ROBARDS KAREN P
Form 4
January 17, 2013

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
ROBARDS KAREN P

(Last) (First) (Middle)

55 EAST 52ND STREET

(Street)

NEW YORK, NY 10055

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BLACKROCK CORPORATE HIGH YIELD FUND VI, INC. [HYT]

3. Date of Earliest Transaction (Month/Day/Year)
01/15/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. D

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)		Se (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Performance Rights (1)	(2)	01/15/2013		A		99.49		(3)	(3)	Common Stock	99.49	$

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ROBARDS KAREN P 55 EAST 52ND STREET NEW YORK, NY 10055	X			

Signatures

/s/ Eugene Drozdetski as Attorney-in-Fact	01/17/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Performance Rights were accrued under the BlackRock Deferred Compensation Plan.

(2) One Performance Right is convertible into the cash value of one share of BlackRock Corporate High Yield Fund VI, Inc.

(3) The Performance Rights are to be settled 100% in cash at the end of the deferral period chosen by the reporting person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Total assets
$
1,488,941

$
1,309,501

$
1,305,132

Savings deposits
$
689,322

1,332

0.19
%

Explanation of Responses:

$
645,471

594

0.09
%

$
654,891

652

0.10
%
IRA and time certificates
253,524

4,421

1.74
%

205,540

2,784

1.35
%

217,228

2,788

1.28
%
Short-term borrowings
13,967

311

2.23
%

23,976

209

0.87
%

17,952

38

0.21
%
Long-term debt
16,789

361

2.15
%

421

12

2.85
%

826

26

3.15
%
Total interest-bearing liabilities

973,602

6,425

0.66
%

875,408

3,599

0.41
%

890,897

3,504

0.39
%
Demand deposits
315,229

274,855

259,060

Explanation of Responses:

Other liabilities
12,195

10,795

10,014

Capital
187,915

148,443

145,161

Total liabilities and capital
$
1,488,941

$
1,309,501

$
1,305,132

Net interest rate spread (3)

3.45
%

3.47
%

3.41
%
Net interest income and net interest margin on a tax equivalent basis (4)

48,883

3.63
%

42,549

3.58
%

41,909

3.51
%
Ratio of interest-earning assets to interest-bearing liabilities
138.37
%

135.83
%

134.20
%

(1) Includes non-accrual loans if any.
(2) Income from tax-exempt securities is included in interest income on a taxable-equivalent basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 21% for 2018 and 34% for 2017 and 2016.
(3) The net interest spread is the difference between the average rate on total interest-earning assets and interest-bearing liabilities.
(4) The net interest margin is the taxable-equivalent net interest income divided by average interest-earning assets.

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

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

	For the years ended December 31,					
	2018 vs. 2017			2017 vs. 2016		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income attributable to:						
Loans (1)	$9,840	1,078	10,918	1,334	(363)	971
Interest-bearing demand deposits	(40)	88	48	(27)	56	29
Interest-bearing time deposits	58	—	58	—	—	—
Federal Reserve Bank stock	32	—	32	—	—	—
Federal Home Loan Bank stock	39	38	77	—	36	36
Investment securities:						
Equity securities	15	—	15	1	(27)	(26)
Debt securities, taxable	(878)	305	(573)	(684)	456	(228)
Debt securities, non-taxable (2)	(627)	(788)	(1,415)	92	(139)	(47)
Total interest income	8,439	721	9,160	716	19	735
Interest expense attributable to:						
Savings deposits	43	695	738	(9)	(49)	(58)
IRA and time certificates	734	903	1,637	(154)	150	(4)
Short-term borrowings	(116)	218	102	17	154	171
Long-term debt	353	(4)	349	(12)	(2)	(14)
Total interest expense	1,014	1,812	2,826	(158)	253	95
Net interest income	$7,425	(1,091)	6,334	874	(234)	640

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

(2) Change in interest income from non-taxable investment securities is computed based on interest income determined on a taxable-equivalent yield basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 21% for 2018 and 34% for 2017 and 2016.

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

The increase in total interest income was due primarily to a $10,918,000 increase in loan interest income caused by a $215.7 million increase in average loans and secondarily to a 12 basis point (a basis point equals 0.01%) increase in the average rate earned on loans. Loans obtained through the merger with CFB were a significant component of the increase in average loans. Partially offsetting the increase in loan interest income was a $573,000 decrease in interest income from taxable debt securities and a $1,415,000 decrease in taxable-equivalent interest income from non-taxable debt securities. Interest income from taxable investment securities decreased due to a $40.4 million decrease in average taxable investment securities, partially offset by a 16 basis point increase in the average rate earned on these securities. Interest income from non-taxable investment securities decreased due to a $20.3 million decrease in average non-taxable debt securities and to a 60 basis point decrease in the average rate earned on these securities. One of the reasons for the 60 basis point decrease in the average rate earned on non-taxable debt securities was the decrease in the federal corporate tax rate to 21%, which decreased the effective yield earned on these securities. Decreases in debt securities were invested in the loan portfolio and used to pay down short-term borrowings.

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

2017 vs. 2016. Net interest income on a fully tax-equivalent basis for 2017 totaled $42,549,000, an increase of $640,000 from 2016. The increase resulted from an increase in total taxable-equivalent interest income of $735,000, slightly offset by an increase in total interest expense of $95,000.

The increase in total interest income was due primarily to a $971,000 increase in loan interest income caused by a $29.9 million increase in average loans, partially offset by a 4 basis point decrease in the average rate earned on loans. Partially offsetting the increase in loan interest income was a $228,000 decrease in interest income from taxable investment securities and a $47,000 decrease in taxable-equivalent interest income from non-taxable investment securities. Interest income from taxable investment securities decreased due to a $34.6 million decrease in average taxable investment securities, partially offset by a 20 basis point increase in the average rate earned on these securities. Interest income from non-taxable investment securities decreased due to a 10 basis point decrease in the average rate earned on these securities, partially offset by a $2.7 million increase in non-taxable investment securities.

The increase in total interest expense was primarily due to a $171,000 increase in interest paid on short-term borrowings, partially offset by decreases in interest paid on savings deposits, IRA and time certificates, and long-term debt. Short-term borrowings increased due to a 66 basis point increase in the average rate paid and, secondarily, due to a $6.0 million increase in the average balance of borrowings outstanding. Interest paid on savings deposits decreased due to a 1 basis point decrease in the average rate paid and due to a $9.4 million decrease in average deposits outstanding. IRA and time certificates decreased due to an $11.7 million decrease in average certificates outstanding, largely offset by a 7 basis point increase in the average rate paid. Long-term debt decreased primarily due to a $405,000 decrease in average debt outstanding and to a 30 basis point decrease in the average rate paid.

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

Provisions and Allowance for Loan Losses

The following table presents the total loan loss provision and the other changes in the allowance for loan losses for the years 2014 through 2018:

	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance – Beginning of year	$3,403	3,575	3,129	3,121	3,588
Loans charged off:					
Commercial and industrial	—	—	234	100	261
Commercial, secured by real estate	145	462	185	1,133	573
Residential real estate	234	225	127	304	652
Consumer	135	90	85	52	129
Agricultural	—	—	—	67	—
Other loans, including deposit overdrafts	179	138	119	74	79
Total loans charged off	693	915	750	1,730	1,694
Recoveries:					
Commercial and industrial	1	99	26	7	42
Commercial, secured by real estate	239	113	98	96	63
Residential real estate	71	140	52	107	40
Consumer	13	114	53	60	108
Agricultural	—	—	—	67	—
Other loans, including deposit overdrafts	89	62	54	35	44
Total recoveries	413	528	283	372	297
Net charge offs	280	387	467	1,358	1,397
Provision charged to operations	923	215	913	1,366	930
Balance - End of year	$4,046	3,403	3,575	3,129	3,121
Ratio of net charge-offs during the period to average loans outstanding	0.03 %	0.05 %	0.06 %	0.18 %	0.21 %
Ratio of allowance for loan losses to total loans at year-end	0.34 %	0.40 %	0.44 %	0.41 %	0.45 %

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

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

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

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LCNB CORP. AND SUBSIDIARIES

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

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

Non-Interest Income

A comparison of non-interest income for 2018, 2017, and 2016 is as follows:

	2018	2017	2016	Increase (Decrease) 2018 vs. 2017	2017 vs. 2016
	(In thousands)				
Fiduciary income	$3,958	3,473	3,286	485	187
Service charges and fees on deposit accounts	5,590	5,236	5,008	354	228
Net gains (losses) on sales of securities	(8)	233	1,082	(241)	(849)
Bank owned life insurance income	738	867	746	(129)	121
Net gains from sales of loans	223	166	244	57	(78)
Other operating income	549	483	487	66	(4)
Total non-interest income	11,050	10,458	10,853	592	(395)

Reasons for material increases and decreases include:

- Fiduciary income increased during 2018 due to an increase in assets managed. Fiduciary income increased during 2017 due to an increase in assets managed and to fee adjustments.
- Service charges and fees on deposit accounts increased during 2018 primarily due to fees earned from an Insured Cash Sweep (ICS®) product that was introduced during the second quarter 2017 and from an increase in debit card income. Debit card income benefited from more cards outstanding due to the merger with CFB and greater depositor utilization of the cards. Service charges and fees on deposit accounts increased during 2017 due to fee adjustments on certain services and greater customer utilization of various services.
- Net gains (losses) on sales of securities were less during 2017 and 2018 as compared to 2016 primarily due to a lower volume of sales.
- Bank owned life insurance income was greater in 2017 primarily due to mortality benefits. No mortality benefits were received in 2018 or 2016.

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Explanation of Responses:

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

Non-Interest Expense

A comparison of non-interest expense for 2018, 2017, and 2016 is as follows:

	2018	2017	2016	Increase (Decrease) 2018 vs. 2017	2017 vs. 2016
	(In thousands)				
Salaries and employee benefits	$21,279	18,585	18,215	2,694	370
Equipment expenses	1,138	1,172	1,048	(34)	124
Occupancy expense, net	2,861	2,613	2,271	248	342
State financial institutions tax	1,197	1,137	1,114	60	23
Marketing	1,119	873	696	246	177
Amortization of intangibles	922	751	753	171	(2)
FDIC premiums	419	423	547	(4)	(124)
ATM expense	580	572	721	8	(149)
Computer maintenance and supplies	990	882	790	108	92
Telephone expense	649	735	746	(86)	(11)
Contracted services	1,547	1,255	1,033	292	222
Other real estate owned	20	10	624	10	(614)
Merger-related expenses	2,123	118	—	2,005	118
Other non-interest expense	5,658	4,737	4,703	921	34
Total non-interest expense	40,502	33,863	33,261	6,639	602

Reasons for material increases and decreases include:

- Salaries and employee benefits were 14.5% greater in 2018 than in 2017 and 2017 was 2.0% greater than in 2016. The increases for both years were primarily due to salary and wage increases, newly hired employees, and increased health insurance costs, partially offset by net decreases in pension expenses. CFB employees retained and increased incentive payments were also factors during 2018. The number of full-time equivalent employees was 325 at December 31, 2018, 310 at December 31, 2017, and 282 at December 31, 2016.
- Equipment expenses were greater during 2018 and 2017 as compared to 2016 primarily due to depreciation expense on furniture and equipment purchased for the new Operations Center, which went into service during March 2017.
- Occupancy expense for 2018 increased primarily due to increased branch rental expense and increased depreciation of bank premises. The increase in branch rental expense primarily reflects rent paid for the new Worthington Office, previously the CFB office. Occupancy expense for 2017 increased primarily due to increased depreciation on bank premises and, secondarily, to increased maintenance-related expenses, both primarily due to the new Operations Center.
- Marketing expense increased in 2018 primarily due to promotion costs for new checking products introduced in 2018, increased marketing activities in the Columbus area, and expanded used of television, radio, and digital methods of advertising. Marketing expense increased in 2017 primarily due to expanded use of television and digital methods of advertising.
- FDIC premiums were lower in 2018 and 2017 as compared to 2016 primarily due to a change in the calculation method used to determine periodic premiums.
-

ATM expense for 2017 decreased primarily due to a change in the ATM network that processes PIN-based transactions.

