens on 1-4 family dwellings	81	—	79	160	269,662	269,822	39
Secured by junior liens on 1-4 family dwellings	—	—	—	—	10,197	10,197	—
Home equity line-of-credit loans	—	—	—	—	26,109	26,109	—
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

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
(Continued)

NOTE 4 - LOANS (Continued)

From time to time, the terms of certain loans are modified when concessions are granted to borrowers experiencing financial difficulties. Each modification is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's ability to pay the debt as modified. 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.

One modification was granted to a borrower experiencing financial difficulties during the twelve months ended December 31, 2023. The modification was made on a residential real estate loan secured by a senior lien on a single-family home with an outstanding balance of $325,000 at June 30, 2023 and involved a delay of monthly payments for a period of time. This loan was paid in full during the third quarter 2023. No loans meeting the above specifications were modified during the twelve months ended December 31, 2022.

LCNB is not committed to lend additional funds to borrowers whose loan terms were modified.

There were no modified loans that experienced a payment default within twelve months of the restructuring date during the years ended December 31, 2023, 2022, or 2021.

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, 2023 and 2022 were approximately $391,800,000 and $148,412,000, respectively.

NOTE 5 - PURCHASED CREDIT DETERIORATED LOANS

LCNB acquired loans through the merger with Cincinnati Bancorp for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of these loans is as follows (in thousands):

	2023
Purchase price of loans at acquisition	$ 8,649
Allowance for credit losses at acquisition	493
Non-credit discount/(premium) at acquisition	1,486
Par value of acquired loans at acquisition	$ 10,628

The following table provides, as of December 31, the major classifications of purchased credit deteriorated loans acquired (in thousands):

	2023
Commercial, secured by real estate	2,636
Residential real estate	6,355
Total	$ 8,991

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

	2023
Outstanding balance	$ 10,458
Carrying amount	8,991

NOTE 5 - PURCHASED CREDIT DETERIORATED LOANS (continued)

Activity during 2023 for the accretable discount related to purchased credit deteriorated loans is as follows (in thousands):

	2023
Accretable discount, beginning of year	—
Accretable discount acquired during period from merger with CNNB	1,486
Less accretion	19
Accretable discount, end of year	1,467

NOTE 6 – OTHER REAL ESTATE OWNED

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

	2023	2022
Balance, beginning of year	$ —	—
Additions	—	717
Reductions due to sales	—	(717)
Balance, end of year	$ —	—

There were no residential consumer mortgage loans secured by residential real estate in the process of foreclosure at December 31, 2023.

NOTE 7 - PREMISES AND EQUIPMENT

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

	2023	2022
Land	$ 8,789	8,222
Buildings	32,321	30,148
Equipment	18,568	17,266
Construction in progress	5,143	4,558
Total	64,821	60,194
Less accumulated depreciation	28,519	27,152
Premises and equipment, net	$ 36,302	33,042

Depreciation charged to expense was $1,881,000 in 2023, $1,897,000 in 2022, and $1,931,000 in 2021.

NOTE 8 - 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 the Milford Lending Office, for certain office equipment, and for its ATMs. The Oakwood lease has a remaining term of fourteen years with options to renew for six additional periods of five years each. The Oxford lease has a remaining term of thirty-seven 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):

	2023	2022	2021
Operating lease expense	$ 890	616	840
Short-term lease expense	70	243	48
Variable lease expense	8	4	4
Other	29	11	10
Total lease expense	$ 997	874	902

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

	2023	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 911	623	757
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —	370	801
Weighted average remaining lease term in years for operating leases	33.0	33.4	32.9
Weighted average discount rate for operating leases	3.53 %	3.46 %	3.40 %

Future payments due under operating leases as of December 31, 2023 are as follows (in thousands):

2024	$ 719
2025	486
2026	333
2027	311
2028	264
Thereafter	9,703
	11,816
Less effects of discounting	5,555
Operating lease liabilities recognized	$ 6,261

NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in goodwill during 2023 was as follows (in thousands):

	2023	2022
Balance, beginning of year	$ 59,221	59,221
Additions from acquisition of CNNB	20,288	—
Balance, end of year	$ 79,509	59,221

The acquisition method of accounting requires that assets and liabilities acquired in a business combination are recorded at fair value as of the acquisition date. The valuation of assets and liabilities often involves estimates based on third-party valuations or internal valuations based on discounted cash flow analyses or other valuation techniques, all of which are inherently subjective. This typically results in goodwill, the amount by which the cost of net assets acquired in a business combination exceeds their fair value, which is subject to impairment testing at least annually.

LCNB performs a goodwill impairment test on an annual basis during the fourth quarter, or more often if events or circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit is below its carrying value. Based on our annual impairment analysis of goodwill as of the fourth quarter 2024, it was determined that the fair value was in excess of its respective carrying value and therefore, goodwill is considered not impaired.

