

LCNB CORP  
Form 10-Q  
November 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-26121

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio

31-1626393

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification Number)

2 North Broadway, Lebanon, Ohio 45036

(Address of principal executive offices, including Zip Code)

(513) 932-1414

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

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The number of shares outstanding of the issuer's common stock, without par value, as of November 3, 2014 was 9,305,413 shares.

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LCNB CORP. AND SUBSIDIARIES

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

LCNB CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS:</b>		
Cash and due from banks	\$13,388	10,410
Interest-bearing demand deposits	19,665	4,278
Total cash and cash equivalents	33,053	14,688
Investment securities:		
Available-for-sale, at fair value	292,853	258,241
Held-to-maturity, at cost	23,504	16,323
Federal Reserve Bank stock, at cost	2,346	1,603
Federal Home Loan Bank stock, at cost	3,638	2,854
Loans, net	682,617	570,766
Premises and equipment, net	20,907	19,897
Goodwill	27,638	14,186
Bank owned life insurance	21,773	21,280
Other assets	15,027	12,500
<b>TOTAL ASSETS</b>	<b>\$1,123,356</b>	<b>932,338</b>
<b>LIABILITIES:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$190,875	164,912
Interest-bearing	765,758	620,849
Total deposits	956,633	785,761
Short-term borrowings	24,954	8,655
Long-term debt	11,432	12,102
Accrued interest and other liabilities	7,158	6,947
<b>TOTAL LIABILITIES</b>	<b>1,000,177</b>	<b>813,465</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred shares – no par value, authorized 1,000,000 shares, none outstanding	—	—
Common shares – no par value, authorized 12,000,000 shares, issued 10,058,835 and 10,041,163 shares at September 30, 2014 and December 31, 2013, respectively	67,086	66,785
Retained earnings	67,667	65,475
Treasury shares at cost, 753,627 shares at September 30, 2014 and December 31, 2013	(11,665)	(11,665)
Accumulated other comprehensive income (loss), net of taxes	91	(1,722)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>123,179</b>	<b>118,873</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,123,356</b>	<b>932,338</b>

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

The consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated balance sheet as of that day.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$8,168	6,902	24,008	20,298
Interest on investment securities:				
Taxable	984	862	2,901	2,556
Non-taxable	716	654	2,019	1,932
Other investments	38	32	182	145
<b>TOTAL INTEREST INCOME</b>	<b>9,906</b>	<b>8,450</b>	<b>29,110</b>	<b>24,931</b>
<b>INTEREST EXPENSE:</b>				
Interest on deposits	800	875	2,423	2,789
Interest on short-term borrowings	10	11	18	18
Interest on long-term debt	101	109	305	331
<b>TOTAL INTEREST EXPENSE</b>	<b>911</b>	<b>995</b>	<b>2,746</b>	<b>3,138</b>
<b>NET INTEREST INCOME</b>	<b>8,995</b>	<b>7,455</b>	<b>26,364</b>	<b>21,793</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>401</b>	<b>178</b>	<b>737</b>	<b>369</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>8,594</b>	<b>7,277</b>	<b>25,627</b>	<b>21,424</b>
<b>NON-INTEREST INCOME:</b>				
Trust income	688	626	2,071	1,810
Service charges and fees on deposit accounts	1,245	1,062	3,619	3,114
Net gain on sales of securities	97	58	93	753
Bank owned life insurance income	165	168	507	512
Gains from sales of mortgage loans	24	57	92	305
Other operating income	96	76	311	238
<b>TOTAL NON-INTEREST INCOME</b>	<b>2,315</b>	<b>2,047</b>	<b>6,693</b>	<b>6,732</b>
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	4,022	3,247	11,896	9,783
Equipment expenses	337	318	976	908
Occupancy expense, net	541	505	1,706	1,529
State franchise tax	231	208	714	635
Marketing	212	145	541	446
FDIC insurance premiums	183	128	492	375
Merger-related expenses	4	—	1,366	1,326
Other non-interest expense	1,708	1,612	5,819	4,576
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>7,238</b>	<b>6,163</b>	<b>23,510</b>	<b>19,578</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>3,671</b>	<b>3,161</b>	<b>8,810</b>	<b>8,578</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>953</b>	<b>804</b>	<b>2,158</b>	<b>2,145</b>
<b>NET INCOME</b>	<b>\$2,718</b>	<b>2,357</b>	<b>6,652</b>	<b>6,433</b>
Dividends declared per common share	\$0.16	0.16	0.48	0.48
Earnings per common share:				
Basic	\$0.30	0.31	0.72	0.85

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Diluted	0.29	0.30	0.71	0.83
Weighted average common shares outstanding:				
Basic	9,299,691	7,636,098	9,293,866	7,592,818
Diluted	9,405,013	7,787,098	9,407,110	7,722,686

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$2,718	2,357	6,652	6,433
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities (net of taxes of \$(353) and \$391 for the three months ended September 30, 2014 and 2013, respectively, and \$962 and \$(2,452) for the nine months ended September 30, 2014 and 2013, respectively)	(687	) 760	1,867	(4,758
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of \$33 and \$20 for the three months ended September 30, 2014 and 2013, respectively, and \$32 and \$256 for the nine months ended September 30, 2014 and 2013, respectively)	(64	) (38	) (61	) (497
Change in nonqualified pension plan unrecognized net loss and unrecognized prior service cost (net of taxes of \$3 and \$5 for the three months ended September 30, 2014 and 2013, respectively, and \$4 and \$14 for the nine months ended September 30, 2014 and 2013)	4	8	7	26
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$1,971</b>	<b>3,087</b>	<b>8,465</b>	<b>1,204</b>

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



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

	Common Shares Outstanding	Common Stock	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	6,731,900	\$27,107	61,843	(11,665 )	4,721	82,006
Net income			6,433			6,433
Other comprehensive loss, net of taxes					(5,229 )	(5,229 )
Dividend Reinvestment and Stock Purchase Plan	13,832	248				248
Exercise of stock options	5,620	70				70
Acquisition of First Capital Bancshares, Inc.	888,811	12,321				12,321
Compensation expense relating to stock options		28				28
Common stock dividends, \$0.48 per share			(3,662 )			(3,662 )
Balance at September 30, 2013	7,640,163	\$39,774	64,614	(11,665 )	(508 )	92,215
Balance at December 31, 2013	9,287,536	\$66,785	65,475	(11,665 )	(1,722 )	118,873
Net income			6,652			6,652
Other comprehensive income, net of taxes					1,813	1,813
Dividend Reinvestment and Stock Purchase Plan	17,672	283				283
Compensation expense relating to stock options		18				18
Common stock dividends, \$0.48 per share			(4,460 )			(4,460 )
Balance at September 30, 2014	9,305,208	\$67,086	67,667	(11,665 )	91	123,179

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

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

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$6,652	6,433
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization, and accretion	2,299	1,886
Provision for loan losses	737	369
Increase in cash surrender value of bank owned life insurance	(507)	(512)
Realized gain from sales of securities available-for-sale	(93)	(753)
Realized gain from sales of premises and equipment	(116)	(1)
Realized (gain) loss from sales and write-downs of other real estate owned and repossessed assets	9	(175)
Origination of mortgage loans for sale	(5,024)	(16,831)
Realized gains from sales of mortgage loans	(92)	(305)
Proceeds from sales of mortgage loans	5,066	16,970
Compensation expense related to stock options	18	28
Changes in:		
Accrued income receivable	(575)	(802)
Other assets	689	745
Other liabilities	(46)	(239)
<b>TOTAL ADJUSTMENTS</b>	<b>2,365</b>	<b>380</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>9,017</b>	<b>6,813</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities available-for-sale	55,795	41,888
Proceeds from maturities and calls of investment securities:		
Available-for-sale	24,133	15,724
Held-to-maturity	3,345	4,437
Purchases of investment securities:		
Available-for-sale	(76,801)	(57,106)
Held-to-maturity	(10,526)	(9,687)
Purchase of Federal Reserve Bank stock	(743)	(497)
Proceeds from redemption of Federal Reserve Bank stock	41	—
Net (increase) decrease in loans	3,152	(13,446)
Proceeds from redemption of bank owned life insurance	3,633	—
Proceeds from sale of other real estate owned and repossessed assets	711	1,062
Additions to other real estate owned	(20)	—
Purchases of premises and equipment	(857)	(614)
Proceeds from sale of premises and equipment	167	1
Net cash acquired from (paid for) acquisition	(9,114)	9,771
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(7,084)</b>	<b>(8,467)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in deposits	5,631	206

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Net increase (decrease) in short-term borrowings	15,648	9,055
Principal payments on long-term debt	(670	) (3,051
Proceeds from issuance of common stock	50	32
Proceeds from exercise of stock options	—	70
Cash dividends paid on common stock	(4,227	) (3,446
NET CASH FLOWS FROM FINANCING ACTIVITIES	16,432	2,866
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,365	1,212
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,688	13,475
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$33,053	14,687
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$2,665	3,150
Income taxes paid	2,000	2,715
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Transfer from loans to other real estate owned and repossessed assets	435	133

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

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

Note 1 - Basis of Presentation

Substantially all of the assets, liabilities and operations of LCNB Corp. ("LCNB" or the "Company") are attributable to its wholly-owned subsidiary, LCNB National Bank (the "Bank"). The accompanying unaudited consolidated financial statements include the accounts of LCNB and the Bank.

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods, as required by Regulation S-X, Rule 10-01.

The consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated balance sheet as of that day.

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

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

Results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in LCNB's 2013 Annual Report on Form 10-K filed with the SEC.

Note 2 – Acquisitions

On October 9, 2012, LCNB and First Capital Bancshares, Inc. ("First Capital") entered into an Agreement and Plan of Merger ("Merger Agreement") pursuant to which First Capital was merged into LCNB on January 11, 2013 in a stock and cash transaction valued at approximately \$20.2 million. Immediately following the merger of First Capital into LCNB, Citizens National Bank of Chillicothe ("Citizens"), a wholly-owned subsidiary of First Capital, was merged into LCNB National Bank. Citizens operated six full-service branches with a main office and two other facilities in Chillicothe, Ohio and one branch in each of Frankfort, Ohio, Clarksburg, Ohio, and Washington Court House, Ohio. These offices became branches of the Bank after the merger.

On October 28, 2013, LCNB and Colonial Banc Corp. ("Colonial") entered into a Stock Purchase Agreement ("Purchase Agreement") pursuant to which LCNB purchased from Colonial on January 24, 2014 all of the issued and outstanding shares of Eaton National Bank & Trust Co. ("ENB") in a cash transaction valued at \$24.75 million. Immediately

following the acquisition, ENB was merged into the Bank. ENB operated five full-service branches with a main office and another facility in Eaton, Ohio and branch offices in each of West Alexandria, Ohio, New Paris, Ohio, and Lewisburg, Ohio. These offices became branches of the Bank after the merger.

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## LCNB CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

## Note 2 – Acquisitions (continued)

The merger with ENB 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, as summarized in the following table (in thousands):

## Consideration Paid:

Cash paid to shareholder	\$24,750
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## Identifiable Assets Acquired:

Cash and cash equivalents	15,635
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## Investment securities:

Available-for-sale	35,859
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Federal Reserve Bank stock	41
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Federal Home Loan Bank stock	784
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Loans	115,944
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Premises and equipment	1,314
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Bank owned life insurance	3,618
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Core deposit intangible	2,466
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Other real estate owned	262
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Other assets	1,624
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Total identifiable assets acquired	177,547
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## Liabilities Assumed:

Deposits	165,335
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Short-term borrowings	651
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Other liabilities	263
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Total liabilities assumed	166,249
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Total Identifiable Net Assets Acquired	11,298
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Goodwill resulting from merger	\$13,452
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The amount of goodwill recorded reflects LCNB's entrance into a new 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, but is deductible for tax purposes. The core deposit intangible is being amortized over eight years using the straight-line method.

Prior to the end of the one-year measurement period for finalizing the purchase allocation, if information becomes available which would indicate adjustments to the purchase price allocation, such adjustments will be included in the purchase price retrospectively.

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

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The results of operations are included in the consolidated statement of income from the date of the merger. The estimated amount of ENB revenue (net interest income plus non-interest income) and net income, excluding merger and data conversion costs, included in LCNB's consolidated statement of income for the nine months ended September 30, 2014 were as follows (in thousands):

Total revenue	\$4,592
Net income	1,936

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LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 2 – Acquisitions (continued)

The following table presents unaudited pro forma information as if the merger with ENB had occurred on January 1, 2013 (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 ENB occurred in 2013. In particular, expected operational cost savings are not reflected in the pro forma amounts.

	Nine Months Ended September 30,	
	2014	2013
Total revenue	\$33,324	35,314
Net income	7,537	8,085
Basic earnings per common share	0.81	0.88
Diluted earnings per common share	0.80	0.86



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## LCNB CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

## Note 3 - Investment Securities

The amortized cost and estimated fair value of available-for-sale investment securities at September 30, 2014 and December 31, 2013 are summarized as follows (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2014				
Available-for-Sale:				
U.S. Treasury notes	\$60,602	105	228	60,479
U.S. Agency notes	87,775	83	1,877	85,981
U.S. Agency mortgage-backed securities	39,533	404	403	39,534
Certificates of deposit	3,077	8	—	3,085
Municipal securities:				
Non-taxable	83,198	2,011	358	84,851
Taxable	14,431	372	118	14,685
Mutual funds	2,473	—	24	2,449
Trust preferred securities	50	—	—	50
Equity securities	1,465	314	40	1,739
	\$292,604	\$3,297	3,048	292,853
Investment Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	23,104	66	993	22,177
Taxable	400	—	—	400
	\$23,504	66	993	22,577
December 31, 2013				
Available-for-Sale:				
U.S. Treasury notes	\$13,184	—	290	12,894
U.S. Agency notes	110,248	141	3,714	106,675
U.S. Agency mortgage-backed securities	40,602	555	848	40,309
Certificates of deposit	1,492	9	—	1,501
Municipal securities:				
Non-taxable	74,185	2,116	968	75,333
Taxable	17,020	503	214	17,309
Mutual funds	2,419	—	39	2,380
Trust preferred securities	149	4	6	147
Equity securities	1,429	329	65	1,693
	\$260,728	3,657	6,144	258,241
Investment Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	15,923	159	285	15,797
Taxable	400	—	1	399

\$16,323	159	286	16,196
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## LCNB CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

## Note 3 - Investment Securities (continued)

Information concerning available-for-sale investment securities with gross unrealized losses at September 30, 2014 and December 31, 2013, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (dollars in thousands):

	Less than Twelve Months		Twelve Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2014				
Investment Securities Available-for-Sale:				
U.S. Treasury notes	\$18,178	44	\$8,720	184
U.S. Agency notes	11,770	23	68,434	1,854
U.S. Agency mortgage-backed securities	13,418	38	11,663	365
Municipal securities:				
Non-taxable	1,385	38	15,643	320
Taxable	1,499	7	4,291	111
Mutual funds	257	4	1,163	20
Trust preferred securities	—	—	—	—
Equity securities	252	22	214	18
	\$46,759	176	\$110,128	2,872
Investment Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	\$12,158	993	—	—
Taxable	—	—	—	—
	\$12,158	993	\$—	—
December 31, 2013				
Investment Securities Available-for-Sale:				
U.S. Treasury notes	\$12,894	290	\$—	—
U.S. Agency notes	89,080	2,880	9,636	834
U.S. Agency mortgage-backed securities	17,557	575	5,130	273
Municipal securities:				
Non-taxable	15,641	398	10,751	570
Taxable	4,903	202	1,252	12
Mutual funds	1,380	39	—	—
Trust preferred securities	—	—	93	6
Equity securities	300	44	93	21
	\$141,755	4,428	\$26,955	1,716
Investment Securities Held-to-Maturity:				
Municipal securities:				
Non-taxable	\$			