- Computer maintenance and supplies increased in 2017 and 2018 due to increased technology and software related expenditures designed to offer technological convenience to customers, to protect the integrity of its data systems and software, and to protect the confidentiality of customer information.
- Contracted services increased in 2018 due to additional fees paid for loan and deposit system upgrades and improvements and to general price increases on other contracted services. Contracted services for 2017 increased largely due to fees paid to professional placement services firms, enhanced utilization of loan review specialists, fees related to an after-hours call answering service, and costs related to moving departments from the Main Office to the Operations Center.

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

- Other real estate owned expense was greater in 2016 primarily due to impairment charges recognized on a commercial property.
- Merger-related expenses for 2018 and 2017 are due to the acquisition of CFB and are primarily comprised of various professional fees, costs to prepare and distribute the proxy statement/prospectus, and costs to merge CFB's data system into LCNB's system.
- Other non-interest expense for 2018 included $575,000 in net losses from sales of fixed assets, primarily due to the sale of two office buildings. Other non-interest expense for 2017 included $154,000 in organizational costs for LCNB Risk Management, Inc. and $113,000 in losses from sales of fixed assets, primarily due to the sale of a closed office building. Other non-interest expense for 2016 included a $251,000 penalty incurred during the first quarter 2016 to pre-pay a Federal Home Loan Bank borrowing. The borrowing bore an interest rate of 5.25% and was paid off to reduce future interest expense.

Income Taxes

LCNB's effective tax rates for the years ended December 31, 2018, 2017, and 2016 were 16.6%, 24.8%, and 26.3%, respectively. The difference between the statutory rates of 21% for 2018 and 34% for 2017 and 2016 and the effective tax rates is primarily due to tax-exempt interest income from municipal securities, tax-exempt earnings from bank owned life insurance, tax-exempt earnings from LCNB Risk Management, Inc., and tax credits and losses related to investments in affordable housing tax credit limited partnerships.

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

Assets

Total assets at December 31, 2018 were $341.3 million greater than at December 31, 2017 primarily due to the merger with CFB. The carrying values of loans, deposits, and long-term debt were significantly influenced by this merger. See Note 2 - Acquisitions (Unaudited) to the consolidated financial statements for a description of the merger and a summary of the estimated fair values of CFB's assets and liabilities added to LCNB's balance sheet.

Interest-bearing time deposits of $996,000 at December 31, 2018 were obtained through the merger with CFB. The original amount at May 31, 2018 was $10.4 million and LCNB has not been renewing the time deposits as they mature. This line item represents certificates of deposit with individual balances of less than $250,000 invested in various financial institutions.

Equity securities without a readily determinable fair value increased $1.0 million, from $1.1 million at December 31, 2017 to $2.1 million at December 31, 2018. The increase represents an additional investment in a mutual fund.

Available-for-sale and held-to-maturity debt securities at December 31, 2018 were respectively $36.8 million less and $2.9 million less than at December 31, 2017. Management used the decrease in investment funds to fund loan growth and to maintain liquidity.

Federal Reserve Bank stock at December 31, 2018 was $1.9 million greater than at December 31, 2017 due to additional stock purchased.

Federal Home Loan Bank stock at December 31, 2018 was $1.2 million greater than at December 31, 2017. The additional stock was obtained through the merger with CFB.

Net loans at December 31, 2018 were $348.9 million greater than at December 31, 2017. The merger with CFB added approximately $282.1 million to LCNB's loan portfolio at the merger date. The balance of the increase is due to organic growth.

Net premises and equipment at December 31, 2018 was $2.3 million less than at December 31, 2017 primarily due to the sale of two office buildings.

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Goodwill at December 31, 2018 was $29.0 million greater than at December 31, 2017 due to goodwill recorded from the merger with CFB.

Core deposit and other intangibles at December 31, 2018 was $1.3 million greater than at December 31, 2017 primarily due to a $2.1 million core deposit intangible recorded from the merger with CFB, partially offset by amortization of intangibles.

Liabilities and Shareholders' Equity

Total deposits at December 31, 2018 were $215.1 million greater than at December 31, 2017. The merger with CFB added approximately $244.4 million of deposits to LCNB's balance sheet as of the merger date. Of the remaining net decrease, approximately $10.2 million was due to public fund deposits by local government entities. Public fund deposits can be relatively volatile due to seasonal tax collections and the financial needs of the local entities. Historically, public fund deposits tend to be at their lowest balances at year-ends.

Short-term borrowings at December 31, 2018 were $9.2 million greater than at December 31, 2017. The additional borrowings were used for liquidity purposes.

Long-term debt at December 31, 2018 was $46.7 million greater than at December 31, 2017. LCNB borrowed $31.0 million from the FHLB during 2018 and assumed $22.9 million of long-term debt from CFB. These additions were partially offset by payoffs of matured debt. The borrowings were used to fund loan growth and for general liquidity purposes.

Total shareholders' equity at December 31, 2018 was $68.7 million greater than at December 31, 2017 primarily due to common stock issued to CFB shareholders, which had a closing date fair value of $63.6 million.

Liquidity

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

Effective liquidity management ensures that cash is available to meet the cash flow needs of borrowers and depositors, as well as meeting LCNB's operating cash needs. Primary funding sources include customer deposits with the Bank, short-term and long-term borrowings from the Federal Home Loan Bank, short-term line of credit arrangements totaling $40.0 million with two correspondent banks, and interest and repayments received from LCNB's loan and investment portfolios.

Total remaining borrowing capacity with the Federal Home Loan Bank at December 31, 2018 was approximately $45.7
million. One of the factors limiting remaining borrowing capacity is ownership of FHLB stock. LCNB could increase its
borrowing capacity by purchasing additional FHLB stock. In addition, additional borrowings of approximately $35.8 million
were available through the line of credit arrangements at quarter-end.

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

Commitments to extend credit at December 31, 2018 totaled $245.8 million, including standby letters of credit totaling $1,080,000, and are more fully described in Note 14 - Commitments and Contingent Liabilities to LCNB's consolidated financial statements. Since many commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

The following table provides information concerning LCNB's contractual obligations at December 31, 2018:

	Payments due by period				
	Total	1 year or less	Over 1 through 3 years	Over 3 through 5 years	More than 5 years
	(In thousands)				
Short-term borrowings	$56,230	56,230	—	—	—
Long-term debt obligations	47,032	6,052	30,980	10,000	—
Operating lease obligations	4,868	449	761	400	3,258
Estimated pension plan contribution for 2019	160	160	—	—	—
Funding commitments for affordable housing tax credit limited partnerships	3,372	1,024	1,462	316	570
Estimated capital expenditure obligations	185	185	—	—	—
Certificates of deposit:					
$100,000 and over	135,269	68,632	48,461	17,780	396
Other time certificates	161,601	67,458	68,132	24,205	1,806
Total	$408,717	200,190	149,796	52,701	6,030

The following table provides information concerning LCNB's commitments at December 31, 2018:

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	1 year or less	Over 1 through 3 years	Over 3 through 5 years	More than 5 years
	(In thousands)				
Commitments to extend credit	$28,015	28,015	—	—	—
Unused lines of credit	216,727	73,815	68,937	22,052	51,923
Standby letters of credit	1,080	1,080	—	—	—
Total	$245,822	102,910	68,937	22,052	51,923

Capital Resources

LCNB and the Bank are required by banking regulators to meet certain minimum levels of capital adequacy. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on LCNB's and the Bank's financial statements. These minimum levels are expressed in the form of certain ratios. Capital is separated into Tier 1 capital (essentially shareholders' equity less goodwill and other intangibles) and Tier 2 capital (essentially the allowance for loan losses limited to 1.25% of risk-weighted assets). Common Equity Tier 1 Capital is the sum of common stock, related surplus, and retained earnings, net of treasury stock, accumulated other comprehensive income, and other adjustments. The first three ratios, which are based on the degree of credit risk in the Bank's assets, provide for weighting assets based on assigned risk factors and include off-balance sheet items such as loan commitments and stand-by letters of credit. Information summarizing the regulatory capital of the Bank at December 31, 2018 and 2017 and corresponding regulatory minimum requirements is included in Note 15 - Regulatory Matters of the consolidated financial statements.

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

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LCNB CORP. AND SUBSIDIARIES

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

On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two of which continue to be in effect – the “Market Repurchase Program” and the “Private Sale Repurchase Program.” Any shares purchased will be held for future corporate purposes.

Under the Market Repurchase Program, LCNB was originally authorized to purchase up to 200,000 shares of its stock, as restated for a 100% stock dividend issued in May, 2007, 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, as restated for a stock dividend. Through December 31, 2018, 290,444 shares, as restated for the stock dividend, had been purchased under this program. No shares were purchased under this program during 2018.

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. A total of 487,418 shares, as restated for the stock dividend, had been purchased under this program at December 31, 2018, with 21,400 shares having been purchased during 2018.

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

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

Critical Accounting Policies

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb inherent losses in the loan portfolio, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.
The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans an allowance is established when the discounted cash flows or collateral value is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, which include trends in underperforming loans, trends in the volume and terms of loans, economic trends and conditions, concentrations of credit, trends in the quality of loans, and borrower financial statement exceptions.

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

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LCNB CORP. AND SUBSIDIARIES

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

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

Accounting for Intangibles. LCNB’s intangible assets at December 31, 2018 are composed primarily of goodwill and core deposit intangibles related to acquisitions of other financial institutions. It also includes mortgage servicing rights recorded from sales of fixed-rate mortgage loans to the Federal Home Loan Mortgage Corporation and mortgage servicing rights acquired through the acquisition of Eaton National Bank & Trust Co and Columbus First Bancorp, Inc. Goodwill is not subject to amortization, but is reviewed annually for impairment. Core deposit intangibles are being amortized on a straight line basis over their respective estimated weighted average lives. Mortgage servicing rights are capitalized by allocating the total cost of loans between mortgage servicing rights and the loans based on their estimated fair values. Capitalized mortgage servicing rights are amortized to loan servicing income in proportion to and over the period of estimated servicing income, subject to periodic review for impairment.

