LCNB CORP
Form 10-K
March 01, 2011

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

or

o 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	Name of each exchange on which registered
None	None

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

COMMON STOCK, NO PAR VALUE
(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. o Yes x 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. o Yes x 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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

o Large accelerated filer	x Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

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

The aggregate market value of the registrant’s outstanding voting common stock held by nonaffiliates on June 30, 2010 determined using a per share closing price on that date of $11.75 as quoted on the Nasdaq Over-the-Counter Bulletin Board, was $73,593,316.75.

As of March 1, 2011, 6,689,743 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 26, 2011, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2010 are incorporated by reference into Part III.

LCNB CORP.

For the Year Ended December 31, 2010

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PART I

Item 1. Business

FORWARD-LOOKING STATEMENTS

Certain matters disclosed herein may be deemed to be forward-looking statements that involve risks and uncertainties. Forward looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words and their derivatives such as “expects,” “anticipates,” “believes,” “estimates,” “plans,” “projects
other statements concerning opinions or judgments of the Company and its management about future events. Factors that could influence the accuracy of such forward looking statements include, but are not limited to, regulatory policy changes, interest rate fluctuations, loan demand, loan delinquencies and losses, general economic conditions and other risks. Such forward-looking statements represent management's judgment as of the current date. Actual strategies and results in future time periods may differ materially from those currently expected. LCNB Corp. disclaims, however, any intent or obligation to update such forward-looking statements. LCNB Corp. intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

DESCRIPTION OF LCNB CORP.'S BUSINESS

General Description

LCNB Corp., an Ohio corporation formed in December, 1998, is a financial holding company headquartered in Lebanon, Ohio. Through its subsidiaries, LCNB National Bank (the “Bank") and Dakin Insurance Agency, Inc. ("Dakin"), LCNB is engaged in the commercial banking and insurance agency businesses. LCNB Corp. and its subsidiaries are herein collectively referred to as “LCNB”.

The predecessor of LCNB Corp., the Bank, was formed as a national banking association in 1877. On May 19, 1999, the Bank became a wholly-owned subsidiary of LCNB. At the close of business on December 20, 2007, Sycamore National Bank (“Sycamore”) merged with and into the Bank. A Cincinnati, Ohio based commercial bank, Sycamore operated two offices located on Cincinnati’s West side. These two offices became branches of the Bank at the time of the merger. The Bank's main office is located in Warren County, Ohio and 24 branch offices are located in Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties, Ohio. In addition, the Bank operates 30 automated teller machines ("ATMs") in its market area.

The Bank is a full service community bank offering a wide range of commercial and personal banking services. Deposit services include checking accounts, NOW accounts, savings accounts, Christmas and vacation club accounts, money market deposit accounts, Classic 50 accounts (a senior citizen program), individual retirement accounts, and certificates of deposit. Deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (the “FDIC”).

Loan products offered include commercial and industrial loans, commercial and residential real estate loans, 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 Bank also offers indirect financing through various automotive, boat, and lawn and garden dealers.

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The Trust and Investment Management Division of the Bank performs complete trust administrative functions and offers agency and trust services, retirement savings products, and mutual fund investment products to individuals, partnerships, corporations, institutions and municipalities.

Security brokerage services are offered by the Bank through arrangements with UVEST Financial Services Group, Inc., 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, U.S. savings bonds, travelers' checks, money orders, cashier's checks, bank-by-mail, ATMs, cash and transaction services, debit cards, wire transfers, electronic funds transfer, utility bill collections, notary public service, personal computer based cash management services, 24 hour telephone banking, PC Internet banking, 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.

Dakin, an Ohio corporation, has been an independent insurance agency in Lebanon, Ohio since 1876. It was acquired by LCNB on April 11, 2000. Its primary office is at 24 East Mulberry Street, Lebanon, Ohio 45036; telephone (513) 932-4010. Dakin maintains additional offices in the Bank's South Lebanon and Mason offices. Dakin is engaged in selling and servicing personal and commercial insurance products and annuity products and is regulated by the Ohio Department of Insurance.

Market Area

LCNB’s primary market area consists of Warren, Butler, and Clinton Counties and portions of Hamilton, Clermont, and Montgomery Counties in Southwestern Ohio. Certain demographic information for Warren, Butler, Clinton, Hamilton, and Montgomery Counties are as follows:

	Warren	Butler	Clinton	Hamilton	Montgomery
Population, 2000 census	158,383	332,807	40,543	845,303	559,062
Estimated population, 2009	210,712	363,184	43,058	855,062	532,562
Percentage increase in population	33.0 %	9.1 %	6.2 %	1.2 %	-4.7 %
Estimated percentage of persons below poverty level, 2008	6.6 %	11.9 %	10.9 %	13.6 %	15.0 %
Estimated median household income, 2008	$ 71,139	$ 52,856	$ 49,440	$ 50,285	45,237
Median age, 2000	35.2	34.2	35.3	35.5	36.4
Unemployment rate:					
December 2010	8.4 %	8.8 %	15.0 %	8.5 %	10.1 %
December 2009	9.3 %	9.9 %	18.5 %	9.5 %	12.0 %
December 2008	6.4 %	6.8 %	8.5 %	6.4 %	8.6 %

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Once primarily a rural county (its population according to the 1950 census was only 38,505), Warren County experienced significant growth during the latter half of the twentieth century and into the twenty-first century. Many people who now live in Warren County are employed by companies located in the Cincinnati and Dayton metropolitan areas. People employed within Warren County usually work in the trade, transportation, and utilities sector, the manufacturing sector, the professional and businesses services sector, and the leisure and hospitality sector. A sizable tourist industry that includes King's Island, the Beach Waterpark, and the Ohio Renaissance Festival provides a number of temporary summer jobs. Not including local government entities and school districts, which are significant sources of employment, the top five major employers in Warren County are Macy's Credit and Customer Service, Procter and Gamble's Mason Business Center, Atrium Medical Center (a hospital), WellPoint (health insurance), and Luxottica.

Butler County was historically a rural area with the exception of three urban centers. Hamilton and Middletown were both manufacturing centers. As is true with many manufacturing communities in the Midwest, many of the industries in Hamilton and Middletown have either closed or greatly diminished their workforces and these jobs have been largely replaced with lower-paying service oriented jobs. Oxford is the home of Miami University and Oxford's businesses primarily serve the college students. A fourth urban center, Fairfield, was incorporated in 1955.

Most of the growth in Butler County has occurred in West Chester, Liberty, and Fairfield Townships. Many of the people living in these townships are employed by companies located in the Cincinnati metropolitan area. People employed within Butler County usually work in the trade, transportation, and utilities sector, the manufacturing sector, the education and health services sector, the professional and business services sector, and the leisure and hospitality sector. Not including local government entities and school districts, the top five major employers in Butler County are Miami University, AK Steel, Cincinnati Financial Corp. (insurance), BAE Systems (defense, security, and aerospace), and GE Aviation. Mercy Hospital Fairfield and Fort Hamilton Hospital are both located in Butler County and are a significant source of health-related employment.