Core deposit and other intangible assets in the Consolidated Balance Sheets at December 31 were as follows (in thousands):

	2023			2022		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	$ 13,508	8,120	5,388	8,544	7,588	956
Mortgage servicing rights	5,881	1,775	4,106	2,408	1,537	871
Total	$ 19,389	9,895	9,494	10,952	9,125	1,827

The estimated aggregate future amortization expense for each of the next five years for core deposit intangible assets as of December 31, 2023 is as follows (in thousands):

2024	$ 842
2025	658
2026	496
2027	496
2028	497

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):

	2023	2022	2021
Balance, beginning of year	$ 871	1,039	976
Amount obtained through merger with CNNB	3,427	—	—
Amount capitalized to mortgage servicing rights	48	100	409
Amortization of mortgage servicing rights	(240)	(268)	(346)
Balance, end of year	$ 4,106	871	1,039

NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

At December 31, 2023, the fair value of servicing rights was $5,023,000, which was determined using discount rates ranging from 10% to 11% and prepayment rate ranging from 6.86% to 10.38%, depending on the stratification of the specific right. At December 31, 2022, the fair value of servicing rights was $1,644,000, which was determined using a discount rate of 11.25% and a prepayment rate of 6.53%. As estimated fair values were greater than the carrying value of LCNB's mortgage servicing rights, management determined that a valuation allowance was not necessary.

NOTE 10 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIPS

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

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

	2023	2022
Affordable housing tax credit investment	$ 16,950	16,950
Less amortization	4,626	3,268
Net affordable housing tax credit investment	$ 12,324	13,682
Unfunded commitment	$ 4,527	7,185

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,		
	2023	2022	2021
Tax credits and other tax benefits recognized	$ 1,658	1,394	995
Tax credit amortization expense included in provision for income taxes	1,358	1,142	806

NOTE 11 - TIME DEPOSITS

Contractual maturities of time deposits at December 31, 2023 were as follows (in thousands):

Three months or less	$ 28,870
Over three through six months	68,532
Over six through twelve months	140,476
Total 2024	237,878
2025	87,658
2026	8,270
2027	3,692
2028	1,489
Thereafter	1,038
	$ 340,025

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022 was $50,169,000 and $16,139,000, respectively.

NOTE 12 - BORROWINGS

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

	2023		2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
FHLB advances	$ 100,969	4.87 %	5,000	3.02 %
Term loan	12,154	4.25 %	14,072	4.25 %
Total long-term debt	$ 113,123	4.80 %	19,072	3.93 %

The term loan is with a correspondent financial institution and 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):

	2023	2022
Maturing within one year	$ 4,988	6,918
Maturing one year through two years	13,135	2,001
Maturing two years through three years	25,000	10,153
Maturing three years through four years	25,000	—
Maturing four years through five years	25,000	—
Thereafter	20,000	—
Total	$ 113,123	19,072

NOTE 12 - BORROWINGS (continued)

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

	2023		2022	
	Outstanding Balance	Average Rate	Outstanding Balance	Average Rate
Revolving line of credit	$ —	— %	$ 3,000	7.25 %
Lines of credit	21,395	6.00 %	18,455	5.00 %
FHLB short-term advances	76,000	5.53 %	50,000	4.40 %
	$ 97,395	5.63 %	$ 71,455	4.67 %

At December 31, 2023 and 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, 2024.

At December 31, 2023, the Company had short-term line of credit borrowing arrangements with three correspondent financial institutions. Under the terms of the first arrangement, the Company can borrow up to $30 million at an interest rate equal to the lending institution's federal funds rate plus a spread of 50 basis points. At December 31, 2023 and 2022, the outstanding balance of this arrangement totaled $21.4 million and $18.5 million, respectively. Under the terms of the second arrangement, the Company can borrow up to $25 million at an interest rate equal to the FOMC rate plus a spread of 25 basis points. Under the terms of the third arrangement, the Company can borrow up to $25 million at the interest rate in effect at the time of the borrowing.

All long- and short-term advances from the FHLB of Cincinnati are secured by a blanket pledge of the Company's 1-4 family first lien mortgage loans in the amount of approximately $417 million and $270 million at December 31, 2023 and 2022, respectively. Remaining borrowing capacity with the FHLB, including both long- and short-term borrowings, at December 31, 2023 was approximately $89.2 million. LCNB could increase its remaining borrowing capacity by purchasing more stock in the FHLB.

At December 31, 2023, standby letters of credit totaling $27.25 million had been issued by the Federal Home Loan Bank of Cincinnati on behalf of LCNB to secure public fund deposits. These letters of credit were cancelled in January 2024.

NOTE 13 - INCOME TAXES

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

	2023	2022	2021
Income taxes currently payable	$ 2,952	5,162	4,317
Deferred income tax provision (benefit)	(320)	(344)	294
Provision for income taxes	$ 2,632	4,818	4,611

NOTE 13 - INCOME TAXES (continued)

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

	2023	2022	2021
Statutory tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) resulting from -			
Tax exempt interest	(0.9)%	(0.6)%	(0.7)%
Tax exempt income on bank owned life insurance	(1.6)%	(0.8)%	(0.9)%
Captive insurance premium income	(0.8)%	(0.9)%	(0.8)%
Affordable housing tax credit limited partnerships	(2.0)%	(0.8)%	(0.6)%
Nondeductible merger-related expenses	1.7 %	— %	— %
Other, net	(0.2)%	— %	— %
Effective tax rate	17.2 %	17.9 %	18.0 %

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

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 2,217	1,186
Net unrealized losses on investment securities available-for-sale	5,923	7,955
Fair value adjustment on loans acquired from mergers	5,895	40
Benefit plans	277	190
Deferred compensation	580	602
Minimum pension liability	15	7
Operating lease right-of-use assets	1,242	1,338
Other	478	158
	16,627	11,476
Deferred tax liabilities:		
Depreciation of premises and equipment	(1,395)	(1,174)
Amortization of intangibles	(2,808)	(1,643)
Mortgage servicing rights	(865)	(183)
Prepaid expenses	(525)	(316)
FHLB stock dividends	(501)	(183)
Operating lease liabilities	(1,243)	(1,338)
Fair value adjustment on time deposits acquired from mergers	(222)	—
Deferred gain on loans sold	(305)	—
Other, net	(198)	—
	(8,062)	(4,837)
Net deferred tax assets (liabilities)	$ 8,565	6,639

As of December 31, 2023 and 2022 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, 2023.