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

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LCNB CORP. AND SUBSIDIARIES

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

The Bank's Asset and Liability Management Committee ("ALCO") primarily uses a combination of Interest Rate Sensitivity Analysis (IRSA) and Economic Value of Equity (EVE) analysis for measuring and managing interest rate risk. The IRSA model is used to estimate the effect on net interest income during a one-year period of instantaneous and sustained movements in interest rates, also called interest rate shocks, of 100, 200, and 300 basis points. Management considers the results of any downward scenarios of more than 100 basis points to not be meaningful in the current interest rate environment. The base projection uses a current interest rate scenario. As shown below, the December 31, 2018 IRSA indicates that an increase in interest rates at all shock levels will have a positive effect on net interest income and a decrease in interest rates at all shock levels will have a negative effect on net interest income. The changes in net interest income for all rate assumptions are within LCNB's acceptable ranges.

Rate Shock Scenario in Basis Points	Amount (In thousands)	$ Change in Net Interest Income	% Change in Net Interest Income
Up 400	$ 60,699	3,157	5.49 %
Up 300	59,918	2,376	4.13 %
Up 200	59,104	1,562	2.71 %
Up 100	58,328	786	1.37 %
Base	57,542	—	— %
Down 100	56,873	(669)	(1.16)%

IRSA shows the effect on net interest income during a one-year period only. A more long-range model is the EVE analysis, which shows the estimated present value of future cash inflows from interest-earning assets less the present value of future cash outflows for interest-bearing liabilities for the same rate shocks. As shown below, the December 31, 2018 EVE analysis indicates that an increase or decrease in interest rates would have a positive effect on the EVE for all shock levels. The changes in the EVE for all rate assumptions are within LCNB's acceptable ranges.

Rate Shock Scenario in Basis Points	Amount (In thousands)	$ Change in EVE	% Change in EVE
Up 400	$ 221,236	3,637	1.67 %
Up 300	222,913	5,314	2.44 %
Up 200	223,365	5,766	2.65 %
Up 100	221,683	4,084	1.88 %
Base	217,599	—	— %
Down 100	218,042	443	0.20 %

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

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LCNB CORP. AND SUBSIDIARIES

Item 8. Financial Statements and Supplementary Data

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

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

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

Management assessed LCNB's internal controls as of December 31, 2018, in relation to criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2018, LCNB's internal control over financial reporting met the criteria.

BKD LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of LCNB's internal control over financial reporting as of December 31, 2018.

Submitted by:

LCNB Corp.

/s/ Steve P. Foster	/s/ Robert C. Haines II
Steve P. Foster	Robert C. Haines II
Chief Executive Officer	Executive Vice President &
March 6, 2019	Chief Financial Officer
	March 6, 2019

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LCNB CORP. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited LCNB Corp.'s (Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated March 6, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

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

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LCNB CORP. AND SUBSIDIARIES

Definitions and Limitations of Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BKD, LLP
BKD, LLP

Cincinnati, Ohio
March 6, 2019

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LCNB CORP. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LCNB Corp. (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 6, 2019, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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

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

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

/s/ BKD, LLP
BKD, LLP

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

Cincinnati, Ohio
March 6, 2019

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LCNB CORP. AND SUBSIDIARIES

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

	2018	2017
ASSETS:		
Cash and due from banks	$18,310	21,159
Interest-bearing demand deposits	1,730	4,227
Total cash and cash equivalents	20,040	25,386
Interest-bearing time deposits	996	—
Investment securities:		
Equity securities with a readily determinable fair value, at fair value	2,078	2,160
Equity securities without a readily determinable fair value, at cost	2,099	1,099
Debt securities, available-for-sale, at fair value	238,421	275,213
Debt securities, held-to-maturity, at cost	29,721	32,571
Federal Reserve Bank stock, at cost	4,653	2,732
Federal Home Loan Bank stock, at cost	4,845	3,638
Loans, net	1,194,577	845,657
Premises and equipment, net	32,627	34,927
Goodwill	59,221	30,183
Core deposit and other intangibles	5,042	3,799
Bank owned life insurance	28,723	27,985
Other assets	13,884	10,288
TOTAL ASSETS	$1,636,927	1,295,638
LIABILITIES:		
Deposits:		
Non-interest-bearing	$322,571	283,212
Interest-bearing	978,348	802,609
Total deposits	1,300,919	1,085,821
Short-term borrowings	56,230	47,000
Long-term debt	47,032	303
Accrued interest and other liabilities	13,761	12,243
TOTAL LIABILITIES	1,417,942	1,145,367
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
SHAREHOLDERS' EQUITY:		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding	—	—
Common shares - no par value; authorized 19,000,000 shares at December 31, 2018 and 2017; issued 14,070,303 and 10,776,686 shares at December 31, 2018 and 2017, respectively	141,170	76,977
Retained earnings	94,547	87,301
	(12,013)	(11,665)

Treasury shares at cost, 775,027 and 753,627 shares at December 31, 2018 and 2017, respectively		
Accumulated other comprehensive loss, net of taxes	(4,719)	(2,342)
TOTAL SHAREHOLDERS' EQUITY	218,985	150,271
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,636,927	1,295,638

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
For the years ended December 31,
(Dollars in thousands, except per share data)

	2018	2017	2016
INTEREST INCOME:			
Interest and fees on loans	$ 47,489	36,571	35,600
Dividends on equity securities:			
With a readily determinable fair value	65	63	66
Without a readily determinable fair value	39	26	49
Interest on debt securities:			
Taxable	3,666	4,239	4,467
Non-taxable	2,686	3,130	3,199
Other investments	649	434	369
TOTAL INTEREST INCOME	54,594	44,463	43,750
INTEREST EXPENSE:			
Interest on deposits	5,753	3,378	3,440
Interest on short-term borrowings	311	209	38
Interest on long-term debt	361	12	26
TOTAL INTEREST EXPENSE	6,425	3,599	3,504
NET INTEREST INCOME	48,169	40,864	40,246
PROVISION FOR LOAN LOSSES	923	215	913
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	47,246	40,649	39,333
NON-INTEREST INCOME:			
Fiduciary income	3,958	3,473	3,286
Service charges and fees on deposit accounts	5,590	5,236	5,008
Net gains (losses) on sales of securities	(8)	233	1,082
Bank owned life insurance income	738	867	746
Net gains from sales of loans	223	166	244
Other operating income	549	483	487
TOTAL NON-INTEREST INCOME	11,050	10,458	10,853
NON-INTEREST EXPENSE:			
Salaries and employee benefits	21,279	18,585	18,215
Equipment expenses	1,138	1,172	1,048
Occupancy expense, net	2,861	2,613	2,271
State financial institutions tax	1,197	1,137	1,114
Marketing	1,119	873	696
Amortization of intangibles	922	751	753
FDIC premiums	419	423	547
ATM expense	580	572	721
Computer maintenance and supplies	990	882	790
Telephone expense	649	735	746
Contracted services	1,547	1,255	1,033
Other real estate owned	20	10	624

Merger-related expenses	2,123	118	—
Other non-interest expense	5,658	4,737	4,703
TOTAL NON-INTEREST EXPENSE	40,502	33,863	33,261
INCOME BEFORE INCOME TAXES	17,794	17,244	16,925
PROVISION FOR INCOME TAXES	2,949	4,272	4,443
NET INCOME	$ 14,845	12,972	12,482
Earnings per common share:			
Basic	$ 1.24	1.30	1.26
Diluted	1.24	1.29	1.25
Weighted average common shares outstanding:			
Basic	11,935,350	10,005,575	9,948,057
Diluted	11,942,253	10,012,511	9,976,370

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
For the years ended December 31,
(Dollars in thousands)

	2018	2017	2016
Net income	$14,845	12,972	12,482
Other comprehensive income (loss):			
Net unrealized gain (loss) on available-for-sale securities (net of tax expense (benefit) of $(516), $285, and $(1,242) for 2018, 2017, and 2016, respectively)	(1,939)	585	(2,390)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of tax expense (benefit) of $(2), $81, and $370 for 2018, 2017 and 2016, respectively)	6	(152)	(712)
Change in nonqualified pension plan unrecognized net gain (loss) and unrecognized prior service cost (net of tax expense (benefit) of $21, $(53), and $128 for 2018, 2017, and 2016, respectively)	81	(158)	249
Other comprehensive income (loss)	(1,852)	275	(2,853)
TOTAL COMPREHENSIVE INCOME	$12,993	13,247	9,629
SUPPLEMENTAL INFORMATION:			
COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX, AS OF YEAR-END:			
Net unrealized loss on securities available-for-sale	$(4,631)	(2,200)	(2,633)
Net unfunded benefit (liability) for nonqualified pension plan	(88)	(142)	16
Balance at year-end	$(4,719)	(2,342)	(2,617)

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
For the years ended December 31,
(Dollars in thousands, except share data)

	Common Shares Outstanding	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2015	9,925,547	$76,908	74,629	(11,665)	236	140,108
Net income			12,482			12,482
Other comprehensive loss, net of taxes					(2,853)	(2,853)
Dividend Reinvestment and Stock Purchase Plan	21,088	379				379
Repurchase of stock warrants		(1,545)				(1,545)
Exercise of stock options	51,390	592				592
Excess tax benefit on exercise and forfeiture of stock options		61				61
Compensation expense relating to stock options		5				5
Compensation expense relating to restricted stock	—	90				90
Common stock dividends, $0.64 per share			(6,375)			(6,375)
Balance, December 31, 2016	9,998,025	76,490	80,736	(11,665)	(2,617)	142,944
Net income			12,972			12,972
Other comprehensive income, net of taxes					275	275
Dividend Reinvestment and Stock Purchase Plan	17,609	360				360
Exercise of stock options	3,398	51				51
Compensation expense relating to stock options		1				1
Compensation expense relating to restricted stock	4,027	75				75
Common stock dividends, $0.64 per share			(6,407)			(6,407)
Balance, December 31, 2017	10,023,059	76,977	87,301	(11,665)	(2,342)	150,271
Cumulative effect of changes in accounting principles (1)			525		(525)	—
Balance at December 31, 2017, as adjusted	10,023,059	76,977	87,826	(11,665)	(2,867)	150,271
Net income			14,845			14,845
Other comprehensive loss, net of taxes					(1,852)	(1,852)
Dividend Reinvestment and Stock Purchase Plan	22,936	416				416

Stock issued for acquisition of Columbus First Bancorp, Inc.	3,253,060	63,598				63,598
Exercise of stock options	6,987	72				72
Repurchase of common stock	(21,400)			(348)		(348)
Compensation expense relating to restricted stock	10,634	107				107
Common stock dividends, $0.65 per share			(8,124)			(8,124)
Balance, December 31, 2018	13,295,276	$141,170	94,547	(12,013)	(4,719)	218,985

