LCNB CORP
Form 10-K
March 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

(X)

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

For the fiscal year ended December 31, 2008

( )

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

(I.R.S. Employer

incorporation or organization)

Identification Number)

2 North Broadway, Lebanon, Ohio 45036

(Address of principal executive offices, including Zip Code)

(513) 932-1414

(Registrant's telephone number, including area code)

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

Name of each exchange

Title of Each Class

on which registered

None

None

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

COMMON STOCK, NO PAR VALUE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

[ ] Yes [X] No

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

[X] Yes [ ] No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

[ ] Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company

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

[ ] Yes [X] No

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2008, determined using a per share closing price on that date of $9.50 as quoted on the Nasdaq Over-the-Counter Bulletin Board, was $59,670,117.50.

As of February 27, 2009, 6,687,232 common shares were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement included in the Notice of Annual Meeting of Shareholders to be held April 28, 2009, which Proxy Statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2008, are incorporated by reference into Part III.

LCNB Corp.

For the Year Ended December 31, 2008

TABLE OF CONTENTS

PART I

Item 1. Business

FORWARD-LOOKING STATEMENTS

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

DESCRIPTION OF LCNB CORP.'S BUSINESS

General Description

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

The predecessor of LCNB Corp., the Bank, was formed as a national banking association in 1877. On May 19, 1999, the Bank became a wholly-owned subsidiary of LCNB. At the close of business on December 20, 2007, Sycamore National Bank (Sycamore) merged with and into the Bank. A Cincinnati, Ohio based commercial bank, Sycamore operated from two offices located on Cincinnati s West side. These two offices became branches of the Bank at the time of the merger. The Bank's main office is located in Warren County, Ohio and 24 branch offices, which include

Sycamore s two offices, are located in Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties, Ohio. In addition, the Bank operates 32 automated teller machines ("ATMs") in its market area.

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

Loan products offered include commercial loans, commercial and residential real estate loans, construction loans, various types of consumer loans, and Small Business Administration loans. The Bank's residential mortgage lending activities consist primarily of loans for purchasing or refinancing personal residences, home equity lines of credit, and loans for commercial or consumer purposes secured by residential mortgages. Consumer lending activities include automobile, boat, home improvement and personal loans. The Bank also offers indirect financing through various automotive, boat, and lawn and garden dealers.

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

Security brokerage services are offered by the Bank through arrangements with UVEST Financial Services, Inc., a registered broker/dealer. Licensed brokers offer a full range of investment services and products, including financial needs analysis, mutual funds, securities trading, annuities, and life insurance.

Other services offered include safe deposit boxes, night depositories, U.S. savings bonds, travelers' checks, money orders, cashier's checks, bank-by-mail, ATMs, cash and transaction services, debit cards, wire transfers, electronic funds transfer, utility bill collections, notary public service, personal computer based cash management services, 24 hour telephone banking, PC Internet banking, and other services tailored for both individuals and businesses.

The Bank is not dependent upon any one significant customer or specific industry. Business is not seasonal to any material degree.

The address of the main office of the Bank is 2 North Broadway, Lebanon, Ohio 45036; telephone (513) 932-1414. Its primary market area encompasses all of Butler, Warren, and Clinton Counties and portions of Clermont, Hamilton, and Montgomery Counties.

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

On May 31, 2006, Dakin purchased the existing book of business of Altemeier Oliver & Company Agency, Inc. (AOC), an independent insurance agency located in Blue Ash, Ohio. The acquired assets consisted solely of a customer list, an intangible asset.

<u>Competition</u>

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

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

Management believes the commitment of the Bank to personal service, innovation, and involvement in the communities and primary market areas it serves, as well as its commitment to quality community banking service, are factors that contribute to its competitive advantage.

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

Supervision and Regulation

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

1.

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

2.

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

3.

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

4.

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

5.

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

6.

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

7.

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

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

LCNB Corp. and the Bank are subject to an extensive array of banking laws and regulations that are intended primarily for the protection of the customers and depositors of LCNB's subsidiaries rather than holders of LCNB's securities. These laws and regulations govern such areas as permissible activities, loans and investments, and rates of interest that can be charged on loans and reserves. LCNB and the Bank also are subject to general U.S. federal laws and regulations and to the laws and regulations of the State of Ohio. Set forth below are brief descriptions of selected laws and regulations applicable to LCNB and the Bank.

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

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

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

1.

securities underwriting, dealing, and market making;

2.

sponsoring mutual funds and investment companies;

3.

insurance underwriting and agency;

4.

merchant banking activities; and

5.

other activities that the Federal Reserve Board, in consultation with and subject to the approval of the Treasury Department, determines are financial in nature.

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

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

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

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

1.

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

2.

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

3.

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

4.

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

5.

Implemented a risk-based premium system;

6.

Required an audit committee to be comprised of outside directors;

7.

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

8.

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

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

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

At December 31, 2008, the Bank was well capitalized based on FDICIA's guidelines.

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

1.

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

2.

Increasing insurance coverage for retirement accounts from $100,000 to $250,000, which increase was effective April 1, 2006;

3.

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

4.

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

5.

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

6.

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

President George W. Bush signed the Emergency Economic Stabilization Act of 2008 (the EESA) on October 3, 2008. The EESA provides broad authority to the Treasury Secretary to restore liquidity and stability to the United States financial system, primarily by authorizing the Secretary to establish the Troubled Asset Relief Program (TARP). In addition, the EESA temporarily raises the basic limit on federal deposit insurance coverage for non-retirement accounts from $100,000 to $250,000 effective immediately upon the President s signature and continuing through December 31, 2009, at which time the insurance level will return to $100,000.

On October 14, 2008, the Department of the Treasury announced the implementation of the TARP Capital Purchase Program (the CPP), which provides for direct equity investments, in the form of perpetual preferred stock, by the Treasury in qualifying financial institutions. The CPP is voluntary and provides for a minimum investment of 1% of an institution s total risk-weighted assets and a maximum investment of 3% of total risk-weighted assets, not to exceed $25 billion. The perpetual preferred stock will have a dividend rate of 5% per year until the fifth anniversary of the CPP investment and 9% thereafter. Under the CPP, the Treasury will receive warrants for an institution s common stock equal to 15% of the capital invested. The warrants will have a ten-year term. Participants in the CPP program are required to comply with various restrictions and provisions, including, but not limited to, restrictions in compensation for certain executive officers, restrictions on dividends paid to shareholders, and limitations on treasury share purchases. On January 9, 2009, LCNB received $13.4 million of new capital from the Treasury under the CPP and issued 13,400 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A and a warrant to the Treasury for the purchase of 217,063 common shares of LCNB stock at an exercise price of $9.26. For more information regarding the terms of agreement between LCNB and the Treasury under the CPP and the securities issued by LCNB to the Treasury thereunder, please see the Current Report on Form 8-K filed by LCNB with the Securities and Exchange Commission on January 9, 2009 which is hereby, along with exhibits thereto, incorporated by reference.

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

1.

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

2.

The FDIC will temporarily provide full deposit insurance coverage for non-interest bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount, through December 31, 2009.

For purposes of the Temporary Liquidity Guarantee Program, the FDIC is including NOW accounts with an interest rate of 0.50% or less and accounts commonly known as Interest on Lawyers Trust Accounts in the definition of noninterest-bearing transaction accounts.

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

LCNB and the Bank are also subject to the state banking laws of Ohio. Ohio adopted nationwide reciprocal interstate banking effective October, 1988. However, banking laws of other states may restrict branching of banks to other counties within the state and acquisitions or mergers involving banks and bank holding companies located in other states. Additionally, Dakin Insurance Agency, Inc. is subject to State of Ohio insurance regulations and rules and its activities are regulated by the State of Ohio Department of Insurance.

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

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

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

Employees

As of December 31, 2008, LCNB, the Bank, and Dakin employed 246 full-time equivalent employees. LCNB is not a party to any collective bargaining agreement. Management considers its relationship with its employees to be very good. Employee benefit programs are considered by Management to be competitive with benefit programs provided by other financial institutions and major employers within LCNB s market area.

Availability of Financial Information

LCNB files unaudited quarterly financial reports on Form 10-Q, annual financial reports on Form 10-K, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 with the SEC. Copies of these reports are available free of charge in the shareholder information section of the Bank's web site, www.lcnb.com, as soon as reasonably practicable after they are electronically filed or furnished to the SEC, or by writing to:

Robert C. Haines II

Executive Vice President, CFO

LCNB Corp.

2 N. Broadway

P.O. Box 59

Lebanon, Ohio 45036

Financial reports and other materials filed by LCNB with the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained from the SEC by calling 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that file reports electronically, as LCNB does.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

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

STATISTICAL INFORMATION

The following tables and certain tables appearing in Item 7, Management's Discussion and Analysis, present additional statistical information about LCNB Corp. and its operations and financial condition. They should be read in conjunction with the consolidated financial statements and related notes and the discussion included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The table presenting an average balance sheet, interest income and expense, and the resultant average yield for average interest-earning assets and average interest-bearing liabilities is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The table analyzing changes in interest income and expense by volume and rate is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Investment Portfolio

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

	At December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Securities available for sale:			
U.S. Treasury notes	$ -	-	1,179
U.S. Agency notes	44,636	14,103	30,493
U.S. Agency mortgage-backed securities	32,768	22,466	22,300
Corporate securities	1,013	-	-
Municipal securities	57,271	50,835	57,149
Other debt securities	512	-	-
Marketable equity securities	44	19	21
Total securities available for sale	136,244	87,423	111,142
Federal Reserve Bank Stock	937	722	647
Federal Home Loan Bank Stock	2,091	2,009	2,685
Total securities	$ 139,272	90,154	114,474

Contractual maturities of securities at December 31, 2008, were as follows. Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

	Amortized Cost	Fair Value	Yield
	(Dollars in thousands)		
U.S. Agency notes:			
Within one year	$ 4,979	4,999	2.72%
One to five years	33,027	33,361	3.22%
Five to ten years	6,258	6,276	4.50%
Total U.S. Agency notes	44,264	44,636	3.34%
Corporate securities:			
Within one year	501	504	5.33%
One to five years	509	509	3.99%
Total corporate securities	1,010	1,013	4.65%
Municipal securities (1):			
Within one year	7,786	7,817	4.50%
One to five years	15,786	15,986	5.39%
Five to ten years	15,271	15,300	5.70%
After ten years	18,583	18,168	6.25%
Total Municipal securities	57,426	57,271	5.63%
U.S. Agency mortgage-backed securities	32,310	32,768	4.60%
Other debt securities	521	512	3.58%
Marketable equity securities	37	44	-%
Totals	$ 135,568	136,244	4.58%

(1)

Yields on tax-exempt obligations are computed on a taxable equivalent basis based upon a 34% statutory Federal income tax rate.

Excluding holdings in U.S. Treasury securities and U.S. Government Agencies, there were no investments in securities of any issuer that exceeded 10% of LCNB's consolidated shareholders' equity at December 31, 2008.

Loan Portfolio

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

	At December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Commercial and industrial	$ 38,724	37,325	26,952	27,135	26,390
Commercial, secured by real estate	174,493	159,384	141,863	124,823	107,138
Residential real estate	194,039	193,920	173,890	161,656	159,286
Consumer, excluding credit cards	33,369	43,410	36,471	35,879	34,672
Agricultural	3,216	2,707	2,232	1,978	1,653
Lease financing	-	-	16	37	253
Other loans, including deposit overdrafts	9,203	9,114	8,101	7,624	6,708
	453,044	445,860	389,525	359,132	336,100
Deferred costs, net	767	1,027	845	669	490
Total loans	453,811	446,887	390,370	359,801	336,590
Less allowance for loan losses	2,468	2,468	2,050	2,150	2,150
Loans, net	$ 451,343	444,419	388,320	357,651	334,440

As of December 31, 2008, there were no concentrations of loans exceeding 10% of total loans that are not already disclosed as a category of loans in the above table.

The following table summarizes the commercial and agricultural loan maturities and sensitivities to interest rate change at December 31, 2008:

	(Dollars in thousands)
Maturing in one year or less	$ 26,468
Maturing after one year, but within five years	16,342
Maturing beyond five years	173,623
Total commercial and agricultural loans	$ 216,433
Loans maturing beyond one year:	
Fixed rate	$ 75,209
Variable rate	114,756
Total	$ 189,965

Risk Elements

Generally, a loan is placed on non-accrual status when there is an indication that the borrower's cash flows may not be sufficient to meet payments as they become due, unless the loan is well secured and in the process of collection. Subsequent cash receipts on a non-accrual loan 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.

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

		At December 31,			
	2008	2007	2006	2005	2004
			(Dollars in thousands)		
Non-accrual loans	$ 2,281	120	872	785	-
Past-due 90 days or more					
and still accruing	806	247	126	61	165
Restructured loans	332	2,222	-	1,717	1,817
Total	$ 3,419	2,589	998	2,563	1,982
Percent to total loans	0.75%	0.58%	0.26%	0.71%	0.59%

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

Non-accrual loans at December 31, 2007 consisted of two real estate mortgage loans. Non-accrual loans at December

31, 2006 consisted of a real estate mortgage loan and a home equity line of credit made to the same borrower and one loan secured by farmland. Non-accrual loans at December 31, 2005 consisted of two real estate mortgage loans.

Loans classified as past-due 90 days or more and still accruing interest at December 31, 2008 consisted of fourteen consumer loans totaling $58,000, two commercial real estate loans to the same borrower totaling $673,000, and two residential mortgage loans totaling $75,000. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2007 and 2006 consisted of residential mortgage and consumer loans. Loans past-due 90 days or more and still accruing interest at December 31, 2005 consisted primarily of consumer loans. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2004 consisted of residential mortgage and consumer loans.

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

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

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

At December 31, 2008, there were no material additional loans not already disclosed as non-accrual, restructured, accruing past due 90 days or more, or impaired where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms.

Summary of Loan Loss Experience

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

Components of the Allowance for Loan Losses

The Bank continuously reviews the loan portfolio for credit risk through the use of its lending and loan review functions. Independent loan reviews analyze specified loans and lending functions as a 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 multiple times throughout each year.

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 three basic components: specific allocations for individual loans, general historical loss allocations for pools of loans based on loss ratios, and allocations based on identified economic and other risk factors which adjust the historical loss ratios. Due to the number, size, and complexity of loans within the loan portfolio, there is always a possibility of inherent undetected losses. This, combined with the possible imprecision of management s assumptions in the evaluation of loans, results in the allowance also having an unallocated component.

Current methodology used by management to estimate the allowance takes into consideration 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 the subjectivity and imprecision involved in allocation methodology.

As of December 31, 2008 the specific allocation component of the allowance represented 32% of the total allowance as compared to 35% as of December 31, 2007 and 31% as of December 31, 2006. The historical loss allocation component was 20% of the total allowance as of December 31, 2008 as compared to 16% as of December 31, 2007 and 13% as of December 31, 2006. The increase in the allocation percentage at December 31, 2008 is primarily due to increases in net charge-offs. Changes between 2007 and 2006 primarily represent increases due to changes in historical ratios resulting from the Sycamore acquisition coupled with fewer loan loss recoveries in 2007.

The economic/other adjustment component of the allowance was 48% of the total allowance as of December 31, 2008 as compared to 48% as of December 31, 2007 and 51% as of December 31, 2006. The decrease from 2006 to 2007 was minimal and primarily a result of improvement to various elements within the loan portfolio.