NOTE 13 - INCOME TAXES (continued)

The Company is no longer subject to examination by federal tax authorities for years before 2020.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

	2023	2022
Commitments to extend credit:		
Commercial loans	$ 28,111	22,823
Other loans:		
Fixed rate	15,349	191
Adjustable rate	1,946	1,422
Unused lines of credit:		
Fixed rate	21,532	41,558
Adjustable rate	184,056	238,876
Unused overdraft protection amounts on demand accounts	16,418	16,566
Standby letters of credit	5	5
	$ 267,417	321,441

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.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Activity in the allowance for credit losses on off-balance sheet credit exposures for the year ended December 31, 2023 is as follows (in thousands):

Balance, beginning of year, prior to adoption of ASC 326	$	—
Impact of adopting ASC 326		571
Acquisition of Cincinnati Bancorp, Inc.		21
Provision for (recovery of) credit losses		(296)
Losses charged off		(15)
Balance, end of year	$	281

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, 2023 totaled approximately $2,876,000.

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 15 - 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 2024, the restrictions generally limit dividends to the aggregate of net income for the year 2024 plus the net earnings retained for 2023 and 2022. If dividends exceed net income for a year, a bank is generally not required to carry forward the negative amount resulting from such excess if the bank can attribute the excess to the preceding two years. If the excess is greater than the bank's previously undistributed net income for the preceding two years, prior OCC approval of the dividend is required and a negative amount would be carried forward in future dividend calculations. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines.

At December 31, 2023, the bank paid $650,000 in excess of the previous two years' Bank net income to the holding company due to an $8.75 million dividend for the acquisition of CNNB. In addition, the February 2024 dividend payment was also in excess of the previous two years' Bank net income. The Bank requested after-the-fact OCC approval for these excess payments and that approval remains outstanding.

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.

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.

NOTE 15 - REGULATORY MATTERS AND IMPACT ON PAYMENT OF DIVIDENDS (continued)

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 qualified to use the simplified measure for its December 31, 2022 regulatory capital calculations, but did not opt in. It did not qualify to use the simplified approach for its December 31, 2023 regulatory capital calculations.

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

	2023	2022
Regulatory Capital:		
Shareholders' equity	$ 242,528	213,052
Goodwill and other intangible assets	(84,897)	(60,177)
Accumulated other comprehensive loss	22,336	29,945
Tier 1 risk-based capital	179,967	182,820
Eligible allowance for credit losses	10,318	5,646
Total risk-based capital	$ 190,285	188,466
Capital Ratios:		
Common Equity Tier 1 Capital to risk-weighted assets	10.17 %	11.94 %
Tier 1 capital to risk-weighted assets	10.17 %	11.94 %
Total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets	10.75 %	12.31 %
Leverage ratio (tier 1 capital to adjusted quarterly average total assets)	8.05 %	9.72 %

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive loss for 2023 and 2022 were as follows (in thousands):

	2023			2022		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Changes in Pension Plan Assets and Benefit Obligations	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Changes in Pension Plan Assets and Benefit Obligations	Total
Balance at beginning of year	$ (29,927)	(27)	(29,954)	(1,536)	(273)	(1,809)
Before reclassifications	7,646	(28)	7,618	(28,391)	246	(28,145)
Reclassifications	—	—	—	—	—	—
Balance at end of year	$ (22,281)	(55)	(22,336)	(29,927)	(27)	(29,954)

NOTE 17 - RETIREMENT PLANS

Prior to January 1, 2009, the Company had a single-employer qualified noncontributory defined benefit retirement plan that covered substantially all regular full-time employees. Effective January 1, 2009, the Company redesigned the plan and merged it into a multiple-employer plan, which is accounted for as a multi-employer plan because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. Employees hired on or after January 1, 2009 are not eligible to participate in this plan. Effective February 1, 2009, the Company amended the plan to reduce benefits for those whose age plus vesting service equaled less than 65 at that date.

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

CNNB operated a similar multi-employer plan, accounted for as a multi-employer plan, at the time of the merger, which was assumed by LCNB.

Certain information pertaining to both the LCNB and the former CNNB qualified noncontributory defined benefit retirement plans is as follows:

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

The LCNB plan was at least 80% funded as of July 1, 2023 and 2022. The former CNNB plan was between 65% and 80% funded as of July 1, 2023 and 2022. A funding improvement or rehabilitation plan has not been implemented for either plan, nor has a surcharge been paid to either 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.

NOTE 17 - RETIREMENT PLANS (continued)

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):

	2023	2022	2021
Qualified noncontributory defined benefit retirement plan	$ 1,211	1,298	1,178
401(k) plan	701	636	610

The Company expects a total minimum contribution of $258,000 to the qualified noncontributory defined benefit retirement plans in 2024.