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

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

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

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$14,845	12,972	12,482
Adjustments to reconcile net income to net cash flows from operating activities-			
Depreciation, amortization and accretion	4,073	3,308	2,557
Provision for loan losses	923	215	913
Impact of Tax Cuts and Jobs Act on Accumulated Other Comprehensive Income	—	486	—
Deferred income tax provision (benefit)	228	1,478	928
Increase in cash surrender value of bank owned life insurance	(738)	(760)	(746)
Bank owned life insurance death benefits in excess of cash surrender value	—	(107)	—
Realized (gain) loss from equity securities	73	(15)	(8)
Realized (gain) loss from sales of debt securities available-for-sale	8	(218)	(1,074)
Realized loss from sale of premises and equipment	575	113	33
Realized loss from sale and impairment of other real estate owned and repossessed assets	14	3	534
Origination of mortgage loans for sale	(8,924)	(7,513)	(11,217)
Realized gains from sales of loans	(223)	(166)	(244)
Proceeds from sales of loans	9,033	7,588	11,353
Penalty for prepayment of long-term debt	—	—	251
Compensation expense related to stock options	—	1	5
Compensation expense related to restricted stock	107	75	90
Changes in:			
Accrued income receivable	215	(4)	(216)
Other assets	(1,811)	(269)	(791)
Other liabilities	1,344	948	634
TOTAL ADJUSTMENTS	4,897	5,163	3,002
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	19,742	18,135	15,484
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of equity securities	127	43	173
Proceeds from sales of debt securities available-for-sale	8,545	43,203	92,282
Proceeds from maturities and calls of debt securities:			
Available-for-sale	24,249	25,012	84,529
Held-to-maturity	6,281	14,057	6,640
Purchases of equity securities	(1,118)	(80)	(204)
Purchases of debt securities:			
Available-for-sale	—	(26,932)	(124,730)
Held-to-maturity	(3,431)	(5,625)	(25,010)
Proceeds from maturities of interest-bearing time deposits	9,354	—	—
Purchase of Federal Reserve Bank stock	(1,921)	—	—
Net increase in loans	(65,842)	(29,692)	(48,153)
Purchase of bank owned life insurance	—	—	(4,000)
Proceeds from bank owned life insurance mortality benefits	—	189	—

Proceeds from sales of other real estate owned and repossessed assets	21	971	526
Additions to other real estate owned	—	—	(182)
Purchases of premises and equipment	(600)	(6,617)	(9,450)
Proceeds from sales of premises and equipment	651	272	63
Net cash received from acquisition of Columbus First Bancorp, Inc.	12,896	—	—
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	(10,788)	14,801	(27,516)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	(29,332)	(25,084)	23,745
Net increase (decrease) in short-term borrowings	(770)	4,960	4,653
Proceeds from long-term debt	31,000	—	—
Principal payments on long-term debt	(7,214)	(295)	(5,349)
Penalty for prepayment of long-term debt	—	—	(251)
Proceeds from issuance of common stock	65	41	52
Repurchase of common stock	(348)	—	—
Repurchase of stock warrants	—	—	(1,545)
Proceeds from exercise of stock options	72	51	592
Excess tax benefit from exercise of stock options and vesting of restricted common stock	—	—	61
Cash dividends paid on common stock	(7,773)	(6,088)	(6,048)
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	(14,300)	(26,415)	15,910
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,346)	6,521	3,878
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	25,386	18,865	14,987
CASH AND CASH EQUIVALENTS AT END OF YEAR	$20,040	25,386	18,865

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

	2018	2017	2016
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest	$5,908	3,577	3,542
Income taxes	1,950	2,185	4,420
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITY:			
Transfer from loans to other real estate owned and repossessed assets	244	974	32

LCNB purchased all of the common stock of Columbus First Bancorp, Inc. on May 31, 2018. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	342,256
Less common stock issued	63,598
Less cash paid for the common stock	783
Liabilities assumed	277,875

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

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Declines in the fair value of securities below their cost that are deemed to be other-than-temporarily impaired, and for which the Company does not intend to sell the securities and it is not more likely than not that the securities will be sold before the anticipated recovery of the impairment, are separated into losses related to credit factors and losses related to other factors. The losses related to credit factors are recognized in earnings and losses related to other factors are recognized in other comprehensive income. In estimating other than temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company's consolidated statements of income as of December 31, 2018, 2017, and 2016, do not reflect any such impairment.

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

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

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LCNB CORP. AND SUBSIDIARIES
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December 31, 2018
(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Impaired loans acquired are accounted for under FASB ASC 310-30. Factors considered in evaluating whether an acquired loan was impaired include delinquency status and history, updated borrower credit status, collateral information, and current loan-to-value information. The difference between contractually required payments at the time of acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. The interest component of the cash flows expected to be collected is referred to as the accretable yield and is recognized as interest income over the remaining contractual life of the loan using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows will result in a reclassification from the nonaccretable difference to the accretable yield.

ALLOWANCE FOR LOAN LOSSES

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

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LCNB CORP. AND SUBSIDIARIES
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(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

charged to other non-interest expense. Costs, excluding interest, relating to the improvement of other real estate owned are capitalized. Gains and losses from the sale of other real estate owned are included in other non-interest expense.

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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LCNB CORP. AND SUBSIDIARIES
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(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Accounting guidance permits, but does not require, companies to measure many financial instruments and certain other items, including loans and debt securities, at fair value. The decision to elect the fair value option is made individually for each instrument and is irrevocable once made. Changes in fair value for the selected instruments are recorded in earnings. The Company did not select any financial instruments for the fair value election in 2018 or 2017.

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

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

PENSION PLANS

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

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

TREASURY STOCK

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

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

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

REVENUE RECOGNITION
Accounting Standards Codification 606, "Revenue from Contracts with Customers" ("ASC 606") provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, including loans and investment securities, are not included in the scope of ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of LCNB's revenue streams that are within the scope of the amendments. Revenue-generating activities that are within the scope of ASC 606 and that are presented as non-interest income in LCNB's consolidated statements of income include:

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

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

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

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

compensation and warrants with the proceeds used to purchase treasury shares at the average market price for the period.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)"

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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LCNB CORP. AND SUBSIDIARIES
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(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

For finance leases, a lessee shall recognize in the statement of income interest on the lease liability separately from amortization of the right-of-use asset. Amortization of the right-of-use asset shall be on a straight-line basis, unless another basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset’s future economic benefits. If the lease does not meet any of the five criteria, the lessee shall classify it as an operating lease and shall recognize a single lease cost on a straight-line basis over the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

The amendments in this update are to be applied using a modified retrospective approach, as defined, and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. As of January 1, 2019, LCNB recognized discounted right of use assets and lease liabilities totaling approximately $5.9 million for the leases disclosed in Note 8 - Leases.

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

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

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

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

ASU No. 2016-13 will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. While LCNB's Loan Committee expects that the implementation of ASU No. 2016-13 will increase the balance of the allowance for loan losses, it is continuing to evaluate the potential impact on LCNB's results of operations and financial position. The Loan Committee has completed analyzing its data collection efforts and is currently analyzing its pool segmentation and reporting mechanisms to prepare for adoption of this ASU. The financial statement impact of this new standard cannot be reasonably estimated at this time.

ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"
ASU No. 2017-04 was issued in January 2017 and applies to public and other entities that have goodwill reported in their financial statements. To simplify the subsequent measurement of goodwill, this ASU eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of

goodwill allocated to that reporting unit. A public business entity that is an SEC filer should adopt the amendments in this update on a prospective basis for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Adoption of ASU No. 2017-04 is not expected to have a material impact on LCNB's results of operations or financial position.

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LCNB CORP. AND SUBSIDIARIES
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(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

NOTE 2 – ACQUISITIONS

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

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

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LCNB CORP. AND SUBSIDIARIES
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December 31, 2018
(Continued)

NOTE 2 – ACQUISITIONS (Continued)

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 2 – ACQUISITIONS (Continued)

The core deposit intangible will be amortized over the estimated weighted average economic life of the various core deposit types.

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

CFB's results of operations are included in the consolidated statements of income from the date of the merger. The amount of CFB's revenue (net interest income plus non-interest income) and net income, excluding merger-related expenses, included in LCNB's consolidated condensed statement of income for the year ended December 31, 2018 were as follows (in thousands):

Total revenue	$6,972
Net income	3,896

The following table presents unaudited pro forma information as if the merger with CFB had occurred on January 1, 2016 (in thousands). This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments, amortization of the core deposit intangible, and related income tax effects. It does not include merger and data conversion costs. The pro forma information does not necessarily reflect the results of operations that would have occurred had the merger with CFB occurred in 2016. In particular, expected operational cost savings are not reflected in the pro forma amounts.

	2018	2017	2016
Total revenue	$64,558	63,779	61,602
Net income	17,858	15,852	14,407
Basic earnings per common share	1.22	1.20	1.09
Diluted earnings per common share	1.22	1.19	1.09

LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 3 - INVESTMENT SECURITIES

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2018				
Debt Securities Available-for-Sale:				
U.S. Treasury notes	$ 2,278	—	43	2,235
U.S. Agency notes	80,708	—	2,368	78,340
U.S. Agency mortgage-backed securities	57,584	7	1,981	55,610
Municipal securities:				
Non-taxable	86,059	77	1,422	84,714
Taxable	17,654	102	234	17,522
	$ 244,283	186	6,048	238,421
Debt Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 26,021	84	635	25,470
Taxable	3,700	—	146	3,554
	$ 29,721	84	781	29,024
2017				
Equity Securities with a Readily Determinable Fair Value:				
Mutual funds	$ 1,586	2	46	1,542
Trust preferred securities	49	1	—	50
Equity securities	475	97	4	568
	$ 2,110	100	50	2,160
Debt Securities Available-for-Sale:				
U.S. Treasury notes	$ 2,283	—	24	2,259
U.S. Agency notes	84,837	57	1,633	83,261
U.S. Agency mortgage-backed securities	68,347	33	1,227	67,153
Municipal securities:				
Non-taxable	102,849	343	1,018	102,174
Taxable	20,313	175	122	20,366
	$ 278,629	608	4,024	275,213
Debt Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	$ 28,871	101	227	28,745
Taxable	3,700	—	95	3,605
	$ 32,571	101	322	32,350

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 3 - INVESTMENT SECURITIES (Continued)

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

	Less Than Twelve Months		Twelve Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018				
Available-for-Sale:				
U.S. Treasury notes	$—	—	2,235	43
U.S. Agency notes	4,988	7	73,351	2,361
U.S. Agency mortgage-backed securities	137	—	55,217	1,981
Municipal securities:				
Non-taxable	14,264	49	58,211	1,373
Taxable	—	—	14,407	234
	$19,389	56	203,421	5,992
Held-to-Maturity:				
Municipal securities:				
Non-taxable	$366	1	18,588	634
Taxable	400	1	3,154	145
	$766	2	21,742	779
2017				
Available-for-Sale:				
U.S. Treasury notes	$2,259	24	—	—
U.S. Agency notes	33,651	344	44,560	1,289
U.S. Agency mortgage-backed securities	24,433	142	41,080	1,085
Municipal securities:				
Non-taxable	36,348	315	24,197	703
Taxable	11,068	114	1,032	8
	$107,759	939	110,869	3,085
Held-to-Maturity:				
Municipal securities:				
Non-taxable	$9,824	133	3,542	94
Taxable	—	—	3,205	95
	$9,824	133	6,747	189

Management has determined that the unrealized losses at December 31, 2018 are primarily due to fluctuations in market interest rates and do not reflect credit quality deterioration of the securities. Because the Company does not have the intent to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost, the Company does not consider these investments to be other-than-temporarily impaired.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 3 - INVESTMENT SECURITIES (Continued)