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

	At December 31,										
	2008			2007		2006		2005		2004	
		Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)										
Commercial and industrial	$	369	0.08%	340	0.08%	547	0.14%	161	0.05%	135	0.04%
Commercial, secured by real estate		1,182	0.26%	1,233	0.27%	723	0.19%	1,056	0.29%	695	0.21%
Residential real estate		471	0.10%	388	0.09%	310	0.08%	240	0.07%	21 .	0.01%
Consumer		429	0.10%	459	0.10%	362	0.09%	462	0.13%	690	0.20%
Agricultural		-	-%	-	-%	-	-%	-	-%	-	-%
Credit card		-	-%	-	-%	-	-%	-	-%	-	-%
Lease financing		-	-%	-	-%	-	-%	-	-%	-	-%
Other loans, including deposit overdrafts		13	-%	7	-%	14	-%	10	-%	36	0.01%
Unallocated		4	-%	41	0.01%	94	0.03%	221	0.06%	573	0.17%
Total	$	2,468	0.54%	2,468	0.55%	2,050	0.53%	2,150	0.60%	2,150	0.64%

This allocation is made for analytical purposes. The total allowance is available to absorb losses from any category of the portfolio. Increased allocations for December 31, 2007, are generally due to the higher loan volume created by the acquisition of Sycamore National Bank. The decrease in the commercial and industrial category at December 31, 2007 is due to additional collateral obtained on a loan, combined with a partial pay-down in that loan s principal balance. Both actions allowed for a reduction in the potential loss allocated to that loan. The increase in the commercial, secured by real estate category at December 31, 2007 is largely due to an increased loss allocation on the loan currently classified as restructured. The decrease in the commercial, secured by real estate category at December 31, 2006 is due to improvements in credit quality, primarily reflecting the reclassification of the loan that was included in the restructured category at December 31, 2005 and 2004. The increase in the allocation to the commercial, secured by real estate category at December 31, 2005 reflects growth in the portfolio and an increase in the dollar volume of loans assigned to the higher-risk classifications of substandard or doubtful. The increase in the allocation to the residential real estate category at December 31, 2005 reflects an increase in non-accrual loans and foreclosures at LCNB, an increase in residential second mortgage and home equity loans with high (90% or more) loan-to-value ratios, and an increase in bankruptcies and foreclosures in the Southwestern Ohio economy in general. The decrease in the allocation to the consumer loan category at December 31, 2005 reflects decreased delinquencies.

Deposits

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

The following table presents the contractual maturity of time deposits of $100,000 or more at December 31, 2008:

	(Dollars in thousands)
Maturity within 3 months	$ 18,423
After 3 but within 6 months	9,513
After 6 but within 12 months	11,449
After 12 months	37,090
	$ 76,475

Return on Equity and Assets

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

Item 1A. Risk Factors

There are risks inherent in LCNB s operations, many beyond management s control, which may adversely affect its financial condition and results from operations and should be considered in evaluating the company. Credit, market, operational, liquidity, interest rate and other risks are described elsewhere in this report. Other risk factors may include the items described below.

LCNB s earnings are significantly affected by market interest rates.

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

Increases in general interest rates could have a negative impact on LCNB s results of operations by reducing the ability of borrowers to repay their current loan obligations. Some residential real estate mortgage loans, most home equity line of credit loans, and approximately 64.0% of LCNB s commercial loans have adjustable rates. Borrower inability to make scheduled loan payments due to a higher loan cost could result in increased loan defaults, foreclosures, and write-offs and may necessitate additions to the allowance for loan losses. In addition, increases in the general level of interest rates may decrease the demand for new consumer and commercial loans, thus limiting LCNB s growth and profitability. A general increase in interest rates may also result in deposit disintermediation, which is the flow of deposits away from banks and other depository institutions into direct investments that have the potential for higher rates of return, such as stocks, bonds, and mutual funds. If this occurs, LCNB may have to rely more heavily on borrowings as a source of funds in the future, which could negatively impact its net interest margin.

Banking competition in Southwestern Ohio is intense.

LCNB faces strong competition for deposits, loans, trust accounts, and other services from other banks, savings banks, credit unions, mortgage brokers, and other financial institutions. Many of LCNB s competitors include major financial institutions that have been in business for many years and have established customer bases, numerous branches, and substantially higher regulatory lending limits. Dominant competitors in the Southwestern Ohio area include U.S. Bank, PNC/National City, Fifth Third Bank, Chase, KeyBank, Huntington National Bank, First Financial Bank, and Peoples Community Bank. In addition, credit unions are growing larger due to more flexible membership requirement regulations and are offering more financial services than they legally could in the past.

LCNB also competes with numerous real estate brokerage firms, some owned by realty companies, for residential real estate mortgage loans. Incentives offered by captive finance companies owned by the major automobile companies, primarily General Motors Acceptance Corporation (GMAC), Chrysler Financial, and Ford Motor Credit Company (FMCC), have limited the banking industry s opportunities for growth in the new automobile loan market. The banking industry now competes with brokerage firms and mutual fund companies for funds that would have historically been held as bank deposits. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of these competitors have fewer regulatory constraints and may have lower cost structures.

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

Economic conditions in Southwestern Ohio could adversely affect LCNB s financial condition and results of operations.

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

The allowance for loan losses may be inadequate.

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

LCNB s loan portfolio includes a substantial amount of commercial and industrial loans and commercial real estate loans, which may have more risks than residential or consumer loans.

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

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

LCNB is subject to environmental liability risk associated with lending activities.

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

<u>The banking industry is highly regulated.</u>

Commercial banks are highly regulated. LCNB is subject to regulation, supervision, and examination by the Federal Reserve Board and the Bank is subject to regulation, supervision, and examination by the Office of the Comptroller of the Currency (the OCC). LCNB and the Bank are also subject to regulation and examination by the FDIC, as the deposit insurer. Federal and state laws and regulations govern numerous matters including, but not limited to, changes in the ownership or control of banks, maintenance of adequate capital, permissible business operations, maintenance of deposit insurance, protection of customer financial privacy, the level of reserves held against deposits, restrictions on dividend payments, the making of loans, and the acceptance of deposits. See the previous section titled Supervision and Regulation for more information on this subject.

Federal regulators may initiate various enforcement actions against a financial institution that violates laws or regulations or that operates in an unsafe or unsound manner. These enforcement actions may include, but are not limited to, the assessment of civil money penalties, the issuance of cease-and-desist or removal orders, and the imposition of written agreements.

Proposals to change the laws governing financial institutions are periodically introduced in Congress and proposals to change regulations are periodically considered by the regulatory bodies. Such future legislation and/or changes in regulations could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The likelihood of any major changes in the future and their effects are impossible to determine.

<u>FDIC deposit insurance assessments will materially increase in the future.</u>

Bank and thrift failures during 2008 coupled with deteriorating economic conditions have significantly decreased the deposit insurance fund s reserve ratio, from 1.19% at March 31, 2008 to 0.40% at December 31, 2008. If the reserve ratio falls below 1.15% or is expected to fall below 1.15% within six months, federal law requires the FDIC to develop and implement a restoration plan that will return the reserve ratio to 1.15% within seven years.

For assessment purposes, the FDIC assigns insured institutions to four risk categories based on a combination of capital levels and supervisory ratings. Insured institutions currently pay quarterly assessments of between 5 to 43 basis points, on an annualized basis, of all domestic deposits, depending on their placement in the risk categories.

On December 16, 2008, the FDIC issued final rules that will uniformly increase the deposit insurance assessment rate by a uniform 7 basis points and will apply to assessments due June 30, 2009, which are based on March 31, 2009 deposits. On February 27, 2009 the FDIC issued final rules that will adjust the factors and methods used to place insured institutions in the four risk categories and that provides for base rates that will vary between 7 to 77.5 basis points of domestic deposits. This rule includes new risk classification factors, including an institution s use of brokered deposits and secured borrowings.

On February 27, 2009, the FDIC also adopted an interim rule imposing a 20 basis point emergency special assessment on insured institutions. The special assessment will be collected on September 30, 2009 and will be based on June 30, 2009 deposits. The interim rule also permits the FDIC to impose an additional emergency special assessment after June 30, 2009 of up to 10 basis points if considered necessary.

In addition, the FDIC, under its Temporary Liquidity Guarantee Program, will provide full deposit insurance coverage, regardless of the dollar amount, for non-interest bearing deposit transaction accounts, defined to include NOW accounts with interest rates of 0.50% or less and IOLTAs, in FDIC-insured institutions. This temporary program will continue through December 31, 2009. The cost for participating institutions (LCNB is participating) will be an additional assessment of 10 basis points of applicable non-interest bearing deposit balances greater than $250,000.

These actions will significantly increase LCNB s non-interest expense in 2009 and future years as long as the increased premiums are in place.

<u>LCNB s participation in the Capital Purchase Program may not be advantageous to current shareholders</u>.

The senior preferred shares issued under the Capital Purchase Program will pay cumulative dividends at an annual rate of 5.0% until the fifth anniversary of the initial investment and an annual dividend rate of 9.0% thereafter. Dividends paid to the U.S. Department of the Treasury will reduce the earnings available to common shareholders. In addition, no dividends may be paid on common stock unless and until all accrued and unpaid dividends for all past dividend periods owed to the Treasury on the preferred shares are fully paid. Further, financial institutions participating in the Capital Purchase Program will be prohibited from increasing cash dividends on common stock without prior government permission for a period of three years from the date of participation unless the preferred shares issued are no longer held by the U.S. Treasury Department.

The Capital Purchase Program requires that the Treasury receive warrants for common stock equal to 15% of the capital invested by the Treasury. These warrants will be immediately exercisable and have a term of 10 years. Common shareholder ownership will be diluted upon exercise of these warrants.

Participants in the Capital Purchase Program are also required not to repurchase shares of their common stock without prior government permission for a period of three years from the date of participation unless the preferred shares issued are no longer held by the U.S. Treasury Department.

In addition, the Securities Purchase Agreement between LCNB and the U.S. Department of the Treasury includes a clause that allows the Treasury to unilaterally amend any provision of the agreement to the extent required to comply with any changes in federal statutes. The likelihood of any future amendments and their effects is impossible to determine.

Future growth and expansion opportunities may contain risks.

From time to time LCNB may seek to acquire other financial institutions or parts of those institutions or may engage in de novo branch expansion. It may also consider and enter into new lines of business or offer new products or services. Such activities involve a number of risks, which may include, among other risks, potential inaccuracies in estimates and judgments used to evaluate the expansion opportunity, diversion of management and employee attention, lack of experience in a new market or product or service, and difficulties in integrating a future acquisition or introducing a new product or service. There is no assurance that such growth or expansion activities will be successful or that they will achieve desired profitability levels.

LCNB s controls and procedures may fail or be circumvented.

Management regularly reviews and updates LCNB s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of LCNB s controls and procedures or failure to comply with regulations related to its controls and procedures could have a material adverse effect on LCNB s business, results of operations, and financial condition.

LCNB s information systems may experience an interruption or breach in security.

LCNB relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in LCNB s customer relationship management, general ledger, deposit, loan, and other systems. While LCNB has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of its information systems, there can be no assurance that any such occurrences will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of LCNB s information systems could damage LCNB s reputation, result in a loss of customer business, subject LCNB to additional regulatory scrutiny, or expose LCNB to civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations.

Risk factors related to LCNB s trust business.

Competition for trust business is intense. Competitors include other commercial bank and trust companies, brokerage firms, investment advisory firms, mutual fund companies, accountants, and attorneys.

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

In addition, the management of trust accounts is subject to the risk of mistaken distributions, poor investment choices, and miscellaneous other incorrect decisions. Such mistakes may give rise to surcharge actions by beneficiaries, with damages substantially in excess of the fees earned from management of the accounts.

Risk factors related to Dakin Insurance Agency, Inc.

Competition within the insurance agency business is also intense. Dakin competes with numerous other independent and exclusive insurance agencies (an exclusive agent sells for only one insurance company) and with insurance companies that sell direct to individuals and businesses without using agents.

Premium growth within the insurance industry tends to exhibit a cyclical nature. Premium growth might average double digits during the first part of the cycle and then be negative during the later part of the cycle. Such cycles appear to be heavily influenced by general economic conditions, but can also be affected by natural disasters, stock market returns, and the reinsurance market. Deterioration in economic conditions may also have a material adverse impact on the ability of insurance customers to make scheduled premium payments.

Commissions paid independent agents by insurance carriers have been trending downward. Agents therefore need to continually write new business to prevent earnings decreases.

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

The Bank conducts its business from the following offices:

	Name of Office	Address	
1.	Main Office	2 North Broadway Lebanon, Ohio 45036	Owned
2.	Auto Bank	36 North Broadway Lebanon, Ohio 45036	Owned
3.	Bridgetown Office	6383 Bridgetown Road Cincinnati, Ohio 45248	Leased
4.	Centerville Office	9605 Dayton-Lebanon Pike Centerville, Ohio 45458	Owned
5.	Colerain Township Office	3209 West Galbraith Road Cincinnati, Ohio 45239	Owned
6.	Columbus Avenue Office	730 Columbus Avenue Lebanon, Ohio 45036	Owned
7.	Fairfield Office	765 Nilles Road Fairfield, Ohio 45014	Leased
8.	Goshen Office	6726 Dick Flynn Blvd.	Owned

		Goshen, Ohio 45122		
9.	Hamilton Office	794 NW Washington Blvd.	Owned	
		Hamilton, Ohio 45013		
10.	Hunter Office	3878 State Route 122	Owned	
		Franklin, Ohio 45005		
11.	Loveland Office	500 Loveland-Madeira Road Loveland, OH 45140	Owned	(2)
12.	Maineville Office	7795 South State Route 48	Owned	(2)
		Maineville, Ohio 45039		

	Name of Office	Address		
13.	Mason/West Chester Office	1050 Reading Road Mason, Ohio 45040	Owned	(2)
14.	Mason Christian Village Office	Mason Christian Village 411 Western Row Road Mason, Ohio 45040	Leased	
15.	Middletown Office	4441 Marie Drive Middletown, Ohio 45044	Owned	
16.	Oakwood Office	2705 Far Hills Avenue Oakwood, Ohio 45419	(3)	
17.	Okeana Office	6225 Cincinnati-Brookville Road Okeana, Ohio 45053	Owned	
18.	Otterbein Office	Otterbein Retirement Community State Route 741 Lebanon, Ohio 45036	Leased	
19.	Oxford Office	30 West Park Place Oxford, Ohio 45056	(3)	(1)
20.	Rochester/Morrow Office	Route 22-3 at 123 Morrow, Ohio 45152	Owned	
21.	South Lebanon Office	209 East Forest Street South Lebanon, Ohio 45065	Leased	(4)
22.	Springboro/Franklin Office	525 West Central Avenue Springboro, Ohio 45066	Owned	
23.	Warrior Office	Lebanon High School 1916 Drake Road Lebanon, Ohio 45036	Leased	
24.	Waynesville Office	9 North Main Street	Owned	

		Waynesville, Ohio 45068	
25.	Wilmington Office	1243 Rombach Avenue	Owned
		Wilmington, Ohio 45177	

(1)

Excess space in this office is leased to third parties.

(2)

A Dakin office is located in this office.

(3)

The Bank owns the Oakwood and Oxford office buildings and leases the land.

(4)

LCNB intends to replace the current South Lebanon Office with a new office currently being constructed at the River s Crossing Retail Center in South Lebanon. The opening date for the new office is anticipated to be summer 2009.

Dakin owns its main office at 20 & 24 East Mulberry Street, Lebanon, Ohio 45036. Dakin's three other offices are located in the Bank's branch offices.

Item 3. Legal Proceedings Except for routine litigation incidental to their businesses, LCNB is not a party to any material pending legal proceedings and none of its property is the subject of any such proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

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

LCNB had approximately 700 registered holders of its common stock as of December 31, 2008. The number of shareholders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder. The common stock is currently traded on the Nasdaq Over-The-Counter Bulletin Board service under the symbol "LCNB". Several market-makers facilitate the trading of the shares of common stock. Trade prices for shares of LCNB Common Stock, reported through registered securities dealers, are set forth below. Trades have occurred during the periods indicated without the knowledge of LCNB. The trade prices shown below are interdealer without retail markups, markdowns or commissions. The prices shown for the first and second quarters of 2007 have been restated to reflect a 100% stock dividend, accounted for as a stock split, paid on May 10, 2007.

	2008		2007	
	High	Low	High	Low
First Quarter	$ 13.25	11.25	18.475	15.000
Second Quarter	13.25	9.25	17.000	13.050
Third Quarter	11.50	8.05	14.500	12.500
Fourth Quarter	10.75	8.00	13.950	11.000

The following table presents cash dividends per share declared and paid in the periods shown. Prices for the first quarter of 2007 have been restated to reflect the stock dividend mentioned above. The dividend for the second quarter, 2007 was declared after the stock dividend.