Clinton County remains mostly rural. Wilmington, with an estimated 2009 population of 12,548, is the largest city. The next largest is Blanchester, with an estimated 2009 population of 4,295. The unemployment rate at December 2009 and 2010 is unusually high, even for the current economy, because of the loss of a dominant employer. DHL, an overnight shipping company, owned the Wilmington Air Park, a decommissioned air force base, and maintained hub operations at this location. In May 2008 DHL announced that its sorting and air freight operations at the Wilmington Air Park would be discontinued. This resulted in the direct loss of approximately 8,000 jobs, not including job losses sustained by other businesses dependent on the air park operations. Certain services subcontracted to ABX Air and ASTAR Air Cargo continue, but with greatly diminished work forces.

Hamilton County's economics are dominated by Cincinnati. Fortune 500 companies with their headquarters in Hamilton County include American Financial Group, Federated Department Stores, Fifth Third Bank, The Kroger Company, The Procter & Gamble Company , and Western & Southern Financial Group. The five largest employers are The Kroger Company, The University of Cincinnati, The Procter & Gamble Company, Cincinnati Children's Hospital Medical Center, and the Health Alliance of Greater Cincinnati.

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LCNB's two offices in Montgomery County are located in the communities of Oakwood and Centerville. Similar to Cincinnati and Hamilton County, Dayton is the largest city in Montgomery County and dominates the economic demographics of the county. The largest employer of Montgomery County residents is Wright Patterson Air Force Base, which is actually located in Greene County. Large employers located in Montgomery County include Premier Health Partners, Kettering Health Network, LexisNexis, and Honda of America.

LCNB's market area includes a portion of Clermont County primarily because of a branch office located in Goshen, Ohio. Goshen is a suburb of Cincinnati and many of its residents work in Hamilton County. Goshen's economic demographics are similar to Hamilton County's demographics.

Competition

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

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

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.

Dakin competes with numerous other independent and exclusive insurance agencies (an exclusive agent sells for only one insurance company) and with insurance companies that sell direct to individuals and businesses without using agents. Dakin competes by representing high quality insurance companies, providing personalized and responsive service to its clients, and providing convenient office locations.

Supervision and Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law by President Barack Obama on July 21, 2010. The Dodd-Frank Act includes provisions that will specifically affect financial institutions and other entities providing financial services and other corporate governance and compensation provisions that will affect most public companies.

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The Dodd-Frank Act establishes a new independent regulatory body within the Federal Reserve System that will be known as the Bureau of Consumer Financial Protection (the “Bureau”). The Bureau will assume responsibility for most consumer protection laws and will have broad authority, with certain exceptions, to regulate financial products offered by banks and non-banks. The Bureau will have authority to supervise, examine, and take enforcement actions with respect to depository institutions with more than $10 billion in assets, non-bank mortgage industry participants, and other Bureau-designated non-bank providers of consumer financial services. The primary regulator for depository institutions with $10 billion or less in assets will continue to have primary examination and enforcement authority for these institutions. The regulations enforced, however, will be the regulations written by the Bureau.

The Dodd-Frank Act directs federal bank regulators to develop new capital requirements for holding companies and depository institutions that address activities that pose risk to the financial system, such as significant activities in higher risk areas, or concentrations in assets whose reported values are based on models.

The Dodd-Frank Act permanently raises the FDIC maximum deposit insurance amount to $250,000. The maximum amount had been temporarily set at $250,000 beginning October 3, 2008 and effective until December 31, 2013, as extended, when it would have reverted back to $100,000. The increased limit also retroactively applied to any depositors of financial institutions for which the FDIC had been appointed as receiver or conservator between January 1 and October 3, 2008. In addition, the Dodd-Frank Act places a floor on the FDIC’s reserve ratio at 1.35% of estimated insured deposits or the comparable percentage of the assessment base.

The Dodd-Frank Act provides for temporary unlimited deposit insurance for non-interest bearing transaction accounts. With several important differences, the unlimited coverage is similar to coverage provided by the FDIC’s Transaction Account Guarantee Program (the “TAGP”), which expired December 31, 2010, as extended. The Dodd-Frank Act coverage will be in effect from January 1, 2011 to December 31, 2012. All insured institutions will have unlimited coverage for non-interest bearing transaction under Dodd-Frank; financial institutions could opt-out of the TAGP. Only non-interest bearing transaction accounts and accounts commonly known as Interest on Lawyers Trust Accounts (“IOLTAs”) are covered under the Dodd-Frank provisions. Under TAGP, low-interest NOW accounts were included.

General corporate governance provisions included in the Dodd-Frank Act include expanding executive compensation disclosures to be included in the annual proxy statement, requiring non-binding shareholder advisory votes on executive compensation at annual meetings, enhancing independence requirements for compensation committee members and any advisors used by the compensation committee, and requiring the adoption of certain compensation policies including the recovery of executive compensation in the event of a financial statement restatement.

The Sarbanes-Oxley Act of 2002 ("SOX") was signed into law by President George W. Bush on July 30, 2002. The purpose of SOX is to strengthen accounting oversight and corporate accountability by enhancing disclosure requirements, increasing accounting and auditor regulation, creating new federal crimes, and increasing penalties for existing federal crimes. SOX directly impacts publicly traded companies, certified public accounting firms auditing public companies, attorneys who work for public companies or have public companies as clients, brokerage firms, investment bankers, and financial analysts who work for brokerage firms or investment bankers. Key provisions affecting LCNB include:

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1. Certification of financial reports by the chief executive officer ("CEO") and the chief financial officer ("CFO"), who are responsible for designing and monitoring internal controls to ensure that material information relating to the issuer and its consolidated subsidiaries is made known to the certifying officers by others within the company;

2. Inclusion of an internal control report in annual reports that include management's assessment of the effectiveness of a company's internal control over financial reporting and a report by the company's independent registered public accounting firm attesting to the effectiveness of internal control over financial reporting;

3. Accelerated reporting of stock trades on Form 4 by directors and executive officers;

4. Disgorgement requirements of incentive pay or stock-based compensation profits received within twelve months of the release of financial statements if the company is later required to restate those financial statements due to material noncompliance with any financial reporting requirement that resulted from misconduct;

5. Disclosure in a company's periodic reports stating if it has adopted a code of ethics for its CFO and principal accounting officer or controller and, if such code of ethics has been implemented, immediate disclosure of any change in or waiver of the code of ethics;

6. Disclosure in a company's periodic reports stating if at least one member of the audit committee is a "financial expert," as that term is defined by the Securities and Exchange Commission (the "SEC"); and

7. Implementation of new duties and responsibilities for a company's audit committee, including independence requirements, the direct responsibility to appoint the outside auditing firm and to provide oversight of the auditing firm's work, and a requirement to establish procedures for the receipt, retention, and treatment of complaints from a company's employees regarding questionable accounting, internal control, or auditing matters.

In addition, the SEC adopted final rules on September 5, 2002, which rules were amended in December, 2005, requiring accelerated filing of quarterly and annual reports. Under the amended rules, “large accelerated filers” include companies with a market capitalization of $700 million or more and “accelerated filers” include companies with a market capitalization between $75 million and $700 million. Large accelerated filers are required to file their annual reports within 60 days of year-end and quarterly reports within 40 days. Accelerated filers are required to file their annual and quarterly reports within 75 days and 40 days, respectively. These new accelerated filing deadlines were effective for fiscal years ending on or after December 15, 2005. Under the amended rules, LCNB is considered an accelerated filer.

