

LCNB CORP
Form 10-Q
May 02, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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

For the transition period from _____ to _____

Commission File Number 000-26121

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio	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,

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

The number of shares outstanding of the issuer’s common stock, without par value, as of May 2, 2011 was 6,689,743 shares.

LCNB Corp.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS:		
Cash and due from banks	\$ 14,266	10,817
Interest-bearing demand deposits	17,622	182
Total cash and cash equivalents	31,888	10,999
Investment securities:		
Available-for-sale, at fair value	211,852	235,882
Held-to-maturity, at cost	11,497	12,141
Federal Reserve Bank stock, at cost	939	939
Federal Home Loan Bank stock, at cost	2,091	2,091
Loans, net	460,522	452,350
Premises and equipment, net	16,493	16,017
Goodwill	5,915	5,915
Bank owned life insurance	14,388	14,242
Other assets	9,910	9,558
TOTAL ASSETS	\$ 765,495	760,134
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 95,487	98,994
Interest-bearing	559,604	539,545
Total deposits	655,091	638,539
Short-term borrowings	11,402	21,691
Long-term debt	22,402	23,120
Accrued interest and other liabilities	5,132	6,077
TOTAL LIABILITIES	694,027	689,427
SHAREHOLDERS' EQUITY:		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding	—	—
Common shares - no par value, authorized 8,000,000 shares, issued 7,445,514 shares at March 31, 2011 and December 31, 2010	11,068	11,068
Surplus	15,457	15,447
Retained earnings	55,277	54,045
Treasury shares at cost, 755,771 shares at March 31, 2011 and December 31, 2010	(11,698)	(11,698)
Accumulated other comprehensive income, net of taxes	1,364	1,845
TOTAL SHAREHOLDERS' EQUITY	71,468	70,707
TOTAL LIABILITES AND SHAREHOLDERS' EQUITY	\$ 765,495	760,134

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

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

	Three Months Ended March 31,	
	2011	2010
INTEREST INCOME:		
Interest and fees on loans	\$ 6,518	6,832
Interest on investment securities:		
Taxable	876	930
Non-taxable	707	808
Other investments	29	32
TOTAL INTEREST INCOME	8,130	8,602
INTEREST EXPENSE:		
Interest on deposits	1,584	1,976
Interest on short-term borrowings	10	9
Interest on long-term debt	178	177
TOTAL INTEREST EXPENSE	1,772	2,162
NET INTEREST INCOME	6,358	6,440
PROVISION FOR LOAN LOSSES	664	208
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,694	6,232
NON-INTEREST INCOME:		
Trust income	483	469
Service charges and fees on deposit accounts	901	926
Net gain on sales of securities	295	77
Bank owned life insurance income	146	153
Gains from sales of mortgage loans	33	30
Other operating income	73	98
TOTAL NON-INTEREST INCOME	1,931	1,753
NON-INTEREST EXPENSE:		
Salaries and employee benefits	3,052	2,768
Equipment expenses	217	204
Occupancy expense, net	455	524
State franchise tax	196	181
Marketing	115	76
Intangible amortization	14	14
FDIC premiums	280	218
Other non-interest expense	1,472	1,222
TOTAL NON-INTEREST EXPENSE	5,801	5,207
INCOME BEFORE INCOME TAXES	1,824	2,778
PROVISION FOR INCOME TAXES	346	637
NET INCOME FROM CONTINUING OPERATIONS	1,478	2,141

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INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	824	71
NET INCOME	\$ 2,302	2,212
Dividends declared per common share	\$ 0.16	0.16
Basic and diluted earnings per common share:		
Continuing operations	\$ 0.22	0.32
Discontinued operations	0.12	0.01
Weighted average common shares outstanding:		
Basic	6,689,743	6,687,232
Diluted	6,741,767	6,729,790