	2008	2007
First Quarter	$ 0.16	0.155
Second Quarter	0.16	0.155
Third Quarter	0.16	0.155
Fourth Quarter	0.16	0.155
Total	$ 0.64	0.620

It is expected that LCNB will continue to pay dividends on a similar schedule, to the extent permitted by business and other factors beyond management's control. As a participant in the U.S. Treasury s Capital Purchase Program, LCNB will be prohibited from increasing cash dividends on common stock without prior government permission for a period of three years from the date of participation, which was in January 2009, unless the preferred shares issued are no longer held by the U.S. Treasury Department. Additionally, no dividends may be paid on common stock unless and until all accrued and unpaid dividends for all past dividend periods owed to the Treasury on the preferred shares are fully paid.

LCNB depends on dividends from its subsidiaries for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. National banking law limits the amount of dividends the Bank may pay to the sum of retained net income, as defined, for the current year plus retained net income for the previous two years. Prior approval from the OCC, the Bank s primary regulator, would be necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated dividends to LCNB without needing to request approval.

On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two phases of which continue. Any shares purchased will be held for future corporate purposes. However, as a participant in the U.S. Treasury s Capital Purchase Program, LCNB will be prohibited from repurchasing additional shares of its common stock without prior government permission for a period of three years from the date of participation unless the preferred shares issued are no longer held by the U.S. Treasury Department. Management currently intends to comply with this prohibition during the three year period and does not anticipate requesting prior permission for any stock repurchases.

Under the "Market Repurchase Program" LCNB was originally authorized to purchase up to 200,000 shares of its stock, as restated for the stock dividend paid 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 the stock dividend. Through December 31, 2008, 290,444 shares, as restated for the stock dividend, have been purchased under this program. No shares were purchased under the Market Repurchase Program during 2008.

The "Private Sale Repurchase Program" is available to shareholders who wish to sell large blocks of stock at one time. Because LCNB's stock is not widely traded, a shareholder releasing large blocks may not be able to readily sell all shares through normal procedures. Purchases of blocks will be considered on a case-by-case basis and will be made at prevailing market prices. There is no limit to the number of shares that may be purchased under this program. A total of 466,018 shares, as restated for the stock dividend in May, 2007, have been purchased under this program since its inception through December 31, 2008. No shares were purchased under the Private Sale Repurchase Program during 2008.

LCNB established an Ownership Incentive Plan during 2002 that allows for the issuance of up to 200,000 shares, as restated for the stock dividend in May, 2007, of stock-based awards to eligible employees, as determined by the Board of Directors. The awards may be in the form of stock options, share awards, and/or appreciation rights. Only stock options had been awarded at December 31, 2008. The following table shows information relating to stock options outstanding at December 31, 2008:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by			

security holders	49,132	$15.43	150,868
Equity compensation plans not approved by security holders	-	-	-
Total	49,132	$15.43	150,868

The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the Nasdaq Composite and the SNL Midwest OTC-BB and Pink Sheet Banks. This graph covers the period from December 31, 2003 through December 31, 2008. The cumulative total shareholder returns included in the graph reflect the returns for the shares of common stock of LCNB. The information provided in the graph assumes that $100 was invested on December 31, 2003 in LCNB common stock, the Nasdaq Composite, and the SNL Midwest OTC-BB and Pink Sheet Banks and that all dividends were reinvested.

[GRAPH ATTACHED IN PDF FORMAT]

	Period Ending					
Index	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
LCNB Corp.	100.00	113.06	111.61	111.68	74.55	61.95
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL Midwest OTC-BB and Pink Banks Index	100.00	119.15	124.05	130.64	127.52	95.05

(434) 977-1600

Source : SNL Financial LC,
Charlottesville, VA

Item 6. Selected Financial Data

The following represents selected consolidated financial data of LCNB for the years ended December 31, 2004 through 2008 and are derived from LCNB's consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 8 of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk included in Items 7 and 7A, respectively, of this Form 10-K, and are qualified in their entirety thereby and by other detailed information elsewhere in this Form 10-K.

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except ratios and per share data)				
Income Statement:					
Interest income	$ 34,350	31,991	30,548	27,602	25,648
Interest expense	13,421	13,838	12,233	9,032	7,368
Net interest income	20,929	18,153	18,315	18,570	18,280
Provision for loan losses	620	266	143	338	489
Net interest income after provision for loan losses	20,309	17,887	18,172	18,232	17,791
Non-interest income	8,453	8,346	8,345	7,956	7,659
Non-interest expenses	19,934	18,344	17,838	17,243	16,404
Income before income taxes	8,828	7,889	8,679	8,945	9,046
Provision for income taxes	2,225	1,935	2,165	2,240	2,450
Net income	$ 6,603	5,954	6,514	6,705	6,596
Basic and diluted earnings per share (1)	$ 0.99	0.94	1.00	1.01	0.98
Dividends declared per share (1)	$ 0.64	0.62	0.60	0.58	0.56
Balance Sheet:					
Securities	$ 139,272	90,154	114,474	136,686	116,495
Loans, net	451,343	444,419	388,320	357,651	334,440
Total assets	649,731	604,058	548,215	539,501	522,251

Total deposits	577,622	535,929	478,615	481,475	463,900
Short-term borrowings	2,206	1,459	15,370	1,031	1,269
Long-term debt	5,000	5,000	-	2,073	2,137
Total shareholders' equity	58,116	56,528	50,999	52,022	52,296
Selected Financial Ratios					
and Other Data:					
Return on average assets	1.03%	1.08%	1.19%	1.25%	1.29%
Return on average equity	11.35%	11.41%	12.48%	12.80%	12.56%
Equity-to-assets ratio	8.94%	9.36%	9.30%	9.64%	10.01%
Dividend payout ratio	64.65%	65.96%	60.00%	57.43%	57.14%
Net interest margin, fully-					
taxable equivalent	3.74%	3.77%	3.84%	3.99%	4.02%

(1)

All per share data have been adjusted to reflect 100% stock dividends accounted for as stock splits in 2004 and 2007.

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

Introduction

The following is management's discussion and analysis of the consolidated financial condition and consolidated results of operations of LCNB. It is intended to amplify certain financial information regarding LCNB and should be read in conjunction with the Consolidated Financial Statements and related Notes and the Financial Highlights contained in the 2008 Annual Report to Shareholders.

Forward-Looking Statements

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

Acquisitions

At the close of business on December 20, 2007, LCNB acquired Sycamore in a stock and cash transaction valued at approximately $9.6 million. Sycamore operated two full service branches in Cincinnati, Ohio, which became branches of the Bank. As of December 20, 2007, Sycamore had total assets of $48.9 million, total loans, net of the related allowance for loan losses, of $42.8 million, and total deposits of $44.4 million.

Under the terms of the affiliation agreement, each share of Sycamore common stock was exchanged for, at the election of each shareholder, $33.75 in cash, 2.444 shares of LCNB common stock, or a combination of cash and shares. A Sycamore shareholder s election to receive cash or stock was subject to allocation procedures that ensured that, in the aggregate, 50% of the shares of Sycamore common stock were exchanged for cash and 50% were exchanged for stock.

The transaction, which was accounted for under the purchase accounting method, included the recognition of approximately $343,000 of core deposit intangibles and goodwill of $5,915,000, as adjusted in 2008. The goodwill represents the excess of the purchase price over the fair value of identifiable net assets, including the core deposit intangible. The core deposit intangible is being amortized on a straight-line basis over 6 years. Goodwill is not amortized, but is instead subject to an annual review for impairment. Sycamore s results of operations are included in the consolidated financial results of LCNB from the acquisition date.

On May 31, 2006, Dakin purchased the existing book of business of Altemeier Oliver & Company Agency, Inc. (AOC), an independent insurance agency located in Blue Ash, Ohio. The acquisition of AOC was accounted for using the purchase accounting method and the results of operations of AOC have been included in the consolidated financial statements of LCNB since the acquisition date. The acquired assets consisted solely of a customer list intangible asset. This intangible asset is being amortized on a straight-line basis over a ten year period.

Overview

LCNB earned $6,603,000 in 2008, compared to $5,954,000 in 2007 and $6,514,000 in 2006. Basic and diluted earnings per share for 2008, 2007, and 2006 were $0.99, $0.94, and $1.00, respectively.

Net interest income for 2008, 2007, and 2006 was $20,929,000, $18,153,000, and $18,315,000, respectively. Net interest income for 2008 was $2,776,000 greater than for 2007 primarily due to additional loans and deposits from the Sycamore National Bank acquisition in late 2007 and organic growth. Also contributing to the increase in net interest income was a decrease in average rates paid on interest-bearing liabilities, primarily deposits, partially offset by a decrease in average rates earned on interest-earning assets. Net interest income for 2007 was $162,000 lower than net interest income for 2006 primarily due an increase in average rates paid on interest-bearing liabilities, partially offset by an increase in average rates earned on interest-earning assets.

Total non-interest income grew from $8,346,000 in 2007 to $8,453,000 in 2008 and remained virtually the same from 2006 to 2007. Primary contributors to the 2008 increase were check card income and income from bank owned life insurance.

Total non-interest expense also increased annually from 2006 to 2008. Total non-interest expense for 2006 was $17,838,000, $18,344,000 for 2007, and $19,934,000 for 2008. These increases were largely due to increased salaries and benefits resulting from routine salary and wage increases and an increase in the number of employees.

Net Interest Income

The amount of net interest income earned by LCNB is influenced by the dollar amount ("volume") and mix of interest earning assets and interest bearing liabilities and the rates earned or paid on each. The following table presents, for the years indicated, the distribution of average assets, liabilities and shareholders' equity, as well as the total dollar amounts of interest income from average interest earning assets and the resultant yields on a taxable equivalent basis, and the dollar amounts of interest expense and average interest-bearing liabilities and the resultant rates paid.

	Years ended December 31,						
	2008			2007			20
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance
	(Dollars in thousands)						
Loans (1)	$ 447,751	$ 29,024	6.48%	$ 394,760	$ 27,066	6.86%	$ 375,247
Federal funds sold and interest-							
bearing demand deposits	23,527	491	2.09%	13,175	654	4.96%	8,961
Interest-bearing deposits in banks	1,530	38	2.48%	-	-	-%	-
Federal Reserve Bank Stock	872	52	5.96%	650	39	6.00%	647
Federal Home Loan Bank Stock	2,050	108	5.27%	1,852	124	6.70%	2,590
Investment securities:							
Taxable	62,082	2,642	4.26%	49,838	2,229	4.47%	65,413
Nontaxable (2)	50,016	3,023	6.04%	46,939	2,847	6.07%	50,271
Total earning assets	587,828	35,378	6.02%	507,214	32,959	6.50%	503,129
Non-earning assets	52,746			44,928			44,588
Allowance for loan losses	(2,474)			(2,068)			(2,079)
Total assets	$ 638,100			$ 550,074			$ 545,638
Savings deposits	$ 83,403	863	1.03%	$ 79,510	827	1.04%	$ 93,670
NOW and money fund	164,485	2,941	1.79%	119,211	3,197	2.68%	116,115
IRA and time certificates	238,166	9,341	3.92%	208,361	9,421	4.52%	198,536
Short-term borrowings	863	13	1.51%	3,373	181	5.37%	1,814
Long-term debt	5,000	263	5.26%	4,041	212	5.25%	528
Total interest-bearing							
liabilities	491,917	13,421	2.73%	414,496	13,838	3.34%	410,663
Demand deposits	83,009			80,221			79,741
Other liabilities	5,012			3,189			3,026
Capital	58,162			52,168			52,208

Total liabilities and capital	$ 638,100			$ 550,074			$ 545,638
Net interest rate spread (3)			3.29%			3.16%	
Net interest income and net interest margin on a tax equivalent basis (4)		$ 21,957	3.74%		$ 19,121	3.77%	$
Ratio of interest-earning assets to interest-bearing liabilities	119.50%			122.37%			122.52%

(1)

Includes non-accrual loans if any. Income from tax-exempt loans is included in interest income on a taxable equivalent basis, using an incremental rate of 34%.

(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 34%.

(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.

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,					
	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income attributable to:						
Loans(1)	$ 3,492	(1,534)	1,958	1,332	450	1,782
Federal funds sold and interest-bearing demand deposits	342	(505)	(163)	210	(14)	196
Interest-bearing deposits in banks	38	-	38	-	-	-
Federal Reserve Bank stock	13	-	13	-	-	-
Federal Home Loan Bank stock	12	(28)	(16)	(47)	21	(26)
Investment securities:						
Taxable	525	(112)	413	(677)	256	(421)
Nontaxable(2)	186	(10)	176	(201)	68	(133)
Total interest income	4,608	(2,189)	2,419	617	781	1,398
Interest expense attributable to:						
Savings deposits	40	(4)	36	(149)	(40)	(189)
NOW and money fund	999	(1,255)	(256)	78	250	328
	1,255	(1,335)	(80)	420	773	1,193

IRA and time certificates							
Short-term borrowings		(85)	(83)	(168)	83	8	91
Long-term debt		50	1	51	184	(2)	182
Total interest expense		2,259	(2,676)	(417)	616	989	1,605
Net interest income	$	2,349	487	2,836	1	(208)	(207)

(1)

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

(2)

Change in interest income from nontaxable loans and 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 34%.

2008 vs. 2007. Taxable equivalent interest income increased $2,419,000 due to an $80.6 million increase in total average interest-earning assets primarily due to loans obtained in the Sycamore National Bank acquisition and organic growth. The loan portfolio grew $53.0 million on an average basis and average investment securities increased $15.3 million. This increase was partially offset by a 48 basis point (a basis point equals 0.01%) decrease in the average rate earned on interest-earning assets, primarily due to general decreases in market rates.

Interest expense decreased $417,000 primarily due to a 61 basis point decrease in the average rate paid on interest-bearing liabilities, partially offset by a $77.4 million increase in average interest-bearing liabilities, primarily deposits. The decrease in average rates paid is primarily due to general decreases in market rates.

The net interest margin, on a taxable equivalent basis, was relatively stable decreasing slightly from 3.77% for 2007 to 3.74% for 2008.

2007 vs. 2006. Taxable equivalent interest income increased $1,398,000 due to a 23 basis point increase in the average rate earned on interest-earning assets and to a $4.1 million increase in total average interest-earning assets. The increase in average rates earned was primarily due to general increases in market rates. The increase in average interest-earning assets occurred primarily in the loan portfolio, which grew $19.5 million on an average basis, and in federal funds sold and interest-bearing demand deposits, which grew $4.2 million on an average basis. Growth in these assets was partially offset by an $18.9 million decrease in average taxable and nontaxable investment securities. The movement in loans and investment securities reflects management s decision to reinvest most maturing investment securities into higher rate loans.

Interest expense increased $1,605,000 primarily due to a 36 basis point increase in the average rate paid on interest-bearing liabilities and secondarily to a $3.8 million increase in average interest-bearing liabilities. The increase in average rates paid is primarily due to general increases in market rates.

The net interest margin, on a taxable equivalent basis, decreased from 3.84% for 2006 to 3.77% for 2007. Even though the average rate earned on interest-earning assets increased 23 basis points, this increase was offset by the 36 basis point increase in the average rate paid on interest-bearing liabilities.

<u>Provisions and Allowance for Loan Losses</u>

The provision for loan losses is determined by management based upon its evaluation of the amount needed to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk of losses inherent in the portfolio. In addition to historic charge-off percentages, factors taken into consideration to determine the adequacy of the allowance for loan losses include the nature, volume, and consistency of the loan portfolio, overall portfolio quality, a review of specific problem loans, and current economic conditions that may affect borrowers ability to pay. The following table presents the total loan loss provision and the other changes in the allowance for loan losses for the years 2004 through 2008.