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, 2023 and 2022, the amount of the liability for this plan was, respectively, $122,000 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, 2023 and 2022 was $2,754,000 and $2,867,000, 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, 2023 and 2022 is $570,000 and $689,000, respectively. The average discount rate used to determine the present value of the obligations was approximately 5.7% in 2023 and 5.1% in 2022. There were no service costs associated with the plans for 2023, 2022, or 2021. Interest costs were $26,000, $36,000, and $42,000 for 2023, 2022, and 2021, 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):

	2023	2022	2021
Service cost	$ —	—	—
Interest cost	77	54	52
Amortization of unrecognized (gain) loss	—	8	8
Net periodic pension cost	$ 77	62	60

NOTE 17 - 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):

	2023	2022	2021
Projected benefit obligation at beginning of year	$ 1,606	1,999	2,124
Service cost	—	—	—
Interest cost	77	54	52
Actuarial (gain) or loss	35	(303)	(33)
Benefits paid	(145)	(144)	(144)
Projected benefit obligation at end of year	$ 1,573	1,606	1,999

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, 2023 and 2022 was $1,573,000 and $1,606,000, respectively.

At December 31, 2023 and 2022, unrecognized net loss of $55,000 and $27,000, respectively, was included in accumulated other comprehensive income (loss).

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

	2023	2022	2021
Net actuarial (gain) or loss	$ 28	(246)	(32)

The estimated unrecognized net actuarial gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2024 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:

	2023	2022	2021
Benefit obligation:			
Discount rate	4.83 %	5.02 %	2.83 %
Salary increase rate	N/A	N/A	N/A
Net periodic pension cost:			
Discount rate	5.02 %	2.83 %	2.52 %
Salary increase rate	N/A	N/A	N/A
Amortization period in years	18.61	19.41	20.16

NOTE 17 - RETIREMENT PLANS (continued)

The nonqualified defined benefit retirement plan is not funded. Therefore no contributions will be made in 2024.

Estimated future benefit payments reflecting expected future service for the years ended after December 31, 2023 are (in thousands):

2024	$	144
2025		144
2026		143
2027		143
2028		142
2029-2033		624

NOTE 18 - STOCK-BASED COMPENSATION

LCNB established an Ownership Incentive Plan (the "2002 Plan") during 2002 that allowed for stock-based awards to eligible employees, as determined by the Board of Directors. The awards were in the form of stock options, share awards, and/or appreciation rights. The 2002 Plan provided for the issuance of up to 200,000 shares. The 2002 Plan expired on April 16, 2012. Any outstanding unexercised options, however, 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 remaining 311 outstanding shares under the plan were exercised in 2021 at a weighted average exercise price of $12.60

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

	2021
Intrinsic value of options exercised	1
Cash received from options exercised	4
Tax benefit realized from options exercised	—

Compensation costs related to option awards were recognized in full during the first quarter 2017.

NOTE 18 - STOCK-BASED COMPENSATION (continued)

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

	2023		2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1,	58,314	$ 17.99	44,512	$ 17.08	28,596	$ 17.42
Granted	44,150	17.84	32,554	19.25	26,321	16.85
Vested	(23,447)	17.89	(18,752)	18.01	(9,649)	17.49
Forfeited	—	—	—	—	(756)	16.86
Nonvested at December 31,	79,017	$ 17.94	58,314	$ 17.99	44,512	$ 17.08

At December 31, 2023, there were 79,017 restricted stock awards outstanding with an approximate stock value of $1,246,000 based on that day's closing stock price. At December 31, 2022, there were 58,314 restricted stock awards outstanding with an approximate stock value of $1,050,000 based on that day's closing stock price. The grant date fair value of restricted stock awards was $788,000 and $627,000 in 2023 and 2022, respectively. Grants to officers of LCNB vest over a period of five years while grants to members of the board of directors vest immediately. The grant date fair value is recognized ratably into income over the vesting period.

Total expense related to restricted stock awards included in salaries and wages in the Consolidated Statements of Income for the years ended December 31, 2023, 2022, and 2021 was $563,000, $531,000, and $249,000 respectively. The related tax benefit for the years ended December 31, 2023, 2022, and 2021 was $118,000, $111,000, and $52,000, respectively.

Unrecognized compensation expense for restricted stock awards was $926,000 at December 31, 2023 and is expected to be recognized over a period of 4.2 years.

NOTE 19 - EARNINGS PER SHARE

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

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
(Continued)

NOTE 19 - EARNINGS PER SHARE (continued)

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

	2023	2022	2021
Net income	$ 12,628	22,128	20,974
Less allocation of earnings and dividends to participating securities	86	114	75
Net income allocated to common shareholders	$ 12,542	22,014	20,899
Weighted average common shares outstanding, gross	11,497,330	11,469,676	12,635,013
Less average participating securities	79,473	58,695	45,408
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	11,417,857	11,410,981	12,589,605
Add dilutive effect of:			
Stock options	—	—	8
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share	11,417,857	11,410,981	12,589,613
Earnings per common share:			
Basic	$ 1.10	1.93	1.66
Diluted	1.10	1.93	1.66

NOTE 20 - RELATED PARTY TRANSACTIONS

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

	2023	2022
Beginning balance	$ 2,192	2,125
New loans and advances	436	317
Change in composition of related parties	—	—
Reductions	(164)	(250)
Ending Balance	$ 2,464	2,192

Deposits from executive officers, directors and related interests of such persons held by the Company at December 31, 2023 and 2022 amounted to $2,721,000 and $2,163,000, respectively.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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). At December 31, 2022, LCNB had investments in two mutual funds that were traded in active markets and their fair values were based on market quotations (level 1). These two mutual funds were sold during the first quarter of 2023. An investment in another mutual fund is measured at fair value using the fund's net asset value ("NAV") and is considered level 1 because the NAV is determined and published and is 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 individually evaluated collateral dependent loans (or impaired loans prior to the adoption of ASC 326), other real estate owned, and other repossessed assets.