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 customers and depositors of LCNB's subsidiaries rather than holders of LCNB's securities. 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 and the Bank also are subject to general U.S. federal laws and regulations and to the laws and regulations of the State of Ohio. Set forth below are brief descriptions of selected laws and regulations applicable to LCNB and the Bank.

LCNB Corp., as a financial holding company, is regulated under the Bank Holding Company Act of 1956, as amended (the "Act"), and is subject to the supervision and examination of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Act requires the prior approval of the Federal Reserve Board for a bank or financial holding company to acquire or hold more than a 5% voting interest in any bank and restricts interstate banking activities.

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On September 29, 1994, the Act was amended by the Interstate Banking and Branch Efficiency Act of 1994, which authorizes interstate bank acquisitions anywhere in the country, effective one year after the date of enactment, and interstate branching by acquisition and consolidation, effective June 1, 1997, in those states that have not opted out by that date.

The Gramm-Leach-Bliley Act, which amended the Bank Holding Company Act of 1956 and other banking related laws, was signed into law on November 12, 1999. The Gramm-Leach-Bliley Act repealed certain sections of the Glass-Steagall Act and substantially eliminated the barriers separating the banking, insurance, and securities industries. Effective March 11, 2000, qualifying bank holding companies could elect to become financial holding companies. Financial holding companies have expanded investment powers, including affiliating with securities and insurance firms and engaging in other activities that are "financial in nature or incidental to such financial activity" or "complementary to a financial activity." The Gramm-Leach-Bliley Act defines "financial in nature" to include:

1. securities underwriting, dealing, and market making;
2. sponsoring mutual funds and investment companies;
3. insurance underwriting and agency;
4. merchant banking activities; and
5. other activities that the Federal Reserve Board, in consultation with and subject to the approval of the U.S. Department of the Treasury (the “Treasury Department”), determines are financial in nature.

Financial holding companies may commence the activities listed above or acquire a company engaged in any of those activities without additional approval from the Federal Reserve. Notice of the commencement or acquisition must be provided to the Federal Reserve within thirty days of the start of the activity. Sixty days advance notice is required before the start of any activity that is "complementary to a financial activity."

The Financial Reform, Recovery and Enforcement Act of 1989 ("FIRREA") provides that a holding company and its controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of any FDIC assisted transaction involving an affiliated insured bank or savings association.

The Bank is subject to the provisions of the National Bank Act. The Bank is subject to primary supervision, regulation and examination by the Office of the Comptroller of the Currency (the "OCC"). The Bank is also subject to the rules and regulations of the Board of Governors of the Federal Reserve System and the FDIC. Under the Bank Holding Company Act of 1956, as amended, and under Regulations of the Federal Reserve Board pursuant thereto, a bank or financial holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") substantially revised the bank regulatory and funding provisions of the Federal Deposit Insurance Act and several other federal banking statutes. Among its many reforms, FDICIA, as amended:

1. Required regulatory agencies to take "prompt corrective action" with financial institutions that do not meet minimum capital requirements;

2. Established five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized;

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3. Imposed significant restrictions on the operations of a financial institution that is not rated well-capitalized or adequately capitalized;

4. Prohibited a depository institution from making any capital distributions, including payments of dividends or paying any management fee to its holding company, if the institution would be undercapitalized as a result;

5. Implemented a risk-based premium system;

6. Required an audit committee to be comprised of outside directors;

7. Required a financial institution with more than $1 billion in total assets to issue annual, audited financial statements prepared in conformity with U.S. generally accepted accounting principles; and

8. Required a financial institution with more than $1 billion in total assets to document, evaluate, and report on the effectiveness of the entity's internal control system and required an independent public accountant to attest to management's assertions concerning the bank's internal control system.

The members of an audit committee for banks with more than $1 billion in total assets must be independent of management. Only a majority, rather than all, of the members of an audit committee for banks with total assets between $500 million and $1 billion must be independent.

Financial institutions that are public companies, such as LCNB, are not relieved from their SOX internal control reporting and attestation requirements or their audit committee independence requirements by the provisions of FDICIA.

At December 31, 2010, the Bank was well capitalized based on FDICIA's guidelines.

The Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, the “Deposit Insurance Reform Acts”) were both signed into law during February, 2006. The provisions of the Deposit Insurance Reform Acts included:

1. Merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new fund called the Deposit Insurance Fund, effective March 31, 2006;

2. Increasing insurance coverage for retirement accounts from $100,000 to $250,000, effective April 1, 2006;

3. Adjusting deposit insurance levels of $100,000 for non-retirement accounts and $250,000 for retirement accounts every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011;

4. Eliminating a 1.25% hard target Designated Reserve Ratio, as defined, and giving the FDIC discretion to set the Designated Reserve Ratio within a range of 1.15% to 1.50% for any given year;

5. Eliminating certain restrictions on premium rates the FDIC charges covered institutions and establishing a risk-based premium system; and

6. Providing for a one-time credit for institutions that paid premiums to the Bank Insurance Fund or the Savings Association Insurance Fund prior to December 31, 1996.

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President George W. Bush signed the Emergency Economic Stabilization Act of 2008 (the “EESA”) on October 3, 2008. The EESA provided broad authority to the Treasury Secretary to restore liquidity and stability to the United States’ financial system, primarily by authorizing the Secretary to establish the Troubled Asset Relief Program (“TARP”). In addition, the EESA temporarily raised the basic limit on federal deposit insurance coverage for non-retirement accounts from $100,000 to $250,000 effective immediately upon the President’s signature and continuing through December 31, 2013, as extended by the Helping Families Save Their Homes Act of 2009, at which time the insurance level would have returned to $100,000. The Dodd-Frank Act permanently raised the FDIC maximum deposit insurance amount for non-retirement accounts to $250,000.

On October 14, 2008, the Treasury Department announced the implementation of the TARP Capital Purchase Program (the “CPP”), which provided for direct equity investments, in the form of perpetual preferred stock, by the Treasury Department in qualifying financial institutions. The CPP was voluntary and provided for a minimum investment of 1% of an institution’s total risk-weighted assets and a maximum investment of 3% of total risk-weighted assets, not to exceed $25 billion. The perpetual preferred stock had a dividend rate of 5% per year until the fifth anniversary of the CPP investment and 9% thereafter. Under the CPP, the Treasury Department received warrants for an institution’s common stock equal to 15% of the capital invested. The warrants have a ten-year term. Participants in the CPP program must comply with various restrictions and provisions, including, but not limited to, restrictions in compensation for certain executive officers, restrictions on dividends paid to shareholders, and limitations on treasury share purchases.

On January 9, 2009, LCNB received $13.4 million of new capital from the Treasury Department under the CPP and issued 13,400 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A and a warrant for the purchase of 217,063 common shares of LCNB stock at an exercise price of $9.26. LCNB redeemed all 13,400 shares of the preferred stock on October 21, 2009. In connection with this redemption, LCNB paid approximately $13.5 million to the Treasury Department, which included the original investment amount of $13.4 million plus accrued and unpaid dividends of approximately $123,000. LCNB did not repurchase the warrant.

On November 21, 2008, the FDIC announced the final rules for the Temporary Liquidity Guarantee Program, which was designed to strengthen confidence and encourage liquidity in the banking system. The new program had two parts:

1. The FDIC guaranteed certain newly issued senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts and certain holding companies, issued on or after October 14, 2008 and before June 30, 2009; and

2. The FDIC temporarily provided full deposit insurance coverage for non-interest bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount, through December 31, 2009, later extended to December 31, 2010.

For purposes of the Temporary Liquidity Guarantee Program, the FDIC included NOW accounts with an interest rate of 0.50% or less and accounts commonly known as Interest on Lawyers Trust Accounts in the definition of noninterest-bearing transaction accounts. The extension for the period from July 1, 2010 through December 31, 2010 reduced the interest rate for NOW accounts eligible for coverage under the program from 0.50% to 0.25%.

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All eligible banks and thrift institutions were automatically covered by the Temporary Liquidity Guarantee Program unless they opted out of one or both programs on or before December 5, 2008, as extended. Institutions that did not opt out of one or both programs were subject to additional fees for inclusion in the program or programs after the opt-out date. LCNB management chose not to opt out of either program.

On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Act providing for unlimited insurance coverage of noninterest-bearing transaction accounts and Interest on Lawyers Trust Accounts beginning on December 31, 2010 and ending on December 31, 2012. The extended coverage is available to all depositors including consumer, businesses, and government entities. Money market deposit accounts and NOW accounts are not eligible for the unlimited coverage, even if no interest is paid on the accounts.

LCNB and the Bank are also subject to the state banking laws of Ohio. Ohio adopted nationwide reciprocal interstate banking effective October, 1988. Additionally, Dakin Insurance Agency, Inc. is subject to State of Ohio insurance regulations and rules and its activities are regulated by the State of Ohio Department of Insurance.

Noncompliance with laws and regulations by bank holding companies and banks can lead to monetary penalties and/or an increased level of supervision or a combination of these two items. Management is not aware of any current significant instances of noncompliance with laws and regulations and does not anticipate any problems maintaining compliance on a prospective basis. Recent regulatory inspections and examinations of LCNB and the Bank have not disclosed any significant instances of noncompliance.

The earnings and growth of LCNB are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government and its agencies, particularly the Federal Reserve Board. Its policies influence the amount of bank loans and deposits and the interest rates charged and paid thereon and thus have an effect on earnings. The nature of future monetary policies and the effect of such policies on the future business and earnings of LCNB and the Bank cannot be predicted.

A substantial portion of LCNB's cash revenues is derived from dividends paid by the Bank. These dividends are subject to various legal and regulatory restrictions. Generally, dividends are limited to the aggregate of current year retained net income, as defined, plus the retained net income of the two prior years. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines.

Employees

As of December 31, 2010, LCNB, the Bank, and Dakin employed 230 full-time equivalent employees. LCNB is not a party to any collective bargaining agreement. Management considers its relationship with its employees to be very good. Employee benefit programs are considered by management to be competitive with benefit programs provided by other financial institutions and major employers within LCNB’s market area.

Divestitures

In late 2010, LCNB Corp.’s Board of Directors approved the divestiture of Dakin and therefore its financial results are reported in the income statements as income from discontinued operations, net of taxes.

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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 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 web site, 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 N. Broadway
P.O. Box 59
Lebanon, Ohio 45036

Financial reports and other materials filed by LCNB with the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained from the SEC by calling 1-800-SEC-0330. 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.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

LCNB and its subsidiaries do not have any offices located in foreign countries and have no foreign assets, liabilities or related income and expense for the years presented.

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.

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Investment Portfolio

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

	At December 31, 2010	2009	2008
	(Dollars in thousands)		
Securities available-for-sale:			
U.S. Treasury notes	$19,585	13,308	-
U.S. Agency notes	82,862	45,888	44,636
U.S. Agency mortgage-backed securities	33,094	49,624	32,768
Corporate securities	2,025	8,488	1,013
Municipal securities	96,396	83,323	57,271
Other debt securities	1,053	538	512
Trust preferred securities	604	344	-
Equity securities	263	65	44
Total securities available-for-sale	235,882	201,578	136,244
Securities held-to-maturity:			
Municipal securities	12,141	13,030	-
Federal Reserve Bank Stock	939	940	937
Federal Home Loan Bank Stock	2,091	2,091	2,091
Total securities	$251,053	217,639	139,272

Contractual maturities of securities at December 31, 2010, were as follows. Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Yield		Amortized Cost	Fair Value	Yield	
	(Dollars in thousands)							
U.S. Treasury notes:								
Within one year	$5,141	5,157	0.71	%	-	-	-	%
One to five years	14,583	14,428	1.15	%	-	-	-	%
Total U.S. Treasury notes	19,724	19,585	1.03	%	-	-	-	%
U.S. Agency notes:								
Within one year	-	-	-	%	-	-	-	%
One to five years	67,501	66,936	1.58	%	-	-	-	%
Five to ten years	16,099	15,926	1.76	%	-	-	-	%
Total U.S. Agency notes	83,600	82,862	1.62	%	-	-	-	%
Corporate securities:								
Within one year	1,001	1,002	5.13	%	-	-	-	%
One to five years	1,011	1,023	2.21	%	-	-	-	%
Total corporate securities	2,012	2,025	3.66	%	-	-	-	%
Municipal securities (1):								
Within one year	7,105	7,166	3.74	%	4,293	4,293	3.58	%
One to five years	35,261	36,233	3.98	%	345	345	5.40	%
Five to ten years	45,283	46,686	4.68	%	1,016	1,016	7.84	%
After ten years	6,302	6,311	6.29	%	6,487	6,487	7.31	%
Total Municipal securities	93,951	96,396	4.46	%	12,141	12,141	5.98	%
U.S. Agency mortgage-backed securities	31,786	33,094	4.20	%	-	-	-	%
Other debt securities	1,063	1,053	3.44	%	-	-	-	%
Trust preferred securities	549	604	8.37	%	-	-	-	%
Equity securities	249	263	4.63	%	-	-	-	%
Totals	$232,934	235,882	3.11	%	12,141	12,141	5.98	%

(1) Yields on tax-exempt obligations are computed on a taxable-equivalent basis based upon a 34% 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, 2010.

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Loan Portfolio

Administration of the lending function is the responsibility of the Chief Lending Officer and certain senior lenders. Such lenders perform their lending duties subject to oversight and policy direction from the Board of Directors and the Loan Committee. The Loan Committee consists of LCNB's Chief Executive Officer, President, Chief Financial Officer, Chief Lending Officer, Chief Credit Officer, Loan Operations Officer, Loan Review Officer, and the officers in charge of commercial, consumer, and real estate loans.

Employees authorized to accept loan applications have various, designated lending limits for the approval of loans. A loan application for an amount outside a particular employee's lending limit needs to be approved by an employee with a lending limit sufficient for that loan. Residential and commercial real estate loans of any amount require the approval of two of the following designated officers: Chief Executive Officer, President, Chief Lending Officer, Chief Credit Officer, and the officers in charge of commercial and consumer lending. Any loan in excess of $2.0 million needs the approval of the Board of Directors.

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

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

	At December 31,									
	2010		2009		2008		2007		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Commercial and industrial	$36,122	7.9 %	42,807	9.3 %	38,724	8.6 %	37,325	8.4 %	26,952	6.9 %
Commercial, secured by real estate	196,136	43.1 %	185,024	40.2 %	174,493	38.5 %	159,384	35.8 %	141,863	36.4 %
Residential real estate	190,277	41.9 %	193,293	42.0 %	194,039	42.8 %	193,920	43.5 %	173,890	44.6 %
Consumer	19,691	4.3 %	26,185	5.7 %	33,369	7.4 %	43,410	9.7 %	36,471	9.4 %
Agricultural	2,966	0.7 %	3,125	0.7 %	3,216	0.7 %	2,707	0.6 %	2,232	0.6 %
Lease financing	-	- %	-	- %	-	- %	-	- %	16	- %
Other loans, including deposit overdrafts	9,413	2.1 %	9,422	2.1 %	9,203	2.0 %	9,114	2.0 %	8,101	2.1 %
	454,605	100.0 %	459,856	100.0 %	453,044	100.0 %	445,860	100.0 %	389,525	100.0 %
Deferred origination costs, net	386		560		767		1,027		845	
Total loans	454,991		460,416		453,811		446,887		390,370	
Less allowance for loan losses	2,641		2,998		2,468		2,468		2,050	
Loans, net	$452,350		457,418		451,343		444,419		388,320	

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Commercial and Industrial Loans. LCNB's commercial and industrial loan portfolio consists of loans for various purposes, including loans to fund working capital requirements (such as inventory and receivables financing) and purchases of machinery and equipment. LCNB offers a variety of commercial and industrial loan arrangements, including term loans, balloon loans, and line of credit . Most commercial and industrial loans have a variable rate, with adjustments occurring monthly, annually, every three years, or every five years. Adjustments are generally based on a publicly available index rate plus a margin. The margin varies based on the terms and collateral securing the loan. Commercial and industrial loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. Commercial and industrial loans typically are underwritten on the basis of the borrower's ability to make repayment from the cash flow of the business. Collateral, when obtained, may include liens on furniture, fixtures, equipment, inventory, receivables, or other assets. As a result, such loans involve complexities, variables, and risks that require thorough underwriting and more robust servicing than other types of loans.

Commercial Real Estate Loans. Commercial real estate loans include loans secured by a variety of commercial, retail, and office buildings, religious facilities, multifamily (more than four-family) residential properties, construction and land development loans, and other land loans. Commercial real estate loan products generally amortize over five to twenty-five years and are payable in monthly principal and interest installments. Some have balloon payments due within one to ten years after the origination date. Many have adjustable interest rates with adjustment periods ranging from one to ten years, some of which are subject to established "floor" and "ceiling" 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 collateral value, financial ability of any guarantors, and other factors. Commercial real estate loans are generally originated with a 75 percent maximum loan to appraised value ratio.

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

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

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

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Consumer Loans. LCNB's portfolio of consumer loans generally include 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 agri-related collateral.

As of December 31, 2010, there were no concentrations of loans exceeding 10% of total loans that are not already disclosed as a category of loans in the above table.

The following table summarizes the commercial and agricultural loan maturities and sensitivities to interest rate change at December 31, 2010:

	(Dollars in thousands)	
Maturing in one year or less	$	26,353
Maturing after one year, but within five years		21,968
Maturing beyond five years		186,903
Total commercial and agricultural loans	$	235,224
Loans maturing beyond one year:		
Fixed rate	$	71,354
Variable rate		137,517
Total	$	208,871

Risk Elements

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

		At December 31, (Dollars in thousands)									
		2010		2009		2008		2007		2006	
Non-accrual loans	$	3,761		2,939		2,281		120		872	
Past-due 90 days or more and still accruing		300		924		806		247		126	
Restructured loans		9,088		7,173		332		2,222		-	
Total	$	13,149		11,036		3,419		2,589		998	
Percent to total loans		2.89	%	2.40	%	0.75	%	0.58	%	0.26	%

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Non-accrual loans at December 31, 2010 and 2009 included two restructured commercial real estate loans to the same borrower totaling $750,000 and $1,444,000 at year-end 2010 and 2009, respectively, and two commercial real estate loans to a different borrower totaling $605,000 and $641,000 at year-end 2010 and 2009, respectively. The $694,000 reduction in the first two loans was due to $684,000 in charge-offs recognized during 2010 and a $10,000 payment applied to principal. The $36,000 reduction in the second two loans was due to loan payments received during 2010 that were applied to principal. Also included in non-accrual loans at December 31, 2010 was a commercial and industrial loan that had been charged down to a loan balance of $595,000, the amount of a guarantee from the Small Business Administration. The guarantee payment was received in January 2011. The remainder of non-accrual loans at December 31, 2010 consisted of two commercial real estate loans totaling $932,000, a land acquisition and development loan totaling $90,000, and nine residential real estate loans totaling $789,000. The remainder of non-accrual loans at December 31, 2009 consisted of a commercial real estate loan with a balance of $142,000 and five residential real estate mortgage loans totaling $712,000.

Non-accrual loans at December 31, 2008 consisted primarily of a commercial real estate loan that had been classified as restructured at December 31, 2007. The balance of this loan at December 31, 2008 and December 31, 2007 was $2,149,000 and $2,198,000, respectively. It was classified as restructured at December 31, 2007 because of LCNB's agreement during the second quarter 2007 to accept interest only payments monthly for a period of one year, pending the sale of the underlying real estate collateral. The loan was classified as non-accrual during the second quarter 2008 because the collateral property remained unsold after being on the market for approximately one year and because the borrower did not have the financial ability to make payments according to the original loan terms. During the fourth quarter of 2008, the borrower entered into a third party short-term lease agreement whereby substantially all of the lease payment proceeds were remitted to LCNB. The borrower was unsuccessful in its efforts to sell the property and LCNB accepted a deed in lieu of foreclosure during the third quarter 2009. The remaining balance of non-accrual loans at December 31, 2008 consisted of three real estate mortgage loans.

Non-accrual loans at December 31, 2007 consisted of two real estate mortgage loans. Non-accrual loans at December 31, 2006 consisted of a real estate mortgage loan and a home equity line of credit made to the same borrower and one loan secured by farmland.

Loans classified as past-due 90 days or more and still accrueing interest at December 31, 2010 consisted of seven residential real estate mortgage loans totaling $110,000, a commercial real estate loan totaling $115,000, and nine consumer loans totaling $75,000. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2009 included seven residential real estate mortgage loans totaling $575,000, two commercial real estate loans totaling $277,000, and nine consumer loans totaling $71,000. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2008 consisted of fourteen consumer loans totaling $58,000, two commercial real estate loans to the same borrower totaling $673,000, and two residential mortgage loans totaling $75,000. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2007 and 2006 consisted of residential mortgage and consumer loans.

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Restructured loans at December 31, 2010 consisted of four commercial real estate loans totaling $8,787,000 and one commercial and industrial loan totaling $301,000. Restructured loans at December 31, 2009 consisted of three commercial real estate loans totaling $5,687,000, two commercial and industrial loans to the same borrower totaling $1,001,000, and a third commercial and industrial loan to a different borrower totaling $485,000. The borrower with the two commercial and industrial loans totaling $1,001,000 ceased operations during 2010. LCNB transferred the loans to non-accrual status and charged them down to a loan balance of $595,000, the amount of a Small Business Administration guarantee (see non-accrual discussion above). A commercial real estate loan classified as restructured at December 31, 2009 when it had a principal balance of $302,000 was classified as non-accrual at December 31, 2010 when it had a balance of $206,000. The reduction in principal was due to principal payments of $40,000 and a partial charge-off of $56,000.

Restructured loans at December 31, 2008 consisted of a commercial real estate loan in the amount of $310,000 and a matured home equity line of credit loan currently being paid under a forbearance agreement. The commercial real estate loan classified as restructured was also classified as restructured at December 31, 2005 and 2004, when its balance was $1,717,000 and $1,817,000, respectively. It was not classified as restructured at December 31, 2006 or 2007 because the loan was current and had a market interest rate. It was returned to the restructured classification during the fourth quarter 2008 because of loan term modifications made during that period. The balance of the loan decreased primarily due to the sale of a significant portion of the secured property during the second quarter 2008.

Restructured loans at December 31, 2007 consisted of the commercial real estate loan described above in the non-accrual loans discussion and the matured home equity line of credit currently being paid under a forbearance agreement.

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

At December 31, 2010, there were no material additional loans not already disclosed as non-accrual, restructured, accruing past due 90 days or more, or impaired where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms.

Summary of Loan Loss Experience

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

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Allocation of the Allowance for Loan Losses

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

	At December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Commercial and industrial	$305	0.07 %	546	0.12 %	369	0.08 %	340	0.08 %	547	0.14 %
Commercial, secured by real estate	1,625	0.36 %	1,628	0.35 %	1,182	0.26 %	1,233	0.27 %	723	0.19 %
Residential real estate	459	0.10 %	491	0.11 %	471	0.10 %	388	0.09 %	310	0.08 %
Consumer	246	0.05 %	313	0.07 %	429	0.10 %	459	0.10 %	362	0.09 %
Agricultural	-	- %	-	- %	-	- %	-	- %	-	- %
Other loans, including deposit overdrafts	6	- %	9	- %	13	- %	7	- %	14	- %
Unallocated	-	- %	11	- %	4	- %	41	0.01 %	94	0.03 %
Total	$2,641	0.58 %	2,998	0.65 %	2,468	0.54 %	2,468	0.55 %	2,050	0.53 %

This allocation is made for analytical purposes. The total allowance is available to absorb losses from any category of the portfolio. The decreased allocation to the commercial and industrial loan category at December 31, 2010 is primarily due to charge-offs recognized during 2010. Increased allocations in the commercial and industrial and commercial real estate categories at December 31, 2009 are generally due to increases in loan delinquencies and net charge-offs, and deteriorating economic conditions. The decrease in the allocation to the consumer loan category at December 31, 2009 is generally due to shrinkage in the consumer loan portfolio. Increased allocations for December 31, 2007, are generally due to the higher loan volume created by the acquisition of Sycamore National Bank. The decrease in the commercial and industrial category at December 31, 2007 is due to additional collateral obtained on a loan, combined with a partial pay-down in that loan’s principal balance. Both actions allowed for a reduction in the potential loss allocated to that loan. The increase in the commercial, secured by real estate category at December 31, 2007 is largely due to an increased loss allocation on the loan currently classified as restructured.

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Deposits

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

The following table presents the contractual maturity of time deposits of $100,000 or more at December 31, 2010:

	(Dollars in thousands)	
Maturity within 3 months	$	14,085
After 3 but within 6 months		4,706
After 6 but within 12 months		16,870
After 12 months		47,822
	$	83,483

Return on Equity and Assets

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

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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.

The Dodd-Frank Act may adversely affect LCNB's operations and profitability.
The Dodd-Frank Act was signed into law by President Barack Obama on July 21, 2010. It includes provisions that will specifically affect financial institutions and other entities providing financial services and other corporate governance and compensation provisions that will affect most public companies. Key provisions that may affect LCNB are summarized below.

The Dodd-Frank Act establishes a new independent regulatory body within the Federal Reserve System that will be known as the Bureau of Consumer Financial Protection (the "Bureau"). The Bureau will assume responsibility for most consumer protection laws and will have broad authority, with certain exceptions, to regulate financial products offered by banks and non-banks. The Bureau will have authority to supervise, examine, and take enforcement actions with respect to depository institutions with more than $10 billion in assets, non-bank mortgage industry participants, and other Bureau-designated non-bank providers of consumer financial services. The primary regulator for depository institutions with $10 billion or less in assets will continue to have primary examination and enforcement authority for these institutions. The regulations enforced, however, will be the regulations written by the Bureau. The nature or impact of regulations to be written by the Bureau cannot be predicted at this time.

The Dodd-Frank Act directs federal bank regulators to develop new capital requirements for holding companies and depository institutions that address activities that pose risk to the financial system, such as significant activities in higher risk areas, or concentrations in assets whose reported values are based on models. The exact nature of the new capital requirements to be developed or their impact on LCNB cannot be predicted at this time.

The Act permanently raises the FDIC maximum deposit insurance amount to $250,000. The maximum amount had been temporarily set at $250,000 beginning October 3, 2008 and effective until December 31, 2013, as extended, when it would have reverted back to $100,000. The increase is retroactive to apply to any depositors of financial institutions for which the FDIC had been appointed as receiver or conservator between January 1 and October 3, 2008. In addition, the Act places a floor on the FDIC's reserve ratio at 1.35% of estimated insured deposits or the comparable percentage of the assessment base. The higher insurance amount and reserve ratio floor will most likely impact future insurance premiums to be paid by LCNB and other insured depository institutions.

The Dodd-Frank Act required that the FDIC change the base on which deposit insurance assessments are charged from one based on domestic deposits to one based on assets. On February 7, 2011, the FDIC released a final rule establishing the assessment base as average consolidated total assets minus average tangible equity. The final rule will be effective April 1, 2011. Because LCNB's borrowings, as compared to deposits, are minimal, management does not expect the change in the assessment base will have a material impact on expenses.

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The Dodd-Frank Act directs the Federal Reserve to set interchange rates in electronic debit card transactions involving issuers with more than $10 billion in assets. On December 16, 2010, the Federal Reserve released a proposal that would establish standards for determining whether a debit card interchange fee received by a card issuer is reasonable and proportional to the cost incurred by the issuer for the transaction. The Federal Reserve also requested comment on two alternative interchange fee standards. The first is based on each issuer's costs and establishes a safe harbor of $0.07 per transaction and a cap of $0.12 per transaction. The second establishes a cap of $0.12 per transaction and no safe harbor. Both alternatives are significantly below average current interchange fees. Comments were due on February 22, 2011. Although institutions with $10 billion or less in total assets will be exempt from the new rules, many within the financial institutions industry believe that smaller institutions will need to match the pricing of those institutions with assets greater than $10 billion or lose business to the larger institutions. The final form of the proposals and the ultimate effect on LCNB's income statement cannot be predicted at this time.

The Act contains many other provisions, the impact of which cannot be determined at this time.

LCNB's financial results may be adversely affected by current economic conditions and resulting government legislation.

The United States economy had been in an economic recession during much of 2008 and 2009, which has reduced business activity across a wide range of industries and regions. In addition, unemployment has increased significantly in Ohio and nationally and remains at elevated levels. A direct consequence has been an increase in loan delinquencies and charge-offs.

In response, the United States government has established and most likely will continue to establish a variety of new programs and policies designed to mitigate the effects of the recession, stimulate the economy, and reduce the likelihood of future downturns. The nature of future laws and regulations and their effect on LCNB's operations cannot be predicted.

LCNB's earnings are significantly affected by market interest rates.

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

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

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Banking competition in Southwestern Ohio is intense.
LCNB faces strong competition for deposits, loans, trust accounts, and other services from other banks, savings banks, credit unions, mortgage brokers, and other financial institutions. Many of LCNB's competitors include major financial institutions that have been in business for many years and have established customer bases, numerous branches, and substantially higher regulatory lending limits. Dominant competitors in the Southwestern Ohio area include U.S. Bank, PNC Bank, Fifth Third Bank, Chase, KeyBank, Park National Bank, Huntington National Bank, and First Financial Bank. 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. Incentives offered by captive finance companies owned by the major automobile companies, primarily Ally Bank (formerly General Motors Acceptance Corporation or GMAC) and Ford Motor Credit Company (FMCC), have limited the banking industry's opportunities for growth in the new automobile loan market. The banking industry now competes with brokerage firms and mutual fund companies for funds that would have historically been held as bank deposits. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of these competitors have fewer regulatory constraints and may have lower cost structures.

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

Economic conditions in Southwestern Ohio could adversely affect LCNB's financial condition and results of operations.
LCNB has 25 offices located in Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties in Southwestern Ohio. As a result of this geographic concentration, LCNB's results are heavily influenced by economic conditions in this area. A further deterioration in economic conditions or a natural or manmade disaster in Southwestern Ohio or Ohio in general could have a material adverse impact on the ability of borrowers to make scheduled loan payments, the fair value of underlying loan collateral, the ability of depositors to maintain or add to deposit balances, the demand for trust and brokerage services, and the demand for other products and services offered by LCNB.

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

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

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

The fair value of LCNB's investments could decline.
Most of LCNB's investment securities portfolio at December 31, 2010 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 to 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.

Approximately 40% of LCNB's available-for-sale investment portfolio at December 31, 2010 was composed of municipal securities. A general, industry wide decline in the fair value of municipal securities could significantly affect LCNB's shareholders' equity.

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

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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. 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 determine.

FDIC deposit insurance assessments may materially increase in the future.
Bank and thrift failures during 2010, 2009 and 2008 coupled with deteriorating economic conditions have significantly decreased the deposit insurance fund's reserve ratio. The FDIC has developed and implemented a restoration plan that included a special assessment paid on September 30, 2009 and expensed as of June 30, 2009, premium increases, and the $3.1 million prepayment on December 30, 2009 of premiums for 2010 through 2012. These industry-wide actions have significantly increased LCNB's non-interest expense in 2010 and 2009 and will significantly increase non-interest expense in future years as long as the increased premiums are in place. The likelihood of any future rate changes and the imposition of additional special assessments are impossible to determine.

The FDIC may borrow up to $100 billion from the U.S. Treasury, with a temporary ceiling of $500 billion through 2010. Although no borrowings were outstanding at December 31, 2010, LCNB cannot predict if the FDIC will borrow funds in the future. The source for repaying any future borrowings will be the premiums paid by financial institutions, which may necessitate additional rate increases or special assessments.

Future growth and expansion opportunities may contain risks.
From time to time LCNB may seek to acquire other financial institutions or parts of those institutions or may engage in de novo branch expansion. 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.

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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 or breach in security.
LCNB relies heavily on communications and information systems to conduct its business. Any failure, interruption, or 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, or 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, or security breaches of LCNB’s information systems could damage LCNB’s reputation, result in a loss of customer business, subject LCNB to additional regulatory scrutiny, or expose LCNB to civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations.

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

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

In addition, 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.

Item 1B. Unresolved Staff Comments

Not applicable

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Item 2. Properties

The Bank conducts its business from the following offices:

	Name of Office	Address	
1	Main Office	2 North Broadway Lebanon, Ohio 45036	Owned
2	Auto Bank	36 North Broadway Lebanon, Ohio 45036	Owned
3	Bridgetown Office	6383 Bridgetown Road Cincinnati, Ohio 45248	Leased
4	Centerville Office	9605 Dayton-Lebanon Pike Centerville, Ohio 45458	Owned
5	Colerain Township Office	3209 West Galbraith Road Cincinnati, Ohio 45239	Owned
6	Columbus Avenue Office	730 Columbus Avenue Lebanon, Ohio 45036	Owned
7	Fairfield Office	765 Nilles Road Fairfield, Ohio 45014	Leased
8	Goshen Office	6726 Dick Flynn Blvd. Goshen, Ohio 45122	Owned
9	Hamilton Office	794 NW Washington Blvd. Hamilton, Ohio 45013	Owned
10	Hunter Office	3878 State Route 122 Franklin, Ohio 45005	Owned
11	Loveland Office	500 Loveland-Madeira Road Loveland, OH 45140	Owned
12	Maineville Office	7795 South State Route 48 Maineville, Ohio 45039	Owned
13	Mason/West Chester Office	1050 Reading Road Mason, Ohio 45040	Owned (2)
14	Mason Christian Village Office	Mason Christian Village	Leased

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	Name of Office	Address	
15	Middletown Office	4441 Marie Drive Middletown, Ohio 45044	Owned
16	Oakwood Office	2705 Far Hills Avenue Oakwood, Ohio 45419	(3)
17	Okeana Office	6225 Cincinnati-Brookville Road Okeana, Ohio 45053	Owned
18	Otterbein Office	Otterbein Retirement Community State Route 741 Lebanon, Ohio 45036	Leased
19	Oxford Office	30 West Park Place Oxford, Ohio 45056	(3) (1)
20	Rochester/Morrow Office	Route 22-3 at 123 Morrow, Ohio 45152	Owned
21	South Lebanon Office	603 Corwin Nixon Blvd. South Lebanon, Ohio 45065	Owned (2)
22	Springboro/Franklin Office	525 West Central Avenue Springboro, Ohio 45066	Owned
23	Warrior Office	Lebanon High School 1916 Drake Road Lebanon, Ohio 45036	Leased
24	Waynesville Office	9 North Main Street Waynesville, Ohio 45068	Owned
25	Wilmington Office	1243 Rombach Avenue Wilmington, Ohio 45177	Owned

(1) Excess space in this office is leased to third parties.
(2) A Dakin office is located in this office.
(3) The Bank owns the Oakwood and Oxford office buildings and leases the land.

The Bank is currently constructing a new Auto Bank at the corner of Silver and Mechanic Streets in Lebanon that will replace the current Auto Bank and is constructing a new branch office at 101 Clarence F. Warner Drive, Monroe, Ohio 45050.

At December 31, 2010, Dakin owned its main office at 20 & 24 East Mulberry Street, Lebanon, Ohio 45036. Title to these two buildings was transferred to LCNB National Bank during February 2011. Dakin's two other offices are located in the Bank's branch offices.

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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 such proceedings.

Item 4. Removed and Reserved

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PART II

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

LCNB had approximately 700 registered holders of its common stock as of December 31, 2010. The number of shareholders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder. The common stock is currently traded on the Nasdaq Over-The-Counter Bulletin Board service under the symbol "LCNB". Several market-makers facilitate the trading of the shares of common stock. Trade prices for shares of LCNB Common Stock, reported through registered securities dealers, are set forth below. Trades could have occurred during the periods indicated without the knowledge of LCNB. The trade prices shown below are interdealer without retail markups, markdowns or commissions.

	2010		2009	
	High	Low	High	Low
First Quarter	$12.50	10.50	9.50	7.70
Second Quarter	13.00	10.34	9.90	8.55
Third Quarter	12.50	11.25	11.95	9.30
Fourth Quarter	12.35	11.20	12.50	10.20

The following table presents cash dividends per share declared and paid in the periods shown.

	2010	2009
First Quarter	$ 0.16	0.16
Second Quarter	0.16	0.16
Third Quarter	0.16	0.16
Fourth Quarter	0.16	0.16
Total	$ 0.64	0.64

It is expected that LCNB will continue to pay dividends on a similar schedule, to the extent permitted by business and other factors beyond management's control. As a participant in the Treasury Department's Capital Purchase Program during much of 2009, LCNB was prohibited from increasing cash dividends on common stock without prior government permission. This restriction was terminated on October 21, 2009, when LCNB redeemed all 13,400 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A.

LCNB depends on dividends from its subsidiaries 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 years. Prior approval from the OCC, the Bank's primary regulator, would be necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated dividends to LCNB without needing to request approval.

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

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On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two phases of which continue. Any shares purchased will be held for future corporate purposes. However, as a participant in the Treasury Department's Capital Purchase Program during much of 2009, LCNB was prohibited from repurchasing additional shares of its common stock without prior government permission for a period of three years from the date of participation unless the preferred shares issued were no longer held by the U.S. Treasury Department. This restriction was terminated on October 21, 2009, when LCNB redeemed all 13,400 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A.

Under the "Market Repurchase Program" LCNB was originally authorized to purchase up to 200,000 shares of its stock through market transactions with a selected stockbroker. On November 14, 2005, the Board of Directors extended the Market Repurchase Program by increasing the shares authorized for repurchase to 400,000 total shares. Through December 31, 2010, 290,444 shares have been purchased under this program. No shares were purchased under the Market Repurchase Program during 2010.

The "Private Sale Repurchase Program" is available to shareholders who wish to sell large blocks of stock at one time. Because LCNB's stock is not widely traded, a shareholder releasing large blocks may not be able to readily sell all shares through normal procedures. Purchases of blocks will be considered on a case-by-case basis and will be made at prevailing market prices. There is no limit to the number of shares that may be purchased under this program. A total of 466,018 shares have been purchased under this program since its inception through December 31, 2010. No shares were purchased under the Private Sale Repurchase Program during 2010.

LCNB established an Ownership Incentive Plan during 2002 that allows for the issuance of up to 200,000 shares of stock-based awards to eligible employees, as determined by the Board of Directors. The awards may be in the form of stock options, share awards, and/or appreciation rights. The following table shows information relating to stock options outstanding at December 31, 2010:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	99,040	$ 12.71	100,960
Equity compensation plans not approved by security holders	-	-	-
Total	99,040	$ 12.71	100,960

A total of 2,511 restricted shares were granted to an executive officer in February 2010 and vested in November 2010. Until they vested, they were restricted from sale, transfer, or assignment in accordance with the terms of the agreement under which they were issued. At the date of vesting, the shares were issued from treasury stock and, therefore, did not affect the number of securities remaining available for future issuance in the table above. No restricted shares were granted prior to February 2010.

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The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the Nasdaq Composite and the SNL Midwest OTC-BB and Pink Sheet Banks. This graph covers the period from December 31, 2005 through December 31, 2010. 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, 2005 in LCNB common stock, the Nasdaq Composite, and the SNL Midwest OTC-BB and Pink Sheet Banks and that all dividends were reinvested.

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Item 6. Selected Financial Data

The following represents selected consolidated financial data of LCNB for the years ended December 31, 2006 through 2010 and are derived from LCNB's consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 8 of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk included in Items 7 and 7A, respectively, of this Form 10-K, and are qualified in their entirety thereby and by other detailed information elsewhere in this Form 10-K.

	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except ratios and per share data)				
Income Statement:					
Interest income	$33,989	34,853	34,349	31,990	30,545
Interest expense	8,334	10,060	13,421	13,838	12,230
Net interest income	25,655	24,793	20,928	18,152	18,315
Provision for loan losses	1,680	1,400	620	266	143
Net interest income after provision for loan losses	23,975	23,393	20,308	17,886	18,172
Non-interest income	8,931	7,248	6,801	6,673	6,627
Non-interest expenses	21,279	20,709	18,548	16,999	16,623
Income before income taxes	11,627	9,932	8,561	7,560	8,176
Provision for income taxes	2,494	2,245	2,134	1,823	1,994
Net income from continuing operations	9,133	7,687	6,427	5,737	6,182
Income from discontinued operations, net of tax	240	79	176	217	332
Net income	9,373	7,766	6,603	5,954	6,514
Preferred stock dividends and discount accretion	-	1,108	-	-	-
Net income available to common shareholders	$9,373	6,658	6,603	5,954	6,514
Dividends per common share (1)	$0.64	0.64	0.64	0.62	0.60
Basic earnings per common share (1):					
Continuing operations	1.37	0.99	0.96	0.90	0.95
Discontinued operations	0.03	0.01	0.03	0.04	0.05
Diluted earnings per common share (1):					
Continuing operations	1.36	0.98	0.96	0.90	0.95
Discontinued operations	0.03	0.01	0.03	0.04	0.05
Balance Sheet:					
Securities	$251,053	217,639	139,272	90,154	114,474
Loans, net	452,350	457,418	451,343	444,419	388,320
Total assets	760,134	734,409	649,731	604,058	548,215
Total deposits	638,539	624,179	577,622	535,929	478,615
Short-term borrowings	21,691	14,265	2,206	1,459	15,370
Long-term debt	23,120	24,960	5,000	5,000	-
Total shareholders' equity	70,707	65,615	58,116	56,528	50,999

Selected Financial Ratios and Other Data:										
Return on average assets	1.22	%	1.07	%	1.03	%	1.08	%	1.19	%
Return on average equity	13.36	%	10.43	%	11.35	%	11.41	%	12.48	%
Equity-to-assets ratio	9.30	%	8.93	%	8.94	%	9.36	%	9.30	%
Dividend payout ratio	45.66	%	64.39	%	64.65	%	65.96	%	60.00	%
Net interest margin, fully taxable-equivalent	3.88	%	3.96	%	3.74	%	3.77	%	3.84	%

(1) All per share data prior to 2008 has been adjusted to reflect a 100% stock dividend accounted for as stock split in 2007.

Sycamore merged with and into the Bank as of the close of business on December 20, 2007. As a result of the merger, LCNB recorded additional net loans of $42.8 million and additional deposits of $44.4 million.

In late 2010, LCNB Corp.'s Board of Directors approved the divestiture of Dakin and therefore its financial results are reported in the income statements as income from discontinued operations, net of taxes.