	2008	2007	2006	2005	2004
			(Dollars in thousands)		
Balance Beginning of year	$ 2,468	2,050	2,150	2,150	2,150
Allowance related to Sycamore					
acquisition	-	453	-	-	-
	2,468	2,503	2,150	2,150	2,150
Loans charged off:					
Commercial and industrial	73	81	-	-	126
Commercial, secured by					
real estate	-	-	34	-	-
Residential real estate	129	71	62	14	32
Consumer, excluding credit card	617	231	236	395	446
Agricultural	-	-	-	-	-
Credit Card	-		-	-	10
Other loans, including					
deposit overdrafts	228	305	308	335	-
Total loans charged off	1,047	688	640	744	614
Recoveries:					
Commercial and industrial	40	17	-	19	-
Commercial, secured by					
real estate	-	-	-	-	-
Residential real estate	20	2	3	9	-
Consumer, excluding credit card	201	142	186	175	124
Agricultural	-	-	-	-	-
Credit Card	1	3	3	11	1
Other loans, including					
deposit overdrafts	165	223	205	192	-
Total recoveries	427	387	397	406	125
Net charge offs	620	301	243	338	489

Provision charged to operations	620	266	143	338	489
Balance - End of year	$ 2,468	2,468	2,050	2,150	2,150
Ratio of net charge-offs during the period to average loans outstanding	0.14%	0.08%	0.06%	0.10%	0.15%
Ratio of allowance for loan losses to total loans at year-end	0.54%	0.55%	0.53%	0.60%	0.64%

Of the $73,000 charged off during 2008 in the commercial and industrial loan category, approximately $53,000 was due to one loan. Of the $129,000 charged off during 2008 in the residential real estate loan category, approximately $119,000 was due to two loans. The increase in consumer loan charge-offs during 2008 reflect a greater number of delinquent loans, primarily due to deteriorating economic conditions. Of the $81,000 charged-off in the commercial and industrial loan category during 2007, approximately $76,000 was due to two loans. The commercial and industrial loan charge-off of $126,000 during 2004 is due to one company that had filed bankruptcy. Consumer loan charge-offs in 2004 included $41,000 that was due to a yacht that was subsequently repossessed and sold that same year. The balance of increased consumer loan charge-offs during 2004 are due to a greater number of troubled loans.

Charge-offs and recoveries classified as Other during 2005, 2006, 2007, and 2008 represent 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. Prior to 2005, overdrafts considered uncollectible were netted against service charges and fees in non-interest income.

For additional discussion regarding changes in the components of the allowance for loan losses, see Item 1. Business, Statistical Information, Components of the Allowance for Loan Losses.

Non-Interest Income

2008 vs. 2007. Total non-interest income for 2008 was $107,000 greater than 2007. Service charges and fees increased $151,000, primarily due to increases in checkcard income. The increase reflects a greater number of cards outstanding during 2008 and the increasing popularity of checkcards as a retail payment method. In addition, income from bank owned life insurance increased $62,000. These increases were partially offset by a $29,000 decrease in trust income and a $36,000 decrease in gains from sales of mortgage loans. Trust income decreased primarily due to weakening market conditions and the decrease in gains from sales of loans reflects a lower volume of sales. Approximately $971,000 of residential mortgage loans were sold during 2008, compared to $2,796,000 sold during 2007.

2007 vs. 2006. Total non-interest income for 2007 was $1,000 greater than 2006. Small decreases in trust income and insurance agency income were offset by an increase in other operating income. Service charges and fees were the same in total, but the mix of fees changed. A continuing decrease in overdraft fees was offset by a continuing increase in checkcard income.

Non-Interest Expense

2008 vs. 2007. Total non-interest expense increased $1,590,000 during 2008 compared with 2007. Contributing to the increase were a $848,000 increase in salaries and wages, a $308,000 increase in pension and other employee benefits, a $146,000 increase in occupancy expense, and a $421,000 increase in other non-interest expense. These increases were partially offset by a $259,000 decrease in intangible amortization.

Salaries and wages increased due to additional employees, primarily from the Sycamore acquisition and the opening of the Centerville Office in September 2008, and routine salary and wage increases. Pension and other employee benefits increased due to increased pension costs, increased health insurance costs, and increased payroll taxes. The increase in occupancy expense is primarily due to increased maintenance and repair costs, utilities expense, depreciation expense, and rent expense for the Bridgetown office obtained as part of the Sycamore National Bank acquisition. These increases partially reflect an increased number of offices maintained by LCNB. The increase in other non-interest expense is due to increases in printing and office supplies, postage, and a variety of other operating expenses.

Intangible amortization decreased due to the amortization in full the third quarter of 2008 of intangible assets related to the purchase of three offices from another bank in 1997. This decrease was partially offset by amortization of the core deposit intangible resulting from the Sycamore National Bank acquisition in December 2007.

2007 vs. 2006. Total non-interest expense increased $506,000 during 2007 compared with 2006. Contributing to the increase were a $180,000 increase in salaries and wages, a $122,000 increase in pension and other employee benefits, a $136,000 increase in occupancy expense, and a $100,000 increase in telephone expense.

Salaries and wages increased due to additional employees, primarily from the Sycamore acquisition and the opening of the Centerville office in September 2008, and routine salary and wage increases. Pension and other employee benefits increased primarily due to increased pension costs. The increase in occupancy expense is primarily due to increased maintenance and repair costs, rent expense for the land at the new Oakwood office (opened May, 2007), and real estate taxes for the Oakwood office. Telephone expense increased due to increased network costs and a system upgrade.

Income Taxes

LCNB's effective tax rates for the years ended December 31, 2008, 2007, and 2006 were 25.2%, 24.9%, and 24.9%, respectively. The difference between the statutory rate of 34.0% and the effective tax rate is primarily due to tax-exempt interest income and tax-exempt earnings from bank owned life insurance.

Assets

Net loans grew $6.9 million during 2008. Commercial real estate loans increased $15.1 million while consumer loans decreased $10.0 million, reflecting a lower demand for consumer loans due to economic conditions during 2008.

Investment securities available for sale increased $48.8 million during 2008. With a decreased demand for loans, management invested much of the deposit growth experienced during 2008 in investment securities.

Net premises and equipment was $1.4 million higher at December 31, 2008 than at December 31, 2007, primarily due to the purchase of land for a new South Lebanon office and the completion of construction on the Centerville office. The rest of the increase represents information technology upgrades and miscellaneous furniture and equipment purchases.

Deposits

Total deposits at December 31, 2008 were $41.7 million greater than at December 31, 2007. Of this increase, approximately $17.8 million was due to increases in public fund deposits by local governmental entities. LCNB has also been receiving a higher than normal volume of deposits withdrawn from other banks due, in part, to the volatility of current economic conditions.

Liquidity

Liquidity is the ability to have funds available at all times to meet the commitments of LCNB. These commitments may include paying dividends to shareholders, funding new loans for borrowers, funding withdrawals by depositors, paying general and administrative expenses, and funding capital expenditures. Sources of liquidity include growth in deposits, principal payments received on loans, proceeds from the sale of loans, the sale or maturation of investment securities, cash generated by operating activities, and the ability to borrow funds. Management closely monitors the level of liquid assets available to meet ongoing funding requirements. 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 during the past year as a result of current liquidity levels.

The liquidity of LCNB is enhanced by the fact that 79.6% of total deposits at December 31, 2008 were "core" deposits. Core deposits, for this purpose, are defined as total deposits less public funds and certificates of deposit greater than $100,000.

Liquid assets include cash, federal funds sold and securities available for sale. Except for investments in the stock of the Federal Reserve Bank and FHLB, all of LCNB's investment portfolio is classified as "available for sale" and can be readily sold to meet liquidity needs. At December 31, 2008, LCNB's liquid assets amounted to $154.3 million or 23.7% of total assets, an increase from $118.6 million or 19.6% of total assets at December 31, 2007. With a decreased demand for loans, management invested much of the deposit growth experienced during 2008 in investment securities.

An additional source of funding is borrowings from the Federal Home Loan Bank ("FHLB"). FHLB borrowings of $5.0 million were outstanding at December 31, 2008 and the total available borrowing capacity at that date was approximately $54 million.

Short-term borrowings may include federal funds purchased and advances from a line of credit with another financial institution. At December 31, 2008, LCNB could borrow up to $20 million through the line of credit and up to $17 million under federal funds arrangements with two other financial institutions. Nothing was outstanding under any of these programs at December 31, 2008.

Commitments to extend credit at December 31, 2008, totaled $89.6 million and standby letters of credit totaled $8.1 million and are more fully described in Note 12 to LCNB's 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.

Capital expenditures may include the construction or acquisition of new office buildings, improvements to LCNB's twenty-five offices, purchases of furniture and equipment, and additions or improvements to LCNB s information technology system. Commitments for capital expenditures outstanding as of December 31, 2008 totaled approximately $90,000. LCNB plans to build a new bank office in South Lebanon, Ohio during 2009 and was in the process of preparing bid requests at December 31, 2008. Construction contracts signed during January and February 2009 for this project totaled approximately $830,000.

The following table provides information concerning LCNB's contractual obligations at December 31, 2008:

			Payments due by period		
			Over 1	Over 3	
		1 year	through 3	through 5	More than
	Total	or less	years	years	5 years
			(In thousands)		
Long-term debt obligations	$ 5,000				5,000
Operating lease obligations	6,007	389	670	391	4,557
Purchase obligations	90	90			
Estimated pension plan					
contribution for 2009	690	690			
Certificates of deposit:					
$100,000 and over	76,475	39,385	24,930	3,968	8,192
Other time certificates	161,162	91,091	49,053	10,459	10,559
Total	$ 249,424	131,645	74,653	14,818	28,308

The following table provides information concerning LCNB's commitments at December 31, 2008:

		Amount of Commitment Expiration Per Period			
	Total		Over 1	Over 3	
	Amounts	1 year	through 3	through 5	More than
	Committed	or less	years	years	5 years
			(In thousands)		
Commitments to extend					
credit	$ 5,711	5,711	-	-	-
Unused lines of credit	83,862	40,884	16,234	14,236	12,508
Standby letters of credit	8,138	1,176	59	200	6,703
Total	$ 97,711	47,771	16,293	14,436	19,211

On January 9, 2009, LCNB received $13.4 million of new capital from the U.S. Treasury under the CPP and issued 13,400 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A and a warrant to the Treasury for the purchase of 217,063 common shares of LCNB stock at an exercise price of $9.26. The issuance of preferred stock significantly increased LCNB s capital and liquidity levels. The preferred stock pays a cumulative dividend of 5% per annum for the first five years and 9% per annum thereafter if not redeemed first. For more information regarding the terms of agreement between LCNB and the Treasury under the CPP and the securities issued by LCNB to the Treasury thereunder, please see the Current Report on Form 8-K filed by LCNB with the Securities and Exchange Commission on January 9, 2009 which is hereby, along with exhibits thereto, incorporated by reference.

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). The first two 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. The ratio of Tier 1 capital to risk-weighted assets must be at least 4.00% and the ratio of Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 8.00%. The capital leverage ratio supplements the risk-based capital guidelines. Banks are required to maintain a minimum ratio of Tier 1 capital to adjusted quarterly average total assets of 3.00%. A table summarizing the regulatory capital of LCNB and the Bank at December 31, 2008 and 2007, is included in Note 11, "Regulatory Matters", of the 2008 Annual Report to Shareholders.

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 (the FDIC's highest rating).

On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two phases of which continue. Any shares purchased will be held for future corporate purposes. However, as a participant in the U.S. Treasury s Capital Purchase Program, LCNB will be prohibited from repurchasing additional shares of its common stock without prior government permission for a period of three years from the date of participation unless the preferred shares issued are no longer held by the U.S. Treasury Department. Management currently intends to comply with this prohibition during the three year period and does not anticipate requesting prior permission for any stock repurchases.

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 the stock dividend. Through December 31, 2008, 290,444 shares, as restated for the stock dividend, had been purchased under this program. No shares were purchased under this program during 2008.

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 466,018 shares, as restated for the stock dividend, had been purchased under this program at December 31, 2008. No shares were purchased under this program during 2008.

LCNB established an Ownership Incentive Plan during 2002 that allows for stock-based awards to eligible employees. The awards may be in the form of stock options, share awards, and/or appreciation rights. The plan provides for the issuance of up to 200,000 shares, as restated for the stock dividend. No awards were granted during 2005 or 2002. Stock options for 13,918, 8,116, 7,934, 8,108 and 11,056 shares were granted to key executive officers of LCNB during the first quarters of 2008, 2007, 2006, 2004, and 2003, respectively.

The exercise price for stock options granted shall not be less than the fair market value of the stock on the date of grant. Options vest ratably over a five-year period and the maximum term for each grant will be specified by the Board of Directors, but cannot be greater than ten years from the date of grant. In the event of an optionee's death, incapacity, or retirement, all outstanding options held by that optionee shall immediately vest and be exercisable.

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, general, and unallocated 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. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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.

Accounting for Intangibles. LCNB s intangible assets at December 31, 2008 are composed primarily of goodwill and a core deposit intangible related to the acquisition of Sycamore during the fourth quarter, 2007, an intangible related to Dakin s 2006 purchase of AOC s book of business, and mortgage servicing rights recorded from sales of mortgage loans to the Federal Home Loan Mortgage Corporation. Goodwill is not subject to amortization, but is reviewed annually for impairment. The core deposit intangible is being amortized on a straight line basis over six years. The book of business purchased by Dakin consisted solely of a customer list intangible asset, which is being amortized over ten years. 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 Investment Securities. All securities in LCNB s investment securities portfolio at December 31, 2008 are classified as available for sale and, accordingly, 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 corporate securities and equity investments. Fair value for the majority of the remaining securities is estimated using the discounted cash flow method for each security with discount rates based on rates observed in the market.

Recent Accounting Pronouncements

SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), was issued in December 2007 and replaces SFAS No. 141, *Business Combinations*. It applies to all transactions or other events in which an entity obtains control over one or more businesses. SFAS No. 141R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting, previously called the purchase method of accounting, be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values as of the acquisition date. This fair value approach replaces SFAS No. 141 s cost-allocation process, which required that the cost of an acquisition be allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Any noncontrolling interests in the acquiree are also required to be measured at fair value. SFAS No. 141R requires acquirers to expense direct acquisition-related costs as incurred. SFAS No. 141 permitted that such costs be added to the cost of the acquisition. This statement makes significant changes to other accounting practices for business combinations, including but not limited to accounting for step acquisitions, accounting for contingent liabilities arising from a business combination, accounting for research and development assets acquired in a business combination, and accounting for deferred taxes acquired in a business combination. SFAS No. 141R applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. LCNB will be required to apply SFAS No. 141R for any business combinations with an acquisition date on or after January 1, 2009.

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51,* was issued in December 2007 and amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements.* SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest, also called minority interest, in a subsidiary and for the deconsolidation of a subsidiary. This statement is to be applied prospectively as of the beginning of the fiscal year beginning on or after December 15, 2008. Early adoption is prohibited. LCNB owns 100% of its subsidiaries and is not affected by SFAS No. 160.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, was issued in March, 2008 and changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 is effective for financial statements, including both fiscal years and interim periods, issued after November 15, 2008. Early application is encouraged. LCNB does not own securities of the type covered by this statement and is not affected by it.

SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* was issued in May, 2008. It identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* Management does not expect that the adoption of SFAS No. 162 will have a material effect on LCNB s consolidated financial statements.

The Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 157-2 in February 2008. It delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The new effective date for such assets and liabilities is deferred to fiscal years beginning after November 15, 2008. The adoption of FSP No. 157-2 is not expected to have a material effect on LCNB s consolidated financial statements.

FASB Staff Position EITF 03-6-1 (FSP EITF 03-6-1) was issued in June 2008. It clarifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of earnings per share pursuant to the two-class method. FSP EITF -3-6-1 is effective for fiscal years beginning after December 15, 2008 and early adoption is not permitted. All previously reported earnings per share data will be retrospectively adjusted to conform with the provisions of FSP EITF 03-6-1. Management does not believe that the adoption of FSP EITF 03-6-1 will have a material effect on LCNB s consolidated financial statements.

LCNB CORP. AND SUBSIDIARIES
QUARTERLY FINANCIAL DATA (UNAUDITED)
(Dollars in thousands, except per share data)

	Three Months Ended			
	March 31	June 30	Sep. 30	Dec. 31
2008				
Interest income	$ 8,615	8,464	8,608	8,663
Interest expense	3,631	3,284	3,290	3,216
Net interest income	4,984	5,180	5,318	5,447
Provision for loan losses	83	51	188	298
Net interest income after provision	4,901	5,129	5,130	5,149
Total non-interest income	2,063	2,164	2,203	2,023
Total non-interest expenses	5,045	5,002	4,928	4,959
Income before income taxes	1,919	2,291	2,405	2,213
Provision for income taxes	475	593	611	546
Net income	$ 1,444	1,698	1,794	1,667
Earnings per common share:				
Basic	$ 0.22	0.25	0.27	0.25
Diluted	0.22	0.25	0.27	0.25
2007				
Interest income	$ 7,852	7,931	7,920	8,288
Interest expense	3,322	3,372	3,532	3,612
Net interest income	4,530	4,559	4,388	4,676
Provision for loan losses	60	23	75	108
Net interest income after provision	4,470	4,536	4,313	4,568
Total non-interest income	1,946	2,157	2,117	2,126
Total non-interest expenses	4,589	4,560	4,628	4,567
Income before income taxes	1,827	2,133	1,802	2,127
Provision for income taxes	429	536	432	538

Net income	$	1,398	1,597	1,370	1,589
Earnings per common share:					
Basic	$	0.22	0.25	0.22	0.25
Diluted		0.22	0.25	0.22	0.25

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 the down 300 basis points scenario 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, 2008 IRSA indicates that either an increase in interest rates at all shock levels or a decrease in interest rates of 200 basis points would have a positive 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	$ Change in Net Interest Income	% Change in Net Interest Income
		(In thousands)		
Up 300	$	24,297	147	0.61%
Up 200		24,307	157	0.65%
Up 100		24,249	99	0.41%
Base		24,150	-	-%
Down 100		24,027	(123)	-0.51%
Down 200		24,162	12	0.05%

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. The EVE analysis at December 31, 2008 is shown below. As shown below, the December 31, 2008 EVE analysis indicates that an increase in interest rates would have a negative effect on the EVE and a decrease in rates would have a positive effect on the EVE. The changes in EVE, except for the up 300 basis points scenario, are within LCNB s acceptable ranges. The up 300 basis points scenario is slightly outside LCNB s policy range of a 25% change, but management has determined the change is acceptable in the current economic environment.

Rate Shock Scenario in Basis Points		Amount (In thousands)	$ Change in EVE	% Change in EVE
Up 300	$	54,975	(19,340)	-26.02%
Up 200		61,634	(12,681)	-17.06%
Up 100		68,210	(6,105)	-8.22%
Base		74,315	-	-%
Down 100		79,072	4,757	6.40%
Down 200		85,116	10,801	14.53%

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.

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 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, 2008, in relation to criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2008, LCNB s internal control over financial reporting met the criteria.

J.D. Cloud & Co. L.L.P., an independent registered public accounting firm, has issued an attestation on the effectiveness of LCNB s internal control over financial reporting as of December 31, 2008.

Submitted by:

LCNB Corp.

/s/ Stephen P. Wilson	/s/ Robert C. Haines II
Stephen P. Wilson	Robert C. Haines II
Chief Executive Officer &	Executive Vice President &
Chairman of the Board of Directors	Chief Financial Officer
February 27, 2009	February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

LCNB Corp. and subsidiaries

Lebanon, Ohio

We have audited LCNB Corp. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). LCNB Corp. and subsidiaries 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 Report of Management s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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 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.

In our opinion, LCNB Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2008 and 2007 and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2008 of LCNB Corp. and subsidiaries, and our report dated February 27, 2009 expressed an unqualified opinion.

/s/ J.D. Cloud & Co. L.L.P.

Certified Public Accountant

Cincinnati, Ohio

February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

LCNB Corp. and subsidiaries

Lebanon, Ohio

We have audited the accompanying consolidated balance sheets of LCNB Corp. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the management of LCNB Corp. and subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LCNB Corp. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of LCNB Corp. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring

Organizations of the Treadway Commission (COSO), and our report dated February 27, 2009 expressed an unqualified opinion.

/s/ J.D. Cloud & Co. L.L.P.
Certified Public Accountants

Cincinnati, Ohio
February 27, 2009

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

	2008	2007
ASSETS:		
Cash and due from banks	$ 11,278	17,498
Federal funds sold and interest-bearing demand deposits	6,742	13,692
Total cash and cash equivalents	18,020	31,190
Securities available for sale, at fair value	136,244	87,423
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	3,028	2,731
Loans, net	451,343	444,419
Premises and equipment, net	15,582	14,205
Goodwill	5,915	5,742
Other intangible assets, net	807	1,165
Bank owned life insurance	13,485	11,452
Other assets	5,307	5,731
TOTAL ASSETS	$ 649,731	604,058
LIABILITIES:		
Deposits -		
Noninterest-bearing	$ 82,645	81,397
Interest-bearing	494,977	454,532
Total deposits	577,622	535,929
Short-term borrowings	2,206	1,459
Long-term debt	5,000	5,000
Accrued interest and other liabilities	6,787	5,142
TOTAL LIABILITIES	591,615	547,530

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 December 31, 2008 and 2007	11,068	11,068
Surplus	14,792	14,761
Retained earnings	46,584	44,261
Treasury shares at cost, 758,282 shares at December 31, 2008 and 2007	(11,737)	(11,737)
Accumulated other comprehensive income (loss), net of taxes	(2,591)	(1,825)
TOTAL SHAREHOLDERS' EQUITY	58,116	56,528
TOTAL LIABILITES AND SHAREHOLDERS' EQUITY	$ 649,731	604,058

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

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31,
(Dollars in thousands, except per share data)

	2008	2007	2006
INTEREST INCOME:			
Interest and fees on loans	$ 29,024	27,066	25,284
Dividends on Federal Reserve Bank and Federal Home Loan Bank stock	160	163	189
Interest on investment securities-			
Taxable	2,642	2,229	2,650
Non-taxable	1,995	1,879	1,967
Other short-term investments	529	654	458
TOTAL INTEREST INCOME	34,350	31,991	30,548
INTEREST EXPENSE:			
Interest on deposits	13,145	13,445	12,113
Interest on short-term borrowings	13	181	90
Interest on long-term debt	263	212	30
TOTAL INTEREST EXPENSE	13,421	13,838	12,233
NET INTEREST INCOME	20,929	18,153	18,315
PROVISION FOR LOAN LOSSES	620	266	143
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,309	17,887	18,172
NON-INTEREST INCOME:			
Trust income	1,861	1,890	1,932
Service charges and fees	4,254	4,103	4,103
Net gain (loss) on sales of securities	-	-	(12)
Insurance agency income	1,620	1,627	1,682
Bank owned life insurance income	534	472	464
Gains from sales of mortgage loans	11	47	47
Other operating income	173	207	129

TOTAL NON-INTEREST INCOME	8,453	8,346	8,345
NON-INTEREST EXPENSE:			
Salaries and wages	8,888	8,040	7,860
Pension and other employee benefits	2,433	2,125	2,003
Equipment expenses	995	1,039	1,049
Occupancy expense, net	1,652	1,506	1,370
State franchise tax	639	630	622
Marketing	464	429	374
Intangible amortization	316	575	621
ATM expense	456	401	456
Computer maintenance and supplies	471	418	378
Telephone expense	442	424	324
Other non-interest expense	3,178	2,757	2,781
TOTAL NON-INTEREST EXPENSE	19,934	18,344	17,838
INCOME BEFORE INCOME TAXES	8,828	7,889	8,679
PROVISION FOR INCOME TAXES	2,225	1,935	2,165
NET INCOME	$ 6,603	5,954	6,514
Earnings per common share:			
Basic	$ 0.99	0.94	1.00
Diluted	0.99	0.94	1.00
Weighted average shares outstanding:			
Basic	6,687,232	6,368,046	6,484,837
Diluted	6,687,232	6,368,563	6,487,252

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

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

	2008	2007	2006
Net income	$ 6,603	5,954	6,514
Other comprehensive income (loss):			
Net unrealized gain (loss) on available-for-sale securities (net of taxes of $234, $237, and $118 for 2008, 2007, and 2006, respectively)	453	458	228
Change in pension plan unrecognized net loss (net of taxes of $584 for 2007)	-	(1,134)	-
Reclassification adjustments for:			
Net realized gain (loss) on sale of available-for-sale securities included in net income (net of taxes of $4 for 2006	-	-	8
Recognition of pension plan net loss (net of taxes of $627 and $4 for 2008 and 2007, respectively)	(1,219)	(8)	-

TOTAL COMPREHENSIVE INCOME	$	5,837	5,270	6,750

SUPPLEMENTAL INFORMATION:				
COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE				
INCOME, NET OF TAX, AS OF YEAR-END:				
Net unrealized gain (loss) on securities available for sale	$	446	(7)	(465)
Net unfunded liability for defined benefit pension plan		(3,037)	(1,818)	(676)
Balance at year-end	$	(2,591)	(1,825)	(1,141)

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

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31,
(Dollars in thousands, except per share amounts)

	Common Shares Outstanding	Common Shares Amount	Surplus	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2006	**6,554,41[illegible]**	**$10,560**	**10,562**	**39,612**	**(8,011)**	**(701)**	**52,022**
Net income				6,514			6,514
Net unrealized gain (loss) on available-for-sale securities, net of tax and reclassification adjustment						236	236
Adjustment to initially apply SFAS No. 158, *Employer s Accounting for Defined Benefit Pensions and Other Postretirement Plans,* (net of tax of $349)						(676)	(676)
Compensation expense relating to stock options			15				15
Treasury shares purchased	(174,780)				(3,231)		(3,231)

Cash dividends declared, $0.60 per share				(3,881)			(3,881)
Balance, December 31, 2006	**6,379,636**	**10,560**	**10,577**	**42,245**	**(11,242)**	**(1,141)**	**50,999**
Common shares issued in acquisition of Sycamore	341,746	508	4,160				4,668
National Bank							
Net income				5,954			5,954
Net unrealized gain (loss) on available-for-sale						458	458
securities, net of tax							
Change in pension plan unrecognized net loss,						(1,142)	(1,142)
net of tax and reclassification adjustment							
Compensation expense relating to stock options			24				24
Treasury shares purchased	(34,150)				(495)		(495)
Cash dividends declared, $0.62 per share				(3,938)			(3,938)
Balance, December 31, 2007	**6,687,232**	**11,068**	**14,761**	**44,261**	**(11,737)**	**(1,825)**	**56,528**
Net income				6,603			6,603
Net unrealized gain (loss) on available-for-sale						453	453
securities, net of tax							
Change in pension plan unrecognized net loss,						(1,219)	(1,219)

net of tax and reclassification adjustment							
Compensation expense relating to stock options			31				31
Cash dividends declared, $0.64 per share				(4,280)			(4,280)
Balance, December 31, 2008	**6,687,232**	**11,068**	**14,792**	**46,584**	**(11,737)**	**(2,591)**	**58,116**

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

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

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	6,603	5,954	6,514
Adjustments to reconcile net income to net cash			
flows from operating activities-			
Depreciation, amortization and accretion	2,096	2,186	2,251
Provision for loan losses	620	266	143
Deferred income tax provision (benefit)	(43)	(215)	(101)
Federal Home Loan Bank stock dividends	(82)	-	(151)
Increase in cash surrender value of bank owned life insurance	(534)	(472)	(464)
Realized (gain) loss on sales of securities available for sale	-	-	12
Realized (gain) loss on sale of premises and equipment	(3)	(8)	32
Origination of mortgage loans for sale	(971)	(2,796)	(2,757)
Realized gains from sales of mortgage loans	(12)	(47)	(47)
Proceeds from sales of mortgage loans	972	2,811	2,774
Compensation expense related to stock options	31	24	15
Increase (decrease) due to changes in assets and liabilities:			
Income receivable	(363)	383	176
Other assets	249	1,235	(448)
Other liabilities	(150)	(1,590)	331
TOTAL ADJUSTMENTS	1,810	1,777	1,766

NET CASH FLOWS FROM OPERATING ACTIVITIES	8,413	7,731	8,280
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale	-	-	8,204
Proceeds from maturities of securities available for sale	44,525	37,876	48,267
Purchases of securities available for sale	(92,874)	(13,098)	(33,909)
Proceeds from redemption of Federal Home Loan Bank stock	-	1,000	-
Purchase of Federal Reserve Bank stock	(215)	(75)	-
Net (increase) decrease in loans	(8,013)	(13,921)	(31,887)
Purchase of bank owned life insurance	(1,500)	-	-
Net cash paid for business acquisitions	-	(1,093)	(515)
Additions to other real estate acquired through foreclosure	(37)	(14)	-
Proceeds from sales of other real estate acquired through foreclosure	877	-	84
Proceeds from sales of repossessed assets	10	-	-
Purchases of premises and equipment	(2,519)	(2,261)	(643)
Proceeds from sales of premises and equipment	3	8	6
NET CASH FLOWS FROM INVESTING ACTIVITIES	(59,743)	8,422	(10,393)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	41,693	12,876	(2,860)
Net increase (decrease) in short-term borrowings	747	(13,911)	14,333
Proceeds from long-term debt	-	5,000	-
Principal payments on long-term debt	-	-	(2,067)
Cash dividends paid	(4,280)	(3,938)	(3,881)
Purchases of treasury shares	-	(495)	(3,231)
NET CASH FLOWS FROM FINANCING ACTIVITIES	38,160	(468)	2,294
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,170)	15,685	181

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,190	15,505	15,324
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 18,020	31,190	15,505

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

	2008	2007	2006
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest	$ 13,501	14,014	12,157
Income taxes	2,375	2,244	2,196
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITY:			
Transfer from loans to real estate acquired through foreclosure	39	87	752
Transfer from loans to repossessed assets	60	-	-

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

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LCNB Corp. (the "Company"), an Ohio corporation formed in December 1998, is a financial holding company whose principal activities are the ownership of LCNB National Bank (the "Bank") and Dakin Insurance Agency, Inc. ("Dakin"). The Bank was founded in 1877 and provides full banking services, including trust and brokerage services, to customers primarily in the Southwestern Ohio area of Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties. Dakin is an independent insurance agency founded in 1876 and offers a wide range of insurance products for businesses and individuals in the Bank's primary market area.

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.

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, and federal funds sold and interest-bearing demand deposits with original maturities of three months or less. Deposits with other banks routinely have balances greater than FDIC insured limits. Management considers risk of loss to be very low.

INVESTMENT SECURITIES

All of the Company's debt securities are classified as available for sale and are reported at fair value with unrealized holding gains and losses reported net of income taxes as Accumulated 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 available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. 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.

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 formulae.

LOANS AND ALLOWANCE FOR LOAN LOSSES

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 there is an indication that the borrower s cash flow may not be sufficient to meet 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.

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.

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 collectibility 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 possible losses on loans that may become uncollectible, based on evaluations of the collectibility 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, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. 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 non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans are 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 according to the contractual terms of the loan agreement. Impaired loans are measured by the present value of expected future cash flows using the loan's effective interest rate. Impaired collateral-dependent loans may be measured based on collateral value. Smaller-balance homogenous 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. 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 currently.

REAL ESTATE ACQUIRED THROUGH FORECLOSURE

Real estate acquired through foreclosure is recorded at the lower of cost or fair value, less estimated selling costs. The allowance for loan losses is charged for any write down of the loan s carrying value to fair value at the date of acquisition. Any subsequent reductions in fair value and expenses incurred from holding foreclosed real estate are charged to other non-interest expense. Costs, excluding interest, relating to the improvement of foreclosed real estate are capitalized.

Real estate acquired through foreclosure includes in-substance foreclosed properties, which are properties that the Company has taken physical control of, regardless of whether formal foreclosure proceedings have occurred.

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 capitalized by allocating the total cost of the 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. Such assets are periodically evaluated as to the recoverability of their carrying value.

The Company s other intangible assets relate to core deposits acquired from Sycamore, an intangible related to the purchase of three branches from another bank, and customer relationships. 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 amortizing intangibles 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 sheet. Income on the policies, based on the increase in cash surrender value, is included in other non-interest income in the consolidated statements of income.

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENTS

LCNB adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, on January 1, 2008. SFAS No. 159 permits, but does not require, companies to measure many financial instruments and certain other items 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. LCNB has not selected any financial instruments for the fair value option as of December 31, 2008.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. It establishes a fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The three broad input levels defined by SFAS No. 157 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.

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.

ADVERTISING EXPENSE

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

EMPLOYEE BENEFITS

The Company has a noncontributory pension plan covering full-time employees. The retirement plan cost is made up of several components that reflect different aspects of the Company's financial arrangements as well as the cost of benefits earned by employees. These components are determined using the projected unit credit actuarial cost method and are based on certain actuarial assumptions. Effective December 31, 2006, the Company adopted the accounting method for pension plans required by Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R).*

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SFAS No. 158 requires an employer to recognize the overfunded or underfunded status, measured as the difference between the fair value of the plan assets and the benefit obligation, of a defined benefit postretirement plan as an asset or liability in its balance sheet. For a pension plan, the benefit obligation is the projected benefit obligation. Upon adoption, SFAS No. 158 requires an employer to recognize as components of accumulated other comprehensive income, net of tax, the unrecognized gains or losses, net prior service costs or credits, and the transition asset or obligation. Any subsequent changes in the funded status of a defined benefit postretirement plan are required to be recognized through comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost.

The Company s Board of Directors adopted a 401(k) plan on March 13, 2006 to provide a retirement savings vehicle for eligible employees of the Company and its subsidiaries. Participants may choose to make before-tax and/or Roth after-tax contributions to their 401(k) plans. All contributions are immediately 100% vested. The Company pays certain administrative costs of the 401(k) Plan, but does not match employee contributions.

The Company acquired Sycamore National Bank s defined contribution 401-K plan as a result of the merger. LCNB employees who previously were employed by Sycamore National Bank continue to be covered by the 401-K plan. The Company contributes $0.50 for each $1.00 an employee contributes into the 401-K plan, subject to a maximum Company contribution of 3.00% of the employee s base salary. All Company matching contributions vest immediately.

STOCK OPTIONS

The Company has an Ownership Incentive Plan (the "Plan") and follows the fair value method of accounting for stock options as described in Statement of Financial Accounting Standards No. 123 (revised 2004), S*hare-Based Payment* (SFAS No. 123R). SFAS No. 123R generally requires an entity to recognize expense for the grant-date fair value of share-based compensation. The fair value of the stock options is estimated at the date of grant using a Black-Scholes pricing model and related assumptions. The estimated cost of share-based compensation is recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period or five years.

INCOME TAXES

Deferred income taxes are determined using the 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 bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Company adopted the provisions of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement 109,* effective January 1, 2007. It requires management to perform an analysis of material tax positions taken in any income tax return for any tax jurisdiction and to determine the likelihood of the positions being sustained in a tax audit. FIN 48 also includes guidance for measuring the benefits to be recorded and requires that a liability be established for tax benefits not recognized in the income statement. Adoption of FIN 48 did not have a material effect on the Company s financial statements.

NOTE 1 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2008 and 2007 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 two year period ended December 31, 2008.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is adjusted for the dilutive effects of stock options. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock options with proceeds used to purchase treasury shares at the average market price for the period.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), was issued in December 2007 and replaces SFAS No. 141, Business Combinations. It applies to all transactions or other events in which an entity obtains control over one or more businesses. SFAS No. 141R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting, previously called the purchase method of accounting, be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values as of the acquisition date. This fair value approach replaces SFAS No. 141 s cost-allocation process, which required that the cost of an acquisition be allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Any noncontrolling interests in the acquiree are also required to be measured at fair value. SFAS No. 141R requires acquirers to expense direct acquisition-related costs as incurred. SFAS No. 141 permitted that such costs be added to the cost of the acquisition. This statement makes significant changes to other accounting practices for business combinations, including but not limited to accounting for step acquisitions, accounting for contingent liabilities arising from a business combination, accounting for research and development assets acquired in a business combination, and accounting for deferred taxes acquired in a business combination. SFAS No. 141R applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. LCNB will be required to apply SFAS No. 141R for any business combinations with an acquisition date on or after January 1, 2009.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, was issued in December 2007 and amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest, also called minority interest, in a subsidiary and for the deconsolidation of a subsidiary. This statement is to be applied prospectively as of the beginning of the fiscal year beginning on or after December 15, 2008. Early adoption is prohibited. LCNB owns 100% of its subsidiaries and is not affected by SFAS No. 160.

NOTE 1 -

<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133, was issued in March, 2008 and changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 is effective for financial statements, including both fiscal years and interim periods, issued after November 15, 2008. Early application is encouraged. LCNB does not own securities of the type covered by this statement and is not affected by it.

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, was issued in May, 2008. It identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Management does not expect that the adoption of SFAS No. 162 will have a material effect on LCNB s consolidated financial statements.

The Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 157-2 in February 2008. It delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The new effective date for such assets and liabilities is deferred to fiscal years beginning after November 15, 2008. The adoption of FSP No. 157-2 is not expected to have a material effect on LCNB s consolidated financial statements.

FASB Staff Position EITF 03-6-1 (FSP EITF 03-6-1) was issued in June 2008. It clarifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of earnings per share pursuant to the two-class method. FSP EITF -3-6-1 is effective for fiscal years beginning after December 15, 2008 and early adoption is not permitted. All previously reported earnings per share data will be retrospectively adjusted to conform with the provisions of FSP EITF 03-6-1. Management does not believe that the adoption of FSP EITF 03-6-1 will have a material effect on LCNB s consolidated financial statements.

NOTE 2 -

INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31 are summarized as follows (000 s):

	2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency notes	$ 44,264	372	-	44,636
U.S. Agency mortgage-				
backed securities	32,310	491	33	32,768
Corporate securities	1,010	4	1	1,013
Municipal securities:				
Non-taxable	53,821	430	627	53,624
Taxable	3,605	46	4	3,647
Other debt securities	521	-	9	512
Marketable equity securities	37	7	-	44
	$ 135,568	1,350	674	136,244

	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency notes	14,092	32	21	14,103
U.S. Agency mortgage-				
backed securities	22,697	53	284	22,466
Municipal securities:				
Non-taxable	45,500	290	98	45,692
Taxable	5,128	49	34	5,143
Marketable equity securities	15	4	-	19
	$ 87,432	428	437	87,423

Contractual maturities of investment securities at December 31, 2008 were as follows (000 s). Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due within one year	$ 13,266	13,320
Due from one to five years	49,322	49,856
Due from five to ten years	21,529	21,576
Due after ten years	18,583	18,168
	102,700	102,920
U.S. Agency mortgage-backed securities	32,310	32,768
Other debt securities	521	512
Marketable equity securities	37	44
	$ 135,568	136,244

NOTE 2 -

INVESTMENT SECURITIES (Continued)

Information concerning debt securities with gross unrealized losses at December 31, 2008, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (000 s):

		Less than Twelve Months		Twelve Months or More	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency mortgage-					
backed securities	$	4,917	3	3,680	30
Corporate securities		256	1	-	-
Municipal securities:					
Non-taxable		20,979	627	-	-
Taxable		-	-	321	4
Other debt securities		512	9	-	-
	$	26,664	640	4,001	34

Unrealized losses on securities are primarily due to increases in market interest rates. Unrealized losses on securities at December 31, 2008 have not been recognized into income currently because management has the intent and ability to hold the securities for a period of time sufficient to allow for any anticipated recovery in fair values. Therefore, no individual declines are deemed to be other than temporary.

No investment securities were sold during 2008 and 2007. For the year ended December 31, 2006, proceeds from sales of securities available for sale amounted to $8,204,000. No gross gains were realized on sales during 2006 and gross realized losses during 2006 amounted to $12,000.

Investment securities with a market value of $125,024,000 and $76,068,000 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

NOTE 3 -

LOANS

Major classifications of loans at December 31 are as follows (000's):

		2008	2007
Commercial and industrial	$	38,724	37,325
Commercial, secured by real estate		174,493	159,384
Residential real estate		194,039	193,920
Consumer		33,369	43,410
Agricultural		3,216	2,707
Other loans, including deposit overdrafts		9,203	9,114
		453,044	445,860
Deferred net origination costs		767	1,027
		453,811	446,887
Less allowance for loan losses		2,468	2,468
Loans-net	$	451,343	444,419

Changes in the allowance for loan losses were as follows (000's):

		2008	2007	2006
BALANCE - BEGINNING OF YEAR	$	2,468	2,050	2,150
Allowance related to Sycamore acquisition		-	453	-
Provision for loan losses		620	266	143
Charge-offs		(1,047)	(688)	(640)
Recoveries		427	387	397
BALANCE - END OF YEAR	$	2,468	2,468	2,050

Charge-offs for 2008 include consumer loan charge-offs totaling $617,000, compared to $231,000 in consumer loan charge-offs during 2007. The increase in consumer loan charge-offs reflects a greater number of delinquent loans, primarily due to deteriorating economic conditions.

Non-accrual, past-due, and restructured loans at December 31 were as follows (000 s):

	2008	2007
Non-accrual loans	$ 2,281	120
Past-due 90 days or more and still accruing	806	247
Restructured loans	332	2,222
Total	$ 3,419	2,589

NOTE 3 -

LOANS (Continued)

Non-accrual loans at December 31, 2008 consisted primarily of a commercial real estate loan that had been classified as restructured at December 31, 2007. The balance of this loan at December 31, 2008 and December 31, 2007 was $2,149,000 and $2,198,000, respectively. It was classified as restructured at December 31, 2007 because of LCNB s agreement during the second quarter 2007 to accept interest only payments monthly for a period of one year, pending the sale of the underlying real estate collateral. The loan was classified as non-accrual during the second quarter 2008 because the collateral property remained unsold after being on the market for approximately one year and because the borrower does not have the financial ability to make payments according to the original loan terms. During the fourth quarter of 2008 the borrower entered into a third party short-term lease agreement whereby substantially all of the lease payment proceeds are remitted to the Company. The borrower is continuing efforts to sell the property. The remaining balance of non-accrual loans at December 31, 2008 consisted of three real estate mortgage loans. Interest income that would have been recorded during 2008 if loans on non-accrual status at December 31, 2008 had been current and in accordance with their original terms was approximately $84,000.

Non-accrual loans at December 31, 2007 consisted of two real estate mortgage loans. Interest income that would have been recorded during 2007 if loans on non-accrual status at December 31, 2007 had been current and in accordance with their original terms was approximately $5,000.

Loans classified as past-due 90 days or more and still accruing interest at December 31, 2008 consisted of fourteen consumer loans totaling $58,000, two commercial real estate loans to the same borrower totaling $673,000, and two residential mortgage loans totaling $75,000. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2007 consisted of residential mortgage and consumer loans.

Restructured loans at December 31, 2008 consisted of a commercial real estate loan in the amount of $310,000 and a matured home equity line of credit loan currently being paid under a forbearance agreement. Restructured loans at December 31, 2007 consisted of the commercial real estate loan described above in the non-accrual loans discussion and the matured home equity line of credit currently being paid under a forbearance agreement.

The following is a summary of information pertaining to loans considered to be impaired in accordance with SFAS No. 114 at December 31 (000 s):

		2008	2007
Impaired loans without a valuation allowance	$	2,451	51
Impaired loans with a valuation allowance		3,121	4,415
Total impaired loans		5,572	4,466
Valuation allowance related to impaired loans	$	630	868

A loan with a balance of $791,000 included in impaired loans without a valuation allowance is partially guaranteed by the Small Business Administration under its Basic 7(a) Loan Program. If the borrower should default, the Small Business Administration will reimburse LCNB for up to 75% of any resulting losses.

NOTE 3 -

LOANS (Continued)

The average balance of impaired loans during 2008, 2007 and 2006 was $5,697,000, $4,823,000, and $3,486,000, respectively. During 2008 the Company recognized approximately $289,000 of interest income on impaired loans, of which $57,000 was recognized on a cash basis. During 2007 the Company recognized approximately $401,000 of interest income on impaired loans, of which $58,000 was recognized on a cash basis. During 2006 the Company recognized approximately $193,000 of interest income on impaired loans, of which $50,000 was recognized on a cash basis. LCNB continued to accrue interest on certain loans classified as impaired during 2008, 2007, and 2006 because they were considered well secured and in the process of collection.

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.

Mortgage loans sold to and serviced for the Federal Home Loan Mortgage Corporation and other investors are not included in the accompanying balance sheets. The unpaid principal balances of those loans at December 31, 2008, 2007 and 2006 were $37,783,000, $43,005,000, and $42,431,000 respectively.

Approximately $11,000, $32,000, and $30,000 in mortgage servicing rights were capitalized and $53,000, $61,000, and $73,000 were amortized to loan servicing income, which is included with service charges and fees in the consolidated statements of income, during the years ended December 31, 2008, 2007, and 2006, respectively.

Real estate acquired through foreclosure was $39,000 and $853,000 at December 31, 2008 and 2007, respectively, and is included in other assets in the consolidated balance sheets. Real estate acquired at December 31, 2008 consisted of one single-family residential home. Real estate acquired at December 31, 2007 consisted of two single-family residential homes. Other repossessed assets totaled $50,000 at December 31, 2008 and is also included in other assets in the consolidated balance sheets. No repossessed assets were recorded at December 31, 2007.

NOTE 4 -

PREMISES AND EQUIPMENT

Premises and equipment at December 31 are summarized as follows (000's):

	2008	2007
Land	$ 4,254	2,539
Buildings	13,569	12,960
Equipment	10,864	10,195
Construction in progress	50	711
Total	28,737	26,405
Less Accumulated depreciation	13,155	12,200
Premises and equipment net	$ 15,582	14,205

Depreciation charged to income was $1,142,000 in 2008, $1,103,000 in 2007, and $1,086,000 in 2006.

NOTE 5 -

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. At December 31, 2008, required minimum annual rentals due in the future on non-cancelable leases having terms in excess of one year aggregated $6,007,000. Minimum annual rentals for each of the years 2009 through 2013 are as follows (000's):

2009	$ 389
2010	377
2011	293
2012	234
2013	157
Thereafter	4,557
	$ 6,007

Rental expense for all leased branches and equipment amounted to $452,000 in 2008, $465,000 in 2007, and $433,000 in 2006.

NOTE 6 -

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill relating to the acquisition of Sycamore was $5,915,000 and $5,742,000 at December 31, 2008 and 2007, respectively.

Other intangible assets at December 31, 2008 and 2007 were as follows (000 s):

		Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
December 31, 2008:				
Core deposit intangible	$	343	57	286
Intangible related to branch purchases		6,106	6,106	-
Customer list intangible		515	133	382
Mortgage servicing rights		534	396	138
Other intangibles		109	108	1
Total	$	7,607	6,800	807

NOTE 6 -

GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

		Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
December 31, 2007:				
Core deposit intangible	$	343	-	343
Intangible related to				
branch purchases		6,106	5,906	200
Customer list intangible		515	81	434
Mortgage servicing rights		523	343	180
Other intangibles		109	101	8
Total	$	7,596	6,431	1,165

During December, 2007 the Company recorded core deposit intangibles totaling $343,000 in connection with the acquisition of Sycamore. The core deposit intangible is being amortized on a straight-line basis over the six-year estimated useful life of the deposit base.

The intangible related to branch purchases relates to the purchase of three branch offices from another bank in 1997. Management determined that this purchase did not meet the definition of a business combination and continued to amortize the intangible over ten years. The customer list intangible relates to the purchase by Dakin of the existing book of business of another insurance agency in 2006. This purchase consisted solely of a customer list intangible asset, which is being amortized over ten years.

Other intangible assets are amortized on a straight-line basis over their estimated lives, which range from 5 to 10 years.

The estimated aggregate future amortization expense for each of the next five years for intangible assets remaining as of December 31, 2008 is as follows (000 s):

2009	$	149
2010		140
2011		134
2012		130
2013		124

NOTE 7 -

CERTIFICATES OF DEPOSIT

Contractual maturities of time deposits at December 31, 2008 were as follows (000 s):

	Certificates Equal To or Over $100,000	All Other Certificates	Total
2009	$ 39,385	91,091	130,476
2010	20,907	35,305	56,212
2011	4,023	13,748	17,771
2012	1,210	3,959	5,169
2013	2,758	6,500	9,258
Thereafter	8,192	10,559	18,751
	$ 76,475	161,162	237,637

NOTE 8 -

BORROWINGS

At December 31, 2008 and 2007, long-term debt consisted of a $5.0 million Federal Home Loan Bank of Cincinnati note. The Federal Home Loan Bank note had a ten-year maturity and an interest rate of 5.25%. It matures in March 2017. Interest on the note was fixed and payable monthly. The note was secured by $6.3 million of 1-4 family residential mortgage loans. Additionally, the Company was required to hold minimum levels of FHLB stock, based on the outstanding borrowings. Total remaining borrowing capacity at December 31, 2008 was approximately $54 million.

An additional $15.0 million was borrowed from the Federal Home Loan Bank of Cincinnati during February 2009 in the form of three separate $5.0 million advances. Two of the $5.0 million advances were borrowed under the FHLB s Constant Monthly Payment Advance (CMPA) program. The CMPA program provides for monthly principal and interest payments and the borrowing will be fully amortized by the maturity date. The first CMPA has a five-year maturity and a fixed interest rate of 2.45% and the second CMPA has a ten-year maturity and a fixed interest rate of 2.82%. The third advance has a two-year maturity and a fixed interest rate of 2.1% and all principal is due at maturity.

At December 31, 2008, short-term borrowings of $2,206,000 consisted of U.S. Treasury demand note borrowings. Interest on these borrowings is variable and the U.S. Treasury was not charging interest at December 31, 2008. At December 31, 2007, short-term borrowings of $1,459,000 consisted of U.S. Treasury demand note borrowings bearing a variable interest rate of 3.59%.

At December 31, 2008, the Company had short-term borrowing arrangements with three different financial institutions. The first arrangement provides that the Company can borrow up to $7 million in federal funds at the interest rate in effect at the time of the borrowing. The second arrangement provides that the Company can borrow up to $10 million in federal funds at the interest rate in effect at the time of the borrowing. The third arrangement is a short-term line of credit for a maximum amount of $20 million at an interest rate equal to the lending institution s federal funds rate plus a spread of 50 basis points. Nothing was outstanding under any of these programs at December 31, 2008.

NOTE 8 -

<u>BORROWINGS</u> (continued)

During February, 2008, the Company was approved for a Cash Management Advance program with the Federal Home Loan Bank of Cincinnati. Under this program, the Company can borrow up to $30.1 million in short-term advances. 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 on the Cash Management Advance program is the published rate in effect at the time of the advance. Nothing was outstanding under this program at December 31, 2008.

NOTE 9 -

<u>INCOME TAXES</u>

The provision for federal income taxes consists of (000's):

		2008	2007	2006
Income taxes currently payable	$	2,172	2,150	2,266
Deferred income tax provision (benefit)		53	(215)	(101)
Provision for income taxes	$	2,225	1,935	2,165

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

	2008	2007	2006
Statutory tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from -			
Tax exempt interest	(6.9)	(7.1)	(6.9)
Tax exempt income on bank owned			

life insurance	(2.1)	(2.0)	(1.8)
Other net	0.2	-	(0.4)
Effective tax rate	25.2%	24.9%	24.9%

NOTE 9 -

INCOME TAXES (continued)

Deferred tax assets and liabilities at December 31 consist of the following (000's):

		2008	2007
Deferred tax assets:			
Allowance for loan losses	$	839	718
Amortization of intangibles		379	526
Unrealized losses on securities available for sale		-	3
Pension and deferred compensation		1,748	941
		2,966	2,188
Deferred tax liabilities:			
Depreciation of premises and equipment		(708)	(445)
Unrealized gains on securities available for sale		(230)	-
Deferred loan fees		(112)	(12)
FHLB stock dividends		(267)	(157)
		(1,317)	(614)
Net deferred tax asset	$	1,649	1,574

The Company is no longer subject to examination by federal tax authorities for years before 2005.

NOTE 10 -

COMMITMENTS AND CONTINGENT LIABILITIES

The Company 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.

NOTE 10 -

COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Company 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 (000 s):

		2008	2007
Commitments to extend credit:			
Fixed rate	$	2,655	602
Adjustable rate		3,056	40
Unused lines of credit:			
Fixed rate		2,807	5,078
Adjustable rate		70,647	74,298
Unused overdraft protection amounts on demand and NOW accounts		10,408	9,853
Standby letters of credit		8,138	8,404
	$	97,711	98,275

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 in 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. At December 31, 2008 and 2007, outstanding guarantees of approximately $1.8 million and $2.1 million, respectively, were issued to developers and contractors. These guarantees generally are fully secured and have varying maturities. In addition, LCNB has a participation in a letter of credit securing payment of principal and interest on a bond issue. The participation amount at December 31, 2008 and 2007 was approximately $6.3 million. This agreement has a final maturity date of January, 2012.

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 deposit accounts, accounts receivable, inventory, property, plant and equipment, residential realty, and income-producing commercial properties.

A $25 million letter of credit was issued by the FHLB of Cincinnati during July, 2006 in favor of a local government entity as security for certain public funds on deposit with the Bank. The letter of credit is secured by a blanket pledge of 1-4 family residential mortgage loans. It matured on August 1, 2008, and the expiration date was extended at that time to July 31, 2009. The Company currently pays a monthly fee for the letter of credit equal to 10 to 15 basis points of the average daily balance of public fund deposits secured by the letter of credit.

NOTE 10 -

COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Capital expenditure commitments for building projects and information and technology system improvements totaled $90,000 at December 31, 2008. LCNB plans to build a new bank office in South Lebanon, Ohio during 2009 and was in the process of preparing bid requests at December 31, 2008. Construction contracts signed during January and February 2009 for this project totaled approximately $830,000.

The Company and its subsidiaries 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 the consolidated financial position or results of operations.

NOTE 11 -

REGULATORY MATTERS

The Federal Reserve Act requires depository institutions to maintain cash reserves with the Federal Reserve Bank. In 2008 and 2007, the Bank was required to maintain average reserve balances of $3,020,000 and $1,496,000, respectively. The required reserve balances at December 31, 2008 and 2007 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 2009, the restrictions generally limit dividends to the aggregate of net income for the year 2009 plus the net earnings retained for 2008 and 2007. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. At December 31, 2008, approximately $2,086,000 of the Bank s earnings retained were available for dividends in 2009 under this guideline. Dividends in excess of these limitations would require the prior approval of the Comptroller of the Currency.

The Company (consolidated) and 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 minimum regulatory capital ratios are 8% for total risk-based, 4% for Tier 1 risk-based, and

4% for leverage. The Company s and Bank s capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

For various regulatory purposes, institutions are classified into categories based upon capital adequacy. The highest "well-capitalized" category requires capital ratios of at least 10% for total risk-based, 6% for Tier 1 risk-based, and 5% for leverage. As of the most recent notification from their regulators, the Company and Bank were 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.

NOTE 11 -

REGULATORY MATTERS (continued)

A summary of the regulatory capital of the Consolidated Company and Bank at December 31 follows ($000's):

	2008		2007	
	Consolidated Company	Bank	Consolidated Company	Bank
Regulatory Capital:				
Shareholders' equity	$ 58,116	55,783	56,528	54,436
Goodwill and other intangible assets	(6,600)	(6,214)	(6,746)	(6,303)
Accumulated other comprehensive income	2,591	2,586	1,825	1,824
Tier 1 risk-based capital	54,107	52,155	51,607	49,957
Eligible allowance for loan Losses	2,468	2,468	2,468	2,468
Total risk-based capital	$ 56,575	54,623	54,075	52,425
Capital Ratios:				
Total risk-based	12.61%	12.19%	12.51%	12.15%
Tier 1 risk-based	12.06%	11.64%	11.94%	11.58%
Leverage	8.19%	7.91%	9.22%	8.94%

NOTE 12 -

EMPLOYEE BENEFITS

The Company's noncontributory defined benefit retirement plan covers substantially all regular full-time employees. The benefits are based on years of service and the employee's highest average compensation during five consecutive years. Pension costs are funded based on the Plan's actuarial cost method. At December 31, 2008, all plan assets were invested in money market funds. All plan assets were invested in time and other deposits with the Bank at December 31, 2007. At December 31, 2006, $532,000 of plan assets were invested in U.S. Treasury notes and $7,907,000 were invested in time and other deposits with the Bank.

The Company uses a December 31 measurement date for its retirement plan.

The components of net periodic pension cost are summarized as follows (000's):

	2008	2007	2006
Service cost	$ 746	806	682
Interest cost	559	426	385
Expected return on plan assets	(528)	(472)	(423)
Recognized net actuarial loss (gain)	122	12	8
Net periodic pension cost	$ 899	772	652

NOTE 12 -

EMPLOYEE BENEFITS (Continued)

A reconciliation of changes in the benefit obligation and funded status of the Plan at December 31 follows (000's):

		2008	2007
Change in projected benefit obligations			
Projected benefit obligation at beginning of year	$	10,174	8,128
Service cost		746	806
Interest cost		559	426
Actuarial (gain) or loss		1,880	1,595
Benefits paid		(11)	(781)
Projected benefit obligation at end of year		13,348	10,174
Change in plan assets			
Fair value of plan assets at beginning of year		9,051	8,439
Actual return on plan assets		425	325
Employer contribution		655	1,068
Benefits paid		(11)	(781)
Fair value of plan assets at end of year		10,120	9,051
Funded status	$	(3,228)	(1,123)

At December 31, 2008, accumulated other comprehensive income included $3,037,000, net of tax, of unrecognized net actuarial loss.

Significant actuarial assumptions used for 2008 and 2007 included a discount rate of 5.50%, an expected long-term rate of return on Plan assets of 5.50%, and a future compensation rate increase of 4.00%. The expected long-term rate of return on Plan assets was estimated using historic returns on investments, adjusted for expected long-term interest rates.

The accumulated benefit obligation at December 31, 2008 and 2007 was $9,298,000 and $9,059,000, respectively.

The Company expects to contribute approximately $690,000 to its retirement plan in 2009.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid (000's):

2009	$	64
2010		117
2011		135
2012		177
2013		370
2014 through 2018		4,699
Total	$	5,562

NOTE 12 -

EMPLOYEE BENEFITS (Continued)

The estimate of future benefits does not consider the anticipated impact resulting from certain plan changes made in 2009, as described below.

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, 2008 and 2007 was $1,499,000 and $1,302,000, respectively.

The Bank also has a supplemental income plan which provides a covered employee an amount based on a percentage of average compensation, payable annually for ten years upon retirement. The projected benefit obligation included in other liabilities for this supplemental income plan at December 31, 2008 and 2007 is $317,000 and $295,000, respectively. The discount rate used to determine the present value of the obligation was 5.25% in 2008 and 5.50% in 2007. The service cost associated with this plan was $21,000 for 2008, $21,000 for 2007, and $21,000 for 2006. Interest costs were approximately $17,000, $15,000, and $13,000 for 2008, 2007, and 2006, respectively. Both of these plans are nonqualified and unfunded. Participation in each plan is limited to a select group of management.

The Company s Board of Directors adopted a 401(k) plan on March 13, 2006 to provide a retirement savings vehicle for eligible employees of the Company and its subsidiaries. Participants may choose to make before-tax and/or Roth after-tax contributions to their 401(k) plans. All contributions are immediately 100% vested. The Company pays certain administrative costs of the 401(k) Plan, but, prior to January 1, 2009, did not match employee contributions.

Effective January 1, 2009, LCNB redesigned its noncontributory defined benefit retirement plan and merged its single-employer plan 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. Accordingly, the assets and obligations of the single-employer plan were transferred to the multiple-employer plan in January 2009. At that time, in accordance with SFAS No. 87, *Employers Accounting for Pensions,* the pension plan related balance sheet accounts were adjusted resulting in an approximate $3.0 million increase in other comprehensive income and a $722,000 charge to non-interest expense. Employees hired on or after January 1, 2009 are not eligible to participate in the plan.

Effective February 1, 2009, LCNB 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 will receive a 50% employer match on their contributions into their 401-K plans, up to a maximum LCNB contribution of 3% of each individual employee s annual compensation. Employees who received a benefit reduction under the retirement plan amendments will receive an automatic contribution of 5% or 7% of annual compensation, depending on the sum of an employee s age and vesting service, into their 401-K plans, regardless of the contributions made by the employees. These employees will not receive any employer matches to their 401-K contributions.

NOTE 12 -

EMPLOYEE BENEFITS (Continued)

Effective February 1, 2009, LCNB established a nonqualified defined benefit retirement plan 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 terms of the plan are currently being formalized and LCNB expects the final document to be completed during the second quarter 2009.

NOTE 13 -

STOCK OPTIONS AND AWARDS

The Company established an Ownership Incentive Plan (the "Plan") during 2002 that allows for stock-based awards to eligible employees, as determined by the Board of Directors. The awards may be in the form of stock options, share awards, and/or appreciation rights. The Plan provides for the issuance of up to 200,000 shares. As of December 31, 2008, only stock options have been granted under the Plan. Options granted to date vest ratably over a five year period and expire ten years after the date of grant. No awards were granted during 2005 or 2002. Stock options outstanding at December 31, 2008 were as follows:

	Outstanding		Exercisable			
Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number Exercised	Expiration Date
$ 13.09	11,056	$ 13.09	11,056	$ 13.09	-	Feb, 2013
17.66	8,108	17.66	6,486	17.66	-	Jan, 2014
18.95	7,934	18.95	3,174	18.95	-	Jan, 2016
17.88	8,116	17.88	1,623	17.88	-	Feb, 2017
12.55	13,918	12.55	-	-	-	Feb, 2018
	49,132	15.43	22,339	15.60	-	

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

	Year ended December 31,					
	2008		2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	35,214	$16.57	27,098	$16.17	19,164	$15.02
Granted	13,918	12.55	8,116	17.88	7,934	18.95
Exercised	-	-	-	-	-	-
Outstanding, end of year	49,132	15.43	35,214	16.57	27,098	16.17
Exercisable, end of year	22,339	15.60	15,297	15.15	9,877	14.59

NOTE 13 -

STOCK OPTIONS AND AWARDS (continued)

There was no aggregate intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) for options outstanding at December 31, 2008 because no options were in the money (market price greater than exercise price) at that date. The intrinsic value changes based on changes in the market value of LCNB s stock.

The estimated weighted-average fair value of the options granted in 2008, 2007, and 2006 were $2.27, $3.76, and $4.51 per option, respectively. The fair value was estimated at the date of grant using the Black-Scholes option-pricing model and the following assumptions:

	2008	2007	2006
Risk-free interest rate	3.56%	4.83%	4.64%
Average dividend yield	3.77%	3.68%	3.04%
Volatility factor of the expected market price of the Company's common stock	22.72%	22.41%	22.70%
Average life	8.2 years	8.3 years	8.5 years

Total expense related to options included in salaries and wages in the consolidated statements of income for the years ended December 31, 2008, 2007, and 2006 was $31,000, $24,000, and $15,000, respectively. Total compensation cost related to option awards to be recognized ratably through the first quarter of 2013 is approximately $50,000.

NOTE 14 -

EARNINGS PER SHARE

Earnings per share for the years ended December 31 were calculated as follows ($000 s except per share data):

		2008	2007	2006
Net income	$	6,603	5,954	6,514
Weighted average number of shares outstanding used in the calculation of basic earnings per common share		6,687,232	6,368,046	6,484,837
Add - Dilutive effect of stock options		-	517	2,415
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share		6,687,232	6,368,563	6,487,252
Basic earnings per common share	$	0.99	0.94	1.00
Diluted earnings per common share		0.99	0.94	1.00

NOTE 15 -

RELATED PARTY TRANSACTIONS

The Company 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. At December 31, 2008 and 2007, executive officers, directors and related interests of such persons were indebted to the Bank directly or as guarantors in the aggregate amount of $1,634,000 and $1,635,000, respectively. Such activity for these officers and directors was as follows (000's):

	2008	2007
Beginning balances	$ 1,635	1,953
Additions	1,132	708
Reductions	(1,133)	(1,026)
Ending Balance	$ 1,634	1,635

Deposits from executive officers, directors and related interests of such persons held by the Company at December 31, 2008 and 2007 amounted to $5,080,000 and $7,861,000, respectively.

NOTE 16 -

ACQUISITIONS

At the close of business on December 20, 2007, the Bank acquired 100% of the outstanding common stock of Sycamore National Bank, a commercial bank with two offices located in Cincinnati, Ohio, in a stock and cash transaction totaling approximately $9.6 million. At that time, Sycamore was merged with and into the Bank and Sycamore s two offices became offices of the Bank. Sycamore s results of operations are included in the consolidated financial results of LCNB from the acquisition date. The acquisition continues LCNB s strategy to increase its presence in the Southwestern Ohio area.

