

LCNB CORP
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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
(State or other jurisdiction of
incorporation or organization)

31-1626393
(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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The number of shares outstanding of the issuer's common stock, without par value, as of August 8, 2011 was 6,689,743 shares.

LCNB CORP. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LCNB CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS:		
Cash and due from banks	\$ 13,191	10,817
Interest-bearing demand deposits	13,650	182
Total cash and cash equivalents	26,841	10,999
Investment securities:		
Available-for-sale, at fair value	250,769	235,882
Held-to-maturity, at cost	11,243	12,141
Federal Reserve Bank stock, at cost	941	939
Federal Home Loan Bank stock, at cost	2,091	2,091
Loans, net	454,447	452,350
Premises and equipment, net	17,195	16,017
Goodwill	5,915	5,915
Bank owned life insurance	14,536	14,242
Other assets	8,972	9,558
TOTAL ASSETS	\$ 792,950	760,134
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 98,558	98,994
Interest-bearing	580,193	539,545
Total deposits	678,751	638,539
Short-term borrowings	12,198	21,691
Long-term debt	22,061	23,120
Accrued interest and other liabilities	5,824	6,077
TOTAL LIABILITIES	718,834	689,427
SHAREHOLDERS' EQUITY:		
Preferred shares – no par value, authorized 1,000,000 shares, none outstanding	-	-
Common shares – no par value, authorized 12,000,000 shares, issued 7,445,514 shares at June 30, 2011 and December 31, 2010	11,068	11,068
Surplus	15,469	15,447
Retained earnings	56,198	54,045
Treasury shares at cost, 755,771 shares at June 30, 2011 and December 31, 2010	(11,698)	(11,698)
Accumulated other comprehensive income, net of taxes	3,079	1,845
TOTAL SHAREHOLDERS' EQUITY	74,116	70,707

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$792,950	760,134
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The accompanying notes to consolidated financial statements are an integral part of these statements.

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME:				
Interest and fees on loans	\$6,477	6,799	12,995	13,631
Interest on investment securities –				
Taxable	914	882	1,790	1,812
Non-taxable	640	783	1,347	1,591
Other short-term investments	68	68	97	100
TOTAL INTEREST INCOME	8,099	8,532	16,229	17,134
INTEREST EXPENSE:				
Interest on deposits	1,499	1,928	3,083	3,904
Interest on short-term borrowings	7	4	17	13
Interest on long-term debt	161	173	339	350
TOTAL INTEREST EXPENSE	1,667	2,105	3,439	4,267
NET INTEREST INCOME	6,432	6,427	12,790	12,867
PROVISION FOR LOAN LOSSES	224	511	888	719
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,208	5,916	11,902	12,148
NON-INTEREST INCOME:				
Trust income	536	441	1,019	910
Service charges and fees on deposit accounts	952	1,005	1,853	1,931
Net gain on sales of securities	124	51	419	128
Bank owned life insurance income	148	944	294	1,097
Gains from sales of mortgage loans	24	18	57	48
Other operating income	72	55	145	153
TOTAL NON-INTEREST INCOME	1,856	2,514	3,787	4,267
NON-INTEREST EXPENSE:				
Salaries and employee benefits	2,955	2,771	6,007	5,539
Equipment expenses	240	220	457	424
Occupancy expense, net	407	441	862	965
State franchise tax	196	174	392	355
Marketing	110	126	225	202
Intangible amortization	14	14	28	28
FDIC insurance premiums	188	229	468	447
Other non-interest expense	1,218	1,243	2,690	2,465
TOTAL NON-INTEREST EXPENSE	5,328	5,218	11,129	10,425
INCOME BEFORE INCOME TAXES	2,736	3,212	4,560	5,990
PROVISION FOR INCOME TAXES	713	527	1,059	1,164
INCOME FROM CONTINUING OPERATIONS	2,023	2,685	3,501	4,826

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INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	(31) 67	793	138
NET INCOME	\$1,992	2,752	4,294	4,964
Dividends declared per common share	\$0.16	0.16	0.32	0.32
Basic earnings per common share:				
Continuing operations	\$0.30	0.40	0.52	0.72
Discontinued operations	-	0.01	0.12	0.02
Diluted earnings per common share:				
Continuing operations	\$0.30	0.40	0.52	0.72
Discontinued operations	-	0.01	0.12	0.02
Weighted average common shares outstanding:				
Basic	6,689,743	6,687,232	6,689,743	6,687,232
Diluted	6,746,791	6,742,663	6,744,375	6,736,435