Contractual maturities of debt securities at December 31, 2018 were as follows (in thousands). Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$14,768	14,699	3,200	3,195
Due from one to five years	112,871	110,829	3,143	3,069
Due from five to ten years	57,336	55,633	7,982	7,787
Due after ten years	1,724	1,650	15,396	14,973
	186,699	182,811	29,721	29,024
U.S. Agency mortgage-backed securities	57,584	55,610	—	—
	$244,283	238,421	29,721	29,024

Debt securities with a market value of $106,568,000 and $108,751,000 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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

	2018	2017	2016
Proceeds from sales	$8,545	43,246	92,455
Gross realized gains	21	247	1,103
Gross realized losses	29	14	21

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

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

	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual funds	$1,651	1,559	1,586	1,542
Trust preferred securities	—	—	49	50
Equity securities	471	519	475	568
Total equity securities with a readily determinable fair value	$2,122	2,078	2,110	2,160

Certain information concerning changes in fair value of equity securities with a readily determinable fair value for the year ended December 31, 2018 was as follows (in thousands):

Net losses recognized	$(73)

Less net realized gains on equity securities sold	20
Unrealized losses recognized and still held at period end	$(93)

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 4 - LOANS

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

	2018	2017
Commercial and industrial	$77,740	36,057
Commercial, secured by real estate	740,647	527,947
Residential real estate	349,127	251,582
Consumer	17,283	17,450
Agricultural	13,297	15,194
Other loans, including deposit overdrafts	450	539
	1,198,544	848,769
Deferred origination costs, net	79	291
	1,198,623	849,060
Less allowance for loan losses	4,046	3,403
Loans-net	$1,194,577	845,657

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

	2018	2017
Non-accrual loans:		
Commercial and industrial	$—	—
Commercial, secured by real estate	1,767	2,183
Residential real estate	1,007	604
Agricultural	177	178
Total non-accrual loans	2,951	2,965
Past-due 90 days or more and still accruing	149	—
Total non-accrual and past-due 90 days or more and still accruing	3,100	2,965
Accruing restructured loans	10,516	10,469
Total	$13,616	13,434
Percentage of total non-accrual and past-due 90 days or more and still accruing to total loans	0.26 %	0.35 %
Percentage of total non-accrual, past-due 90 days or more and still accruing, and accruing restructured loans to total loans	1.14 %	1.58 %

Interest income that would have been recorded during 2018 and 2017 if loans on non-accrual status at December 31, 2018 and 2017 had been current and in accordance with their original terms was approximately $187,000 and $202,000, respectively.

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

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LCNB CORP. AND SUBSIDIARIES
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December 31, 2018
(Continued)

NOTE 4 - LOANS (Continued)

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

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
2018							
Allowance for loan losses:							
Balance, beginning of year	$ 378	2,178	717	76	53	1	3,403
Provision charged to expenses	21	473	213	133	(7)	90	923
Losses charged off	—	(145)	(234)	(135)	—	(179)	(693)
Recoveries	1	239	71	13	—	89	413
Balance, end of year	$ 400	2,745	767	87	46	1	4,046
Individually evaluated for impairment	$ 10	3	49	—	—	—	62
Collectively evaluated for impairment	390	2,742	718	87	46	1	3,984
Acquired credit impaired loans	—	—	—	—	—	—	—
Balance, end of year	$ 400	2,745	767	87	46	1	4,046
Loans:							
Individually evaluated for impairment	$ 268	15,101	1,558	36	177	—	17,140
Collectively evaluated for impairment	76,609	718,709	344,751	17,363	13,135	114	1,170,681
Acquired credit impaired loans	922	6,315	3,229	—	—	336	10,802
Balance, end of year	$ 77,799	740,125	349,538	17,399	13,312	450	1,198,623
2017							
Allowance for loan losses:							
Balance, beginning of year	$ 350	2,179	885	96	60	5	3,575
Provision charged to expenses	(71)	348	(83)	(44)	(7)	72	215
Losses charged off	—	(462)	(225)	(90)	—	(138)	(915)
Recoveries	99	113	140	114	—	62	528
Balance, end of year	$ 378	2,178	717	76	53	1	3,403
Individually evaluated for impairment	$ 8	146	29	8	—	—	191
Collectively evaluated for impairment	370	2,032	688	68	53	1	3,212
Acquired credit impaired loans	—	—	—	—	—	—	—
Balance, end of year	$ 378	2,178	717	76	53	1	3,403

Loans:							
Individually evaluated for impairment	$ 303	11,289	1,351	47	177	—	13,167
Collectively evaluated for impairment	34,792	512,259	248,674	17,516	15,033	137	828,411
Acquired credit impaired loans	1,008	4,048	2,024	—	—	402	7,482
Balance, end of year	$ 36,103	527,596	252,049	17,563	15,210	539	849,060

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LCNB CORP. AND SUBSIDIARIES
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December 31, 2018
(Continued)

NOTE 4 - LOANS (Continued)

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
2016							
Allowance for loan losses:							
Balance, beginning of year	$ 244	1,908	854	54	66	3	3,129
Provision charged to expenses	314	358	106	74	(6)	67	913
Losses charged off	(234)	(185)	(127)	(85)	—	(119)	(750)
Recoveries	26	98	52	53	—	54	283
Balance, end of year	$ 350	2,179	885	96	60	5	3,575
Individually evaluated for impairment	$ 9	55	100	13	—	—	177
Collectively evaluated for impairment	341	1,832	785	83	60	5	3,106
Acquired credit impaired loans	—	292	—	—	—	—	292
Balance, end of year	$ 350	2,179	885	96	60	5	3,575

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

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

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

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

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

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

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NOTE 4 - LOANS (Continued)

Residential real estate loans are underwritten primarily based on the borrower's ability to repay, prior credit history, and the value of the collateral. LCNB requires private mortgage insurance for first mortgage loans that have a loan to appraised value ratio of greater than 80%.
Consumer Loans. LCNB's portfolio of consumer loans generally includes secured and unsecured loans to individuals for household, family and other personal expenditures. Secured loans include loans to fund the purchase of automobiles, recreational vehicles, boats, and similar acquisitions. Consumer loans made by LCNB generally have fixed rates and terms ranging up to 72 months, depending upon the nature of the collateral, size of the loan, and other relevant factors.

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

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

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

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

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

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

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

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

NOTE 4 - LOANS (Continued)

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

	Pass	OAEM	Substandard	Doubtful	Total
2018					
Commercial & industrial	$74,530	89	3,180	—	77,799
Commercial, secured by real estate	718,233	768	21,124	—	740,125
Residential real estate	344,432	—	5,106	—	349,538
Consumer	17,381	—	18	—	17,399
Agricultural	13,116	—	196	—	13,312
Other	450	—	—	—	450
Total	$1,168,142	857	29,624	—	1,198,623
2017					
Commercial & industrial	$35,683	176	244	—	36,103
Commercial, secured by real estate	506,833	2,180	18,583	—	527,596
Residential real estate	250,039	—	2,010	—	252,049
Consumer	17,522	—	41	—	17,563
Agricultural	14,233	—	977	—	15,210
Other	539	—	—	—	539
Total	$824,849	2,356	21,855	—	849,060

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

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NOTE 4 - LOANS (Continued)

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

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans Greater Than 90 Days and Accruing
2018							
Commercial & industrial	$626	173	—	799	77,000	77,799	—
Commercial, secured by real estate	347	141	347	835	739,290	740,125	—
Residential real estate	905	536	1,046	2,487	347,051	349,538	149
Consumer	14	—	—	14	17,385	17,399	—
Agricultural	19	—	178	197	13,115	13,312	—
Other	114	—	—	114	336	450	—
Total	$2,025	850	1,571	4,446	1,194,177	1,198,623	149
2017							
Commercial & industrial	$—	—	—	—	36,103	36,103	—
Commercial, secured by real estate	124	—	598	722	526,874	527,596	—
Residential real estate	362	135	496	993	251,056	252,049	—
Consumer	29	2	—	31	17,532	17,563	—
Agricultural	—	—	177	177	15,033	15,210	—
Other	82	—	—	82	457	539	—
Total	$597	137	1,271	2,005	847,055	849,060	—

LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 4 - LOANS (Continued)

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

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

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(Continued)

NOTE 4 - LOANS (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2017					
With no related allowance recorded:					
Commercial & industrial	$ 1,015	1,100	—	685	88
Commercial, secured by real estate	12,677	13,608	—	14,113	1,068
Residential real estate	2,822	3,516	—	3,216	546
Consumer	6	6	—	20	2
Agricultural	177	177	—	269	12
Other	402	554	—	441	55
Total	$ 17,099	18,961	—	18,744	1,771
With an allowance recorded:					
Commercial & industrial	$ 296	301	8	311	18
Commercial, secured by real estate	2,660	2,660	146	2,739	45
Residential real estate	553	572	29	596	19
Consumer	41	41	8	43	3
Agricultural	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 3,550	3,574	191	3,689	85
Total:					
Commercial & industrial	$ 1,311	1,401	8	996	106
Commercial, secured by real estate	15,337	16,268	146	16,852	1,113
Residential real estate	3,375	4,088	29	3,812	565
Consumer	47	47	8	63	5
Agricultural	177	177	—	269	12
Other	402	554	—	441	55
Total	$ 20,649	22,535	191	22,433	1,856

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December 31, 2018
(Continued)

NOTE 4 - LOANS (Continued)

	Average Recorded Investment	Interest Income Recognized
2016		
With no related allowance recorded:		
Commercial & industrial	$ 998	151
Commercial, secured by real estate	15,274	1,140
Residential real estate	3,736	369
Consumer	37	29
Agricultural	392	136
Other	481	77
Total	$ 20,918	1,902
With an allowance recorded:		
Commercial & industrial	$ 341	19
Commercial, secured by real estate	4,194	257
Residential real estate	651	36
Consumer	43	3
Agricultural	—	—
Other	—	—
Total	$ 5,229	315
Total:		
Commercial & industrial	$ 1,339	170
Commercial, secured by real estate	19,468	1,397
Residential real estate	4,387	405
Consumer	80	32
Agricultural	392	136
Other	481	77
Total	$ 26,147	2,217

Of the interest income recognized on impaired loans during 2018, 2017, and 2016, approximately $89,000, $28,000, and $51,000, respectively, were recognized on a cash basis. The Company continued to accrue interest on certain loans classified as impaired during 2018, 2017, and 2016 because they were restructured or considered well secured and in the process of collection.

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

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LCNB CORP. AND SUBSIDIARIES
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December 31, 2018
(Continued)

NOTE 4 - LOANS (Continued)

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

	2018			2017		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial and industrial	—	$ —	$ —	—	$ —	$ —
Commercial, secured by real estate	—	—	—	—	—	—
Residential real estate	3	505	505	1	18	9
Consumer	1	1	1	1	14	14
Totals	4	$ 506	$ 506	2	$ 32	$ 23

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

	Term Modification	Rate Modification	Interest Only	Principal Forgiveness	Combination	Total Modifications
2018						
Commercial & industrial	$ —	—	—	—	—	—
Commercial, secured by real estate	—	—	—	—	—	—
Residential real estate	380	—	—	—	125	505
Consumer	—	—	—	—	1	1
Total	$ 380	—	—	—	126	506
2017						
Commercial & industrial	$ —	—	—	—	—	—
Commercial, secured by real estate	—	—	—	—	—	—
Residential real estate	—	—	—	9	—	9
Consumer	14	—	—	—	—	14
Total	$ 14	—	—	9	—	23

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

There were no troubled debt restructurings that subsequently defaulted within twelve months of the restructuring date for the years ended December 31, 2018 and 2016. Two commercial, secured by real estate loans to the same borrower totaling $1,236,000 that were modified during the fourth quarter 2016 subsequently defaulted in February 2017.