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

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

	Three Months Ended March 31,	
	2011	2010
Net Income	\$ 2,302	2,212
Other comprehensive income:		
Net unrealized gain (loss) on available-for-sale securities (net of taxes of \$230 and \$181 for the three months ended March 31, 2011 and 2010, respectively)	(447)	351
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income (net of taxes of \$100 and \$26 for the three months ended March 31, 2011 and 2010, respectively)	(194)	(51)
Change in nonqualified pension plan unrecognized net gain (loss) (net of taxes of \$4)	8	—
Reclassification adjustment for recognition of nonqualified pension plan net (gain) loss (net of taxes of \$1)	(3)	—
Nonqualified pension plan curtailment entry (net of taxes of \$80)	155	—
Total comprehensive income	\$ 1,821	2,512

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	Prefe Stock	Common Stock	Surplus	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2011	6,689,743	\$—	11,068	15,447	54,045	(11,698)	1,845	70,707
Net income					2,302			2,302
Net unrealized gain (loss) on available-for-sale securities, net of taxes							(447)	(447)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income, net of taxes							(194)	(194)
Change in nonqualified pension plan unrecognized net gain (loss), net of taxes							8	8
Reclassification adjustment for recognition of nonqualified pension plan net gain, net of taxes							(3)	(3)
Nonqualified pension plan curtailment entry, net of taxes							155	155
Compensation expense relating to stock options				10				10
Common stock dividends, \$0.16 per share					(1,070)			(1,070)
Balance March 31, 2011	6,689,743	—	11,068	15,457	55,277	(11,698)	1,364	71,468
Balance January 1, 2010	6,687,232	\$—	11,068	15,407	48,962	(11,737)	1,915	65,615
Net income					2,212			2,212
Net unrealized gain (loss) on available-for-sale securities, net of tax							351	351
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income, net of taxes							(51)	(51)
Compensation expense relating to stock options				9				9
Common stock dividends, \$0.16 per share					(1,070)			(1,070)
Balance March 31, 2010	6,687,232	\$—	11,068	15,416	50,104	(11,737)	2,215	67,066

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)

	Three Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$2,302	2,212
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization and accretion	685	631
Provision for loan losses	664	208
Curtailment charge for nonqualified defined benefit retirement plan	191	-
Increase in cash surrender value of bank owned life insurance	(146)	(153)
Realized gain from sales of securities available-for-sale	(295)	(77)
Realized gain from sales of premises and equipment	-	(4)
Realized gain from sale of insurance agency	(1,503)	-
Realized gain from sale of repossessed assets	(16)	(10)
Origination of mortgage loans for sale	(1,722)	(1,600)
Realized gains from sales of mortgage loans	(33)	(30)
Proceeds from sales of mortgage loans	1,737	1,613
Compensation expense related to stock options	10	9
(Increase) decrease due to changes in assets and liabilities:		
Accrued income receivable	(604)	(149)
Other assets	(6)	(211)
Other liabilities	(261)	28
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,003	2,467
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities available-for-sale	14,518	5,342
Proceeds from maturities of investment securities:		
Available-for-sale	8,520	16,875
Held-to-maturity	1,259	516
Purchases of investment securities:		
Available-for-sale	(9)	(5,324)
Held-to-maturity	(615)	(1,373)
Net (increase) decrease in loans	(9,102)	259
Proceeds from sale of repossessed assets	35	61
Purchases of premises and equipment	(718)	(87)
Proceeds from sales of premises and equipment	-	4
Proceeds from sale of insurance agency, net of cash disposed	1,523	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	15,411	16,273
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	16,552	7,000
Net decrease in short-term borrowings	(10,289)	(9,157)
Proceeds from long-term debt	5,000	-
Principal payments on long-term debt	(5,718)	(807)

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Cash dividends paid on common stock	(1,070)	(1,070)
NET CASH FLOWS FROM FINANCING ACTIVITIES	4,475	(4,034)
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,889	14,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,999	12,626
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$31,888	27,332
SUPPLEMENTAL CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$1,831	2,186
Income taxes	620	315
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Transfer from loans to other real estate owned and repossessed assets	225	125