LCNB does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent loans are recorded to reflect partial write-downs or specific reserves that are based on the observable market price or current estimated value of the collateral. These loans are reported in the nonrecurring table below at initial recognition of significant borrower distress and on an ongoing basis until recovery or charge-off. The fair values of distressed loans are determined using either the sales comparison approach or income approach. Respective unobservable inputs for the approaches consist of adjustments for differences between comparable sales and the utilization of appropriate capitalization rates.

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 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

		Fair Value Measurements at the End of the Reporting Period Using		
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 96	96	—	—
Mutual funds	—	—	—	—
Mutual funds measured at net asset value	1,240	1,240	—	—
Debt securities available-for-sale:				
U.S. Treasury notes	68,202	68,202	—	—
U.S. Agency notes	80,901	—	80,901	—
Corporate bonds	6,534	—	6,534	—
U.S. Agency mortgage-backed securities	72,790	—	72,790	—
Municipal securities:				
Non-taxable	7,171	—	7,171	—
Taxable	41,003	—	41,003	—
Total recurring fair value measurements	$ 277,937	69,538	208,399	—
Nonrecurring fair value measurements:				
Individually evaluated collateral dependent loans	$ —	—	—	—
Total nonrecurring fair value measurements	$ —	—	—	—
2022				
Recurring fair value measurement:				
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

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2023 and 2022 (dollars in thousands):

				Range		
	Fair Value	Valuation Technique	Unobservable Inputs	High	Low	Weighted Average
2023						
Individually evaluated collateral dependent loans	$ —	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
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 %

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
(Continued)

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

			Fair Value Measurements at the End of the Reporting Period Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023					
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 39,723	39,723	39,723	—	—
Debt securities, held-to-maturity	16,858	15,679	—	—	15,679
Loans, net	1,712,946	1,534,406	—	—	1,534,406
Accrued interest receivable	8,405	8,405	—	8,405	—
FINANCIAL LIABILITIES:					
Deposits	1,824,389	1,824,105	1,485,418	338,687	—
Short-term borrowings	97,395	97,395	—	97,395	—
Long-term debt	113,123	112,986	—	112,986	—
Accrued interest payable	1,697	1,697	—	1,697	—
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	—
Short-term borrowings	71,455	71,455	—	71,455	—
Long-term debt	19,072	18,573	—	18,573	—
Accrued interest payable	311	311	—	311	—

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, 2023 and 2022.

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.

NOTE 22 - PARENT COMPANY FINANCIAL INFORMATION

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

Condensed Balance Sheets:

December 31,	2023	2022
Assets:		
Cash on deposit with subsidiary	$ 2,370	916
Cash on deposit with unrelated depository institution	48	620
Equity securities, at fair value	—	1,024
Investment in subsidiaries	244,344	215,222
Other assets	872	59
Total assets	$ 247,634	217,841
Liabilities:		
Short-term borrowings	$ —	3,000
Long-term debt	12,154	14,072
Other liabilities	177	94
Total liabilities	12,331	17,166
Shareholders' equity	235,303	200,675
Total liabilities and shareholders' equity	$ 247,634	217,841

Condensed Statements of Income

Year ended December 31,	2023	2022	2021
Income:			
Dividends from subsidiaries	$ 30,015	17,850	15,820
Interest and dividends	10	35	34
Other income (loss), net	(62)	(123)	155
Total income	29,963	17,762	16,009
Total expenses	4,112	3,305	1,764
Income before income tax benefit and equity in undistributed income of subsidiaries	25,851	14,457	14,245
Income tax benefit	(738)	(705)	(333)
Equity in undistributed income (loss) of subsidiaries	(13,961)	6,966	6,396
Net income	$ 12,628	22,128	20,974

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NOTE 22 - PARENT COMPANY FINANCIAL INFORMATION (continued)

Condensed Statements of Cash Flows

Year ended December 31,	2023	2022	2021
Cash flows from operating activities:			
Net income	$ 12,628	22,128	20,974
Adjustments for non-cash items -			
Increase (decrease) in undistributed income of subsidiaries	13,961	(6,966)	(6,396)
Other, net	292	636	299
Net cash flows provided by operating activities	26,881	15,798	14,877
Cash flows from investing activities:			
Proceeds from sales of equity securities	963	—	—
Cash paid for business acquisition, net of cash received	(9,208)	—	—
Net cash flows provided by (used in) investing activities	(8,245)	—	—
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(3,000)	3,000	—
Proceeds from long-term debt	—	15,000	—
Principal payments on long-term debt	(1,918)	(928)	—
Proceeds from issuance of common stock	428	409	434
Payments to repurchase common stock	(3,326)	(23,660)	(8,310)
Cash dividends paid on common stock	(9,938)	(9,191)	(9,720)
Other	—	—	4
Net cash flows used in financing activities	(17,754)	(15,370)	(17,592)
Net change in cash	882	428	(2,715)
Cash at beginning of year	1,536	1,108	3,823
Cash at end of year	$ 2,418	1,536	1,108

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, 2023, 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, 2023, LCNB’s internal control over financial reporting met the criteria.

Changes in Internal Control over Financial Reporting

During the fourth quarter 2023, 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

(a) Information required to be disclosed in a report on Form 8-K.

None.

(b) Insider trading arrangements.