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

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

	2018	2017
Impaired loans without a valuation allowance at the end of the period	380	—
Impaired loans with a valuation allowance at the end of the period	126	23

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(Continued)

NOTE 4 - LOANS (Continued)

Mortgage loans sold to and serviced for the Federal Home Loan Mortgage Corporation and other investors are not included in the accompanying consolidated balance sheets. The unpaid principal balances of those loans at December 31, 2018 and 2017 were approximately $97,685,000 and $92,818,000, respectively.

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

	2018	2017	2016
Balance, beginning of year	$396	428	488
Amount obtained through a merger	91	—	—
Amount capitalized to mortgage servicing rights	113	91	109
Amortization of mortgage servicing rights	(125)	(123)	(169)
Balance, end of year	$475	396	428

NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS

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

Impaired loans acquired are accounted for under FASB Accounting Standards Codification ("ASC") 310-30. Factors considered in evaluating whether an acquired loan was impaired include delinquency status and history, updated borrower credit status, collateral information, and updated loan-to-value information. The difference between contractually required payments at the time of acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. The interest component of the cash flows expected to be collected is referred to as the accretable yield and is recognized as interest income over the remaining contractual life of the loan using the level yield method. Subsequent decreases in expected cash flows will require additions to the allowance for loan losses. Subsequent improvements in expected cash flows will result in a reclassification from the nonaccretable difference to the accretable yield.

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

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

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NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS (continued)

The following table provides details at the acquisition date on acquired impaired loans obtained through the merger with CFB that are accounted for in accordance with FASB ASC 310-30 (in thousands):

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

LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS (continued)

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

	2018	2017
Acquired from First Capital Bancshares, Inc.		
Commercial & industrial	$13	20
Commercial, secured by real estate	818	848
Residential real estate	911	947
Other loans, including deposit overdrafts	—	—
Total	$1,742	1,815
Acquired from Eaton National Bank & Trust Co.		
Commercial & industrial	$503	988
Commercial, secured by real estate	1,547	1,699
Residential real estate	784	892
Other loans, including deposit overdrafts	336	402
Total	$3,170	3,981
Acquired from BNB Bancorp, Inc.		
Commercial & industrial	$—	—
Commercial, secured by real estate	1,396	1,501
Residential real estate	158	185
Other loans, including deposit overdrafts	—	—
Total	$1,554	1,686
Acquired from Columbus First Bancorp, Inc.		
Commercial & industrial	$406	
Commercial, secured by real estate	2,554	
Residential real estate	1,376	
Other loans, including deposit overdrafts	—	
Total	$4,336	
Total		
Commercial & industrial	$922	1,008
Commercial, secured by real estate	6,315	4,048
Residential real estate	3,229	2,024
Other loans, including deposit overdrafts	336	402
Total	$10,802	7,482

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

	2018	2017
Outstanding balance	$13,371	9,065
Carrying amount	10,802	7,482

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 5 - ACQUIRED CREDIT IMPAIRED LOANS (continued)

Activity during 2018 and 2017 for the accretable discount related to acquired impaired loans is as follows (in thousands):

	2018	2017
Accretable discount, beginning of year	$669	1,080
Accretable discount acquired during period	151	—
Reclass from nonaccretable discount to accretable discount	4	564
Less disposals	—	(170)
Less accretion	(81)	(805)
Accretable discount, end of year	$743	669

NOTE 6 – OTHER REAL ESTATE OWNED

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

	2018	2017
Balance, beginning of year	$—	—
Additions	244	974
Additions due to merger	35	—
Reductions due to sales	(35)	(974)
Balance, end of year	$244	—

The total recorded investment in residential consumer mortgage loans secured by residential real estate that was in the process of foreclosure at December 31, 2018 was $322,000.

NOTE 7 - PREMISES AND EQUIPMENT

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

	2018	2017
Land	$8,000	8,190
Buildings	30,903	31,965
Equipment	16,089	15,648
Construction in progress	142	120
Total	55,134	55,923
Less accumulated depreciation	22,507	20,996
Premises and equipment, net	$32,627	34,927

Depreciation charged to expense was $1,776,000 in 2018, $1,549,000 in 2017, and $1,210,000 in 2016.

LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 8 - LEASES

Some of the Bank's branches, telephone equipment, and other equipment are leased under agreements expiring at various dates through 2050. These leases are accounted for as operating leases. The leases generally provide for renewal options and most require periodic changes in rental amounts based on various indices. Minimum annual rentals for non-cancelable leases at December 31, 2018 that have terms in excess of one year were as follows (in thousands):

2019	$449
2020	412
2021	349
2022	212
2023	188
Thereafter	3,258
Total	$4,868

Rental expense for all leased branches and equipment was approximately $519,000 in 2018, $569,000 in 2017, and $545,000 in 2016.

NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Balance, beginning of year	$30,183	$30,183
Additions from acquisitions	29,038	—
Balance, end of year	$59,221	$30,183

Other intangible assets in the consolidated balance sheets at December 31, 2018 and 2017 were as follows (in thousands):

	2018			2017		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	$8,544	3,977	4,567	6,458	3,055	3,403
Mortgage servicing rights	1,483	1,008	475	1,279	883	396
Total	$10,027	4,985	5,042	7,737	3,938	3,799

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of December 31, 2018 is as follows (in thousands):

2019	$1,154
2020	1,140
2021	1,123
2022	546
2023	487

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NOTE 10 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIPS

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

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

	2018	2017
Affordable housing tax credit investment	$5,000	3,000
Less amortization	492	231
Net affordable housing tax credit investment	$4,508	2,769
Unfunded commitment	$3,372	2,257

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

LCNB expects to fund the unfunded commitment over eleven years.

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

	Year ended December 31,		
	2018	2017	2016
Tax credits and other tax benefits recognized	$267	180	103
Tax credit amortization expense included in provision for income taxes	261	138	81

NOTE 11 - TIME DEPOSITS

Contractual maturities of time deposits at December 31, 2018 were as follows (in thousands):

2019	$136,090
2020	78,968
2021	37,625
2022	34,513
2023	7,472
Thereafter	2,202
	$296,870

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2018 and 2017 was $39,361,000 and $17,759,000, respectively.

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NOTE 12 - BORROWINGS

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

	Outstanding Balance	Average Rate
2018		
2019	$ 6,052	1.74 %
2020	18,988	2.40 %
2021	11,992	2.42 %
2022	5,000	2.97 %
2023	5,000	3.02 %
Total	$ 47,032	2.45 %
2017		
2018	$ 248	2.82 %
2019	55	2.82 %
Total	$ 303	2.82 %

All advances from the FHLB are secured by a blanket pledge of the Company’s 1-4 family first lien mortgage loans in the amount of approximately $303 million and $217 million at December 31, 2018 and 2017, respectively. Additionally, the Company was required to hold minimum levels of FHLB stock, based on the outstanding borrowings. Total remaining borrowing capacity, including short-term borrowing arrangements, at December 31, 2018 was approximately $45.7 million. One of the factors limiting remaining borrowing capacity is ownership of FHLB stock. The Company could increase its remaining borrowing capacity by purchasing additional FHLB stock.

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

	2018		2017	
	Amount	Rate	Amount	Rate
Line of credit	$4,230	3.00%	$—	— %
FHLB short-term advance	52,000	2.48%	47,000	1.43%
	$56,230	2.52%	$47,000	1.43%

At December 31, 2018, the Company had short-term borrowing arrangements with two financial institutions and the Federal Home Loan Bank of Cincinnati ("FHLB"). The first arrangement is a short-term line of credit for a maximum amount of $10 million at the interest rate in effect at the time of the borrowing. The second arrangement is a short-term line of credit for a maximum amount of $30 million at an interest rate equal to the lending institution’s federal funds rate plus a spread of 50 basis points.

Under the terms of the Cash Management Advance program with the FHLB, the Company can borrow up to $81.2 million in short-term advances, subject to total remaining borrowing capacity limitations. The Company has the option of selecting a variable rate of interest for up to 90 days or a fixed rate of interest for up to 30 days. The interest rate is the published rate in effect at the time of the advance. This agreement expires on August 28, 2019.

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NOTE 13 - INCOME TAXES

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

	2018	2017	2016
Income taxes currently payable	$2,721	3,018	3,515
Revaluation of net deferred tax liability	—	(224)	—
Deferred income tax provision (benefit)	228	1,478	928
Provision for income taxes	$2,949	4,272	4,443

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

	2018	2017	2016
Statutory tax rate	21.0 %	34.0 %	34.0 %
Increase (decrease) resulting from -			
Tax exempt interest	(3.1)%	(6.0)%	(6.3)%
Tax exempt income on bank owned life insurance	(0.9)%	(1.7)%	(1.5)%
Revaluation of net deferred tax liability	— %	(1.3)%	— %
Captive insurance premium income	(0.9)%	(0.9)%	— %
Other – net	0.5 %	0.7 %	0.1 %
Effective tax rate	16.6 %	24.8 %	26.3 %

Deferred tax assets and liabilities, included in the Consolidated Balance Sheets with other assets in 2018 and accrued interest and other liabilities in 2017, consist of the following at December 31 (in thousands):

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$849	715
Net unrealized losses on investment securities available-for-sale	1,240	707
Fair value adjustment on loans acquired from mergers	723	238
Deferred compensation	706	760
Other	432	471
	3,950	2,891
Deferred tax liabilities:		
Depreciation of premises and equipment	(1,551)	(1,672)
Amortization of intangibles	(1,499)	(1,030)
Prepaid expenses	(243)	(210)
Deferred loan fees	(1)	(1)
FHLB stock dividends	(216)	(216)
Fair value adjustment on securities acquired from mergers	(6)	(9)
	(3,516)	(3,138)
Net deferred tax (liabilities) assets	$434	(247)

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(Continued)

NOTE 13 - INCOME TAXES (continued)

As of December 31, 2018 and 2017 there were no unrecognized tax benefits and the Company does not anticipate the total amount of unrecognized tax benefits will significantly change within the next twelve months. There were no amounts recognized for interest and penalties in the consolidated statements of income for the three-year period ended December 31, 2018.

The Company is no longer subject to examination by federal tax authorities for years before 2015.

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

	2018	2017
Commitments to extend credit:		
Commercial loans	$23,978	18,964
Other loans:		
Fixed rate	2,961	2,747
Adjustable rate	1,077	1,150
Unused lines of credit:		
Fixed rate	31,446	20,984
Adjustable rate	169,031	90,147
Unused overdraft protection amounts on demand and NOW accounts	16,249	16,441
Standby letters of credit	1,080	294
	$245,822	150,727

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

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

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(Continued)

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

Capital expenditures include the construction or acquisition of new office buildings, improvements to LCNB's offices, purchases of furniture and equipment, and additions or improvements to LCNB's information technology system. Commitments outstanding for capital expenditures as of December 31, 2018 totaled approximately $185,000.