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Income	\$ 1,992	2,752	4,294	4,964
Other comprehensive income:				
Net unrealized gain on available-for-sale securities (net of taxes of \$926 and \$654 for the three months ended June 30, 2011 and 2010, respectively, and \$696 and \$835 for the six months ended June 30, 2011 and 2010, respectively)	1,798	1,270	1,351	1,621
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of \$42 and \$18 for the three months ended June 30, 2011 and 2010, respectively, and \$143 and \$44 for the six months ended June 30, 2011 and 2010, respectively)	(82)	(33)	(276)	(84)
Change in nonqualified pension plan unrecognized net loss (net of taxes of \$2 and \$6 for the three and six months ended June 30, 2011, respectively)	4	-	12	-
Reclassification adjustment for recognition of nonqualified pension plan net loss (net of taxes of \$3 and \$4 for the three and six months ended June 30, 2011, respectively)	(5)	-	(8)	-
Nonqualified pension plan curtailment (net of taxes of \$80)	-	-	155	-
TOTAL COMPREHENSIVE INCOME	\$3,707	3,989	5,528	6,501

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)
(Unaudited)

	Common Shares Outstanding	Common Stock	Surplus	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2010	6,687,232	\$ 11,068	15,407	48,962	(11,737)	1,915	65,615
Net income				4,964			4,964
Net unrealized gain on available-for-sale securities, net of taxes						1,621	1,621
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income, net of taxes						(84)	(84)
Compensation expense relating to stock options			19				19
Common stock dividends, \$0.32 per share				(2,140)			(2,140)
Balance June 30, 2010	6,687,232	11,068	15,426	51,786	(11,737)	3,452	69,995
Balance January 1, 2011	6,689,743	\$ 11,068	15,447	54,045	(11,698)	1,845	70,707
Net income				4,294			4,294
Net unrealized gain (loss) on available-for-sale securities, net of taxes						1,351	1,351
Reclassification adjustment for net realized gain on sale of available-for-sale						(276)	(276)

securities included in net income, net of taxes							
Change in nonqualified pension plan unrecognized net gain (loss), net of taxes					12		12
Reclassification adjustment for recognition of nonqualified pension plan net gain, net of taxes					(8)	(8
Nonqualified pension plan curtailment entry, net of taxes					155		155
Compensation expense relating to stock options			22				22
Common stock dividends, \$0.32 per share					(2,141)	(2,141
Balance June 30, 2011	6,689,743	11,068	15,469	56,198	(11,698)	3,079
							74,116

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,294	4,964
Adjustments to reconcile net income to net cash flows from operating activities-		
Depreciation, amortization, and accretion	1,351	1,262
Provision for loan losses	888	719
Curtailment charge for nonqualified defined benefit retirement plan	191	-
Increase in cash surrender value of bank owned life insurance	(294)	(305)
Bank owned life insurance death benefits in excess of cash surrender value	-	(792)
Realized (gain) loss on sales of securities available-for-sale	(419)	(128)
Realized (gain) loss on sales of premises and equipment	(5)	13
Realized gain from sale of insurance agency	(1,503)	-
Realized gain from sale of repossessed assets	(31)	(14)
Origination of mortgage loans for sale	(2,698)	(2,554)
Realized gains from sales of mortgage loans	(57)	(48)
Proceeds from sales of mortgage loans	2,726	2,575
Compensation expense related to stock options	22	19
Partial charge-off of other real estate owned	-	84
Changes in:		
Accrued income receivable	21	242
Other assets	57	(353)
Other liabilities	(335)	(458)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,208	5,226
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities available-for-sale	18,982	11,657
Proceeds from maturities and calls of investment securities:		
Available-for-sale	15,729	29,831
Held-to-maturity	2,628	1,840
Purchases of investment securities:		
Available-for-sale	(48,203)	(40,328)
Held-to-maturity	(1,730)	(2,515)
Purchase of Federal Reserve Bank stock	(2)	-
Proceeds from redemption of Federal Reserve Bank stock	-	1
Net (increase) decrease in loans	(3,281)	(139)
Proceeds from bank owned life insurance death benefits	-	1,269
Proceeds from sale of repossessed assets	148	117
Purchases of premises and equipment	(1,692)	(469)
Proceeds from sales of premises and equipment	13	16
Proceeds from sale of insurance agency, net of cash disposed	1,523	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(15,885)	1,280
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Net increase (decrease) in deposits	40,212	47,803
Net increase (decrease) in short-term borrowings	(9,493)	(10,796)
Proceeds from long-term debt	5,000	-
Principal payments on long-term debt	(6,059)	(1,149)
Cash dividends paid on common stock	(2,141)	(2,140)
NET CASH FLOWS FROM FINANCING ACTIVITIES	27,519	33,718
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,842	40,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,999	12,626
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$26,841	52,850
SUPPLEMENTAL CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$3,514	4,313
Income taxes	1,714	1,761
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Transfer from loans to other real estate owned and repossessed assets	229	161