During the three months ended December 31, 2023, no director or executive officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K

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 22, 2024 (the "Proxy Statement"), which will be filed no later than 120 days from the end of the fiscal year ended December 31, 2023, 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, 2023:

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	79,017	$ 17.94	284,561
Equity compensation plans not approved by security holders	—	—	—
Total	79,017	$ 17.94	284,561

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 2023 and 2022 - Plante & Moran PLLC (PCAOB ID 166)
- Report for 2021 - FORVIS, LLP (PCAOB ID 686)

FINANCIAL STATEMENTS
- Consolidated Balance Sheets as of December 31, 2023 and 2022.
- Consolidated Statements of Income for the Years Ended December 31, 2023, 2022, and 2021.
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2023, 2022, and 2021.
- Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2023, 2022, and 2021.
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2023, 2022, and 2021.
- 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 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.
2.2	Agreement and Plan of Merger dated as of May 17, 2023 by and between LCNB Corp. and Cincinnati Bancorp, Inc. - incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 18, 2023, Exhibit 2.1.
2.3.	Agreement and Plan of Merger dated as of November 28, 2023 by and between LCNB Corp. and Eagle Financial Bancorp, Inc. - incorporated by reference to the Registrant's Current Report on Form 8-K filed on November 29, 2023, 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.
10.4	Nonqualified Executive Retirement Plan – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009, Exhibit 10.4.
10.5	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.

LCNB CORP. AND SUBSIDIARIES

(a) Exhibit No.	Exhibit Description
10.6	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.
19	LCNB Corp. Insider Trading Policy
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.
97.1	LCNB Corp. Amended & Restated Clawback Policy
101	The following financial information from LCNB Corp.'s Annual Report on Form 10-K for the year ended December 31, 2023 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)

LCNB CORP. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LCNB Corp.
(Registrant)

/s/ Eric J. Meilstrup

Eric J. Meilstrup, President & Chief Executive Officer
March 15, 2024

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	/s/ Robert C. Haines II
Eric J. Meilstrup, President, Chief Executive Officer & Director (Principal Executive Officer) March 15, 2024	Robert C. Haines II, Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer) March 15, 2024
/s/ Spencer S. Cropper	/s/ Craig M. Johnson
Spencer S. Cropper Chairman of the Board of Directors March 15, 2024	Craig M. Johnson, Director March 15, 2024
/s/ Robert A. Bedinghaus	
Robert A. Bedinghaus, Director March 15, 2024	Michael J. Johrendt, Director March 15, 2024
/s/ Mary E. Bradford	/s/ William H. Kaufman
Mary E Bradford, Director March 15, 2024	William H. Kaufman, Director March 15, 2024
/s/ Steve P. Foster	/s/ Anne E. Krehbiel
Steve P. Foster, Director March 15, 2024	Anne E. Krehbiel, Director March 15, 2024
/s/ William G. Huddle	/s/ Takeitha W. Lawson
William G. Huddle, Director March 15, 2024	Takeitha W. Lawson, Director March 15, 2024

SIGNATURES (continued)

Stephen P. Wilson, Director
March 15, 2024

EXHIBIT 19

LCNB CORP
INSIDER TRADING POLICY

Introduction

The federal securities laws prohibit trading in a company's securities by those with material non-public information about the company. Insider trading, as it is more commonly known, has recently become the focus of great concern in the securities industry with the Securities Exchange Commission (the "SEC") increasing the number of insider trading investigations. Thus, it is important that the insiders of any public company become aware of who they are and of their potential liability in this area.

Who is an Insider?

An insider is anyone with access to material inside information prior to its public release and absorption by the market. Insiders include the following persons:

(1) The corporation itself;
(2) Directors, officers and major security holders;
(3) Employees:
(4) Firms, associates and families of the above;
(5) Brokers of the above; and
(6) Tippees of the above.

What is Material Information?

Information is said to be "material" if there is a substantial likelihood that the knowledge of such information would influence investors' decisions or affect security values. As can be expected, there is no clear-cut line of determination of what information is material. The following factors, however, may influence whether or not certain information is deemed to be material:

(1) The size of the event or transaction relative to total company activity;
(2) Specificity of the information;
(3) Reliability of the information, in light of its nature and source and circumstances under which it was received;
(4) Whether the information is novel or surprising in terms of previous Company experience or performance; and
(5) Current SEC attitudes towards appropriate subjects for disclosure.

Certain types of information, however, may be classified as almost always material:

(1) Company financial results;

(2) Dividend changes or stock splits;
(3) Public offerings of debt or equity securities;
(4) Call, redemption or repurchase of the company's securities;
(5) Top management or control changes;
(6) Significant new products or services;
(7) News of a pending or proposed merger, acquisition, or divestiture.

When is Information Considered Public?

Information is public when LCNB CORP has released it through appropriate channels, such as a press release, governmental filing or statement from an Executive Officer. Enough time (three business days) must be allowed after such a release for the investing public to evaluate the information. At that point, and not before, the information is considered "public".

The Consequences

The consequences of insider trading law violations can be staggering:

For individuals who trade on inside information (or "tip" information to others who trade):

- A civil penalty of up to three times the profit gained or loss avoided;
- A criminal fine (no matter how small the profit) of up to $1 million; and
- A jail term of up to 10 years.

For companies (as well as possibly supervisory persons) that fail to take appropriate steps to prevent insider trading:

- A civil penalty of the greater of $1 million or three times the amount of the profit gained or loss avoided as a result of the employee's violation; and
- A criminal fine of up to $2.5 million.

Moreover, violation of LCNB Corp's insider trading policy will result in company sanctions up to and including dismissal.