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

NOTE 15 - REGULATORY MATTERS

The Federal Reserve Act requires depository institutions to maintain cash reserves with the Federal Reserve Bank. In 2018 and 2017, the Bank maintained average reserve balances of $4,982,000 and $7,924,000, respectively. The reserve balances at December 31, 2018 and 2017 were $1,433,000 and $1,422,000, respectively.

The principal source of income and funds for LCNB Corp. is dividends paid by the Bank. The payment of dividends is subject to restriction by regulatory authorities. For 2019, the restrictions generally limit dividends to the aggregate of net income for the year 2019 plus the net earnings retained for 2018 and 2017. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. At December 31, 2018, approximately $21,379,000 of the Bank’s earnings retained was available for dividends in 2019 under this guideline. Dividends in excess of these limitations would require the prior approval of the Comptroller of the Currency.

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

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

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

	Minimum Requirement	Minimum Requirement	To Be Considered

			with Capital Conservation Buffer for 2018		Well-Capitalized	
Ratio of Common Equity Tier 1 Capital to risk-weighted assets	4.5	%	6.375	%	6.5	%
Ratio of tier 1 capital to risk-weighted assets	6.0	%	7.875	%	8.0	%
Ratio of total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets	8.0	%	9.875	%	10.0	%
Leverage ratio (tier 1 capital to adjusted quarterly average total assets)	4.0	%	N/A		5.0	%

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NOTE 15 - REGULATORY MATTERS (continued)

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

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

	2018	2017
Regulatory Capital:		
Shareholders' equity	215,395	148,163
Goodwill and other intangible assets	(63,788)	(32,906)
Accumulated other comprehensive loss	4,719	2,859
Tier 1 risk-based capital	156,326	118,116
Eligible allowance for loan losses	4,046	3,403
Total risk-based capital	160,372	121,519
Capital Ratios:		
Common Equity Tier 1 Capital to risk-weighted assets	12.65 %	13.07 %
Tier 1 capital to risk-weighted assets	12.65 %	13.07 %
Total capital (tier 1 capital plus tier 2 capital) to risk-weighted assets	12.98 %	13.45 %
Leverage ratio (tier 1 capital to adjusted quarterly average total assets)	9.96 %	9.36 %

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

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for 2018 and 2017 were as follows (in thousands):

	2018			2017		
	Unrealized Gains and Losses on Available-for-Sale Securities	Changes in Pension Plan Assets and Benefit Obligations	Total	Unrealized Gains and Losses on Available-for-Sale Securities	Changes in Pension Plan Assets and Benefit Obligations	Total
Balance at beginning of year	$(2,200)	(142)	(2,342)	(2,633)	16	(2,617)
Cumulative effect of changes in accounting principles	(498)	(27)	(525)	—	—	—
Balance at beginning of period, as adjusted	(2,698)	(169)	(2,867)	(2,633)	16	(2,617)
Before reclassifications	(1,939)	81	(1,858)	585	(158)	427
Reclassifications	6	—	6	(152)	—	(152)

Balance at end of year	$(4,631)	(88)	(4,719)	(2,200)	(142)	(2,342)

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LCNB CORP. AND SUBSIDIARIES
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NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (continued)

Reclassifications out of accumulated other comprehensive income (loss) during 2018 and 2017 and the affected line items in the consolidated statements of income were as follows (in thousands):

	2018	2017	Affected Line Item in the Consolidated Statements of Income
Realized gain on sales of securities	$ (8)	233	Net gain on sale of securities
Less provision for income taxes	(2)	81	Provision for income taxes
Reclassification adjustment, net of taxes	$ (6)	152	

NOTE 17 - RETIREMENT PLANS

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

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

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

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

The plan is at least 80% funded as of July 1, 2018 and 2017. A funding improvement or rehabilitation plan has not been implemented, nor has a surcharge been paid to the plan. The Company’s contributions to the qualified noncontributory defined benefit retirement plan do not represent more than 5% of total contributions to the plan.

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

	2018	2017	2016
Qualified noncontributory defined benefit retirement plan	$ 1,048	1,054	969
401(k) plan	457	374	359

The Company expects a minimum contribution of $160,000 to the qualified noncontributory defined benefit retirement plan in 2019.

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NOTE 17 - RETIREMENT PLANS (continued)

Citizens National had a qualified noncontributory defined benefit pension plan which covered employees hired before May 1, 2005. The Company assumed this plan at the time of the merger. At December 31, 2018, the amount of the liability for this plan was $99,000, representing the funded status of the plan.

The Bank has a benefit plan which permits eligible officers to defer a portion of their compensation. The deferred compensation balance, which accrues interest at 8% annually, is distributable in cash after retirement or termination of employment. The amount of such deferred compensation liability at December 31, 2018 and 2017 was $3,364,000 and $3,406,000, respectively.

The Bank also has supplemental income plans which provide certain employees an amount based on a percentage of average compensation, payable in accordance with individually defined schedules upon retirement. The projected benefit obligation included in other liabilities for the supplemental income plans at December 31, 2018 and 2017 is $1,092,000 and $1,249,000, respectively. The average discount rate used to determine the present value of the obligations was approximately 5.2% in 2018 and 5.2% in 2017. The service cost associated with the plans was $0 for 2018, $0 for 2017, and $0 for 2016. Interest costs were $59,000, $62,000, and $63,000 for 2018, 2017, and 2016, respectively.

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

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

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

	2018	2017	2016
Service cost	$ —	—	41
Interest cost	69	69	78
Amortization of unrecognized (gain) loss	16	—	168
Net periodic pension cost	$ 85	69	287

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

	2018	2017	2016
Projected benefit obligation at beginning of year	$1,971	1,727	1,843
Service cost	—	—	41
Interest cost	69	69	78
Actuarial (gain) or loss	(86)	238	(209)
Benefits paid	(54)	(63)	(26)
Projected benefit obligation at end of year	$1,900	1,971	1,727

Amounts recognized in other liabilities in the consolidated balance sheets for the nonqualified defined benefit retirement plan at December 31, 2018 and 2017 were $1,900,000 and $1,971,000, respectively.

The accumulated benefit obligation for the nonqualified defined benefit retirement plan at December 31, 2018 and 2017 was $1,900,000 and $1,971,000, respectively.

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NOTE 17 - RETIREMENT PLANS (continued)

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

	2018	2017	2016
Net actuarial (gain)/loss	$ 88	141	(16)
	$ 88	141	(16)

The estimated unrecognized net actuarial gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2019 for the nonqualified defined benefit retirement plan is $16,000.

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

	2018	2017	2016
Benefit obligation:			
Discount rate	4.22 %	3.60 %	4.14 %
Salary increase rate	2.00 %	2.00 %	2.00 %
Net periodic pension cost:			
Discount rate	3.60 %	4.14 %	4.34 %
Salary increase rate	2.00 %	2.00 %	2.00 %
Amortization period in years	1.00	1.00	1.00

The nonqualified defined benefit retirement plan is not funded. Therefore no contributions will be made in 2019. Estimated future benefit payments reflecting expected future service for the years ended after December 31, 2018 are (in thousands):

2019	$ 132
2020	132
2021	132
2022	132
2023	132
2024-2028	641

NOTE 18 - STOCK-BASED COMPENSATION

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

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

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

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LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 18 - STOCK-BASED COMPENSATION (continued)

LCNB has not granted stock options since 2012. Option awards granted to date under the 2002 Plan vest ratably over a five year period and expire ten years after the date of grant. Stock options outstanding at December 31, 2018 were as follows:

	Outstanding Stock Options			Exercisable Stock Options		
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$11.00 - 12.99	13,278	11.98	2.1	13,278	11.98	2.1
	13,278	11.98	2.1	13,278	11.98	2.1

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

	2018			2017			2016		
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands) (1)	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands) (1)	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at January 1,	20,265	11.42		24,669	$ 12.17		83,861	$ 12.39	
Exercised	(6,987)	10.34		(3,398)	14.94		(51,390)	11.53	
Expired	—	—		(1,006)	17.88		(7,802)	18.76	
Outstanding at December 31,	13,278	11.98	$ 42	20,265	11.42	$ 183	24,669	12.17	$ 273
Exercisable at December 31,	13,278	11.98	42	20,265	11.42	183	22,924	12.13	255

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

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

	2018	2017	2016
Intrinsic value of options exercised	$ 50	25	288
Cash received from options exercised	72	51	592
Tax benefit realized from options exercised	7	5	59

Total expense related to options included in salaries and wages in the consolidated statements of income for the years ended December 31, 2018, 2017, and 2016 was $0, $1,000, and $5,000, respectively. The related tax benefit for 2018, 2017, and 2016 was $0, $0, and $2,000, respectively. Compensation costs related to option awards were recognized in full during the first quarter 2017.

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

	2018	2017	2016

	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1,	8,817	$ 16.44	8,624	$ 15.47	16,038	$ 15.47
Granted	10,634	19.20	4,027	22.60	—	—
Vested	(2,493)	17.38	(3,834)	16.73	(7,414)	15.47
Forfeited	—	—	—	—	—	—
Outstanding at December 31,	16,958	$ 18.94	8,817	$ 16.44	8,624	$ 15.47

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LCNB CORP. AND SUBSIDIARIES
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NOTE 18 - STOCK-BASED COMPENSATION (continued)

Total expense related to restricted stock awards included in salaries and wages in the consolidated statements of income for the years ended December 31, 2018, 2017, and 2016 was $107,000, $75,000, and $90,000 respectively. The related tax benefit for the years ended December 31, 2018, 2017, and 2016 was $23,000, $26,000, and $31,000, respectively. Unrecognized compensation expense for restricted stock awards was $181,000 at December 31, 2018 and is expected to be recognized over a period of 4.1 years.

NOTE 19 - EARNINGS PER SHARE

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

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

	2018	2017	2016
Net income	$ 14,845	12,972	12,482
Less allocation of earnings and dividends to participating securities	18	7	13
Net income allocated to common shareholders	14,827	12,965	12,469
Weighted average common shares outstanding, gross	11,950,360	10,011,358	9,958,300
Less average participating securities	15,010	5,783	10,243
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	11,935,350	10,005,575	9,948,057
Add dilutive effect of:			
Stock options	6,903	6,936	10,765
Stock warrants	—	—	17,548
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share	11,942,253	10,012,511	9,976,370
Earnings per common share:			
Basic	$ 1.24	1.30	1.26
Diluted	1.24	1.29	1.25

Options to purchase 12,962 shares of common stock at a weighted average price of $18.41 per share were outstanding at December 31, 2016 and were not included in the computation of diluted earnings per common share because the exercise prices of the options were greater than the average market prices of the common shares. There were no such options at December 31, 2018 or 2017.