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

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

Note 1 - Basis of Presentation

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

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

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

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

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

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

Note 2 - Investment Securities

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

	March 31, 2011			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury notes	\$19,634	13	237	19,410
U.S. Agency notes	76,371	29	1,225	75,175
U.S. Agency mortgage-backed securities	27,155	1,101	67	28,189
Corporate securities	1,010	13	—	1,023
Municipal securities:				
Non-taxable	65,647	2,611	135	68,123
Taxable	18,177	187	363	18,001
Mutual fund	1,072	—	14	1,058
Trust preferred securities	549	59	3	605
Equity securities	249	25	6	268
	\$209,864	4,038	2,050	211,852

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

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

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

Note 2 - Investment Securities (continued)

Substantially all securities in unrealized loss positions at March 31, 2011 have been in a loss position less than twelve months. Management has determined that the unrealized losses at March 31, 2011 are primarily due to fluctuations in market interest rates and do not reflect credit quality deterioration of the securities. Because the Company does not have the intent to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Note 3 - Loans

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

	March 31, 2011	December 31, 2010
Commercial and industrial	\$ 35,381	36,122
Commercial, secured by real estate	209,952	196,136
Residential real estate	187,905	190,277
Consumer	18,229	19,691
Agricultural	2,260	2,966
Other loans, including deposit overdrafts	9,402	9,413
	463,129	454,605
Deferred net origination costs	324	386
	463,453	454,991
Less allowance for loan losses	2,931	2,641
Loans, net	\$ 460,522	452,350

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

Note 3 – Loans (continued)

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

	March 31, 2011	December 31, 2010
Non-accrual loans	\$ 3,098	3,761
Past-due 90 days or more and still accruing	572	300
Restructured loans	9,619	9,088
Total	\$ 13,289	13,149
Percent to total loans	2.87%	2.89%

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

Loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of those loans at March 31, 2011 and December 31, 2010 were \$69,627,000 and \$70,705,000, respectively. Loans sold to the Federal Home Loan Mortgage Corporation during the three months ended March 31, 2011 and 2010 totaled \$1,722,000 and \$1,600,000, respectively.

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

Note 3 – Loans (continued)

The allowance for loan losses and recorded investment in loans for the three months ended March 31 were as follows (000's):

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Unallocated	Total
March 31, 2011								
Allowance for loan losses:								
Balance, beginning of year	\$ 305	1,625	459	246	—	6	—	2,641
Provision charged to expenses	284	200	141	34	—	5	—	664
Losses charged off	(251)	—	(100)	(91)	—	(30)	—	(472)
Recoveries	—	30	1	42	—	25	—	98
Balance, end of period	\$ 338	1,855	501	231	—	6	—	2,931
Ending balance: individually evaluated for impairment	\$ 100	336	—	—	—	—	—	436
Ending balance: collectively evaluated for impairment	238	1,519	501	231	—	6	—	2,495
Loans:								
Ending balance	\$ 35,381	209,952	187,905	18,229	2,260	9,402	—	463,129
Ending balance: individually evaluated for impairment	833	12,026	532	—	—	—	—	13,391
Ending balance: collectively evaluated for impairment	34,548	197,926	187,373	18,229	2,260	9,402	—	449,738

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

Note 3 – Loans (continued)

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Unallocated	Total
March 31, 2010								
Allowance for loan losses:								
Balance, beginning of year	\$ 546	1,628	491	313	—	9	11	2,998
Provision charged to expenses	14	102	11	80	—	12	(11)	208
Losses charged off	(5)	—	(18)	(144)	—	(38)	—	(205)
Recoveries	—	—	—	33	—	26	—	59
Balance, end of period	\$ 555	1,730	484	282	—	9	—	3,060
Ending balance: individually evaluated for impairment	\$ 290	654	—	—	—	—	—	944
Ending balance: collectively evaluated for impairment	265	1,076	484	282	—	9	—	2,116
Loans:								
Ending balance	\$ 44,092	187,593	191,771	23,792	2,648	9,441	—	459,337
Ending balance: individually evaluated for impairment	1,242	9,116	—	—	—	—	—	10,358
Ending balance: collectively evaluated for impairment	42,850	178,477	191,771	23,792	2,648	9,441	—	448,979

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

Note 3 – Loans (continued)