Under the terms of the affiliation agreement, each share of Sycamore common stock was exchanged for, at the election of each shareholder, $33.75 in cash, 2.444 shares of LCNB common stock, or a combination of cash and shares. A Sycamore shareholder s election to receive cash or stock was subject to allocation procedures that ensured that, in the aggregate, 50% of the shares of Sycamore common stock were exchanged for cash and 50% were exchanged for stock. The aggregate purchase price of $9,390,000 included $4,722,000 of cash and 341,746 shares of common stock valued at $4,668,000. The value of the common stock issued was determined by averaging the closing market price of LCNB s common stock on the date that the terms of the acquisition were agreed to and announced, which date was August 14, 2007 and on which date trades occurred, and the two days before and after the announcement date on which trades occurred. The Bank incurred an additional $253,000 in transaction costs related to this acquisition.

The transaction with Sycamore, which was accounted for under the purchase accounting method, included the recognition of approximately $343,000 in core deposit intangibles and an adjusted value of $5,915,000 in goodwill, which is the excess of the purchase price over the fair value of identifiable net assets. Based on an evaluation of its estimated useful life, the core deposit intangible is being amortized over six years using the straight-line method.

NOTE 16 -

ACQUISITIONS (continued)

Originally recorded goodwill of $5,742,000 was revised as additional information became available and integration plans were finalized during 2008. Purchase accounting adjustments were made during 2008 primarily to adjust accrued and deferred tax balances and to finalize various liabilities established at the time of the acquisition for certain merger related costs related to severance and personnel related charges, professional fees, contract termination costs, systems conversion, and related charges. The total liability established at the time of acquisition was approximately $435,000. The amount utilized during 2007 was approximately $27,000 and an additional $362,000 was utilized during 2008. The remainder of the liability was adjusted to goodwill during 2008.

The adjusted fair values of Sycamore s assets and liabilities acquired at the time of the acquisition were as follows ($000's):

			Fair Value
Assets:			
	Cash and due from banks	$	1,235
	Federal funds sold and interest-bearing demand deposits		2,644
	Securities available for sale		504
	Federal Reserve Bank and Federal Home Loan Bank stock		325
	Loans, net		42,837
	Premises and equipment, net		957
	Core deposit intangibles		343
	Goodwill		5,915
	Other assets		331
	Total assets		55,091
Liabilities:			
	Deposits		44,438
	Other liabilities		1,010
	Total liabilities		45,448
Net assets acquired		$	9,643

NOTE 16 -

ACQUISITIONS (continued)

The following information presents the unaudited pro forma results of operations for the years ended December 31, 2007 and 2006 as though the acquisition had occurred on January 1, 2006. The pro forma data was derived by combining the historical consolidated financial information of LCNB and Sycamore using the purchase method of accounting for business combinations. The pro forma results do not necessarily indicate results that would have been obtained had the acquisition actually occurred on January 1, 2006 or results that may be achieved in the future ($000, except per share data).

	Year ended December 31, 2007 (unaudited)					
		LCNB Corp.	Sycamore Ntl Bank	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$	18,094	2,337	(273)	(1)	20,158
Provision for loan losses		266	180			446
Net interest income after provision for loan losses		17,828	2,157	(273)		19,712
Non-interest income		8,341	177			8,518
Non-interest expense		18,340	2,531	(492)	(2)	20,379
Income before income taxes		7,829	(197)	219		7,851
Provision for income taxes		1,935	33	74		2,042
Net income	$	5,894	(230)	145		5,809
Basic earnings per share	$	0.94				0.87
Diluted earnings per share	$	0.94				0.87

(1) Represents the reduction of interest income related to the net cash paid for the Sycamore acquisition as if it had been completed January 1, 2006. The reduction was calculated using the average rate for federal funds sold and interest-bearing demand deposits for 2007.

(2) Represents amortization of core deposit intangible and adjustment for merger-related expenses.

	Year ended December 31, 2006 (unaudited)			
	LCNB Corp.	Sycamore	Pro Forma	Pro Forma

			Ntl. Bank	Adjustments		Combined
Net interest income	$	18,315	2,260	(270)	(1)	20,305
Provision for loan losses		143	180			323
Net interest income after						
provision for loan losses		18,172	2,080	(270)		19,982
Non-interest income		8,345	432			8,777
Non-interest expense		17,838	2,002	57	(2)	19,897
Income before income taxes		8,679	510	(327)		8,862
Provision for income taxes		2,165	173	(111)		2,227
Net income	$	6,514	337	(216)		6,635
Basic earnings per share	$	1.00				0.97
Diluted earnings per share	$	1.00				0.97

(1) Represents the reduction of interest income related to the net cash paid for the Sycamore acquisition as if it had been completed January 1, 2006. The reduction was calculated using the average rate for federal funds sold and interest-bearing demand deposits for 2006.

(2) Represents amortization of core deposit intangible.

NOTE 16 -

ACQUISITIONS (continued)

On May 31, 2006, Dakin purchased the existing book of business of Altemeier Oliver & Company Agency, Inc. (AOC), an independent insurance agency located in Blue Ash, Ohio. The acquisition of AOC was accounted for using the purchase accounting method and the results of operations of AOC have been included in the consolidated financial statements of LCNB since the acquisition date. The acquired assets consisted solely of a customer list intangible asset.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

LCNB utilizes a pricing service for determining the fair values of most of its investment securities. Fair value for Corporate Securities is determined based on market quotations (level 1). Fair value for most of the other investment securities is 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. In addition, approximately $501,000 is invested in a mutual fund. LCNB uses the fair value estimate provided by the mutual fund company, which uses market quotations when such quotes are available and good faith judgment when market quotations are not available. Because LCNB does not know the portion of the mutual fund valued using market quotations and the portion valued using good faith judgment, the entire investment in the mutual fund has been classified as a level 3 investment. Additionally, Dakin owns stock in an insurance company and market quotations (level 1) are used to determine fair value for this investment.

During the fourth quarter 2008 certain tax-exempt municipal securities were reclassified from level 2 to level 3, effective as of the beginning of 2008, because these securities were negotiated directly with the municipalities involved and no active markets exist for them.

The following table summarizes the valuation of LCNB s available-for-sale securities by the input levels defined by SFAS No. 157 as of December 31, 2008 (000 s):

Fair Value Measurements at

		Reporting Date Using		
	Fair Value Measurements 12/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 136,244	1,057	132,731	2,456

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

During the fourth quarter 2008 certain tax-exempt municipal securities were reclassified from level 2 to level 3, effective as of the beginning of 2008, because these securities were negotiated directly with the municipalities involved and no active market for them exists. The following table is a reconciliation of the beginning and ending balances of recurring fair value measurements that use significant unobservable inputs (level 3) for 2008 (000 s):

		2008
Beginning balance	$	1,592
Purchases		852
Dividends reinvested		21
Net change in unrealized gains (losses) included in other comprehensive income		(9)
Ending balance	$	2,456

Assets that may be recorded at fair value on a nonrecurring basis include impaired loans, real estate acquired through foreclosure, 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. When the fair value of the collateral is based on an observable market price or current appraised value, the valuation is considered a level 2 fair value. When an appraised value is not available and there is not an observable market price, the resulting valuation is considered a level 3 fair value.

Real estate acquired through foreclosure is adjusted to fair value 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. A valuation based on current appraised value is considered a level 2 fair value.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table presents LCNB s impaired loans, real estate acquired through foreclosure, and repossessed assets measured at fair value on a nonrecurring basis as of December 31, 2008 by the level in the fair value hierarchy within which those measurements fall (000 s):

		Fair Value Measurements at Reporting Date Using		
	Fair Value Measurements 12/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,491	-	-	2,491
Real estate acquired through foreclosure	39	-	39	-
Repossessed assets	50	-	50	-
Totals	2,580	-	89	2,491

Carrying amounts and estimated fair values of financial instruments as of December 31, were as follows (000 s):

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 18,020	18,020	31,190	31,190
Securities available for sale	136,244	136,244	87,423	87,423
Federal Reserve Bank and	3,028	3,028	2,731	2,731

Federal Home Loan Bank stock				
Loans, net	451,343	465,201	444,419	450,476
FINANCIAL LIABILITIES:				
Deposits	577,622	581,536	535,929	538,327
Short-term borrowings	2,206	2,206	1,459	1,459
Long-term debt	5,000	5,493	5,000	5,672

The fair value of off-balance-sheet financial instruments at December 31, 2008 and 2007 was not material.

NOTE 17 - 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.

Investment securities

Fair values for securities, excluding Federal Home Loan Bank and Federal Reserve Bank stock, are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and/or discounted cash flow analyses. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the respective redemptive provisions.

Loans

Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, incorporating assumptions of current and projected prepayment speeds.

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.

Borrowings

The carrying amounts of federal funds purchased 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.

NOTE 18 -

SUBSEQUENT EVENT

On January 9, 2009, LCNB received $13.4 million of new equity capital from the U.S. Department of the Treasury s Capital Purchase Program (CPP) established under the Emergency Economic Stabilization Act of 2008. The investment by the U.S. Treasury Department is comprised of $13.4 million in preferred shares, with a warrant to purchase 217,063 common shares of LCNB at an exercise price of $9.26, with a term of ten years. The preferred shares will pay a dividend of 5% per year for the first five years and will pay 9% thereafter. LCNB has the option to buy back the preferred shares anytime after three years, at par, without penalty. Participation in the CPP is voluntary and requires participating institutions to comply with a number of restrictions and provisions, including, but not limited to, restrictions on compensation of certain executive officers and limitations on stock repurchase activities and dividend payments. Generally, LCNB will be unable to increase dividends to common shareholders or repurchase common shares without U.S. Treasury permission for a period of three years from the date of participation unless the preferred securities are no longer held by the U.S. Treasury. Additionally, no dividends may be paid on common stock unless and until all accrued and unpaid dividends for all past dividend periods owed to the Treasury on the preferred shares are fully paid. For more information regarding the terms of agreement between LCNB and the Treasury under the CPP and the securities issued by LCNB to the Treasury thereunder, please see the Current Report on Form 8-K filed by LCNB with the Securities and Exchange Commission on January 9, 2009 which is hereby, along with exhibits thereto, incorporated by reference.

NOTE 19 -

PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for the LCNB Corp., parent company only, follows (000 s):

Condensed Balance Sheets:

December 31,

		2008	2007
Assets:			
Cash on deposit with subsidiary	$	1,284	276
Corporate and municipal debt securities		-	747
Investment in subsidiaries		56,820	55,496
Other assets		12	15

Total assets	$	58,116	56,534
Liabilities	$	-	6
Shareholders' equity		58,116	56,528
Total liabilities and shareholders' equity	$	58,116	56,534

NOTE 19 -

PARENT COMPANY FINANCIAL INFORMATION (continued)

Condensed Statements of Income

Year ended December 31,		2008	2007	2006
Income:				
Dividends from subsidiary	$	4,400	8,500	4,500
Interest		15	21	68
Total income		4,415	8,521	4,568
Total expenses		36	26	19
Income before income tax benefit and equity in undistributed income of subsidiaries		4,379	8,495	4,549
Income tax benefit		12	9	7
Equity in undistributed income of subsidiaries		2,212	(2,550)	1,958
Net income	$	6,603	5,954	6,514

Condensed Statements of Cash Flows

Year ended December 31,		2008	2007	2006
Cash flows from operating activities:				
Net income	$	6,603	5,954	6,514
Adjustments for non-cash items -				
(Increase) decrease in undistributed income of subsidiaries		(2,212)	2,550	(1,958)
Other, net		2	27	52
Net cash flows from operating activities		4,393	8,531	4,608
Cash flows from investing activities:				

Purchases of securities available for sale	-	-	-
Proceeds from maturities of securities available for sale	745	800	1,851
Cash paid for Sycamore National Bank Acquisition	-	(4,975)	-
Return of capital by subsidiary	150	100	-
Capital contribution to subsidiary	-	-	(65)
Net cash flows from investing activities	895	(4,075)	1,786
Cash flows from financing activities:			
Treasury shares purchased	-	(495)	(3,231)
Cash dividends paid	(4,280)	(3,938)	(3,881)
Net cash flows from financing activities	(4,280)	(4,433)	(7,112)
Net change in cash	1,008	23	(718)
Cash at beginning of year	276	253	971
Cash at end of year	$ 1,284	276	253

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 2008 Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the fourth quarter, 2008, 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

PART III

Portions of the Company s Definitive Proxy Statement included in the Notice of Annual Meeting of Shareholders to be held April 28, 2009, which proxy statement will be mailed to shareholders within 120 days from the end of the fiscal year ended December 31, 2008, (the Proxy Statement) are incorporated by reference into Part III.

Item 10. Directors, Executive Officers and Corporate Governance

The information contained in the Proxy Statement relating to "Directors and Executive Officers of the Registrant" is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the Proxy Statement relating to "Compensation of Directors and Executive Officers" 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 relating to "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

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

The information contained in the Proxy Statement relating to "Certain Relationships and Related Transactions" is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information contained in the Proxy Statement relating to "Principal Accounting Fees and Services" is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FINANCIAL STATEMENTS
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
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	Amended and Restated Affiliation Agreement between LCNB Corp., LCNB National Bank, and Sycamore National Bank dated September 24, 2007 (1)
3.1	Amended and Restated Articles of Incorporation of LCNB Corp., as amended
3.2	Code of Regulations of LCNB Corp. (2)
4.1	Warrant to Purchase Shares of Common Stock of the Registrant, dated January 9, 2009 (3)
	Material Contracts:
10.1	LCNB Corp. Ownership Incentive Plan (4)
10.2	Form of Option Grant Agreement under the LCNB Corp. Ownership Incentive Plan (5)
10.3	Letter Agreement, dated as of January 9, 2009 between the Registrant and the U.S. Department of the Treasury, which includes the Securities Purchase Agreement Standard Terms (6)
10.4	

	Nonqualified Defined Benefit Retirement Plan for Certain Highly Compensated Employees (a description of which is included herein in Note 12, page 80)
13	Portions of LCNB Corp. 2008 Annual Report (pages 1, 2, 7, and 8)
14.1	LCNB Corp. Code of Business Conduct and Ethics (7)
14.2	LCNB Corp. Code of Ethics for Senior Financial Officers (8)
21	LCNB Corp. Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

(1)

Incorporated by reference to Form S-4A, Annex A, filed October 22, 2007.

(2)

Incorporated by reference to Form 10-Q for the quarterly period ended March 31, 2005, Exhibit 3(ii).

(3)

Incorporated by reference to the Registrant s Current Report on Form 8-K filed on January 9, 2009, Exhibit 4.1.

(4)

Incorporated by reference to Registrant's Form DEF 14A Proxy Statement pursuant to Section 14(a), dated March 15, 2002, Exhibit A (000-26121).

(5)

Incorporated by reference to Registrant s 2005 Form 10-K, Exhibit 10.2.

(6)

Incorporated by reference to the Registrant s Current Report on Form 8-K filed on January 9, 2009, Exhibit 10.1.

(7)

Incorporated by reference to Registrant s 2003 Form 10-K, Exhibit 14.1.

(8)

Incorporated by reference to Registrant s 2003 Form 10-K, Exhibit 14.2

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/ Stephen P. Wilson
Stephen P. Wilson

Chief Executive Officer &

Chairman of the Board of Directors
March 2, 2009

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/ Stephen P. Wilson Stephen P. Wilson	/s/ Spencer S. Cropper Spencer S. Cropper
Chief Executive Officer & Chairman of the Board of Directors	Director
(Principal Executive Officer)	March 2, 2009
March 2, 2009	
/s/ Robert C. Haines II Robert C. Haines II	/s/ William H. Kaufman William H. Kaufman
Executive Vice President &	Director

Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2009
March 2, 2009	
/s/ Steve P. Foster	/s/ George L. Leasure
Steve P. Foster	George L. Leasure
President, Director	Director
March 2, 2009	March 2, 2009
/s/ David S. Beckett	/s/ Joseph W. Schwarz
David S. Beckett	Joseph W. Schwarz
Director	Director
March 2, 2009	March 2, 2009
/s/ Rick L. Blossom	/s/ Kathleen Porter Stolle
Rick L. Blossom	Kathleen Porter Stolle
Director	Director
March 2, 2009	March 2, 2009