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NOTE 20 - RELATED PARTY TRANSACTIONS

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

	2018	2017
Beginning balance	$1,870	1,447
New loans and advances	419	669
Change in composition of related parties	1,052	—
Reductions	(903)	(246)
Ending Balance	$2,438	1,870

Deposits from executive officers, directors and related interests of such persons held by the Company at December 31, 2018 and 2017 amounted to $2,849,000 and $5,698,000, respectively.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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LCNB CORP. AND SUBSIDIARIES
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(Continued)
NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Fair Value Measurements	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 519	519	—	—
Mutual funds	39	39	—	—
Mutual funds measured at net asset value	1,520	1,520	—	—
Debt securities available-for-sale:				

U.S. Treasury notes	2,235	2,235	—	—
U.S. Agency notes	78,340	—	78,340	—
U.S. Agency mortgage-backed securities	55,610	—	55,610	—
Municipal securities:				
Non-taxable	84,714	—	84,714	—
Taxable	17,522	—	17,522	—
Total recurring fair value measurements	$ 240,499	4,313	236,186	—
Nonrecurring fair value measurements:				
Impaired loans	$ 1,039	—	—	1,039
Other real estate owned and repossessed assets	244	—	—	244
Total nonrecurring fair value measurements	$ 1,283	—	—	1,283
2017				
Recurring fair value measurement:				
Equity securities with a readily determinable fair				

value:				
Trust preferred securities	50	50	—	—
Equity securities	568	568	—	—
Mutual funds	23	23	—	—
Mutual funds measured at net asset value	1,519	1,519	—	—
Debt securities available-for-sale:				
U.S. Treasury notes	$ 2,259	2,259	—	—
U.S. Agency notes	83,261	—	83,261	—
U.S. Agency mortgage-backed securities	67,153	—	67,153	—
Municipal securities:				
Nontaxable	102,174	—	102,174	—
Taxable	20,366	—	20,366	—
Total recurring fair value measurements	$ 277,373	4,419	272,954	—
Nonrecurring fair value measurements:				
Impaired loans	$ 3,359	—	—	3,359

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LCNB CORP. AND SUBSIDIARIES
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NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2018 and 2017 (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Inputs	Range High	Range Low	Weighted Average
2018						
Impaired loans	$45	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
	994	Discounted cash flows	Discount rate	8.25%	4.50%	6.86 %
Other real estate owned	244	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
2017						
Impaired loans	$1,753	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
	1,606	Discounted cash flows	Discount rate	8.25%	3.25%	6.27 %

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NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

			Fair Value Measurements at the End of the Reporting Period Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018					
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 20,040	20,040	20,040	—	—
Debt securities, held-to-maturity	29,721	29,024	—	—	29,024
Federal Reserve Bank stock	4,653	4,653	4,653	—	—
Federal Home Loan Bank stock	4,845	4,845	4,845	—	—
Loans, net	1,194,577	1,183,041	—	—	1,183,041
Accrued interest receivable	4,317	4,317	—	4,317	—
FINANCIAL LIABILITIES:					
Deposits	1,300,919	1,301,298	1,004,057	297,241	—
Short-term borrowings	56,230	56,230	56,230	—	—
Long-term debt	47,032	48,255	—	48,255	—
Accrued interest payable	690	690	—	690	—
2017					
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 25,386	25,386	25,386	—	—
Debt securities, held-to-maturity	32,571	32,350	—	—	32,350
Federal Reserve Bank stock	2,732	2,732	2,732	—	—
Federal Home Loan Bank stock	3,638	3,638	3,638	—	—
Loans, net	845,657	813,368	—	—	813,368
Accrued interest receivable	3,511	3,511	—	3,511	—
FINANCIAL LIABILITIES:					
Deposits	1,085,821	1,087,086	894,046	193,040	—
Short-term borrowings	47,000	47,000	47,000	—	—
Long-term debt	303	307	—	307	—
Accrued interest payable	329	329	—	329	—

The fair values of off-balance-sheet financial instruments such as loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of such instruments were not material at December 31, 2018 and 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)
NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

Loans
The estimated fair value of loans as of December 31, 2018 follows the guidance in ASU 2016-01, which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments. The fair value calculation at that date discounted estimated future cash flows using rates that incorporated discounts for credit, liquidity, and marketability factors. The fair value estimate shown as of December 31, 2017 used an “entry price” approach. The fair value calculation for that date discounted estimated future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Consequently, the fair value disclosures for December 31, 2018 and 2017 are not directly comparable.

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

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

Accrued interest receivable and Accrued interest payable

Carrying amount approximates fair value.

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December 31, 2018
(Continued)

NOTE 22 – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain quarterly results for the years ended December 31, 2018 and 2017 (dollars in thousands, except per share data):

	Three Months Ended			
	March 31	June 30	Sep. 30	Dec. 31
2018				
Interest income	$11,142	12,538	15,070	15,844
Interest expense	954	1,170	1,967	2,334
Net interest income	10,188	11,368	13,103	13,510
Provision for loan losses	79	224	659	(39)
Net interest income after provision	10,109	11,144	12,444	13,549
Total non-interest income	2,636	2,791	2,921	2,702
Total non-interest expenses	9,549	10,711	10,317	9,925
Income before income taxes	3,196	3,224	5,048	6,326
Provision for income taxes	483	486	847	1,133
Net income	$2,713	2,738	4,201	5,193
Earnings per common share:				
Basic	$0.27	0.25	0.32	0.40
Diluted	0.27	0.25	0.32	0.40
2017				
Interest income	$10,864	10,934	11,055	11,610
Interest expense	877	861	908	953
Net interest income	9,987	10,073	10,147	10,657
Provision for loan losses	15	222	(12)	(10)
Net interest income after provision	9,972	9,851	10,159	10,667
Total non-interest income	2,430	2,790	2,659	2,579
Total non-interest expenses	7,968	8,611	8,672	8,612
Income before income taxes	4,434	4,030	4,146	4,634
Provision for income taxes	1,188	1,027	1,040	1,017
Net income	$3,246	3,003	3,106	3,617
Earnings per common share:				
Basic	$0.32	0.30	0.31	0.37
Diluted	0.32	0.30	0.31	0.36

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)

NOTE 23 - PARENT COMPANY FINANCIAL INFORMATION

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

December 31,	2018	2017
Assets:		
Cash on deposit with subsidiary	$715	308
Investment securities available-for-sale, at fair value	816	919
Investment in subsidiaries	216,830	148,850
Other assets	624	194
Total assets	$218,985	150,271
Liabilities	$—	—
Shareholders' equity	218,985	150,271
Total liabilities and shareholders' equity	$218,985	150,271

Condensed Statements of Income

Year ended December 31,	2018	2017	2016
Income:			
Dividends from subsidiaries	$10,383	6,800	7,300
Interest and dividends	35	36	38
Net gain on sales of securities	—	14	8
Other income	(66)	—	—
Total income	10,352	6,850	7,346
Total expenses	1,668	1,290	1,014
Income before income tax expense/benefit and equity in undistributed income of subsidiaries	8,684	5,560	6,332
Income tax benefit	341	380	336
Equity in undistributed income of subsidiaries	5,820	7,032	5,814
Net income	$14,845	12,972	12,482

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Continued)
NOTE 23 - PARENT COMPANY FINANCIAL INFORMATION (continued)

Condensed Statements of Cash Flows

Year ended December 31,	2018	2017	2016
Cash flows from operating activities:			
Net income	$14,845	12,972	12,482
Adjustments for non-cash items -			
Increase in undistributed income of subsidiaries	(5,820)	(7,032)	(5,814)
Other, net	(383)	84	126
Net cash flows provided by operating activities	8,642	6,024	6,794
Cash flows from investing activities:			
Purchases of equity securities	(90)	(54)	(177)
Proceeds from sales of equity securities	107	93	228
Investments in subsidiaries	—	(250)	—
Cash paid for business acquisition, net of cash received	(268)	—	—
Net cash flows provided by (used in) investing activities	(251)	(211)	51
Cash flows from financing activities:			
Proceeds from issuance of common stock	416	360	379
Payments to repurchase common stock	(348)	—	—
Repurchase of stock warrants	—	—	(1,545)
Cash dividends paid on common stock	(8,124)	(6,407)	(6,375)
Other	72	51	653
Net cash flows used in financing activities	(7,984)	(5,996)	(6,888)
Net change in cash	407	(183)	(43)
Cash at beginning of year	308	491	534
Cash at end of year	$715	308	491

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LCNB CORP. AND SUBSIDIARIES

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Information required by this item is set forth in the “Report of Management’s Assessment of Internal Control over Financial Reporting” and the “Report of Independent Registered Public Accounting Firm” included in Item 8 of this 2018 Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the fourth quarter 2018, there were no changes in LCNB's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, LCNB's internal control over financial reporting.

Item 9B. Other Information

None.

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LCNB CORP. AND SUBSIDIARIES

PART III

Portions of the Company's Definitive Proxy Statement (the "Proxy Statement") included in the Notice of Annual Meeting of Shareholders to be held April 23, 2019, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2018, are incorporated by reference into Part III.
Item 10. Directors, Executive Officers and Corporate Governance

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

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

The information required by this item concerning Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" of the proxy Statement.

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

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LCNB CORP. AND SUBSIDIARIES

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FINANCIAL STATEMENTS
Consolidated Balance Sheets as of December 31, 2018 and 2017.
Consolidated Statements of Income for the Years Ended December 31, 2018, 2017, and 2016.
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017, and 2016.
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2018, 2017, and 2016.
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017, and 2016.
Notes to Consolidated Financial Statements

2. Financial Statement Schedules – None

3. Exhibits required by Item 601 Regulation S-K.

(a)

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

	Nonqualified Executive Retirement Plan – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009, Exhibit 10.4.
10.7	Form of Restricted Share Grant Agreement under the LCNB Corp. 2015 Ownership Incentive Plan - incorporated by reference to Registrant's 2015 Form 10-K, Exhibit 10.7.
14.1	LCNB Corp. Code of Business Conduct and Ethics.

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LCNB CORP. AND SUBSIDIARIES

(a)

Exhibit No.	Exhibit Description
21	LCNB Corp. subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from LCNB Corp.'s Annual Report on Form 10-K for the year ended December 31, 2018 is formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.

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LCNB CORP. AND SUBSIDIARIES

SIGNATURES

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

LCNB Corp.
(Registrant)

/s/ Steve P. Foster
Steve P. Foster, Chief Executive Officer
March 6, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Steve P. Foster
Steve P. Foster, Chief Executive Officer & Director (Principal Executive Officer)
March 6, 2019

/s/ William G. Huddle
William G. Huddle, Director
March 6, 2019

/s/ Michael J Johrendt
Michael J. Johrendt, Director
March 6, 2019

/s/ Robert C. Haines II
Robert C. Haines II, Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)
March 6, 2019

/s/ William H. Kaufman
William H. Kaufman, Director
March 6, 2019

/s/ Spencer S. Cropper
Spencer S. Cropper
Chairman of the Board of Directors
March 6, 2019

/s/ John H. Kochensparger III
John H. Kochensparger III, Director
March 6, 2019

/s/ Eric J. Meilstrup
Eric J. Meilstrup, President & Director
March 6, 2019

/s/ Anne E. Krehbiel
Anne E. Krehbiel, Director
March 6, 2019

/s/ Mary E. Bradford
Mary E Bradford, Director
March 6, 2019

/s/ Valerie S. Krueckeberg
Valerie S. Krueckeberg, Director
March 6, 2019

Stephen P. Wilson, Director

March 6, 2019

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