Any of the above actions, or even a SEC investigation that does not result in prosecution, can tarnish a person's or a company's reputation and irreparably damage the careers of those involved.

Board Approved: December 2023

The Policy

LCNB Corp's policy regarding trading in our shares is as follows:

1. If any employee has material non-public information relating to LCNB Corp or any of its subsidiaries, it is our policy that neither that person nor related person living in his or her household may buy or sell LCNB Corp shares or engage in any other actions to take advantage of, or pass on to others, that information.

2. Directors, officers and other personnel who regularly have access to, or generate material non-public information are subject to additional restrictions on the purchase and sale of LCNB Corp shares.

3. Employees, officers, and directors may participate in the LCNB Corp. Dividend Reinvestment Plan (DRIP). Employees, officers, and directors may participate in the Direct Stock Purchase Plan if they adhere to SEC Rule 10-b5-1. (Appendix A explains this Rule in summary).

4. The ultimate responsibility for following this policy and avoiding improper transactions rests with the individual.

5. Questions regarding this policy should be directed <u>only</u> to the Corporate Office.

Board Approved: December 2023

SUPPLEMENTAL
TRADING RESTRICTIONS
FOR
DIRECTORS

LCNB Corp has adopted a policy prohibiting insider trading which applies to all personnel. As noted in the policy, directors, officers and others who regularly have access to, or generate, material non-public information are subject to additional restrictions on the purchase or sale of LCNB Corp shares.

As you are aware, your position as a director of LCNB Corp regularly exposes you to such inside information. Therefore, for your own protection as well as the company's, additional trading restrictions must apply. Occasionally, knowledge of insider information generated within the company is attributed to you as a director, even though you have not been briefed on it due to timing or other circumstances.

As discussed in our insider trading policy, violations of this type usually are examined by people who don't know you or LCNB Corp and even the appearance of impropriety can severely damage both you and the company. These additional trading restrictions represent an effort to guard against even the appearance of impropriety. Therefore, in addition to the broad prohibitions on insider trading which apply to all LCNB Corp personnel, by virtue of your position the following additional trading restrictions apply:

1. Neither you nor any related person living in your household may buy or sell LCNB Corp shares for a period beginning thirty (30) days prior to the end of a fiscal quarter and ending three (3) business days following the public release by LCNB Corp of the quarter's or prior year's financial results.

2. All transactions in LCNB Corp shares must notify the Corporate Office in advance.

We recognize that this policy may cause inconvenience from time to time. However, we believe that this approach will help inadvertent problems under the insider trading laws, and thus protect our most important shared asset, our reputation for integrity and the highest ethical conduct.

Board Approved: December 2023

SUPPLEMENTAL
TRADING RESTRICTIONS
FOR
OFFICERS AND KEY PERSONNEL

LCNB Corp has adopted a policy prohibiting insider trading which applies to all personnel. As noted in the policy, directors, officers and others who regularly have access to, or generate, material non-public information are subject to additional restrictions on the purchase or sale of LCNB Corp shares.

As you are aware, your position at LCNB Corp regularly exposes you to such inside information. Therefore, the Board of Directors has determined that, for your own protection as well as the company's, additional trading restrictions must apply. Please understand that this does not mean that LCNB Corp does not trust you. To the contrary, you are regularly entrusted with very sensitive information. Moreover, in some cases, you may be deemed as a matter of law to "know" information about LCNB Corp even if you haven't been fully briefed on it.

As discussed in our insider trading policy, violations of this type usually are examined by people who don't know you or LCNB Corp and even the appearance of impropriety can severely damage both you and the company. These additional trading restrictions represent an effort to guard against even the appearance of impropriety. Therefore, in addition to the broad prohibitions on insider trading which apply to all LCNB Corp personnel, by virtue of your position the following additional trading restrictions apply:

1. Neither you nor any related person living in your household may buy or sell LCNB Corp shares for a period beginning thirty (30) days prior to the end of a fiscal quarter and ending three (3) business days following the public release by LCNB Corp of the quarter's or prior year's financial results.

2. All transactions in LCNB Corp shares must be pre-cleared by the Corporate Office. If a transaction is contemplated, please contact the Corporate Office in advance.

We recognize that this policy may cause inconvenience from time to time. However, we believe that this approach will help inadvertent problems under the insider trading laws, and thus protect our most important shared asset, our reputation for integrity and the highest ethical conduct.

Board Approved: December 2023

APPENDIX A

Rule 10b5-1 allows insiders to trade, free from prosecution under the insider trading laws, if the insider complies with one of the affirmative defenses provided in the rule. The affirmative defenses provide that a purchase or sale would not be considered insider trading if the person making the purchase or sale demonstrates that before becoming aware of inside, nonpublic information, the person had:

1. Entered into a binding contract to purchase or sell the security;
2. Instructed another person to purchase or sell the security; or
3. Adopted a written plan for trading securities.

The contract, instruction or plan to purchase or sell also must meet certain criteria under the new rule. The contract, instruction or plan must:

1. Expressly specify the amount of securities to be purchased or sold, the price and the date;
2. Provide a written formula for determining the amount, price and date; or
3. Prevent the person from exercising any subsequent influence over how, when, or whether to effect purchases or sales.

Finally, the purchase or sale under contract, instruction or plan will not be protected if the person who entered into the contract, instruction or plan alters or deviates from the contract, instruction or plan to purchase or sell securities (whether by changing the amount, price or timing of the purchase or sale) or enters into or alters a corresponding or hedging transaction or position with respect to those securities. In other words, the person entering the plan, contract or instruction must be trading in good faith and not as part of a scheme to evade the requirements of the rule.

What all this means to the employees, officers, and directors of LCNB Corp. is that if they wish to participate in automatic stock purchases with automatic checking withdrawals under the Direct Stock Purchase Plan, they may do so as long as they:

1. Enter the plan in good faith when not in possession of material inside information;
2. Specify an amount of securities or dollar amount to be purchased monthly or in some regular periodic basis;
3. Do not exercise influence on the stock transfer agent regarding how or when to purchase shares; and
4. Do not revise or change their purchase plan while in possession of material nonpublic information.

If an insider complies with all these elements, they will not be considered trading on inside information and will not incur liability under federal securities laws.

Board Approved: December 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, 2024 relating to the financial statements which appear in this Form 10-K.

/s/ Plante & Moran, PLLC

Auburn Hills, Michigan
March 15, 2024

EXHIBIT 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements of LCNB Corp. on Form S-8 (No. 333-103801), Form S-3 (No. 333-175806), Form S-4 (No. 333-273606), and Form S-4 (No. 333-276841) of our report, dated March 9, 2022, on the consolidated financial statements of LCNB Corp., as of and for the year ended December 31, 2021, which report is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

/s/ FORVIS, LLP

FORVIS, LLP (formerly BKD, LLP)

Cincinnati, Ohio
March 15, 2024

EXHIBIT 31.1

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2023, 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, 2024

EXHIBIT 31.2

CERTIFICATIONS

In connection with the Annual Report of LCNB Corp. on Form 10-K for the period ending December 31, 2023, 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, 2024

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, 2023 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, 2024

EXHIBIT 97.1

LCNB CORPORATION (the "Company")
AMENDED AND RESTATED CLAWBACK POLICY

Introduction

The Board of Directors of the Company (the "Board") believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability. The Board has therefore adopted this Clawback Policy (this "Policy") which provides for the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws or fraudulent behavior affecting the Company. This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934 (the "Exchange Act") and Nasdaq Listing Rule 5608 (the "Clawback Listing Standards").

Administration

This Policy shall be administered by the Board or, if so designated by the Board, the Compensation Committee of the Board, in which case references herein to the Board shall be deemed references to the Compensation Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

Covered Executives

This Policy applies to the Company's current and former executive officers and such other senior executives/employees who may from time to time be deemed subject to the Policy by the Board ("Covered Executives"). For purposes of this Policy, an executive officer means an executive officer as defined under Section 10D of the Exchange Act and the Clawback Listing Standards.

Incentive Compensation

For purposes of this Policy, "Incentive Compensation" means any of the following; provided that, such compensation is granted, earned, or vested based wholly or in part on the attainment of a financial reporting measure: annual bonuses, other short- and long-term cash incentives and equity-based incentives, including but not limited to, options, share appreciation rights, restricted shares, and restricted share units. Financial reporting measures are measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures. Share price and total shareholder return are also financial reporting measures. A financial reporting measure need not be presented within the financial statements or included in a filing with the Commission.

Recoupment; Accounting Restatement; Fraud

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period, the Board will require reimbursement or forfeiture of any excess Incentive Compensation received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement.

In the event of fraudulent behavior negatively affecting the Company, the Board may require reimbursement or forfeiture of any Incentive Compensation received by any Covered Executive. Whether a Covered Executive engaged in fraudulent behavior negatively affecting the Company and the amount of the Incentive Compensation to be recovered will be determined in the sole discretion of the Board.

Excess Incentive Compensation: Amount Subject to Recovery

The amount to be recovered in the case of an accounting restatement will be the excess of the Incentive Compensation paid to the Covered Executive based on the erroneous data over the Incentive Compensation that would have been paid to the Covered Executive had it been based on the restated results, as determined by the Board, without regard to any taxes paid by the Covered Executive in respect of the Incentive Compensation paid based on the erroneous data.

If the Board cannot determine the amount of excess Incentive Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

Method of Recoupment

The Board will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder which may include, without limitation: (a) requiring reimbursement of cash Incentive Compensation previously paid; (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards; (c) offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive; (d) cancelling outstanding vested or unvested equity awards; and/or (e) taking any other remedial and recovery action permitted by law, as determined by the Board.

No Indemnification

The Company shall not indemnify any Covered Executives against the loss of any incorrectly awarded Incentive Compensation.

Interpretation

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission, and the Clawback Listing Standards.

Effective Date

This Policy was originally effective as of April 28, 2015 (the "Effective Date") and shall apply to Incentive Compensation that is received by Covered Executives on or after April 28, 2012, even if such Incentive Compensation was approved, awarded or granted to Covered Executives prior to April 28, 2012.

Amendment; Termination

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to reflect final regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with the Clawback Listing Standards and any rules or standards adopted by a national securities exchange on which the Company's shares are listed. The Board may terminate this Policy at any time.

Other Recoupment Rights; Relationship to Other Plans and Agreements

The Board intends that this Policy will be applied to the fullest extent of the law. The Board may require that any employment agreement, equity award agreement or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company. In the event of any inconsistency between the terms of the Policy and the terms of any employment agreement, equity award agreement, or similar agreement under which Incentive Compensation has been granted, awarded, earned or paid to a Covered Executive, whether or not deferred, the terms of the Policy shall govern.

Impracticability

The Board shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Board in accordance with Rule 10D-1 of the Exchange Act and the Clawback Listing Standards.

Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.