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

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

Substantially all of the assets, liabilities and operations of LCNB Corp. ("LCNB") are attributable to its wholly-owned subsidiary, LCNB National Bank (the "Bank"). The accompanying unaudited consolidated financial statements include the accounts of LCNB and the Bank. LCNB completed the sale of its subsidiary, Dakin Insurance Agency, Inc. ("Dakin") on March 23, 2011. The financial results of Dakin are included as income from discontinued operations, net of tax, in the accompanying unaudited consolidated financial statements through the date of sale.

The unaudited interim consolidated financial statements, which have been reviewed by J.D. Cloud & Co. L.L.P., LCNB's independent registered public accounting firm, in accordance with standards established by the Public Company Accounting Oversight Board, as indicated by their report included herein and which does not express an opinion on those statements, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods, as required by Regulation S-X, Rule 10-01.

Certain prior period data presented in the financial statements have been reclassified to conform with the current year presentation.

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

Results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in LCNB's 2010 Annual Report on Form 10-K filed with the SEC.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 2 - Investment Securities

The amortized cost and estimated fair value of available-for-sale investment securities at June 30, 2011 and December 31, 2010 are summarized as follows (in thousands):

	June 30, 2011			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury notes	\$22,052	98	-	22,150
U.S. Agency notes	107,984	571	317	108,238
U.S. Agency mortgage-backed securities	29,364	1,426	39	30,751
Corporate securities	1,009	16	-	1,025
Municipal securities:				
Non-taxable	62,971	2,483	138	65,316
Taxable	20,196	483	79	20,600
Mutual funds	1,580	1	-	1,581
Trust preferred securities	549	54	3	600
Equity securities	476	35	3	508
	\$246,181	5,167	579	250,769

	December 31, 2010			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury notes	\$19,724	16	155	19,585
U.S. Agency notes	83,600	107	845	82,862
U.S. Agency mortgage-backed securities	31,786	1,364	56	33,094
Corporate securities	2,012	13	-	2,025
Municipal securities:				
Non-taxable	71,902	2,642	116	74,428
Taxable	22,049	302	383	21,968
Mutual fund	1,063	-	10	1,053
Trust preferred securities	549	57	2	604
Equity securities	249	18	4	263
	\$232,934	4,519	1,571	235,882

The fair value of held-to-maturity investment securities, consisting of taxable and non-taxable municipal securities, approximates amortized cost at June 30, 2011 and December 31, 2010.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 2 - Investment Securities (continued)

Substantially all securities in unrealized loss positions at June 30, 2011 have been in a loss position less than twelve months. Management has determined that the unrealized losses at June 30, 2011 are primarily due to fluctuations in market interest rates and do not reflect credit quality deterioration of the securities. Because the Company does not have the intent to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Note 3 - Loans

Major classifications of loans at June 30, 2011 and December 31, 2010 are as follows (in thousands):

	June 30, 2011	December 31, 2010
Commercial and industrial	\$ 33,508	36,122
Commercial, secured by real estate	206,952	196,136
Residential real estate	187,540	190,277
Consumer	16,946	19,691
Agricultural	2,844	2,966
Other loans, including deposit overdrafts	9,466	9,413
	457,256	454,605
Deferred net origination costs	300	386
	457,556	454,991
Less allowance for loan losses	3,109	2,641
Loans, net	\$ 454,447	452,350

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 - Loans (continued)

Non-accrual, past-due, and restructured loans as of June 30, 2011 and December 31, 2010 were as follows (in thousands):

	June 30, 2011	December 31, 2010
Non-accrual loans	\$ 3,086	3,761
Past-due 90 days or more and still accruing	670	300
Restructured loans	9,503	9,088
Total	\$ 13,259	13,149
Percent to total loans	2.90 %	2.89 %

Non-accrual loans at June 30, 2011 decreased from the balance at December 31, 2010 primarily due to the receipt of a \$594,000 guarantee payment on a Small Business Administration loan during the first quarter 2011. Restructured loans at June 30, 2011 increased from the balance at December 31, 2010 primarily due to the modification of two commercial real estate loans to the same borrower totaling \$626,000 during the first quarter 2011.

Loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of those loans at June 30, 2011 and December 31, 2010 were \$67,942,000 and \$70,705,000, respectively. Loans sold to the Federal Home Loan Mortgage Corporation during the three and six months ended June 30, 2011 totaled \$976,000 and \$2,698,000, respectively, and \$954,000 and \$2,554,000 during the three and six months ended June 30, 2010, respectively.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 – Loans (continued)

The allowance for loan losses and recorded investment in loans for the six months ended June 30 were as follows (000's):

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Unallocated	Total
June 30, 2011								
Allowance for loan losses:								
Balance, beginning of year	\$ 305	1,625	459	246	-	6	-	2,641
Provision charged to expenses	321	279	250	23	-	15	-	888
Losses charged off	(251)	-	(132)	(138)	-	(58)	-	(579)
Recoveries	-	30	4	82	-	43	-	159
Balance, end of period	\$ 375	1,934	581	213	-	6	-	3,109
Ending balance: individually evaluated for impairment	\$ 133	341	82	-	-	-	-	556
Ending balance: collectively evaluated for impairment	242	1,593	499	213	-	6	-	2,553
Loans:								
Ending balance	\$ 33,508	206,952	187,540	16,946	2,844	9,466	-	457,256
Ending balance: individually evaluated for impairment	780	11,923	533	-	-	-	-	13,236
Ending balance: collectively evaluated for impairment	32,728	195,029	187,007	16,946	2,844	9,466	-	444,020

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 – Loans (continued)

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Unallocated	Total
June 30, 2010								
Allowance for loan losses:								
Balance, beginning of year	\$ 546	1,628	491	313	-	9	11	2,998
Provision charged to expenses	(13)	532	69	126	-	16	(11)	719
Losses charged off	(288)	-	(80)	(247)	-	(67)	-	(682)
Recoveries	-	-	1	66	-	48	-	115
Balance, end of period	\$ 245	2,160	481	258	-	6	-	3,150
Ending balance: individually evaluated for impairment	\$ -	1,051	-	-	-	-	-	1,051
Ending balance: collectively evaluated for impairment	245	1,109	481	258	-	6	-	2,099
Loans:								
Ending balance	\$ 37,767	193,311	193,089	22,442	3,206	9,446	-	459,261
Ending balance: individually evaluated for impairment	1,076	10,673	534	-	-	-	-	12,283
Ending balance: collectively evaluated for impairment	36,691	182,638	192,555	22,442	3,206	9,446	-	446,978

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 – Loans (continued)

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

- Pass – loans categorized in this category are higher quality loans that do not fit any of the other categories described below.
- Other Assets Especially Mentioned (OAEM) - loans in this category are currently protected but are potentially weak. These loans constitute a risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an undue risk in light of the circumstances surrounding a specific asset.
- Substandard – loans in this category are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified in this category have all the weaknesses inherent in loans classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 – Loans (continued)

An analysis of the Company's loan portfolio by credit quality indicators at June 30, 2011 and December 31, 2010 is as follows (000's):

	No Grade	Pass	OAEM	Substandard	Doubtful	Loss	Total
June 30, 2011							
Commercial & industrial	\$1,213	30,193	1,116	986	-	-	33,508
Commercial, secured by real estate	2,382	189,873	4,794	7,652	2,251	-	206,952
Residential real estate	18,278	165,455	1,364	2,443	-	-	187,540
Consumer	392	16,483	-	54	12	5	16,946
Agricultural	299	2,545	-	-	-	-	2,844
Other	99	9,367	-	-	-	-	9,466
Total	\$22,663	413,916	7,274	11,135	2,263	5	457,256
December 31, 2010							
Commercial & industrial	\$1,299	32,421	1,177	1,225	-	-	36,122
Commercial, secured by real estate	2,053	179,710	4,897	8,574	902	-	196,136
Residential real estate	17,346	170,900	264	1,702	65	-	190,277
Consumer	394	19,144	-	72	81	-	19,691
Agricultural	247	2,719	-	-	-	-	2,966
Other	116	9,297	-	-	-	-	9,413
Total	\$21,455	414,191	6,338	11,573	1,048	-	454,605

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Note 3 – Loans (continued)

A loan portfolio aging analysis at June 30, 2011 and December 31, 2010 is as follows (000's):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans Greater Than 90 Days and Accruing
June 30, 2011							
Commercial & industrial	\$-	-	-	-	33,508	33,508	-
Commercial, secured by real estate	85	-	2,366	2,451	204,501	206,952	35
Residential real estate	520	19	1,207	1,746	185,794	187,540	625
Consumer	98	57	10	165	16,781	16,946	10
Agricultural	42	-	-	42	2,802	2,844	-
Other	99	-	-	99	9,367	9,466	-
Total	\$844	76	3,583	4,503	452,753	457,256	670
December 31, 2010							
Commercial & industrial	\$138	-	595	733	35,389	36,122	1
Commercial, secured by real estate	753	-	1,766	2,519	193,617	196,136	114
Residential real estate	482	36	698	1,216	189,061	190,277	110
Consumer	231	54	76	361	19,330	19,691	75
Agricultural	-	-	-	-	2,966	2,966	-
Other	5	-	-	5	9,408	9,413	-
Total	\$1,609	90	3,135	4,834	449,771	454,605	300

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Note 3 – Loans (continued)

Impaired loans at June 30, 2011 and December 31, 2010 were as follows (000's):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2011					
With no related allowance recorded:					
Commercial & industrial	\$-	-	-	-	-
Commercial real estate	5,171	5,171	-	5,229	101
Residential real estate	332	332	-	332	-
Total	5,503	5,503	-	5,561	101
With an allowance recorded:					
Commercial & industrial	648	781	133	1,090	28
Commercial real estate	6,411	6,752	341	6,816	133
Residential real estate	118	200	82	200	-
Total	7,177	7,733	556	8,106	161
Total:					
Commercial & industrial	648	781	133	1,090	28
Commercial real estate	11,582	11,923	341	12,045	234
Residential real estate	450	532	82	532	-
Total	\$12,680	13,236	556	13,667	262

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Note 3 – Loans (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no related allowance recorded:					
Commercial & industrial	\$594	594	-	751	9
Commercial real estate	8,350	8,350	-	9,058	372
Residential real estate	533	533	-	534	-
Total	9,477	9,477	-	10,343	381
With an allowance recorded:					
Commercial & industrial	356	476	120	693	29
Commercial real estate	2,974	3,150	176	3,403	142
Residential real estate	-	-	-	-	-
Total	\$3,330	3,626	296	4,096	171
Total:					
Commercial & industrial	\$950	1,070	120	1,444	38
Commercial real estate	11,324	11,500	176	12,461	514
Residential real estate	533	533	-	534	-
Total	\$12,807	13,103	296	14,439	552

Non-accrual loans at June 30, 2011 and December 31, 2010 were as follows (000's):

	June 30, 2011	December 31, 2010
Commercial and industrial	\$ -	595
Commercial, secured by real estate	2,331	2,377
Residential real estate	755	789
	3,086	3,761

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Note 4 – Other Real Estate Owned

Other real estate owned includes property acquired through foreclosure or deed-in-lieu of foreclosure and also includes property deemed to be in-substance foreclosed and are included in “other assets” in the consolidated balance sheets. Changes in other real estate owned were as follows (000’s):

	Six Months Ended June 30,	
	2011	2010
Balance, beginning of year	\$ 2,088	2,424
Additions	-	104
Reductions due to valuation write downs	-	(84)
Balance, end of period	\$ 2,088	2,444

Other real estate owned at June 30, 2011 consisted of two commercial properties and one single-family residential home. Other real estate owned at June 30, 2010 consisted of two commercial properties and two single-family residential homes. Additions for the 2010 period consisted of one single family residential home.

Note 5 – Borrowings

Funds borrowed from the Federal Home Loan Bank of Cincinnati at June 30, 2011 and December 31, 2010 were as follows (in thousands):

	Current Interest Rate		June 30, 2011	December 31, 2010
Fixed Rate Advances, due at maturity:				
Advance due February 2011	2.10	%	\$ -	5,000
Advance due August 2012	1.99	%	6,000	6,000
Advance due January 2015	2.00	%	5,000	-
Advance due March 2017	5.25	%	5,000	5,000
Fixed Rate Advances, with monthly principal and interest payments:				
Advance due March 2014	2.45	%	2,826	3,319
Advance due March 2019	2.82	%	3,235	3,801
			\$ 22,061	23,120

All advances from the Federal Home Loan Bank of Cincinnati are secured by a blanket pledge of LCNB’s 1-4 family first lien mortgage loans in the amount of approximately \$146 million and \$148 million at June 30, 2011 and December 31, 2010, respectively. Additionally, LCNB was required to hold minimum levels of FHLB stock, based on the outstanding borrowings.

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Note 5 – Borrowings (continued)

Short-term borrowings at June 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

	June 30, 2011			December 31, 2010		
	Amount	Rate		Amount	Rate	
U.S. Treasury demand note	\$ 1,101	-	%	1,295	-	%
Federal funds purchased	-	-	%			