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

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

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

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

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

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

Note 3 – Loans (continued)

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

	No Grade	Pass	OAEM	Substandard	Doubtful	Total
March 31, 2011						
Commercial & industrial	\$1,115	32,376	1,139	751	—	35,381
Commercial, secured by real estate	1,987	192,977	4,853	7,767	2,368	209,952
Residential real estate	18,544	165,941	1,390	2,030	—	187,905
Consumer	368	17,768	—	70	23	18,229
Agricultural	311	1,949	—	—	—	2,260
Other	75	9,327	—	—	—	9,402
Total	\$22,400	420,338	7,382	10,618	2,391	463,129
December 31, 2010						
Commercial & industrial	\$1,299	32,421	1,177	1,225	—	36,122
Commercial, secured by real estate	2,053	179,710	4,897	8,574	902	196,136
Residential real estate	17,346	170,900	264	1,702	65	190,277
Consumer	394	19,144	—	72	81	19,691
Agricultural	247	2,719	—	—	—	2,966
Other	116	9,297	—	—	—	9,413
Total	\$21,455	414,191	6,338	11,573	1,048	454,605

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

Note 3 – Loans (continued)

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

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans Greater Than 90 Days and Accruing
March 31, 2011							
Commercial & industrial	\$9	—	—	9	35,372	35,381	—
Commercial, secured by real estate	223	35	2,368	2,626	207,326	209,952	—
Residential real estate	711	60	1,078	1,849	186,056	187,905	549
Consumer	95	54	23	172	18,057	18,229	23
Agricultural	—	—	—	—	2,260	2,260	—
Other	74	—	—	74	9,328	9,402	—
Total	\$1,112	149	3,469	4,730	458,399	463,129	572
December 31, 2010							
Commercial & industrial	\$138	—	595	733	35,389	36,122	1
Commercial, secured by real estate	753	—	1,766	2,519	193,617	196,136	114
Residential real estate	482	36	698	1,216	189,061	190,277	110
Consumer	231	54	76	361	19,330	19,691	75
Agricultural	—	—	—	—	2,966	2,966	—
Other	5	—	—	5	9,408	9,413	—
Total	\$1,609	90	3,135	4,834	449,771	454,605	300

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LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 3 – Loans (continued)

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2011					
With no related allowance recorded:					
Commercial & industrial	\$249	249	—	424	13
Commercial real estate	8,250	8,250	—	8,276	111
Residential real estate	533	533	—	533	—
Total	9,032	9,032	—	9,233	124
With an allowance recorded:					
Commercial & industrial	484	584	100	884	8
Commercial real estate	3,440	3,776	336	3,827	45
Residential real estate	—	—	—	—	—
Total	3,924	4,360	436	4,711	53
Total:					
Commercial & industrial	733	833	100	1,308	21
Commercial real estate	11,690	12,026	336	12,103	156
Residential real estate	533	533	—	533	—
Total	\$12,956	13,392	436	13,944	177

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

Note 3 – Loans (continued)

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

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

	March 31, 2011	December 31, 2010
Commercial and industrial	\$—	595
Commercial, secured by real estate	2,368	2,377
Residential real estate	730	789
	3,098	3,761

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 – Other Real Estate Owned

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

	Three Months Ended March 31,	
	2011	2010
Balance, beginning of year	\$2,088	2,424
Additions	—	89
Balance, end of period	\$2,088	2,513

Other real estate owned at March 31, 2011 consisted of two commercial properties and one single-family residential home. Other real estate owned at March 31, 2010 consisted of two commercial properties and two single-family residential homes. Additions for the 2010 period consisted of one single family residential home.

Note 5 – Borrowings

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

	Current Interest Rate		March 31, 2011	December 31, 2010
Fixed Rate Advances, due at maturity:				
Advance due February 2011	2.10	%	\$ —	5,000
Advance due August 2012	1.99	%	6,000	6,000
Advance due January 2015	2.00	%	5,000	—
Advance due March 2017	5.25	%	5,000	5,000

Fixed Rate Advances, with monthly principal and interest payments: