REFINITIV

DELTA REPORT

10-Q

LCNB - LCNB CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1114
CHANGES	202
DELETIONS	521
ADDITIONS	391

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

☐ 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 001-35292

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio	**31-1626393**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2 North Broadway, Lebanon, Ohio 45036
(Address of principal executive offices, including Zip Code)

(513) 932-1414
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, No Par Value	LCNB	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
☐ Yes ☒ No

The number of shares outstanding of the issuer's common stock, without par value, as of November 7, 2023 May 9, 2024 was 11,124,072 14,142,960 shares.

LCNB CORP. AND SUBSIDIARIES

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Glossary of Abbreviations and Acronyms

ACL	Allowance for Credit Losses
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	LCNB National Bank
CECL	Current expected credit losses
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNNB	Cincinnati Bancorp, Inc.
Company	LCNB Corp. and its consolidated subsidiaries as a whole
DCF	Discounted Cash Flow
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Economic Aid Act EFBI	Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act Eagle Financial Bancorp, Inc.
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFIEC	Financial Institutions Examination Council
FHLB	Federal Home Loan Bank
FOMC	Federal Open Market Committee of the Federal Reserve System
GAAP	Generally Accepted Accounting Principles
IRA	Individual Retirement Account
LCNB	LCNB Corp. and its consolidated subsidiaries as a whole
LDA	Loss Driver Analysis
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
OCC	Office of the Comptroller of the Currency
PCD	Purchased Credit Deteriorated
PD	Probability of Default
SEC	Securities and Exchange Commission
WARM	Weighted Average Remaining Maturity

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars Unaudited, dollars in thousands)

		September 30, 2023 (Unaudited)	December 31, 2022	March 31, 2024	March 31, 2024	December 31, 2023
ASSETS:	**ASSETS:**					
Cash and due from banks						
Cash and due from banks						
Cash and due from banks	Cash and due from banks	$ 23,124	$ 20,244			

Interest-bearing demand deposits	Interest-bearing demand deposits		20,298	2,457	
Total cash and cash equivalents	Total cash and cash equivalents		43,422	22,701	
Investment securities:	Investment securities:				
Investment securities:					
Investment securities:					
Equity securities with a readily determinable fair value, at fair value	Equity securities with a readily determinable fair value, at fair value		1,254	2,273	
Equity securities without a readily determinable fair value, at cost	Equity securities without a readily determinable fair value, at cost		2,099	2,099	
Debt securities, available-for-sale, at fair value	Debt securities, available-for-sale, at fair value		274,500	289,850	
Debt securities, held-to-maturity, at cost, net			19,006	19,878	
Debt securities, held-to-maturity, at cost, net of allowance for credit losses of $5 and $5 at March 31, 2024 and December 31, 2023, respectively					
Federal Reserve Bank stock, at cost	Federal Reserve Bank stock, at cost		4,652	4,652	
Federal Home Loan Bank stock, at cost	Federal Home Loan Bank stock, at cost		7,583	4,415	
Loans, net			1,450,472	1,395,632	
Loans, net of allowance for credit losses of $10,557 and $10,525 at March 31, 2024 and December 31, 2023, respectively					
Loans held for sale					
Premises and equipment, net	Premises and equipment, net		33,288	33,042	
Operating lease right-of-use assets					
Operating lease right-of-use assets					
Operating lease right-of-use assets	Operating lease right-of-use assets		6,093	6,525	
Goodwill	Goodwill		59,221	59,221	
Core deposit and other intangibles, net	Core deposit and other intangibles, net		1,351	1,827	
Bank-owned life insurance	Bank-owned life insurance		45,128	44,298	
Interest receivable	Interest receivable		8,087	7,482	
Other assets, net	Other assets, net		25,512	25,503	
TOTAL ASSETS	**TOTAL ASSETS**		1,981,668	1,919,398	
LIABILITIES:					
LIABILITIES:					
LIABILITIES:	**LIABILITIES:**				
Deposits:	Deposits:				Deposits:
Noninterest-bearing	Noninterest-bearing	$	453,146	505,824	
Interest-bearing	Interest-bearing		1,163,744	1,099,146	
Total deposits	Total deposits		1,616,890	1,604,970	
Short-term borrowings	Short-term borrowings		30,000	71,455	

Short-term borrowings	Short-term borrowings	30,000	71,455
Long-term debt	Long-term debt	112,641	19,072
Operating lease liabilities	Operating lease liabilities	6,317	6,647
Accrued interest and other liabilities	Accrued interest and other liabilities	14,471	16,579
TOTAL LIABILITIES	**TOTAL LIABILITIES**	1,780,319	1,718,723
COMMITMENTS AND CONTINGENT LIABILITIES	**COMMITMENTS AND CONTINGENT LIABILITIES**	—	—
COMMITMENTS AND CONTINGENT LIABILITIES			
COMMITMENTS AND CONTINGENT LIABILITIES			
SHAREHOLDERS' EQUITY:	**SHAREHOLDERS' EQUITY:**		
SHAREHOLDERS' EQUITY:			
SHAREHOLDERS' EQUITY:			
Preferred shares – no par value, authorized 1,000,000 shares, none outstanding	Preferred shares – no par value, authorized 1,000,000 shares, none outstanding	—	—
Common shares – no par value; authorized 19,000,000 shares; issued 14,334,765 and 14,270,550 shares at September 30, 2023 and December 31, 2022, respectively; outstanding 11,123,382 and 11,259,080 shares at September 30, 2023 and December 31, 2022, respectively		144,865	144,069
Common shares – no par value; authorized 19,000,000 shares; issued 16,435,659 and 16,384,952 shares at March 31, 2024 and December 31, 2023, respectively; outstanding 13,224,276 and 13,173,569 shares at March 31, 2024 and December 31, 2023, respectively			
Retained earnings	Retained earnings	143,211	139,249
Treasury shares at cost, 3,211,383 and 3,011,470 shares at September 30, 2023 and December 31, 2022, respectively		(56,015)	(52,689)
Treasury shares at cost, 3,211,383 and 3,211,383 shares at March 31, 2024 and December 31, 2023, respectively			
Accumulated other comprehensive loss, net of taxes	Accumulated other comprehensive loss, net of taxes	(30,712)	(29,954)
TOTAL SHAREHOLDERS' EQUITY	**TOTAL SHAREHOLDERS' EQUITY**	201,349	200,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	$ 1,981,668	$1,919,398

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

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,			
		Three Months Ended March 31,				
		Three Months Ended March 31,				
		Three Months Ended March 31,				
	2023	2022	2023	2022	2024	2023
INTEREST INCOME:						
Interest and fees on loans	$ 17,875	15,026	50,781	43,360		
Interest and fees on loans						
Interest and fees on loans						
Dividends on equity securities:						
With a readily determinable fair value						
With a readily determinable fair value						
With a readily determinable fair value	9	14	34	40		
Without a readily determinable fair value	29	6	79	16		
Interest on debt securities:						
Taxable						
Taxable						
Taxable	1,296	1,323	3,962	3,672		
Non-taxable	173	190	523	567		
Other investments	286	145	910	379		
TOTAL INTEREST INCOME	19,668	16,704	56,289	48,034		
INTEREST EXPENSE:						
INTEREST EXPENSE:						
INTEREST EXPENSE:						
Interest on deposits	4,426	979	10,217	2,493		
Interest on short-term borrowings	830	71	3,142	320		
Interest on long-term debt	841	210	1,240	387		

TOTAL INTEREST EXPENSE	TOTAL INTEREST EXPENSE	6,097	1,260	14,599	3,200
NET INTEREST INCOME	NET INTEREST INCOME	13,571	15,444	41,690	44,834
PROVISION FOR (RECOVERY OF) CREDIT LOSSES	PROVISION FOR (RECOVERY OF) CREDIT LOSSES	(114)	(157)	(141)	269
PROVISION FOR (RECOVERY OF) CREDIT LOSSES					
PROVISION FOR (RECOVERY OF) CREDIT LOSSES					
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) CREDIT LOSSES	NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) CREDIT LOSSES	13,685	15,601	41,831	44,565
NON-INTEREST INCOME:	**NON-INTEREST INCOME:**				
NON-INTEREST INCOME:					
NON-INTEREST INCOME:					
Fiduciary income	Fiduciary income	1,736	1,513	5,263	4,851
Service charges and fees on deposit accounts	Service charges and fees on deposit accounts	1,397	1,706	4,324	4,658
Net losses from sales of debt securities, available-for-sale					
Bank-owned life insurance income	Bank-owned life insurance income	282	269	830	803
Gains from sales of loans		29	—	38	188
Other operating income		134	93	350	159
Net gains from sales of loans					
Other operating income (loss)					
TOTAL NON-INTEREST INCOME	TOTAL NON-INTEREST INCOME	3,578	3,581	10,805	10,659
NON-INTEREST EXPENSE:					
NON-INTEREST EXPENSE:					
NON-INTEREST EXPENSE:	**NON-INTEREST EXPENSE:**				
Salaries and employee benefits	Salaries and employee benefits	7,044	7,062	21,454	21,291
Equipment expenses	Equipment expenses	397	398	1,175	1,234
Occupancy expense, net	Occupancy expense, net	805	790	2,367	2,300

State financial institutions tax	State financial institutions tax	396	439	1,189	1,312
Marketing	Marketing	223	215	735	845
Amortization of intangibles	Amortization of intangibles	113	113	336	365
FDIC insurance premiums, net	FDIC insurance premiums, net	224	137	663	397
Contracted services	Contracted services	671	613	1,978	1,902
Other real estate owned, net		1	5	3	(874)
Merger-related expenses					
Merger-related expenses					
Merger-related expenses	Merger-related expenses	302	—	742	—
Other non-interest expense	Other non-interest expense	2,068	2,578	6,205	7,297
TOTAL NON-INTEREST EXPENSE	TOTAL NON-INTEREST EXPENSE	12,244	12,350	36,847	36,069
INCOME BEFORE INCOME TAXES	**INCOME BEFORE INCOME TAXES**	5,019	6,832	15,789	19,155
PROVISION FOR INCOME TAXES	PROVISION FOR INCOME TAXES	949	1,253	2,868	3,435
NET INCOME	**NET INCOME**	$ 4,070	5,579	12,921	15,720
Earnings per common share:	Earnings per common share:				
Earnings per common share:					
Earnings per common share:					
Basic	Basic	$ 0.37	0.49	1.16	1.36
Diluted	Diluted	0.37	0.49	1.16	1.36
Weighted average common shares outstanding:	Weighted average common shares outstanding:				Weighted average common shares outstanding:
Basic	Basic	11,038,720	11,284,225	11,094,185	11,478,256
Diluted	Diluted	11,038,720	11,284,225	11,094,185	11,478,256

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

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

	Three Months Ended September 30,	Nine Months Ended September 30,
	Three Months Ended March 31,	

		Three Months Ended March 31,						
		Three Months Ended March 31,						
		2023	2022	2023	2022		2024	2023
Net income	Net income	$4,070	5,579	12,921	15,720			
Other comprehensive income (loss):	Other comprehensive income (loss):					Other comprehensive income (loss):		
Net unrealized gain (loss) on available-for-sale debt securities (net of taxes of $(782) and $(2,571) for the three months ended September 30, 2023 and 2022, respectively, and $(203) and $(7,923) for the nine months ended September 30, 2023 and 2022, respectively)		(2,941)	(9,670)	(758)	(29,804)			
Net unrealized gain (loss) on available-for-sale debt securities (net of tax expense (benefit) of $(342) and $1,316 for the three months ended March 31, 2024 and 2023, respectively)								
Reclassification adjustment for net realized (gains) losses on sales of available-for-sale debt securities included in net income (net of tax expense (benefit) of $(45) and $0 for the three months ended March 31, 2024 and 2023, respectively)								
Change in nonqualified pension plan unrecognized net loss and unrecognized prior service cost (net of taxes of $0 and $1 for the three and nine months ended September 30, 2022, respectively)		—	1	—	4			
Other comprehensive income (loss), net of tax	Other comprehensive income (loss), net of tax	(2,941)	(9,669)	(758)	(29,800)			
TOTAL COMPREHENSIVE INCOME (LOSS)		$1,129	(4,090)	12,163	(14,080)			
Other comprehensive income (loss), net of tax								
Other comprehensive income (loss), net of tax								

TOTAL COMPREHENSIVE INCOME

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

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

		Common Shares Outstanding	Common Stock	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Three Months Ended September 30, 2023							
Balance at July 1, 2023		11,116,080	$144,671	141,431	(56,015)	(27,771)	202,316
Three Months Ended March 31, 2024							
Three Months Ended March 31, 2024							
Three Months Ended March 31, 2024							
Balance at January 1, 2024							
Balance at January 1, 2024							
Balance at January 1, 2024							
Net income	Net income			4,070			4,070
Other comprehensive loss, net of taxes	Other comprehensive loss, net of taxes					(2,941)	(2,941)
Dividend Reinvestment and Stock Purchase Plan	Dividend Reinvestment and Stock Purchase Plan	7,302	111				111
Repurchase of common stock		—			—		—
Shares issued for restricted stock awards							
Shares issued for restricted stock awards							
Shares issued for restricted stock awards							
Compensation expense relating to restricted stock	Compensation expense relating to restricted stock	—	83				83
Common stock dividends, $0.21 per share				(2,290)			(2,290)
Balance at September 30, 2023		11,123,382	$144,865	143,211	(56,015)	(30,712)	201,349
Compensation expense relating to restricted stock							
Compensation expense relating to restricted stock							

Common Shares Outstanding	Common Stock	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Shareholders' Equity

Common stock dividends, $0.22 per share

Balance at March 31, 2024

Nine Months Ended September 30, 2023

Three Months Ended March 31, 2023

Three Months Ended March 31, 2023

Three Months Ended March 31, 2023

Balance at January 1, 2023

Balance at January 1, 2023

Balance at January 1, 2023	Balance at January 1, 2023	11,259,080	$144,069	139,249	(52,689)	(29,954)	200,675
Cumulative change in accounting principle - ASC 326	Cumulative change in accounting principle - ASC 326			(1,922)			(1,922)
Balance at January 1, 2023, adjusted	Balance at January 1, 2023, adjusted	11,259,080	144,069	137,327	(52,689)	(29,954)	198,753
Net income	Net income			12,921			12,921
Other comprehensive loss, net of taxes						(758)	(758)
Dividend Reinvestment and Stock Purchase Plan		20,065	315				315
Repurchase of common stock		(199,913)			(3,326)		(3,326)
Shares issued for restricted stock awards		44,150					
Compensation expense relating to restricted stock			481				481
Common stock dividends, $0.63 per share				(7,037)			(7,037)
Balance at September 30, 2023		11,123,382	$144,865	143,211	(56,015)	(30,712)	201,349
Three Months Ended September 30, 2022							
Balance at July 1, 2022		11,374,515	$143,635	131,894	(50,629)	(21,940)	202,960
Net income				5,579			5,579
Other comprehensive loss, net of taxes						(9,669)	(9,669)
Dividend Reinvestment and Stock Purchase Plan		6,857	107				107
Repurchase of common stock		(87,733)			(1,380)		(1,380)
Compensation expense relating to restricted stock			113				113
Common stock dividends, $0.20 per share				(2,271)			(2,271)
Balance at September 30, 2022		11,293,639	$143,855	135,202	(52,009)	(31,609)	195,439

Nine Months Ended September 30, 2022							
Balance at January 1, 2022		12,414,956	$143,130	126,312	(29,029)	(1,809)	238,604
Net income				15,720			15,720
Other comprehensive loss, net of taxes						(29,800)	(29,800)
Other comprehensive income, net of taxes							
Dividend Reinvestment and Stock Purchase Plan	Dividend Reinvestment and Stock Purchase Plan	18,585	308				308
Repurchase of common stock	Repurchase of common stock	(1,172,456)			(22,980)		(22,980)
Shares issued for restricted stock awards	Shares issued for restricted stock awards	32,554					
Shares issued for restricted stock awards							
Shares issued for restricted stock awards							
Compensation expense relating to restricted stock	Compensation expense relating to restricted stock		417				417
Common stock dividends, $0.60 per share				(6,830)			(6,830)
Balance at September 30, 2022		11,293,639	$143,855	135,202	(52,009)	(31,609)	195,439
Compensation expense relating to restricted stock							
Compensation expense relating to restricted stock							
Common stock dividends, $0.21 per share							
Balance at March 31, 2023							

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

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

	Nine Months Ended September 30,			
	Three Months Ended March 31,		Three Months Ended March 31,	
	2023	2022	2024	2023

CASH FLOWS FROM OPERATING ACTIVITIES:	**CASH FLOWS FROM OPERATING ACTIVITIES:**			
Net income				
Net income				
Net income	Net income	$12,921	15,720	
Adjustments to reconcile net income to net cash flows from operating activities:	Adjustments to reconcile net income to net cash flows from operating activities:			Adjustments to reconcile net income to net cash flows from operating activities:
Depreciation, amortization, and accretion	Depreciation, amortization, and accretion	2,395	2,177	
Provision for (recovery of) credit losses	Provision for (recovery of) credit losses	(141)	269	
Benefit from deferred income taxes		(793)	(444)	
Deferred income tax provision (benefit)				
Increase in cash surrender value of bank-owned life insurance	Increase in cash surrender value of bank-owned life insurance	(830)	(803)	
Loss on equity securities		78	384	
Realized and unrealized losses from equity securities, net				
Realized and unrealized losses from equity securities, net				
Realized and unrealized losses from equity securities, net				
Realized losses from sales of debt securities, available-for-sale				
Realized (gain) loss from sales of premises and equipment		(427)	456	
Realized gain from sales of other real estate owned		—	(889)	
Origination of mortgage loans for sale				
Origination of mortgage loans for sale				
Origination of mortgage loans for sale	Origination of mortgage loans for sale	(2,205)	(8,468)	
Realized gains from sales of loans	Realized gains from sales of loans	(38)	(188)	
Proceeds from sales of mortgage loans	Proceeds from sales of mortgage loans	2,218	8,562	
Compensation expense related to restricted stock	Compensation expense related to restricted stock	481	417	
Changes in:	Changes in:			Changes in:
Accrued interest receivable	Accrued interest receivable	(605)	377	
Other assets	Other assets	1,497	2,075	
Other liabilities	Other liabilities	(2,300)	(1,303)	
TOTAL ADJUSTMENTS	TOTAL ADJUSTMENTS	(670)	2,622	

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		12,251	18,342
NET CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES:	**CASH FLOWS FROM INVESTING ACTIVITIES:**		
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of equity securities	Proceeds from sales of equity securities	963	—
Proceeds from sales of debt securities, available-for-sale			
Proceeds from maturities and calls of debt securities:	Proceeds from maturities and calls of debt securities:		
Available-for-sale			
Available-for-sale			
Available-for-sale	Available-for-sale	14,262	17,797
Held-to-maturity	Held-to-maturity	1,146	1,312
Purchases of equity securities	Purchases of equity securities	(22)	(13)
Purchases of debt securities:	Purchases of debt securities:		
Available-for-sale	Available-for-sale	(497)	(38,581)
Held-to-maturity		(280)	(755)
Available-for-sale			
Available-for-sale			
Purchase of Federal Reserve Bank stock			
Purchase of Federal Reserve Bank stock			
Purchase of Federal Reserve Bank stock			
Purchases of Federal Home Loan Bank stock			
Purchases of Federal Home Loan Bank stock			
Purchases of Federal Home Loan Bank stock	Purchases of Federal Home Loan Bank stock	(4,537)	—
Proceeds from redemption of Federal Home Loan Bank stock	Proceeds from redemption of Federal Home Loan Bank stock	1,369	1,162
Net increase in loans	Net increase in loans	(56,711)	(7,454)
Proceeds from sale of other real estate owned		—	1,605
Purchases of premises and equipment	Purchases of premises and equipment	(1,723)	(553)
Proceeds from sale of premises and equipment		514	874
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(45,516)	(24,606)
Purchases of premises and equipment			
Purchases of premises and equipment			
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			

NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES:	**CASH FLOWS FROM FINANCING ACTIVITIES:**		
Net increase in deposits		11,920	28,551
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits			
Net increase (decrease) in short-term borrowings	Net increase (decrease) in short-term borrowings	(41,455)	4,000
Proceeds from long-term debt		95,000	15,000
Proceeds from issuance of long-term debt			
Principal payments on long-term debt	Principal payments on long-term debt	(1,431)	(461)
Proceeds from issuance of common stock	Proceeds from issuance of common stock	315	308
Repurchase of common stock	Repurchase of common stock	(3,326)	(22,980)
Cash dividends paid on common stock	Cash dividends paid on common stock	(7,037)	(6,830)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		53,986	17,588
NET CASH FLOWS USED IN FINANCING ACTIVITIES			
NET CHANGE IN CASH AND CASH EQUIVALENTS	NET CHANGE IN CASH AND CASH EQUIVALENTS	20,721	11,324
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**	22,701	18,136
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	$43,422	29,460
SUPPLEMENTAL CASH FLOW INFORMATION:	**SUPPLEMENTAL CASH FLOW INFORMATION:**		
SUPPLEMENTAL CASH FLOW INFORMATION:			
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest paid	Interest paid	$13,706	3,243
Income taxes paid, net of refunds		2,226	2,900
Interest paid			
Interest paid			
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:	**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:**		
Transfer from loans to other real estate owned		—	716

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:	
Transfer from loans held for investment to loans held for sale	
Transfer from loans held for investment to loans held for sale	
Transfer from loans held for investment to loans held for sale	

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

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

NOTE 1 - BASIS OF PRESENTATION

BASIS OF PRESENTATION

The accompanying unaudited interim consolidated condensed financial statements include LCNB Corp. and its wholly-owned subsidiaries: LCNB National Bank and LCNB Risk Management, Inc., its captive insurance company. All material intercompany transactions and balances are eliminated in consolidation.

The unaudited interim consolidated condensed financial statements have been prepared in accordance with U.S. GAAP for interim financial information and the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of the Company's financial position, results of consolidated operations, and cash flows for the interim periods, as required by Regulation S-X, Rule 8-03.

The consolidated condensed balance sheet as of December 31, 2022 December 31, 2023 has been derived from the audited consolidated balance sheet as of that date.

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

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

Results of operations for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results to be expected for the full year ending December 31, 2023 December 31, 2024. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in LCNB's 2022 2023 Annual Report on Form 10-K filed with the SEC.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards (“FASB”) Accounting Standards Update (“ASU”) No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"

ASU No. 2020-04 was issued in March 2020 and provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Originally, the amendments in this update were effective for all entities as of March 12, 2020 through December 31, 2022. ASU No. 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848" extended the sunset date from December 31, 2022 to December 31, 2024. LCNB has adopted the standard and utilized the LIBOR transition relief allowed under ASU 2020-04 and ASU 2020-06. The impact was immaterial, as all loans indexed to LIBOR were transitioned to another referenced index, predominately the Secured Overnight Financing Rate ("SOFR") for one, three, and six months. In all instances, LCNB was able to meet the criteria for the practical expedients and there was no impact on its results of consolidated operations or financial position.

NOTE 1 - BASIS OF PRESENTATION (continued)

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASC 326")

The Company adopted ASC 326 on January 1, 2023. It significantly changed guidance for recognizing impairment of financial instruments. Previous guidance required an "incurred loss" methodology for recognizing credit losses that delayed recognition until it was probable a loss had been incurred. ASC 326 replaced the incurred loss impairment methodology with a new "current expected credit loss" ("CECL") methodology that reflects expected credit losses over the lives of the credit instruments and requires consideration of a broader range of information to estimate credit losses. ASC 326 requires an organization to estimate all expected credit losses for financial assets measured at amortized cost, including loans and held-to-maturity debt securities, based on historical experience, current conditions, and reasonable and supportable forecasts. It also applies to off-balance sheet credit exposures, such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. ASC 326 also made changes to the accounting for credit losses on available-for-sale debt securities. Additional disclosures are required. Adoption of ASC 326 did not have a material impact on LCNB's results of consolidated operations or financial position.

LCNB adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable guidance. The following table shows the impact of adopting ASC 326 on January 1, 2023 (in thousands):

	As Reported Pre-ASC 326	Impact of ASC 326 Adoption	As Reported Under ASC 326
Assets:			
Loans, gross of allowance	$ 1,401,278	341	1,401,619
ACL on loans	(5,646)	(2,196)	(7,842)
ACL on debt securities, held to maturity	—	(7)	(7)
Deferred tax assets, net	6,639	511	7,150
Liabilities:			
ACL on off-balance sheet credit exposures	—	571	571
Shareholders' Equity:			
Retained earnings	139,249	(1,922)	137,327

ACL - LOANS

The allowance for credit losses ("ACL") is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes that the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as changes in external conditions, such as changes in unemployment rates, property values, or other relevant factors.

Accrued interest receivable totaling $6.6 million at September 30, 2023 was excluded from the amortized cost basis of the estimate of credit losses and is reported in interest receivable on the consolidated condensed balance sheets. Loans are generally placed on non-accrual status at 90 days past due or when the borrower's ability to repay becomes doubtful. When a loan is placed on non-accrual status, any accrued interest is reversed and charged against interest income.

ACL - LOANS - COLLECTIVELY EVALUATED

The ACL is measured on a collective pool basis when similar risk characteristics exist. LCNB has identified the following portfolio segments:

- Commercial and industrial loans
- Commercial, secured by real estate
    - Real estate loans secured by owner occupied commercial real estate
    - Real estate loans secured by non-owner occupied commercial real estate
    - Real estate loans secured by farmland
    - Real estate loans secured by multi-family dwellings
    - Construction loans secured by 1-4 family dwellings
    - Construction loans secured by other real estate

- Residential real estate
    - Residential real estate loans secured by senior liens on 1-4 family dwellings
    - Residential real estate loans secured by junior liens on 1-4 family dwellings
    - Home equity line of credit loans
- Consumer loans
- Agricultural loans not secured by real estate
- DDA Overdrafts

Measures of the allowance for credit loss are as follows:

Portfolio Segment	Pool	Methodology	Loss Driver(s)
Agricultural	Ag Production and Other Farm	Remaining Life	N/A
Commercial & industrial	Commercial & Industrial	Discounted Cash Flow	Weighted Combined MSA Unemployment and Coincident Economic Activity Index for Ohio
Commercial, secured by real estate	Commercial Real Estate (CRE) Non-Owner Occupied	Discounted Cash Flow	Weighted Combined MSA Unemployment
Commercial, secured by real estate	Commercial Real Estate (CRE) Owner Occupied	Discounted Cash Flow	Weighted Combined MSA Unemployment and Moody's Commercial Real Esta Indexes (CREPI) - US Commercial
Commercial, secured by real estate	Farm Real Estate	Remaining Life	N/A
Residential real estate	Home Equity Line	Discounted Cash Flow	Weighted Combined MSA Unemployment
Consumer	Installment - Direct and ODP (Consumer)	Discounted Cash Flow	Weighted Combined MSA Unemployment
Consumer	Letter of Credit	Discounted Cash Flow/Manual	N/A
Commercial, secured by real estate	Multifamily	Discounted Cash Flow	Weighted Combined MSA Unemployment
Commercial, secured by real estate	Other Construction, Land Development, and Other Land	Discounted Cash Flow	Weighted Combined MSA Unemployment and Weighted Combined MSA Hom Index
Consumer	Overdrafts	Manual	N/A
Other	Other Loans	Remaining Life	N/A
Residential real estate	Real Estate Mortgage	Discounted Cash Flow	Weighted Combined MSA Unemployment
Residential real estate	Residential 1-4 Family Construction	Discounted Cash Flow	Weighted Combined MSA Unemployment and Weighted Combined MSA Hom Index
Residential real estate	Second Mortgage (Residential)	Discounted Cash Flow	Weighted Combined MSA Unemployment

***"MSA" referenced above combines forecasts for Cincinnati, Dayton and Columbus metro areas.**
****"Weighted" referenced above refers to weighted average of baseline and alternative scenarios**

Management has chosen the discounted cash flow ("DCF") methodology to estimate the quantitative portion of the allowance for credit losses on loans for all loan pools except for the farm real estate and agricultural pools, which use the weighted average remaining maturity ("WARM") methodology. A Loss Driver Analysis (“LDA”) was performed for each segment to identify potential loss drivers and create a regression model for use in forecasting cash flows. The LDA for all DCF-based pools utilized LCNB’s data and peer data from the Federal Financial Institutions Examination Council's (“FFIEC”) Call Report filings.

In creating the DCF model, as well as reviewing the model quarterly, management established a one-quarter reasonable and supportable forecast period with a two-quarter straight line reversion to the long-term historical average. Due to the infrequency of losses within the farm real estate and agricultural loan portfolios, LCNB elected to use peer data for a more statistically sound calculation.

Key assumptions in the DCF model include the probability of default (“PD”), loss given default (“LGD”), and prepayment/curtailment rates. The model-driven PD and LGD are derived using company specific historical data. Prepayment and curtailment rates were calculated using third party studies of LCNB's data.

Expected credit losses are estimated over the contractual term of the loans, adjusted for prepayments when appropriate. The contractual term excludes extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Qualitative factors for the DCF and WARM methodologies include the following:
- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Company operates that affect the collectability of financial assets;
- The effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics; and
- Model risk including statistical risk, reversion risk, timing risk, and model limitation risk.

ACL - LOANS - INDIVIDUALLY EVALUATED
Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation.

Management has determined that any loans which have been placed on non-performing status will be individually evaluated. When management determines that foreclosure is probable, expected credit losses for collateral dependent loans are based on the estimated fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. A loan is considered collateral dependent when the borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of the collateral. Other non-performing loans may estimate fair value using either the collateral valuation or the net present value of expected future cash receipts, depending on the financial situation of the borrower.

ACL - HELD-TO-MATURITY ("HTM") DEBT SECURITIES
Expected credit losses on HTM debt securities are measured on a collective basis by major security type. Accrued interest receivable on HTM securities totaled $232,000 at September 30, 2023 and is excluded from the estimate of credit losses. The HTM securities portfolio consists of taxable and nontaxable municipal securities from local governmental entities. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At the time of adoption, the estimated reserve was immaterial.

ACL - AVAILABLE-FOR-SALE ("AFS") DEBT SECURITIES
For AFS debt securities in an unrealized loss position, LCNB first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any decline in fair value that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes.

Changes in the ACL are recorded as a provision for (or recovery of) credit loss expense. Losses are charged against the allowance when management believes that uncollectability of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on AFS debt securities totaled $1.2 million at September 30, 2023 and is excluded from the estimate of credit losses.

ACL - OFF-BALANCE SHEET CREDIT EXPOSURES
LCNB estimates expected credit losses over the contractual period during which it is exposed to credit risk by a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for (or recovery of) credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate is made of expected credit losses on commitments expected to be funded over their estimated lives. Funding rates are based on a historical analysis of the Company's portfolio, while estimates of credit losses are determined using the same loss rates as funded loans.

REGULATORY CAPITAL
Federal banking regulatory agencies allow an optional phase-in period of three years for banks to absorb the impact to regulatory capital of implementing CECL. LCNB has elected not to exercise this option and the full impact of adopting ASC 326 is included in regulatory capital as of September 30, 2023March 31, 2024. Adoption of the ASC did not materially affect LCNB's regulatory capital ratios.

ASU No. 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"
ASU No. 2022-02 was issued in March 2022 and became effective for LCNB on January 1, 2023. These amendments eliminated previous TDR recognition and measurement guidance and, instead, required that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements and introduce new disclosure requirements for certain modifications to borrowers experiencing financial difficulties. Additionally, the amendments require the disclosure of current-period gross charge-offs by year of origination. Adoption of ASU No. 2022-02 did not have a material impact on LCNB's results of consolidated operations or financial position.

NOTE 1 - BASIS OF PRESENTATION (continued)

ASU No. 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)"
ASU No. 2023-02 was issued in March 2023 and became effective for LCNB on January 1, 2024. It allows reporting entities the option to use the proportional amortization method to account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met, regardless of the tax credit program from which the income tax credits are received. The proportional amortization method was previously limited to Low-Income Housing Tax Credit investments. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and

recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). Adoption of ASU No. 2023-02 did not have a material impact on LCNB's results of consolidated operations or financial position.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

From time to time the FASB issues an ASU to communicate changes to U.S. GAAP. The following information provides brief summaries of newly issued but not yet effective ASUs that could have an effect on LCNB's financial position or results of consolidated operations:

ASU No. 2023-02, "Investments - Equity Method and Joint Ventures 2023-07, "Segment Reporting (Topic 323) 280): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)" Improvements to Reportable Segment Disclosures"

ASU No. 2023-02 2023-07 was issued in March November 2023 and allows reporting entities changes the option to use the proportional amortization method to account requirements for equity investments made segment disclosures, primarily through enhancing disclosure requirements for the purpose of receiving income tax credits and other income tax benefits when certain significant segment expenses, enhancing interim disclosure requirements, are met, regardless of the tax credit program from clarifying circumstances in which the income tax credits are received. The proportional amortization method was previously limited to Low-Income Housing Tax Credit investments. Under the proportional amortization method, an entity amortizes can disclose multiple segment measures of profit or loss, providing new segment disclosure requirements for entities with a single reportable segment, and modifying other disclosure requirements. A public entity should apply the initial cost of the investment in proportion amendments retrospectively to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits all prior periods presented in the income statement as a component financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of income tax expense (benefit). For public business entities, the adoption. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, including and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. . Early adoption is permitted. LCNB does not expect adoption of ASU No. 2023-02 to have a material impact on its results of consolidated operations or financial position.

NOTE 2 - BUSINESS COMBINATION COMBINATIONS

Cincinnati Bancorp, Inc.

On November 1, 2023, LCNB and acquired Cincinnati Bancorp, Inc. ("CNNB"), the holding company for Cincinnati Federal, a federally chartered stock savings and loan association, signed a association. Under the terms of the definitive merger agreement, on May 17, 2023 whereby CNNB would merge merged with and into LCNB in a stock-and-cash transaction. Corp., immediately followed by the merger of Cincinnati Federal with and into LCNB National Bank. CNNB operated five four full-service branch offices in Cincinnati, Ohio and Northern 1 full-service office in Florence, Kentucky, and had approximately $310.8 million in assets, $265.6 million in net loans, $211.4 million which became offices of deposits, and $39.7 million in consolidated stockholders' equity as of September 30, 2023. LCNB after the merger. The transaction, which was completed November 1, 2023, merger significantly increased LCNB's existing presence in the Cincinnati market and expanded LCNB's community banking franchise across the Ohio River into the Northern Kentucky market.

CNNB results of operations were included in LCNB's results beginning November 1, 2023.

Subject to Under the terms of the merger agreement, which was approved by the Board of Directors of each company, CNNB shareholders had the opportunity to elect to receive either 0.9274 shares of LCNB stock or $17.21 per share in cash for each share of CNNB common stock owned, subject to the limitation that 80% of all CNNB shares being exchanged for the consideration be in the form of LCNB common stock. As stock and 20% of March 31, 2023, CNNB reported 2,884,171 shares the consideration be in the form of cash. The fair value of the common stock outstanding, issued as well as 296,350 options with a weighted average strike part of the consideration was determined on the basis of the closing price of $10.65 per share. Any unexercised LCNB's common stock options of CNNB were canceled in exchange for a cash payment of $17.21 less on the per share exercise price of the option. The transaction consideration was subject to dollar-for-dollar downward adjustment if CNNB's adjusted shareholders' equity, as defined in the merger agreement, is less than $36.8 million as measured three business days immediately before the closing acquisition date.

At the time of closing, Cincinnati Federal branches become branches of LCNB National Bank. Going forward, LCNB has 33 banking offices in Ohio and one branch office in Northern Kentucky.

NOTE 2 - BUSINESS COMBINATIONS (continued)

The following table summarizes the fair value of the total consideration transferred as a part of the CNNB acquisition and the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction (in thousands):

Consideration:	
Cash consideration	$ 9,475
Common stock (2,042,598 shares issued at $13.99 per share)	28,576
Fair value of total consideration transferred	38,051
Identifiable Assets Acquired:	
Cash and cash equivalents	11,368
Debt securities, available-for-sale	5,210
Federal Home Loan Bank stock	7,508
Loans, net	236,692
Premises and equipment	2,767
Operating lease right-of-use assets	64
Core deposit and other intangibles	8,391
Bank owned life insurance	4,413
Deferred income taxes	4,451
Other assets	12,896
Total identifiable assets acquired	293,760
Liabilities Assumed:	
Deposits	210,532
Short-term borrowings	55,999
Long-term debt	5,963
Operating lease liabilities	64
Other liabilities	3,489
Total liabilities assumed	276,047
Total Identifiable Net Assets Acquired	17,713
Goodwill Resulting From Merger	$ 20,338

The fair value and gross contractual amounts of non-PCD loans as of the acquisition date was $231.9 million and $258.6 million, respectively. LCNB recorded a provision for credit losses on these loans of $1,722,000.

As permitted by ASC No. 805-10-25, Business Combinations, the above estimated amounts may be adjusted up to one year after the closing date of the transaction to reflect any new information obtained about facts and circumstances existing at the acquisition date. As such, any changes in the estimated fair value of assets, including acquired loans, will be recognized in the period the adjustment is identified. Goodwill increased by $50,000 during the first quarter 2024 primarily due to valuation adjustments to other assets.

NOTE 2 - BUSINESS COMBINATIONS (continued)

The amount of goodwill recorded reflects LCNB's expansion in the Cincinnati market and related synergies that are expected to result from the acquisition and represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill will not be amortizable on LCNB's financial records and will not be deductible for tax purposes. Goodwill will be subject to an annual test for impairment and the amount impaired, if any, will be charged to expense at the time of impairment. The core deposit intangible will be amortized over the estimated weighted average economic life of the various core deposit types, which is ten years.

Direct expenses related to the CNNB acquisition totaled $477,000 during the three months ended March 31, 2024, were expensed as incurred, and are recorded as merger-related expenses in the consolidated statements of income.

Eagle Financial Bancorp, Inc.
On April 12, 2024, LCNB acquired Eagle Financial Bancorp, Inc. (“EFBI”), the holding company for EAGLE.bank. Under the terms of the definitive merger agreement, EFBI merged with and into LCNB Corp., immediately followed by the merger of EAGLE.bank with and into LCNB National Bank. EAGLE.bank operated three full-service banking offices in Cincinnati, Ohio, which became offices of LCNB after the merger. This transaction increases LCNB’s presence in the Cincinnati market.

Subject to the terms of the merger agreement, EFBI shareholders had the opportunity to elect to receive either 1.1401 shares of LCNB stock, $19.10 per share in cash for each share of EFBI common stock owned, or a combination thereof subject to at least 60%, but not more than 70%, of the shares of EFBI being exchanged for LCNB common stock. As of December 31, 2023, EFBI reported 1,342,275 shares of common stock outstanding, as well as 115,807 options with a weighted average strike price of $16.18 per share (each option carries that right to purchase one EFBI share). Any unexercised stock options of EFBI were canceled prior to the effective time of the merger in exchange for a cash payment per option equal to the difference between $19.10 and the exercise price of the option.

The following table summarizes the fair value of the total consideration transferred as a part of the EFBI acquisition (in thousands):

Consideration:		
Cash consideration	$	10,256
Common stock (918,128 shares issued at $14.04 per share)		12,891
Fair value of total consideration transferred	$	23,147

Calculation of the fair value of the net assets acquired in this merger transaction is in process.

EFBI had approximately $174.3 million in assets, $140.4 million in net loans, $136.7 million of deposits, and $26.0 million in consolidated stockholders' equity as of December 31, 2023.

Direct expenses related to the EFBI acquisition totaled $298,000 during the three months ended March 31, 2024, were expensed as incurred, and are recorded as merger-related expenses in the consolidated statements of income.

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

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and estimated fair value of debt securities at March 31, 2024 and the allowance for credit losses of securities held-to-maturity at September 30, 2023 and December 31, 2022 December 31, 2023 are summarized as follows (in thousands):

		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2023									
March 31, 2024									
Debt Securities, Available-for-Sale:	**Debt Securities, Available-for-Sale:**								
Debt Securities, Available-for-Sale:									
Debt Securities, Available-for-Sale:									
U.S. Treasury notes									
U.S. Treasury notes									
U.S. Treasury notes	U.S. Treasury notes	$ 78,451	—	8,323	70,128				
U.S. Agency notes	U.S. Agency notes	89,014	—	10,662	78,352				
Corporate bonds	Corporate bonds	7,450	—	944	6,506				

U.S. Agency mortgage-backed securities	U.S. Agency mortgage-backed securities	83,613	—	13,061	70,552
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	8,809	—	522	8,287
Non-taxable					
Non-taxable					
Taxable	Taxable	46,005	—	5,330	40,675
		$313,342	—	38,842	274,500
Debt Securities, Held-to-Maturity:	**Debt Securities, Held-to-Maturity:**				
Debt Securities, Held-to-Maturity:					
Debt Securities, Held-to-Maturity:					
Municipal securities:					
Municipal securities:					
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	$ 15,582	2	1,578	14,006
Non-taxable					
Non-taxable					
Taxable	Taxable	3,431	—	514	2,917
	$				
		$ 19,013	2	2,092	16,923
December 31, 2022					
December 31, 2023					
December 31, 2023					
December 31, 2023					
Debt Securities, Available-for-Sale:	**Debt Securities, Available-for-Sale:**				
Debt Securities, Available-for-Sale:					
Debt Securities, Available-for-Sale:					
U.S. Treasury notes					
U.S. Treasury notes					
U.S. Treasury notes	U.S. Treasury notes	$ 84,927	—	8,480	76,447
U.S. Agency notes	U.S. Agency notes	89,160	—	11,184	77,976
Corporate Bonds	Corporate Bonds	7,450	13	778	6,685

U.S. Agency mortgage-backed securities	U.S. Agency mortgage-backed securities	90,746	5	11,311	79,440
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	8,892	—	368	8,524
Non-taxable					
Non-taxable					
Taxable	Taxable	46,556	1	5,779	40,778
		$327,731	$ 19	37,900	289,850
Debt Securities, Held-to-Maturity:	**Debt Securities, Held-to-Maturity:**				
Debt Securities, Held-to-Maturity:					
Debt Securities, Held-to-Maturity:					
Municipal securities:					
Municipal securities:					
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	$ 16,447	10	594	15,863
Non-taxable					
Non-taxable					
Taxable	Taxable	3,431	—	409	3,022
		$ 19,878	10	1,003	18,885
	$				

The Company estimated the expected credit losses at September 30, 2023 March 31, 2024 and December 31, 2023 to be immaterial based on the composition of the securities portfolio.

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

NOTE 3 - INVESTMENT SECURITIES (continued)

Information concerning debt securities with gross unrealized losses at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (dollars in (in thousands):

	Less than Twelve Months		Twelve Months or Greater		Less than Twelve Months		Twelve Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2023								
March 31, 2024								
Available-for-Sale:								
Available-for-Sale:								
Available-for-Sale:								

U.S. Treasury notes					
U.S. Treasury notes					
U.S. Treasury notes	U.S. Treasury notes	$ —	—	70,128	8,323
U.S. Agency notes	U.S. Agency notes	—	—	78,352	10,662
Corporate bonds	Corporate bonds	720	30	5,786	914
U.S. Agency mortgage-backed securities	U.S. Agency mortgage-backed securities	528	3	70,024	13,058
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	1,965	53	6,322	469
Non-taxable					
Non-taxable					
Taxable	Taxable	180	—	40,495	5,330
		$ 3,393	86	271,107	38,756
Held-to-Maturity:	**Held-to-Maturity:**				
Held-to-Maturity:					
Held-to-Maturity:					
Municipal securities:					
Municipal securities:					
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	$ 5,888	798	7,389	780
Non-taxable					
Non-taxable					
Taxable	Taxable	—	—	2,917	514
	$				
		$ 5,888	798	10,306	1,294
December 31, 2022					
December 31, 2023					
December 31, 2023					
December 31, 2023					
Available-for-Sale:	**Available-for-Sale:**				
Available-for-Sale:					
Available-for-Sale:					
U.S. Treasury notes					
U.S. Treasury notes					
U.S. Treasury notes	U.S. Treasury notes	$16,521	931	59,927	7,549
U.S. Agency notes	U.S. Agency notes	7,729	543	70,247	10,641

Corporate Bonds	Corporate Bonds	2,667	283	3,255	495
U.S. Agency mortgage-backed securities	U.S. Agency mortgage-backed securities	41,543	3,597	37,282	7,714
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	6,831	248	893	120
Non-taxable					
Non-taxable					
Taxable	Taxable	22,162	1,951	18,435	3,828
		$97,453	7,553	190,039	30,347
Held-to-Maturity:	**Held-to-Maturity:**				
Held-to-Maturity:					
Held-to-Maturity:					
Municipal securities:					
Municipal securities:					
Municipal securities:	Municipal securities:				
Non-taxable	Non-taxable	$ 9,567	593	31	1
Non-taxable					
Non-taxable					
Taxable	Taxable	2,811	370	212	39
		$12,378	963	243	40
	$				

At March 31, 2024, LCNB's securities portfolio consisted of 168 securities, 161 of which were in an unrealized loss position. At December 31, 2023, LCNB's securities portfolio consisted of 207 securities, 176 of which were in an unrealized loss position. After considering the issuers of the securities, LCNB management determined that that the unrealized losses were due to changing interest rate environments. As LCNB had no intent at March 31, 2024 to sell its debt securities before recovery of their cost basis and as it was more likely than not that it will not be required to sell its debt securities before recovery of the cost basis, no unrealized losses were deemed to represent credit losses.

NOTE 3 - INVESTMENT SECURITIES (continued)

Securities are reviewed on a quarterly basis to assess declines in fair value for credit losses. For available-for-sale debt securities in an unrealized loss position, LCNB first assesses whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis, which may be at maturity. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with the establishment of an allowance. If the debt security does not meet the aforementioned criteria, LCNB evaluates whether the decline in fair value is due to credit loss factors. In making this assessment, LCNB considers any changes to the rating of the security by a rating agency and considers if there are any adverse conditions specifically related to the issuer of the security, among other factors. U.S. Treasury notes, U.S. Agency notes, and U.S. Agency mortgage-backed securities are issued or guaranteed by the U.S. federal government or agencies thereof and risk of credit loss is considered minimal for these securities. For available-for-sale debt securities outstanding at September 30, 2023, management concluded that, in all instances, fair values were less than carrying values due to market and other factors and that no credit loss provisions were required.

Debt securities with a market value of $143.7 million $172.4 million and $166.4 million $124.4 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, were pledged to secure public deposits and for other purposes required or as permitted by law.

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 September 30, 2023 March 31, 2024.

Contractual maturities of debt securities at September 30, 2023 March 31, 2024 were as follows (in thousands). Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

		Available-for-Sale		Held-to-Maturity	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Amortized Cost				
Due within one year	Due within one year	$ 8,904	8,846	280	281
Due from one to five years	Due from one to five years	172,144	153,515	3,586	3,444
Due from five to ten years	Due from five to ten years	48,681	41,587	2,440	2,184
Due after ten years	Due after ten years	—	—	12,707	11,014
		229,729	203,948	19,013	16,923
U.S. Agency mortgage-backed securities	U.S. Agency mortgage-backed securities	83,613	70,552	—	—
		$313,342	274,500	19,013	16,923

Available-for-Sale		Held-to-Maturity	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

Certain information concerning the sale of debt securities available-for-sale for the three months ended March 31, 2024 and 2023 was as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Proceeds from sales	$ 9,615	—
Gross realized gains	—	—
Gross realized losses	214	—

Realized gains or losses from the sale of securities are computed using the specific identification method.

Equity securities with a readily determinable fair value are carried at fair value, with changes in fair value recognized in other operating income in the consolidated condensed statements of income. Equity securities without a readily determinable fair value are measured at cost minus impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions, as defined, for identical or similar investments of the same issuer. LCNB was not aware of any impairment or observable price change adjustments that needed to be made at September 30, 2023 March 31, 2024 on its investments in equity securities without a readily determinable fair value.

The amortized cost and estimated fair value of equity securities with a readily determinable fair value at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are summarized as follows (in thousands):

		September 30, 2023		December 31, 2022	
		March 31, 2024			
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual Funds	Mutual Funds	$ 1,406	1,177	1,429	1,234
Equity Securities	Equity Securities	10	77	778	1,039

March 31, 2024		December 31, 2023	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

Total equity securities with a readily determinable fair value	Total equity securities with a readily determinable fair value	$	1,416	1,254	2,207	2,273

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

NOTE 3 - INVESTMENT SECURITIES (continued)

Changes Certain information concerning changes in the fair value of equity securities with a readily determinable fair value for the three and nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022

	Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,		
	2024	2024	2023

Net losses recognized during the period on equity securities	Net losses recognized during the period on equity securities	$ (33)	(80)	(78)	(384)
Less net losses recognized during the period on equity securities sold during the period	Less net losses recognized during the period on equity securities sold during the period	—	—	(61)	—
Net unrealized losses recognized during the reporting period on equity securities still held at period end		$ (33)	(80)	(17)	(384)

Net unrealized gains (losses) recognized during the reporting period on equity securities still held at period end

NOTE 4 - LOANS

Major classifications of loans at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (in thousands):

		September 30, 2023	December 31, 2022		
March 31, 2024				March 31, 2024	December 31, 2023
Commercial & industrial	Commercial & industrial	$ 125,882	120,327		
Commercial, secured by real estate:	Commercial, secured by real estate:				
Owner occupied					
Owner occupied					
Owner occupied	Owner occupied	204,596	208,485		
Non-owner occupied	Non-owner occupied	436,189	420,075		
Farmland	Farmland	38,232	36,340		
Multi-family	Multi-family	189,987	189,917		
Construction loans secured by 1-4 family dwellings	Construction loans secured by 1-4 family dwellings	6,937	7,786		
Construction loans secured by other real estate	Construction loans secured by other real estate	104,141	73,652		
Residential real estate:	Residential real estate:				
Secured by senior liens on 1-4 family dwellings					
Secured by senior liens on 1-4 family dwellings					
Secured by senior liens on 1-4 family dwellings	Secured by senior liens on 1-4 family dwellings	276,525	269,822		
Secured by junior liens on 1-4 family dwellings	Secured by junior liens on 1-4 family dwellings	13,854	10,197		

Home equity line-of-credit loans	Home equity line-of-credit loans	23,462	26,109
Consumer	Consumer	27,186	28,414
Agricultural	Agricultural	11,333	10,073
Other loans, including deposit overdrafts	Other loans, including deposit overdrafts	80	81
Loans, gross	Loans, gross	1,458,404	1,401,278
Less allowance for credit losses	Less allowance for credit losses	7,932	5,646
Loans, net	Loans, net	$1,450,472	1,395,632

Loans in the above table are shown net of deferred origination fees and costs. Deferred origination fees, net of related costs, were $796,000 $583,000 and $980,000 $181,000 at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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

NOTE 4 – LOANS (continued)

Non-accrual loans by class of receivable as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (in thousands):

		September 30, 2023			December 31, 2022		
		Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized	Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized
	March 31, 2024						
	Non-accrual Loans with no Allowance for Credit Losses						
		March 31, 2024			December 31, 2023		
		Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized	Non-accrual Loans with no Allowance for Credit Losses	Total Non-accrual Loans	Interest Income Recognized
Commercial & industrial	Commercial & industrial	$ —	—	—	—	—	3
Commercial, secured by real estate:	Commercial, secured by real estate:						
Owner occupied							
Owner occupied							
Owner occupied	Owner occupied	—	—	—	231	231	15
Non-owner occupied	Non-owner occupied	—	—	—	—	—	—
Farmland	Farmland	85	85	9	88	88	12
Multi-family	Multi-family	—	—	—	—	—	—

Construction loans secured by 1-4 family dwellings	Construction loans secured by 1-4 family dwellings	—	—	—	—	—	—
Construction loans secured by other real estate	Construction loans secured by other real estate	—	—	—	—	—	—
Residential real estate:	Residential real estate:						
Secured by senior liens on 1-4 family dwellings	Secured by senior liens on 1-4 family dwellings	—	—	—	72	72	4
Secured by senior liens on 1-4 family dwellings							
Secured by senior liens on 1-4 family dwellings							
Secured by junior liens on 1-4 family dwellings	Secured by junior liens on 1-4 family dwellings	—	—	—	—	—	—
Home equity line-of-credit loans	Home equity line-of-credit loans	—	—	—	—	—	—
Consumer	Consumer	—	—	—	—	—	—
Agricultural	Agricultural	—	—	—	—	—	—
Total	Total	$ 85	85	9	391	391	34

Two residential One commercial loan secured by real estate, loans secured by senior liens on 1-4 family dwellings were non-owner occupied, was added to the non-accrual classification during the first half quarter of 2023. 2024. Accrued interest interest reversed and charged against interest income for these loans totaled approximately $3,000. Both loans were paid in full during the third quarter 2023. $27,000.

The ratio of non-accrual loans to total loans outstanding at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was 0.01% 0.16% and 0.03%, respectively. The ratio of the allowance for credit losses for loans to total non-accrual loans at September 30, 2023 and December 31, 2022 was 9,316.45% and 1,445.88% 0.00%, respectively.

ALLOWANCE FOR CREDIT LOSSES

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. A provision for credit losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within Note 1 – Basis of Presentation - Adoption of New Accounting Pronouncements included in this Form 10-Q. factors.

During the first quarter of 2023, the Company adopted ASC 326, ASU No. 2016-13, including the CECL methodology for estimating the ACL. This standard was adopted using a modified retrospective approach on January 1, 2023. See Note 1 - Basis of Presentation - Adoption of New Accounting Pronouncements for a summary of the impact adoption of ASC 326 ASU No. 2016-13 had on LCNB's ACL, retained earnings, and deferred taxes.

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

NOTE 4 – LOANS (continued)

QUANTITATIVE CONSIDERATIONS

The ACL is primarily calculated utilizing a DCF model. Key inputs and assumptions used in this model are discussed below:

- Forecast model - For each portfolio segment, an LDA was performed in order to identify appropriate loss drivers and create a regression model for use in forecasting cash flows. The LDA analysis utilized peer FFIEC Call Report data for all pools. The Company plans to update the LDA when materially relevant.

LCNB CORP. AND SUBSIDIARIES
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(Continued)

NOTE 4 – LOANS (continued)

- Probability of default – PD is the probability that an asset will be in default within a given time frame. The Company has defined default as when a charge-off has occurred, a loan goes to non-accrual status, a loan is greater than 90 days past due, or financial difficulty modification status change. The forecast model is utilized to estimate PDs.
- Loss given default – LGD is the percentage of the asset not expected to be collected due to default. The LGD is derived from company specific and peer loss data.
- Prepayments and curtailments – Prepayments and curtailments are calculated based on the Company's own data. This analysis is updated annually. when materially relevant.
- Forecast and reversion – the Company as of January 1, 2023December 31, 2023 established a one-quarter two-quarter reasonable and supportable forecast period with a one-quarter six-quarter straight line reversion to the long-term historical average. As of September 30, 2023 March 31, 2024, the Company established a two-quarter three-quarter reasonable and supportable forecast period with a four-quarter seven-quarter straight line reversion to the long-term historical average. average because management believes the economy has shown more stability and resiliency than previously assumed. Extending the forecast and reversion periods from previous quarters has differing effects on pools based on the economic indicators used and the relation of the selected forecast range to the historical average. For example, the historical average for the bank's unemployment indicator is 5.92% 5.85%, which is higher than the forecasted range utilized as of September 30, 2023 March 31, 2024. The extended forecast and reversion period ultimately decreases the reserve associated with the unemployment factor when compared to the historical average.
  - The historical averages for LCNB's economic indicators are unemployment – 5.92% 5.85%, change in Coincident Economic Activity – 1.79% 1.83%, change in Commercial Real Estate Price Indexes – 5.41% 5.50%, and change in Home Price Index – 3.33% 3.42%
- Economic forecast – the Company utilizes a third party to provide economic forecasts under various scenarios, which are assessed against economic indicators and management's observations in the market. As of January 1, 2023, the date of CECL adoption, the Company selected a forecast which forecasted unemployment at 4.16%, the change in Coincident Economic Activity at 1.77%, the change in Commercial Real Estate Price Indexes at 9.35%, and the change in Home Price Index at -1.17% during the forecast periods. As of September 30, 2023 December 31, 2023, the Company selected a forecast which forecasts unemployment between 4.17% 4.21% and 4.57% 4.55%, the change in Coincident Economic Activity between 1.86% 0.62% and 2.97% 1.91%, the change in Commercial Real Estate Price Indexes between -6.96% -8.56% and -4.92% -6.64%, and the change in the Home Price Index between -1.22% 0.09% and 3.17% 4.47% during the forecast periods. As of March 31, 2024, the Company selected a forecast which forecasts unemployment between 4.45% and 5.14%, the change in Coincident Economic Activity between -0.53% and 0.47%, the change in Commercial Real Estate Price Indexes between -10.17% and -3.82%, and the change in the Home Price Index between -3.92% and 2.19% during the forecast periods. Management believes that the resulting quantitative reserve appropriately balances economic indicators with identified risks.

QUALITATIVE CONSIDERATIONS
In addition to the quantitative model, management considers the need for qualitative adjustment for risks not considered in the DCF. Factors that are considered by management in determining loan collectability and the appropriate level of the ACL are listed below:

- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Company operates that affect the collectability of financial assets;
- The effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics; and
- Model risk including statistical risk, reversion risk, timing risk, and model limitation risk.
- Changes in the nature and volume of the portfolio and terms of loans.
- Lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries.

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

NOTE 4 – LOANS (continued)

The following table presents activity in the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Oth
Three Months Ended September 30, 2023													
Balance, beginning of period	$ 1,065	5,023	1,326	535	5	2	7,956						
Three Months Ended March 31, 2024													

Three Months Ended March 31, 2024

Three Months Ended March 31, 2024

Balance, beginning of year

Provision for (recovery of) credit losses

Provision for (recovery of) credit losses

Provision for (recovery of) credit losses	Provision for (recovery of) credit losses	2	(70)	125	(75)	—	28	10
Losses charged off	Losses charged off	—	—	(4)	(1)	—	(54)	(59)
Recoveries	Recoveries	—	—	—	1	—	24	25
Balance, end of period	Balance, end of period	$ 1,067	4,953	1,447	460	5	—	7,932
Ratio of net charge-offs to average loans		— %	— %	0.01 %	— %	— %	154.44 %	0.01 %

Ratio of net charge-offs (recoveries) to average loans

Ratio of net charge-offs (recoveries) to average loans

Ratio of net charge-offs (recoveries) to average loans — % — % — % (0.08) % — % 259.4

Nine Months Ended September 30, 2023

Three Months Ended March 31, 2023

Three Months Ended March 31, 2023

Three Months Ended March 31, 2023

Balance, beginning of year, prior to adoption of ASC 326	Balance, beginning of year, prior to adoption of ASC 326	$ 1,300	3,609	624	86	22	5	5,646
Impact of adopting ASC 326	Impact of adopting ASC 326	(512)	1,440	836	446	(9)	(5)	2,196
Provision for (recovery of) credit losses	Provision for (recovery of) credit losses	294	(96)	(9)	(66)	(8)	58	173
Losses charged off	Losses charged off	(15)	—	(4)	(10)	—	(115)	(144)
Recoveries	Recoveries	—	—	—	4	—	57	61
Balance, end of period	Balance, end of period	$ 1,067	4,953	1,447	460	5	—	7,932

Ratio of net charge-offs to average loans	Ratio of net charge-offs to average loans	0.02 %	— %	— %	0.03 %	— %	106.23 %	0.01 %

Three Months Ended September 30, 2022

Balance, beginning of period	$ 1,287	3,825	625	67	18	11	5,833
Provision for (recovery of) credit losses	(33)	(164)	7	19	2	12	(157)
Losses charged off	—	—	—	(14)	—	(39)	(53)
Recoveries	—	—	—	—	—	21	21
Balance, end of period	$ 1,254	3,661	632	72	20	5	5,644
Ratio of net charge-offs to average loans / Ratio of net charge-offs to average loans	— %	— %	— %	0.19 %	— %	108.20 %	0.01 %

Nine Months Ended September 30, 2022

Balance, beginning of year	$ 1,095	3,607	665	105	30	4	5,506						
Provision for (recovery of) credit losses	159	121	(47)	(14)	(10)	60	269						
Losses charged off	—	(67)	(5)	(19)	—	(115)	(206)						
Recoveries	—	—	19	—	—	56	75						
Balance, end of period	$ 1,254	3,661	632	72	20	5	5,644						
Ratio of net charge-offs to average loans / Ratio of net charge-offs to average loans	— %	0.01 %	(0.01) %	0.08 %	— %	105.53 %	0.01 %	— %	— %	— %	0.01 %	— %	18.18

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

NOTE 4 – LOANS (continued)

A breakdown of the allowance for credit losses and allowance for loan losses and the loan portfolio by portfolio segment at September 30, 2023 and December 31, 2022 were as follows (in thousands):

	Commercial & Industrial	Commercial, Secured by Real Estate	Residential Real Estate	Consumer	Agricultural	Other	Total
September 30, 2023							
Allowance for credit losses:							
Individually evaluated for credit losses	$ 3	19	5	18	—	—	45
Collectively evaluated for credit loss	1,064	4,934	1,442	442	5	—	7,887
Balance, end of period	$ 1,067	4,953	1,447	460	5	—	7,932
Loans:							
Individually evaluated for credit losses	$ 138	3,425	802	74	—	—	4,439
Collectively evaluated for credit loss	125,744	976,657	313,039	27,112	11,333	80	1,453,965
Balance, end of period	$ 125,882	980,082	313,841	27,186	11,333	80	1,458,404
December 31, 2022							
Allowance for loan losses:							
Individually evaluated for credit losses	$ 4	11	6	—	—	—	21

Collectively evaluated for credit loss		1,296	3,598	618	86	22	5	5,625
Balance, end of period	$	1,300	3,609	624	86	22	5	5,646
Loans:								
Individually evaluated for credit losses	$	114	963	482	—	—	—	1,559
Collectively evaluated for credit loss		119,799	934,568	304,770	28,414	10,073	81	1,397,705
Acquired credit impaired loans		414	724	876	—	—	—	2,014
Balance, end of period	$	120,327	936,255	306,128	28,414	10,073	81	1,401,278

The ratio of the allowance for credit losses for loans to total loans at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was 0.54% 0.64% and 0.40% 0.61%, respectively.

For collateral dependent loans where management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the loan is to be provided substantially through the operation or sale of the collateral, the allowance for credit losses is measured based on the difference between the fair value of the collateral, less costs to sell, and the amortized cost basis of the loan as of the measurement date.

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

NOTE 4 – LOANS (continued)

The following table presents the carrying value and related allowance of collateral dependent individually evaluated loans by class segment at the dates indicated (in thousands):

			September 30, 2023		December 31, 2022	
			Carrying Value	Related Allowance	Carrying Value	Related Allowance
Commercial & industrial	Commercial & industrial	$	—	—	—	—
Commercial, secured by real estate:	Commercial, secured by real estate:					
Owner occupied	Owner occupied		73	—	230	—
Non-owner occupied	Non-owner occupied		—	—	—	—
Farmland	Farmland		85	—	88	—
Multi-family	Multi-family		—	—	—	—
Construction loans secured by 1-4 family dwellings	Construction loans secured by 1-4 family dwellings		—	—	—	—
Construction loans secured by other real estate	Construction loans secured by other real estate		—	—	—	

	March 31, 2024		December 31, 2023	
	Carrying Value	Related Allowance	Carrying Value	Related Allowance
Owner occupied				
Owner occupied				
Construction loans secured by other real estate	—	— —	— —	

March 31, 2024

Carrying Value

Residential real estate:	Residential real estate:				
Secured by senior liens on 1-4 family dwellings	Secured by senior liens on 1-4 family dwellings	254	—	40	—
Secured by senior liens on 1-4 family dwellings					
Secured by senior liens on 1-4 family dwellings					
Secured by junior liens on 1-4 family dwellings	Secured by junior liens on 1-4 family dwellings	—	—	—	—
Home equity line-of-credit loans	Home equity line-of-credit loans	—	—	—	—
Consumer	Consumer	74	18	—	—
Agricultural	Agricultural	—	—	—	—
Other loans, including deposit overdrafts	Other loans, including deposit overdrafts	—	—	—	—
Total	Total	$ 486	18	358	—

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

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

This category includes PPP loans that were authorized under the CARES Act and updated by the Economic Aid Act. Outstanding PPP loans at September 30, 2023 and December 31, 2022 totaled $27,000 and $40,000, respectively.

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

<u>NOTE 4 – LOANS</u> (continued)

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

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

(Continued)

NOTE 4 – LOANS (continued)

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

Residential real estate loans are underwritten primarily based on the borrower’s ability to repay, prior credit history, and the value of the collateral. LCNB generally requires private mortgage insurance for first mortgage loans that have a loan to appraised value ratio of greater than 80% or may require other credit enhancements for second lien mortgage loans.

Consumer Loans. LCNB’s portfolio of consumer loans generally includes secured and unsecured loans to individuals for household, family and other personal expenditures. Secured loans include loans to fund the purchase of automobiles, recreational vehicles, boats, and similar acquisitions. Consumer loans made by LCNB generally have fixed rates and terms ranging up to 72 months, depending upon the nature of the collateral, size of the loan, and other relevant factors. Consumer loans generally have higher interest rates, but pose additional risks of collectability and loss when compared to certain other types of loans. Collateral, if present, is generally subject to damage, wear, and depreciation. The borrower’s ability to repay is of primary importance in the underwriting of consumer loans.

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

Other Loans, Including Deposit Overdrafts. Other loans may include loans that do not fit in any of the other categories, but it is primarily composed of overdrafts from transaction deposit accounts. Overdraft payments are recorded as a recovery and overdrafts are generally written off after 34 days with a negative balance.

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

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

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

NOTE 4 – LOANS (continued)

The following table presents the amortized cost basis of loans by vintage and credit quality indicators at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands). The December 31, 2022 table is shown for comparison purposes.

	Term Loans by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
September 30, 2023									
Commercial & industrial									
Pass	$ 20,268	32,244	30,459	12,443	2,928	6,059	14,464	—	118,865
OAEM	—	—	1,549	—	—	—	—	—	1,549
Substandard	—	1,813	—	111	1,732	154	1,658	—	5,468
Doubtful	—	—	—	—	—	—	—	—	—

Total	20,268	34,057	32,008	12,554	4,660	6,213	16,122	—	125,882
Gross charge-offs	—	—	—	—	—	15	—	—	15
Commercial, secured by real estate									
Pass	66,051	145,391	130,762	94,492	93,717	270,649	156,266	—	957,328
OAEM	—	7,737	—	—	—	7,272	—	—	15,009
Substandard	—	—	—	—	1,695	6,050	—	—	7,745
Doubtful	—	—	—	—	—	—	—	—	—
Total	66,051	153,128	130,762	94,492	95,412	283,971	156,266	—	980,082
Gross charge-offs	—	—	—	—	—	—	—	—	—
Residential real estate									
Pass	30,088	30,355	82,216	51,060	16,053	78,378	22,459	387	310,996
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	32	—	2,813	—	—	2,845
Doubtful	—	—	—	—	—	—	—	—	—
Total	30,088	30,355	82,216	51,092	16,053	81,191	22,459	387	313,841
Gross charge-offs	—	—	—	—	4	—	—	—	4
Consumer									
Pass	7,657	6,388	5,469	5,404	1,717	299	159	—	27,093
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	5	67	21	—	—	—	—	93
Doubtful	—	—	—	—	—	—	—	—	—
Total	7,657	6,393	5,536	5,425	1,717	299	159	—	27,186
Gross charge-offs	—	—	10	—	—	—	—	—	10
Agricultural									
Pass	2,056	469	202	765	46	31	7,764	—	11,333
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	2,056	469	202	765	46	31	7,764	—	11,333
Gross charge-offs	—	—	—	—	—	—	—	—	—
Other									
Pass	—	—	—	—	—	—	80	—	80
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	80	—	80
Gross charge-offs	—	—	—	—	—	—	115	—	115
Total loans	$ 126,120	224,402	250,724	164,328	117,888	371,705	202,850	387	1,458,404

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	Term Loans by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
March 31, 2024									
Commercial & industrial									
Pass	$ 2,593	16,629	30,732	28,954	10,733	7,704	17,715	—	115,060
OAEM	—	—	—	1,471	—	—	—	—	1,471
Substandard	—	—	1,815	—	99	3,362	550	—	5,826
Doubtful	—	—	—	—	—	—	—	—	—

Total	2,593	16,629	32,547	30,425	10,832	11,066	18,265	—	122,357
Gross charge-offs (1)	—	—	—	—	—	—	—	—	—
Commercial, secured by real estate									
Pass	10,437	103,123	186,745	154,319	104,355	369,284	150,620	—	1,078,883
OAEM	—	—	2,707	—	—	3,881	—	—	6,588
Substandard	—	—	7,604	—	—	4,583	—	—	12,187
Doubtful	—	—	—	—	—	—	—	—	—
Total	10,437	103,123	197,056	154,319	104,355	377,748	150,620	—	1,097,658
Gross charge-offs (1)	—	—	—	—	—	—	—	—	—
Residential real estate									
Pass	6,574	48,822	64,354	84,862	51,177	106,384	33,412	—	395,585
OAEM	—	—	—	—	—	215	—	—	215
Substandard	—	—	—	299	531	2,651	132	—	3,613
Doubtful	—	—	—	—	—	—	—	—	—
Total	6,574	48,822	64,354	85,161	51,708	109,250	33,544	—	399,413
Gross charge-offs (1)	—	—	—	—	—	—	—	—	—
Consumer									
Pass	1,834	7,269	5,110	4,252	3,881	1,279	253	—	23,878
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	72	—	—	8	201	—	281
Doubtful	—	—	—	—	—	—	—	—	—
Total	1,834	7,269	5,182	4,252	3,881	1,287	454	—	24,159
Gross charge-offs (1)	—	—	—	2	—	1	—	—	3
Agricultural									
Pass	—	1,588	432	194	723	1,060	8,697	—	12,694
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	1,588	432	194	723	1,060	8,697	—	12,694
Gross charge-offs (1)	—	—	—	—	—	—	—	—	—
Other									
Pass	—	—	—	—	—	—	73	—	73
OAEM	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	73	—	73
Gross charge-offs (1)	—	—	—	—	—	—	75	—	75
Total loans	$ 21,438	177,431	299,571	274,351	171,499	500,411	211,653	—	1,656,354

(1) - for the three months ended March 31, 2024.

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

NOTE 4 – LOANS (continued)

Term Loans by Origination Year

		2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
December 31, 2022										

Term Loans by Origination Year

2023

2023

	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
2023								
December 31, 2023								
December 31, 2023								

Commercial & industrial	Commercial & industrial									
Pass										
Pass										
Pass	Pass	$ 30,132	36,341	20,936	3,632	2,499	5,630	15,403	—	114,573
OAEM	OAEM	—	—	—	2,142	—	—	1,602	—	3,744
Substandard	Substandard	1,540	—	106	—	—	51	313	—	2,010
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	31,672	36,341	21,042	5,774	2,499	5,681	17,318	—	120,327
Gross charge-offs		—	—	—	—	—	—	—	—	—
Gross charge-offs (2)										
Commercial, secured by real estate	Commercial, secured by real estate									
Pass										
Pass										
Pass	Pass	135,503	142,446	96,272	100,363	75,387	229,175	129,274	4,955	913,375
OAEM	OAEM	7,931	—	—	—	7,413	—	—	—	15,344
Substandard	Substandard	—	—	—	—	—	7,536	—	—	7,536
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	143,434	142,446	96,272	100,363	82,800	236,711	129,274	4,955	936,255
Gross charge-offs		—	—	—	—	—	67	—	—	67
Gross charge-offs (2)										
Residential real estate	Residential real estate									
Pass										
Pass										
Pass	Pass	27,892	86,952	54,144	17,804	13,298	78,969	24,359	1,095	304,513
OAEM	OAEM	—	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	37	—	1,572	—	6	1,615
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	27,892	86,952	54,144	17,841	13,298	80,541	24,359	1,101	306,128
Gross charge-offs		—	—	—	—	—	—	5	—	5

Gross charge-offs (2)										
Consumer	Consumer									
Pass										
Pass										
Pass	Pass	8,786	7,561	8,108	3,145	413	316	82	—	28,411
OAEM	OAEM	—	—	—	—	—	—	—	—	—
Substandard	Substandard	3	—	—	—	—	—	—	—	3
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	8,789	7,561	8,108	3,145	413	316	82	—	28,414
Gross charge-offs		—	4	24	9	—	—	—	—	37
Gross charge-offs (2)										
Agricultural	Agricultural									
Pass										
Pass										
Pass	Pass	533	243	865	63	116	29	8,224	—	10,073
OAEM	OAEM	—	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	—	—	—	—	—
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	533	243	865	63	116	29	8,224	—	10,073
Gross charge-offs		—	—	—	—	—	—	—	—	—
Gross charge-offs (2)										
Other	Other									
Pass										
Pass										
Pass	Pass	—	—	—	—	—	—	81	—	81
OAEM	OAEM	—	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	—	—	—	—	—
Doubtful	Doubtful	—	—	—	—	—	—	—	—	—
Total	Total	—	—	—	—	—	—	81	—	81
Gross charge-offs		—	—	—	—	—	—	157	—	157
Gross charge-offs (2)										
Total loans	Total loans	$212,320	273,543	180,431	127,186	99,126	323,278	179,338	6,056	1,401,278

(2) - for the year ended December 31, 2023.

(2) - for the year ended December 31, 2023.

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

NOTE 4 – LOANS (continued)

A loan portfolio aging analysis by class segment at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is as follows (in thousands):

		30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More Past Due and Accruing	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More Past Due and Accruing
September 30, 2023															
March 31, 2024															
Commercial & industrial															
Commercial & industrial															
Commercial & industrial	Commercial & industrial	$ —	—	—	—	125,882	125,882	—							
Commercial, secured by real estate:	Commercial, secured by real estate:														
Owner occupied															
Owner occupied															
Owner occupied	Owner occupied	—	—	73	73	204,523	204,596	73							
Non-owner occupied	Non-owner occupied	—	—	—	—	436,189	436,189	—							
Farmland	Farmland	95	—	—	95	38,137	38,232	—							
Multi-family	Multi-family	—	—	—	—	189,987	189,987	—							
Construction loans secured by 1-4 family dwellings	Construction loans secured by 1-4 family dwellings	—	—	—	—	6,937	6,937	—							
Construction loans secured by other real estate	Construction loans secured by other real estate	12	—	—	12	104,129	104,141	—							
Residential real estate:	Residential real estate:														
Secured by senior liens on 1-4 family dwellings	Secured by senior liens on 1-4 family dwellings	1,061	—	29	1,090	275,435	276,525	29							
Secured by senior liens on 1-4 family dwellings															
Secured by senior liens on 1-4 family dwellings															
Secured by junior liens on 1-4 family dwellings	Secured by junior liens on 1-4 family dwellings	—	—	—	—	13,854	13,854	—							
Home equity line-of-credit loans	Home equity line-of-credit loans	—	—	—	—	23,462	23,462	—							
Consumer	Consumer	62	5	74	141	27,045	27,186	74							
Agricultural	Agricultural	—	—	—	—	11,333	11,333	—							
Other	Other	80	—	—	80	—	80	—							

Total	Total	$ 1,310	5	176	1,491	1,456,913	1,458,404	176
December 31, 2022								
December 31, 2023								
December 31, 2023								
December 31, 2023								
Commercial & industrial	Commercial & industrial	$ —	—	—	—	120,327	120,327	—
Commercial, secured by real estate:	Commercial, secured by real estate:							
Owner occupied								
Owner occupied								
Owner occupied	Owner occupied	—	—	—	—	208,485	208,485	—
Non-owner occupied	Non-owner occupied	—	—	—	—	420,075	420,075	—
Farms	Farms	—	—	—	—	36,340	36,340	—
Multi-family	Multi-family	—	—	—	—	189,917	189,917	—
Construction loans secured by 1-4 family dwellings	Construction loans secured by 1-4 family dwellings	—	—	—	—	7,786	7,786	—
Construction loans secured by other real estate	Construction loans secured by other real estate	—	—	—	—	73,652	73,652	—
Residential real estate	Residential real estate							
Secured by senior liens on 1-4 family dwellings	Secured by senior liens on 1-4 family dwellings	81	—	79	160	269,662	269,822	39
Secured by senior liens on 1-4 family dwellings								
Secured by senior liens on 1-4 family dwellings								
Secured by junior liens on 1-4 family dwellings	Secured by junior liens on 1-4 family dwellings	—	—	—	—	10,197	10,197	—
Home equity line-of-credit loans	Home equity line-of-credit loans	—	—	—	—	26,109	26,109	—
Consumer	Consumer	117	3	—	120	28,294	28,414	—
Agricultural	Agricultural	—	—	—	—	10,073	10,073	—
Other	Other	81	—	—	81	—	81	—
Total	Total	$ 279	3	79	361	1,400,917	1,401,278	39

No residential consumer mortgage loans secured by residential real estate were in the process of foreclosure at September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023.

LCNB CORP. AND SUBSIDIARIES

NOTE 4 – LOANS (continued)

From time to time, the terms of certain loans are modified when concessions are granted to borrowers experiencing financial difficulties. Each modification is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's ability to pay the debt as modified. The modification of the terms of such loans may have included one, or a combination of, the following: a temporary or permanent reduction of the stated interest rate of the loan, an increase in the stated rate of interest lower than the current market rate for new debt with similar risk, forgiveness of principal, an extension of the maturity date, or a change in the payment terms.

One modification was granted The following table presents the amortized cost basis at March 31, 2024 of loan modifications made to a borrower borrowers experiencing financial difficulties during the three difficulty, disaggregated by class of financing receivable and nine months ended September 30, 2023. type of concession granted (in thousands):

		Interest Rate Reduction	Term Extension	Principal Forgiveness	Total Modifications	Percent of Total Class
Three Months Ended March 31, 2024						
Commercial & industrial	$	—	1,793	—	1,793	1.47 %
Commercial, secured by real estate, non-owner occupied		—	2,642	—	2,642	0.52 %
Total	$	—	4,435	—	4,435	

The modification was made on a residential commercial, secured by real estate, non-owner occupied loan secured by a senior lien on a single-family home with an outstanding amortized balance of $325,000 at June 30, 2023 and involved a delay of monthly payments for a period of time. This loan was paid $2,642,000 shown in full during the third quarter 2023. No loans meeting the table above specifications were modified during the three and nine months ending September 30, 2022. subsequently defaulted on payment.

There were no modified loans that experienced a payment default within twelve months of the restructuring date during the nine months ended September 30, 2023 and 2022.

Mortgage loans sold to and serviced for the Federal Home Loan Mortgage Corporation and other investors are not included in the accompanying consolidated condensed balance sheets. The unpaid principal balances of those loans at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were approximately $146.5 million $386.5 million and $148.4 million $391.8 million, respectively.

NOTE 5 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIP INVESTMENTS

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

The following table presents the balances of LCNB's affordable housing tax credit investments and related unfunded commitments at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

			September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Affordable housing tax credit investment	Affordable housing tax credit investment	$	16,950	16,950		
Less amortization	Less amortization		4,348	3,268		
Net affordable housing tax credit investment	Net affordable housing tax credit investment	$	12,602	13,682		
Unfunded commitment	Unfunded commitment	$	5,462	7,185		
Unfunded commitment						
Unfunded commitment						

The net affordable housing tax credit investment is included in other assets and the unfunded commitment is included in accrued interest and other liabilities in the consolidated condensed balance sheets.

LCNB expects to fund the unfunded commitment over 9.0 years.

LCNB CORP. AND SUBSIDIARY
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(Unaudited)
(Continued)

NOTE 5 - AFFORDABLE HOUSING TAX CREDIT LIMITED PARTNERSHIP INVESTMENTS (continued)

The following table presents other information relating to LCNB's affordable housing tax credit investments for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Tax credits and other tax benefits recognized	$ 438	357	1,302	1,071
Tax credit amortization expense included in provision for income taxes	362	306	1,080	907

	Three Months Ended March 31,	
	2024	2023
Tax credits and other tax benefits recognized	$ 443	430
Tax credit amortization expense included in provision for income taxes	372	357

NOTE 6 - DEPOSITS

The following table presents the composition of LCNB's deposits at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

		September 30, 2023	December 31, 2022
	March 31, 2024	March 31, 2024	December 31, 2023
Demand deposits	Demand deposits	$ 453,146	505,824
Interest-bearing demand and money fund deposits	Interest-bearing demand and money fund deposits	554,700	510,324
Savings deposits	Savings deposits	370,917	432,322
IRA and time certificates	IRA and time certificates	238,127	156,500
Total	Total	$1,616,890	1,604,970

Contractual maturities of time deposits at September 30, 2023 March 31, 2024 were as follows (in thousands):

October 1, 2023 - September 30, 2024 Three months or less	$ 138,134 67,736
October Over three through six months	88,753
Over six through twelve months	119,514
April 1, 2024 - September 30, 2025 March 31, 2025	85,359 276,003
October April 1, 2025 - September 30, 2026 March 31, 2026	6,492 119,970
October April 1, 2026 - September 30, 2027 March 31, 2027	6,443 10,196
October April 1, 2027 - September 30, 2028 March 31, 2028	976 2,449
April 1, 2028 - March 31, 2029	1,366
Thereafter	723 960
	$ 238,127 410,944

The aggregate amount of time deposits in denominations of $250,000 or more at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was $36.8 million $71.7 million and $16.1 million $50.2 million, respectively.

NOTE 7 – BORROWINGS

Long-term debt at September 30, 2023 and December 31, 2022 was as follows (dollars in thousands):

	September 30, 2023		December 31, 2022	
	Amount	Rate	Amount	Rate
Term loan	$ 12,641	4.25 %	$ 14,072	4.25 %
FHLB long-term advances	100,000	4.74 %	5,000	3.02 %
	$ 112,641	4.69 %	$ 19,072	3.93 %

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NOTE 7 – BORROWINGS (continued)

Long-term debt at March 31, 2024 and December 31, 2023 was as follows (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Amount	Rate	Amount	Rate
Term loan	$ 11,661	4.25 %	$ 12,154	4.25 %
FHLB long-term advances	150,977	4.66 %	100,969	4.87 %
	$ 162,638	4.63 %	$ 113,123	4.80 %

The term loan with a correspondent financial institution bears a fixed interest rate of 4.25%, amortizes quarterly, and has a final balloon payment due on June 15, 2025.

Contractual maturities of long-term debt at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (in thousands):

		September 30, 2023	December 31, 2022
March 31, 2024		March 31, 2024	December 31, 2023
Maturing within one year	Maturing within one year	$ 5,000	6,918

Maturing after one year through two years	Maturing after one year through two years	1,980	2,001
Maturing after two years through three years	Maturing after two years through three years	35,661	10,153
Maturing after three years through four years	Maturing after three years through four years	25,000	—
Maturing after four years through five years	Maturing after four years through five years	25,000	—
Thereafter	Thereafter	20,000	—
Total	Total	$112,641	19,072

Short-term borrowings at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (dollars in thousands):

	September 30, 2023		December 31, 2022	
	Amount	Rate	Amount	Rate
Revolving line of credit	$ —	— %	$ 3,000	7.25 %
Overnight lines of credit	—	— %	18,455	5.00 %
FHLB short-term advances	30,000	5.63 %	50,000	4.40 %
	$ 30,000	5.63 %	$ 71,455	4.67 %

	March 31, 2024		December 31, 2023	
	Amount	Rate	Amount	Rate
Lines of credit	$ —	— %	$ 21,395	6.00 %
FHLB short-term advances	10,000	5.64 %	76,000	5.53 %
	$ 10,000	5.64 %	$ 97,395	5.63 %

At September 30, 2023 March 31, 2024, LCNB Corp. had a short-term revolving line of credit arrangement with a financial institution for a maximum amount of $5 million at an interest rate equal to the Wall Street Journal Prime Rate minus 25 basis points. This agreement expires on June 15, 2024. No borrowings were outstanding under this arrangement at September 30, 2023.

At September 30, 2023 March 31, 2024, LCNB had overnight line of credit borrowing arrangements with three correspondent financial institutions. Under the terms of the first arrangement, LCNB can borrow up to $30 million at an interest rate equal to the lending institution's federal funds rate plus a spread of 50 basis points. No borrowings were outstanding under this arrangement at September 30, 2023. Under the terms of the second arrangement, LCNB can borrow up to $25 million at an interest rate equal to the FOMC rate plus a spread of 25 basis points. No borrowings were outstanding under this arrangement at September 30, 2023. Under the terms of the third arrangement, LCNB can borrow up to $25 million at the interest rate in effect at the time of borrowing. No borrowings were outstanding under this arrangement at September 30, 2023.

All long- long-term and short-term advances from the FHLB of Cincinnati are secured by a blanket pledge of LCNB's 1-4 family first lien mortgage loans in the amount of approximately $276 million $422 million and $270 million $417 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Remaining borrowing capacity with the FHLB, including both long- long-term and short-term borrowings, at September 30, 2023 March 31, 2024 was approximately $61.1 million $118.8 million. LCNB could increase its remaining borrowing capacity by purchasing more stock in the FHLB.

(Continued)

NOTE 7 – BORROWINGS (continued)

NOTE 8 - LEASES

Lease expenses for offices are included in the consolidated condensed statements of income in net occupancy expense and lease expenses for equipment and ATMs are included in equipment expense. Components of lease expense for the three and nine months ended September 30, 2023 March 31, 2024 were as follows (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
		2024		2024	2023
Operating lease expense	Operating lease expense	$ 219	117	661	461
Short-term lease expense	Short-term lease expense	16	100	62	184
Variable lease expense	Variable lease expense	2	1	5	2
Other	Other	15	2	25	7
Total lease expense	Total lease expense	$ 252	220	753	654

Other information related to leases at September 30, 2023 March 31, 2024 were as follows (dollars in thousands):

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	649 228
Right-of-use assets obtained in exchange for new operating lease liabilities	$	—
Weighted average remaining lease term in years for operating leases		33.0 33.3
Weighted average discount rate for operating leases		3.51 3.55 %

NOTE 9 – INCOME TAXES

A reconciliation between the statutory income tax and LCNB's effective tax rate on income from continuing operations follows:

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2023	2022	2023	2022		2024	2023
Statutory tax rate	Statutory tax rate	21.0 %	21.0 %	21.0 %	21.0 %	Statutory tax rate	21.0 %	21.0 %
Increase (decrease) resulting from:	Increase (decrease) resulting from:					Increase (decrease) resulting from:		
Tax exempt interest	Tax exempt interest	(0.7)%	(0.6)%	(0.6)%	(0.6)%	Tax exempt interest	(1.2) %	(0.7) %
Tax exempt income on bank-owned life insurance	Tax exempt income on bank-owned life insurance	(1.2)%	(0.8)%	(1.1)%	(0.9)%	Tax exempt income on bank-owned life insurance	(3.0) %	(1.1) %
Captive insurance premium income	Captive insurance premium income	(0.5)%	(0.7)%	(0.7)%	(0.8)%	Captive insurance premium income	(3.3) %	(1.0) %
Affordable housing tax credit limited partnerships	Affordable housing tax credit limited partnerships	(1.5)%	(0.7)%	(1.4)%	(0.9)%	Affordable housing tax credit limited partnerships	(3.2) %	(1.4) %
Nondeductible merger-related expenses	Nondeductible merger-related expenses	1.7 %	— %	0.7 %	— %	Nondeductible merger-related expenses	3.3 %	— %
Other, net	Other, net	0.1 %	0.1 %	0.3 %	0.1 %	Other, net	0.4 %	1.0 %
Effective tax rate	Effective tax rate	18.9 %	18.3 %	18.2 %	17.9 %	Effective tax rate	14.0 %	17.8 %

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NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

Financial instruments whose contract amounts represent off-balance-sheet credit risk at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (in thousands):

		September 30, 2023	December 31, 2022		
	March 31, 2024			March 31, 2024	December 31, 2023
Commitments to extend credit:	Commitments to extend credit:				
Commercial loans					
Commercial loans					

Commercial loans	Commercial loans	$ 45,953	22,823	
Other loans	Other loans			Other loans
Fixed rate	Fixed rate	906	191	
Adjustable rate	Adjustable rate	1,375	1,422	
Unused lines of credit:	Unused lines of credit:			Unused lines of credit:
Fixed rate	Fixed rate	28,860	41,558	
Adjustable rate	Adjustable rate	162,050	238,876	
Unused overdraft protection amounts on demand accounts	Unused overdraft protection amounts on demand accounts	16,468	16,566	
Standby letters of credit	Standby letters of credit	5	5	
Total commitments	Total commitments	$ 255,617	321,441	

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. Unused lines of credit include amounts not drawn on line of credit loans. Commitments to extend credit and unused lines of credit generally have fixed expiration dates or other termination clauses.

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

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

LCNB evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the borrower and may include accounts receivable, receivable; inventory, residential realty, income-producing commercial property, agricultural property, and property, plant, and equipment. equipment; residential realty; and income-producing commercial properties.

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NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Activity in the allowance for credit losses on off-balance sheet credit exposures for the three months ended March 31, 2024 and 2023 is as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Balance, beginning of period	$ 281	—
Impact of adopting ASC 326	—	571
Provision for (recovery of) credit losses	48	(89)
Balance, end of period	$ 329	482

Capital expenditures include the construction or acquisition of new office buildings, improvements to LCNB's offices, purchases of furniture and equipment, and additions or improvements to LCNB's information technology system. Commitments outstanding for capital expenditures as of September 30, 2023 March 31, 2024 totaled approximately $3.2 $2.3 million.

Management believes that LCNB has sufficient liquidity to fund its lending and capital expenditure commitments.

LCNB 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 LCNB's consolidated financial position or results of operations.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in accumulated other comprehensive loss for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows (in thousands):

	Three Months Ended March 31,		
	Three Months Ended March 31,		
	Three Months Ended March 31,		
	Unrealized Losses on Available-for-Sale Debt Securities	Changes in Pension Plan Assets and Benefit Obligations	Total
2024			
Balance at beginning of period			
Balance at beginning of period			
Balance at beginning of period			
Other comprehensive income (loss), net of taxes			
Reclassifications			
Balance at end of period			

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Unrealized Losses on Available-for-Sale Debt Securities	Changes in Pension Plan Assets and Benefit Obligations	Total	Unrealized Losses on Available-for-Sale Debt Securities	Changes in Pension Plan Assets and Benefit Obligations	Total
2023 **2023**						
Balance at beginning of period	$ (27,744)	(27)	(27,771)	(29,927)	(27)	(29,954)
Other comprehensive income (loss), net of taxes	(2,941)	—	(2,941)	(758)	—	(758)
Balance at end of period	$ (30,685)	(27)	(30,712)	(30,685)	(27)	(30,712)
2022						
2023						
2023						
Balance at beginning of period Balance at beginning of period	$ (21,670)	(270)	(21,940)	(1,536)	(273)	(1,809)
Other comprehensive (loss) income, net of taxes Other comprehensive (loss) income, net of taxes	(9,670)	1	(9,669)	(29,804)	4	(29,800)
Balance at end of period Balance at end of period	$ (31,340)	(269)	(31,609)	(31,340)	(269)	(31,609)
Balance at end of period						
Balance at end of period						

There were no reclassifications

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS (continued)

Reclassifications out of accumulated other comprehensive loss during the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 2023 and the affected line items in the condensed consolidated statements of income were as follows (in thousands):

	Three Months Ended March 31,		Affected Line Item in the Consolidated Condensed Statements of Income
	2024	2023	
Realized losses from sales of debt securities, available-for-sale	$ (214)	—	Net losses from sales of debt securities, available-for-sale
Income tax benefit	(45)	—	Provision for income taxes
Reclassification adjustment, net of taxes	$ (169)	—	

NOTE 12 – RETIREMENT PLANS

LCNB participates in a noncontributory defined benefit multi-employer retirement plan that covers substantially all regular full-time employees hired before January 1, 2009. Employees hired before this date who received a benefit reduction under certain amendments to the defined benefit retirement plan receive an automatic contribution of 5% or 7% of their annual compensation, depending on the sum of an employee's age and vesting service, into their defined contribution plans (401(k) plans), regardless of the contributions made by the employees. These contributions are made annually and these employees do not receive any employer matches to their 401(k) contributions.

Employees hired on or after January 1, 2009 receive a 50% employer match on their contributions into the 401(k) plan, up to a maximum LCNB contribution of 3% of each individual employee's annual compensation.

Funding and administrative costs of the qualified noncontributory defined benefit retirement plan and 401(k) plan charged to pension and other employee benefits in the consolidated condensed statements of income for the three and nine-month three-month period ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
		2023	2022	2023	2022	2024	2023
Qualified noncontributory defined benefit retirement plan	Qualified noncontributory defined benefit retirement plan	$267	342	944	958		

401(k) plan	401(k) plan	164	157	529	494

NOTE 12 – RETIREMENT PLANS (continued)

Certain highly compensated former employees participate in a nonqualified defined benefit retirement plan. 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. This plan is limited to the original participants and no new participants have been added.

The components of net periodic pension cost of the nonqualified defined benefit retirement plan consists solely of interest cost of $18,000 and $19,000 for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 are summarized as follows (in thousands): 2023, respectively.

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest cost	19	14	57	40
Amortization of unrecognized net loss	—	2	—	6
Net periodic pension cost	$ 19	16	$ 57	46

Amounts recognized in accumulated other comprehensive loss, net of tax, for the nonqualified defined benefit retirement plan for the three and nine months ended September 30, 2023 and 2022 were as follows (in thousands):

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Amortization of net actuarial loss	$ —	(1)	—	(4)

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NOTE 13 – STOCK BASED COMPENSATION

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

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

Restricted stock awards granted under the 2015 Plan during the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows:

		2023		2022		2024		2023	
		Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, January 1,	Outstanding, January 1,	58,314	$ 17.99	44,512	$ 17.08				
Granted	Granted	44,150	17.84	32,554	19.25				
Vested	Vested	(23,447)	17.89	(18,814)	18.01				

Forfeited	Forfeited	—	—	—	—
Outstanding, September 30,		79,017	$ 17.94	58,252	$ 17.99
Outstanding, March 31,					

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NOTE 13 – STOCK BASED COMPENSATION (continued)

The following table presents expense recorded in salaries and employee benefits for restricted stock awards and the related tax information for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31,			
		2024		2024	2023
Restricted stock expense	Restricted stock expense	$ 82	113	480	417
Tax effect	Tax effect	18	24	101	88

Unrecognized compensation expense for restricted stock awards was $1,008,000 $1,189,000 at September 30, 2023 March 31, 2024 and is expected to be recognized over a period of 4.4 4.9 years.

NOTE 14 – EARNINGS PER COMMON SHARE

LCNB has granted restricted stock awards with non-forfeitable dividend rights, which are considered participating securities. Accordingly, earnings per share is computed using the two-class method as required by ASC No. 260-10-45. Basic earnings per common share is calculated by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period, which excludes the participating securities. Diluted earnings per common share is adjusted for the dilutive effects of stock options, warrants, and restricted stock. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock options and warrants with proceeds used to purchase treasury shares at the average market price for the period.

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NOTE 14 - EARNINGS PER COMMON SHARE (continued)

Earnings per share for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were calculated as follows (dollars in thousands, except share and per share data):

	Three Months Ended September 30,	Nine Months Ended September 30,
	Three Months Ended March 31,	
	Three Months Ended March 31,	

		Three Months Ended March 31,					
		2023	2022	2023	2022	2024	2023
Net income	Net income	$ 4,070	5,579	12,921	15,720		
Less allocation of earnings and dividends to participating securities	Less allocation of earnings and dividends to participating securities	29	28	92	81		
Net income allocated to common shareholders	Net income allocated to common shareholders	$ 4,041	5,551	12,829	15,639		
Weighted average common shares outstanding, gross	Weighted average common shares outstanding, gross	11,117,737	11,342,539	11,173,810	11,537,078		
Weighted average common shares outstanding, gross							
Weighted average common shares outstanding, gross							
Less average participating securities	Less average participating securities	79,017	58,314	79,625	58,822		
Adjusted weighted average number of shares outstanding used in the calculation of basic and diluted earnings per common share	Adjusted weighted average number of shares outstanding used in the calculation of basic and diluted earnings per common share	11,038,720	11,284,225	11,094,185	11,478,256		
Earnings per common share:	Earnings per common share:						
Earnings per common share:							
Earnings per common share:							
Basic	Basic	$ 0.37	0.49	$ 1.16	1.36		
Diluted	Diluted	0.37	0.49	1.16	1.36		

NOTE 15 - FAIR VALUE MEASUREMENTS

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

NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

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

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

EQUITY SECURITIES WITH A READILY DETERMINABLE FAIR VALUE
Equity securities with a readily determinable fair value are reported at fair value with changes in fair value reported in other operating income in the consolidated condensed statements of income. Fair values for equity securities are determined based on market quotations (level 1). At December 31, 2022, LCNB had investments has an investment in two a mutual funds fund that were traded in active markets and their fair values were based on market quotations (level 1). These two mutual funds were sold during the first quarter of 2023. Investments in another two mutual funds are is measured at fair value using net asset values, and which are considered level 1 because the net asset values are determined and published and are the basis for current transactions.

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NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

DEBT SECURITIES, AVAILABLE-FOR-SALE
The majority of LCNB's financial debt securities are classified as available-for-sale. The securities are reported at fair value with unrealized holding gains and losses reported net of income taxes in accumulated other comprehensive income. LCNB utilizes a pricing service for determining the fair values of its debt securities. Methods and significant assumptions used to estimate fair value were as follows:

- Fair values for U.S. Treasury notes are determined based on market quotations (level 1).
- Fair values for the other debt securities are calculated using the discounted cash flow method for each security. The discount rates for these cash flows are estimated by the pricing service using rates observed in the market (level 2). Cash flow streams are dependent on estimated prepayment speeds and the overall structure of the securities given existing market conditions.

ASSETS RECORDED AT FAIR VALUE ON A NONRECURRING BASIS
Assets that may be recorded at fair value on a nonrecurring basis include individually evaluated collateral dependent loans (or impaired loans prior to the adoption of ASC 326), other real estate owned, and other repossessed assets.

LCNB does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent loans are recorded to reflect partial write-downs or specific reserves that are based on the observable market price or current estimated value of the collateral. These loans are reported in the nonrecurring table below at initial recognition of significant borrower distress and on an ongoing basis until recovery or charge-off. The fair values of distressed loans are determined using either the sales comparison approach or income approach. Respective unobservable inputs for the approaches consist of adjustments for differences between comparable sales and the utilization of appropriate capitalization rates.

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NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of LCNB's assets recorded at fair value by input levels as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

		Fair Value Measurements at the End of the Reporting Period Using		
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2023				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 77	77	—	—
Mutual funds measured at net asset value	1,177	1,177	—	—
Debt securities, available-for-sale:				
U.S. Treasury notes	70,128	70,128	—	—
U.S. Agency notes	78,352	—	78,352	—
Corporate bonds	6,506	—	6,506	—
U.S. Agency mortgage-backed securities	70,552	—	70,552	—
Municipal securities:				
Non-taxable	8,287	—	8,287	—
Taxable	40,675	—	40,675	—
Total recurring fair value measurements	$ 275,754	71,382	204,372	—
Nonrecurring fair value measurements:				
Individually evaluated loans	$ 56	—	—	56
Total nonrecurring fair value measurements	$ 56	—	—	56
December 31, 2022				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 1,039	1,039	—	—
Mutual funds	41	41	—	—
Mutual funds measured at net asset value	1,193	1,193	—	—
Debt securities, available-for-sale:				
U.S. Treasury notes	76,447	76,447	—	—
U.S. Agency notes	77,976	—	77,976	—
Corporate bonds	6,685	—	6,685	—
U.S. Agency mortgage-backed securities	79,440	—	79,440	—
Municipal securities:				
Non-taxable	8,524	—	8,524	—
Taxable	40,778	—	40,778	—
Total recurring fair value measurements	$ 292,123	78,720	213,403	—
Nonrecurring fair value measurements:				
Individually evaluated loans	$ 923	—	—	923
Total nonrecurring fair value measurements	$ 923	—	—	923

		Fair Value Measurements at the End of the Reporting Period Using		
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 98	98	—	—
Mutual funds measured at net asset value	1,236	1,236	—	—
Debt securities, available-for-sale:				

U.S. Treasury notes	67,806	67,806	—	—
U.S. Agency notes	80,590	—	80,590	—
Corporate bonds	6,626	—	6,626	—
U.S. Agency mortgage-backed securities	69,793	—	69,793	—
Municipal securities:				
Non-taxable	4,403	—	4,403	—
Taxable	33,568	—	33,568	—
Total recurring fair value measurements	$ 264,120	69,140	194,980	—
Nonrecurring fair value measurements:				
Individually evaluated loans	$ 1,483	—	—	1,483
Total nonrecurring fair value measurements	$ 1,483	—	—	1,483
December 31, 2023				
Recurring fair value measurements:				
Equity securities with a readily determinable fair value:				
Equity securities	$ 96	96	—	—
Mutual funds	—	—	—	—
Mutual funds measured at net asset value	1,240	1,240	—	—
Debt securities, available-for-sale:				
U.S. Treasury notes	68,202	68,202	—	—
U.S. Agency notes	80,901	—	80,901	—
Corporate bonds	6,534	—	6,534	—
U.S. Agency mortgage-backed securities	72,790	—	72,790	—
Municipal securities:				
Non-taxable	7,171	—	7,171	—
Taxable	41,003	—	41,003	—
Total recurring fair value measurements	$ 277,937	69,538	208,399	—
Nonrecurring fair value measurements:				
Individually evaluated loans	$ —	—	—	—
Total nonrecurring fair value measurements	$ —	—	—	—

NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

The following table presents quantitative information about unobservable inputs used in nonrecurring level 3 fair value measurements at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (dollars in thousands):

				Range		
	Fair Value	Valuation Technique	Unobservable Inputs	High	Low	Weighted Average
September 30, 2023						
Individually evaluated collateral dependent loans	$ 56	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		
December 31, 2022						
Individually evaluated loans	923	Discounted cash flows	Discount rate	8.13 %	4.63 %	6.04 %

	Fair Value	Valuation Technique	Unobservable Inputs	Range High	 Low	 Weighted Average
March 31, 2024						
Individually evaluated collateral dependent loans	$ 1,483	Estimated sales price	Adjustments for comparable properties, discounts to reflect current market conditions	Not applicable		

Carrying amounts and estimated fair values of financial instruments as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows (in thousands):

			Carrying Amount	Fair Value	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	 Significant Other Observable Inputs (Level 2)	 Significant Unobservable Inputs (Level 3)
September 30, 2023							
FINANCIAL ASSETS:	FINANCIAL ASSETS:						
Cash and cash equivalents	Cash and cash equivalents	$	43,422	43,422	43,422	—	—
Debt securities, held-to-maturity, net	Debt securities, held-to-maturity, net		19,006	16,923	—	—	16,923
Loans, net	Loans, net		1,450,472	1,249,268	—	—	1,249,268

	Carrying Amount	Carrying Amount	Fair Value	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	 Significant Other Observable Inputs (Level 2)	 Significant Unobservable Inputs (Level 3)
March 31, 2024						
FINANCIAL ASSETS:						
FINANCIAL ASSETS:						
Cash and cash equivalents						
Cash and cash equivalents						
Debt securities, held-to-maturity, net						
Debt securities, held-to-maturity, net						
Loans, net						
Loans, net						

Accrued interest receivable	Accrued interest receivable		8,087	8,087	—	8,087	—
FINANCIAL LIABILITIES:	FINANCIAL LIABILITIES:						
FINANCIAL LIABILITIES:							
FINANCIAL LIABILITIES:							
Deposits							
Deposits							
Deposits	Deposits		1,616,890	1,616,033	1,378,762	237,271	—
Short-term borrowings	Short-term borrowings		30,000	30,000	—	30,000	—
Long-term debt	Long-term debt		112,641	112,430	—	112,430	—
Accrued interest payable	Accrued interest payable		1,204	1,204	—	1,204	—
December 31, 2022							
December 31, 2023							
December 31, 2023							
December 31, 2023							
FINANCIAL ASSETS:	FINANCIAL ASSETS:						
FINANCIAL ASSETS:							
FINANCIAL ASSETS:							
Cash and cash equivalents							
Cash and cash equivalents							
Cash and cash equivalents	Cash and cash equivalents	$	22,701	22,701	22,701	—	—
Debt securities, held-to-maturity, net	Debt securities, held-to-maturity, net		19,878	18,885	—	—	18,885
Debt securities, held-to-maturity, net							
Debt securities, held-to-maturity, net							
Loans, net							
Loans, net							
Loans, net	Loans, net		1,395,632	1,219,112	—	—	1,219,112
Accrued interest receivable	Accrued interest receivable		7,482	7,482	—	7,482	—
FINANCIAL LIABILITIES:	FINANCIAL LIABILITIES:						
FINANCIAL LIABILITIES:							
FINANCIAL LIABILITIES:							
Deposits							
Deposits							
Deposits	Deposits		1,604,970	1,604,380	1,448,470	155,910	—

Short-term borrowings	Short-term borrowings	71,455	71,455	—	71,455	—
Long-term debt	Long-term debt	19,072	18,573	—	18,573	—
Accrued interest payable	Accrued interest payable	311	311	—	311	—

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

NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

The fair values of off-balance-sheet financial instruments such as loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of such instruments were not material at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

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

NOTE 15 - FAIR VALUE MEASUREMENTS (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 LCNB.

NOTE 16 - SUBSEQUENT EVENT

During April 2024 LCNB decided to consolidate its Miami Heights Office, located at 7553 Bridgetown Road, Cincinnati, Ohio into its Bridgetown Road Office, located at 6415 Bridgetown Road, Cincinnati, Ohio. The consolidation will occur at the close of business on Wednesday, July 31, 2024. LCNB recently acquired the Miami Heights Office through the merger with CNNB and then acquired the Bridgetown Road Office through the merger with EFBI and they are in close proximity to each other. Deposit and loan accounts held at the Miami Heights Office will automatically be transferred to the Bridgetown Road Office. LCNB does not expect the consolidation will have a material impact on it results of consolidated operations or financial position. The Miami Heights Office building will be marketed for sale and the resulting gain or loss from the sale is not expected to be material.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain statements made in this document regarding LCNB's financial condition, results of operations, plans, objectives, future performance and business, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by the fact they are not historical facts and include words such as "anticipate", "could", "may", "feel", "expect", "believe", "plan", and similar expressions. Please refer to LCNB's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, as well as its other filings with the SEC, for a more detailed discussion of risks, uncertainties and factors that could cause actual results to differ from those discussed in the forward-looking statements.

These forward-looking statements reflect management's current expectations based on all information available to management and its knowledge of LCNB's business and operations. Additionally, LCNB's financial condition, results of operations, plans, objectives, future performance and business are subject to risks and uncertainties that may cause actual results to differ materially. These factors include, but are not limited to:

1. the success, impact, and timing of the implementation of LCNB's business strategies;
2. LCNB's ability to integrate recent and future acquisitions may be unsuccessful or may be more difficult, time-consuming, or costly than expected;
3. LCNB may incur increased loan charge-offs in the future and the allowance for credit losses may be inadequate;
4. LCNB may face competitive loss of customers;
5. changes in the interest rate environment, which may include further interest rate increases, may have results on LCNB's operations materially different from those anticipated by LCNB's market risk management functions;

6. changes in general economic conditions and increased competition could adversely affect LCNB’s operating results;
7. changes in regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact LCNB’s operating results;
8. LCNB may experience difficulties growing loan and deposit balances;
9. United States trade relations with foreign countries could negatively impact the financial condition of LCNB's customers, which could adversely affect LCNB 's LCNB's operating results and financial condition;
10. global geopolitical relations and/or conflicts could create financial market uncertainty and have negative impacts on commodities and currency, which could adversely affect LCNB's operating results and financial condition;
11. difficulties with technology or data security breaches, including cyberattacks, could negatively affect LCNB's ability to conduct business and its relationships with customers, vendors, and others;
12. adverse weather events and natural disasters and global and/or national epidemics could negatively affect LCNB's customers given its concentrated geographic scope, which could impact LCNB's operating results; and
13. government intervention in the U.S. financial system, including the effects of legislative, tax, accounting, and regulatory actions and reforms, including the CARES Act, the Dodd-Frank Act, the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau, the capital ratios of Basel III as adopted by the federal banking authorities, the Tax Cuts and Jobs Act, changes in deposit insurance premium levels, and any such future regulatory actions or reforms.

Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist shareholders and potential investors in understanding current and anticipated financial operations of LCNB and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. LCNB undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

Critical Accounting Estimates

The accounting policies of LCNB conform to U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management’s estimates. As this information changes, management’s estimates and assumptions used to prepare LCNB’s financial statements and related disclosures may also change. The most significant accounting policies followed by LCNB are presented in Note 1 of the Notes to Consolidated Financial Statements included in LCNB's 2023 Annual Report on Form 10-K filed with the SEC. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the items described below to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

Business Combinations. Assets acquired, including identified intangible assets such as core deposit intangibles, and liabilities assumed as a result of a merger or acquisition transaction are recorded at their estimated fair values. The difference between the consideration paid and the net fair value of assets acquired and liabilities assumed is recorded as goodwill. Management engages third-party specialists to assist in the development of fair value estimates. Significant estimates and assumptions used to value acquired assets and liabilities assumed include, but are not limited to, projected cash flows, future growth rates, repayment rates, default rates and losses assuming default, discount rates, and realizable collateral values. The allowance for credit losses for PCD loans is recognized within acquisition accounting. The allowance for credit losses for non-PCD assets is recognized as provision for credit losses in the same reporting period as the merger or acquisition. Fair value adjustments are amortized or accreted into the income statement over the estimated lives of the acquired assets and assumed liabilities. The purchase date valuations and any subsequent adjustments determine the amount of goodwill recognized in connection with the merger or acquisition.

Preliminary estimates of fair values may be adjusted for a period of time no greater than one year subsequent to the merger or acquisition date if new information is obtained about facts and circumstances that existed as of the merger or acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period.

Allowance for Credit Losses. The allowance is maintained at a level LCNB management believes is adequate to absorb estimated credit losses identified and inherent in the loan portfolio. The allowance is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit 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 estimated losses over the contractual terms 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 and forecasted 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.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. This ASU (as subsequently amended by ASU 2018-19) significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This standard replaced the “incurred loss” approach with an “expected loss” model. Referred to as the CECL model, this standard applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures. The standard also expanded disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance. In addition, entities need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LCNB adopted CECL effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the incurred loss accounting standards. The transition adjustment of the CECL adoption included an increase in the allowance of $2.4 million, and a $1.9 million decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the Consolidated Balance Sheet, with the $0.5 million tax impact portion being recorded as part of the deferred tax asset in other assets in the Consolidated Balance Sheet.

See Note 1- Basis of Presentation - Adoption of New Accounting Pronouncements in this Quarterly Report on Form 10-Q for further detailed descriptions of LCNB's estimation process and methodology related to the allowance. See also Note 4 – Loans in this Quarterly Report on Form 10-Q for further information regarding LCNB's loan portfolio and allowance. condensed consolidated balance sheet.

Accounting for Intangibles. LCNB’s intangible assets are composed primarily of goodwill and core deposit intangibles related to acquisitions of other financial institutions. They also include mortgage servicing rights recorded from sales of mortgage loans to the Federal Home Loan Mortgage Corporation and mortgage servicing rights acquired through the acquisition of Eaton National and CFB.

Goodwill is not subject to amortization, but is reviewed annually for impairment. A review for impairment may be conducted more frequently than annually if circumstances indicate a possible impairment. Impairment indicators that may be considered include the condition of the economy and banking industry; estimated future cash flows; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of LCNB’s stock; and other relevant events. These and other factors could lead to a conclusion that goodwill is impaired, which would Accounting rules require LCNB to write off determine the fair value of all the assets and liabilities of an acquired entity and to record their fair values on the date of acquisition. LCNB employs a variety of means in determining fair values, including the use of discounted cash flow analysis, market comparisons and projected future revenue streams. For those items for which management concludes that LCNB has the appropriate expertise to determine fair value, management may choose to use its own calculation of fair value. In other cases, where the fair value is not readily determined, consultation with outside parties is used to determine fair value. Once valuations have been determined, the net difference between the estimated price paid for the acquired entity and the fair value of the Company and balance sheet is recorded as goodwill. Goodwill is assessed at least annually for impairment, with any such impairment recognized in the carrying value. period identified. A more frequent assessment is performed if there are material changes in the market place or within the organizational structure.

Core deposit intangibles acquired from business combinations are initially measured at their estimated fair values and are then amortized on a straight-line basis over their estimated useful lives. Management evaluates whether triggering events or circumstances have occurred that indicate the remaining useful life or carrying value of the amortizing intangible should be revised.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Fair Value Accounting for Debt Securities. Debt securities classified as available-for-sale are carried recorded at estimated fair value. Unrealized value with unrealized gains and losses recorded in other comprehensive income (loss), net of taxes, tax. Available-for-sale debt securities in unrealized loss positions are reported as evaluated to determine if the decline in fair value should be recorded in income or in other comprehensive income (loss). LCNB first determines if it intends to sell or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. If neither of these criteria is met, LCNB evaluates whether the decline in fair value resulted from credit factors. In making this determination, management considers, among other factors, the extent to which fair value is less than the amortized cost basis, any changes to the rating of the security by rating agencies, and any adverse conditions specifically related to the security or issuer. If the present value of cash flows expected to be collected is less than the amortized cost basis, a provision is recorded to the allowance for credit losses. Any decline in fair value not recorded through an allowance for credit losses is recognized in accumulated other comprehensive income or loss in shareholders' equity. Fair value is estimated using market quotations for U.S. Treasury investments. Fair value for the majority (loss), net of the remaining available-for-sale securities is estimated using the discounted cash flow method for each security with discount rates based on rates observed in the market. applicable taxes.

Results of Operations

Net income for the three and nine months ended September 30, 2023 March 31, 2024 was $4,070,000 $1,915,000 (total basic and diluted earnings per share of $0.15). This compares to net income of $4,157,000 (total basic and diluted earnings per share of $0.37) and $12,921,000 (total basic and diluted earnings per share of $1.16), respectively. This compares to net income of $5,579,000 (total basic and diluted earnings per share of $0.49) and $15,720,000 (total basic and diluted earnings per share of $1.36) for the same respective three and nine-month periods three-month period in 2022. 2023. Results for the 2024 period were affected by the acquisition of Cincinnati Federal Bancorp on November 1, 2023.

Net interest income for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 was $13,571,000 $13,895,000 and $41,690,000, $13,942,000, respectively. This compares to net interest income of $15,444,000 and $44,834,000 for the same respective three- and nine-month periods in 2022. The decrease in net interest income was primarily due to interest paid on a higher amount amounts of average short-term interest-bearing demand and money market deposits, IRA and time certificates, and long-term borrowings and to higher interest expense associated with the rapid year-over-year increase in the Effective Federal Funds Rate. These increases in interest expense were partially offset by increased interest income from higher average loan balances and an increase in the average rate earned on the loan portfolio. The higher average loan and deposit balances during 2024 period were partially due to the acquisition of Cincinnati Federal. LCNB's tax equivalent net interest margin for the first nine three months of 2023 2024 was 3.20% 2.73%, compared to 3.48% 3.28% for the same period last year.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LCNB recorded a net recovery of provision for credit losses of $114,000 and $141,000 $125,000 for the three and nine months ended September 30, 2023 March 31, 2024. This compares to a net recovery of credit losses of $157,000 $57,000 for the three months ended September 30, 2022 and a provision for credit losses of $269,000 for the nine months ended September 30, 2022, respectively.

March 31, 2023.

Non-interest income for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 was $3,578,000 $3,929,000 and $10,805,000, $3,581,000, respectively. This compares The increase was primarily due to non-interest higher amounts of fiduciary income and net gains recognized on the sale of $3,581,000 and $10,659,000 for the same respective three- and nine-month periods in 2022. residential mortgage loans.

Non-interest expense for the three and nine months ended September 30, 2023 March 31, 2024 was $12,244,000 and $36,847,000, respectively, $15,472,000, compared to $12,350,000 and $36,069,000 $12,525,000 for the same respective three and nine-month periods in 2022. The three- and nine-month periods in 2023 benefited from a $425,000 gain recognized on the sale of a decommissioned office building and the nine-month three-month period in 2022 benefited 2023. The increase was primarily due to higher expenses associated with the additional personnel and offices resulting from an $889,000 gain recognized on the sale acquisition of other real estate owned. Reasons for Cincinnati Federal and to one-time expenses totaling $775,000 associated with the increases include merger-related expenses recognized in 2023 Cincinnati Federal and higher FDIC insurance premiums. These higher costs were partially offset by a decrease in state financial institutions tax expense.

EFBI acquisitions.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Net Interest Income

Three Months Ended September 30, 2023 vs. September 30, 2022

LCNB's primary source of earnings is net interest income, which is the difference between earnings from loans and other investments and interest paid on deposits and other liabilities. The following table presents, for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, average balances for interest-earning assets and interest-bearing liabilities, the income or expense related to each item, and the resulting average yields earned or rates paid.

	Three Months Ended March 31,				
	2024				
	Average Outstanding Balance	(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	
Loans (1)					
Loans (1)					
Loans (1)		$1,722,568	22,682	5	
Interest-bearing demand deposits					
Interest-bearing demand deposits					
Interest-bearing demand deposits		23,317	324	5	

Three Months Ended September 30,	
2023	2022

Federal Reserve Bank stock

	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate					
	(Dollars in thousands)										
Loans (1)	$ 1,451,153	17,875	4.89 %	$ 1,384,520	15,026	4.31 %					
Interest-bearing demand deposits	10,891	152	5.54 %	13,212	80	2.40 %					
Federal Reserve Bank stock											
Federal Reserve Bank stock	4,652	—	— %	4,652	—	— %	5,509	(4)	(4)	(0.29)	(0.
Federal Home Loan Bank stock	7,007	134	7.59 %	4,369	65	5.90 %	16,239	341	341	8.45	
Investment securities:											
Equity securities	3,382	38	4.46 %	4,387	20	1.81 %					
Equity securities											
Equity securities							4,995		40		3
Debt securities, taxable	274,494	1,296	1.87 %	297,001	1,323	1.77 %	265,164	1,232	1,232	1.87	
Debt securities, non-taxable (2)	24,134	219	3.60 %	27,890	241	3.43 %	18,864	181	181	3.86	
Total earnings assets	1,775,713	19,714	4.40 %	1,736,031	16,755	3.83 %	2,056,656	24,796	24,796	4.85	
Non-earning assets	203,514			198,954							
Allowance for credit losses	(7,958)			(5,830)							
Allowance for credit losses											
Allowance for credit losses											
Total assets	$ 1,971,269			$ 1,929,155							
Total assets											
Total assets											
Interest-bearing demand and money market deposits											
Interest-bearing demand and money market deposits											

Interest-bearing demand and money market deposits	Interest-bearing demand and money market deposits	$ 541,487	2,298	1.68 %	$ 539,228	422	0.31 %		$ 643,199	3,917	3,917	2.45	2
Savings deposits	Savings deposits	379,515	129	0.13 %	453,420	159	0.14 %	Savings deposits	368,049	206	206	0.23	
IRA and time certificates	IRA and time certificates	230,030	1,999	3.45 %	168,358	398	0.94 %	IRA and time certificates	370,130	4,067	4,067	4.42	
Short-term borrowings	Short-term borrowings	63,018	830	5.23 %	5,728	71	4.92 %	Short-term borrowings	65,052	935	935	5.78	
Long-term debt	Long-term debt	72,550	841	4.60 %	24,920	210	3.34 %	Long-term debt	150,177	1,738	1,738	4.65	
Total interest-bearing liabilities	Total interest-bearing liabilities	1,286,600	6,097	1.88 %	1,191,654	1,260	0.42 %	Total interest-bearing liabilities	1,596,607	10,863	10,863	2.74	
Demand deposits	Demand deposits	459,476			508,926								
Other liabilities	Other liabilities	21,226			23,524								
Other liabilities													
Other liabilities													
Equity													
Equity													
Equity	Equity	203,967			205,051								
Total liabilities and equity	Total liabilities and equity	$ 1,971,269			$ 1,929,155								
Total liabilities and equity													
Total liabilities and equity													
Net interest rate spread (3)													
Net interest rate spread (3)													
Net interest rate spread (3)	Net interest rate spread (3)			2.52 %			3.41 %						
Net interest income and net interest margin on a taxable-equivalent basis (4)	Net interest income and net interest margin on a taxable-equivalent basis (4)		13,617	3.04 %		15,495	3.54 %	Net interest income and net interest margin on a taxable-equivalent basis (4)			13,933	2.72	
Ratio of interest-earning assets to interest-bearing liabilities	Ratio of interest-earning assets to interest-bearing liabilities	138.02 %			145.68 %								

(1) Includes non-accrual loans. loans and loans held for sale

(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 compleme of the incremental tax rate of 21%.

(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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table presents the changes in taxable-equivalent basis 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 three months ended September 30, 2023 March 31, 2024 as compared to the same period in 2022. 2023. 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.

		Three Months Ended September 30, 2023 vs. 2022 Increase (decrease) attributable to:					
		Three Months Ended March 31, 2024 vs. 2023 Increase (decrease) attributable to:			Three Months Ended March 31, 2024 vs. 2023 Increase (decrease) attributable to:		
		Volume	Rate	Total	Volume	Rate	Total
		(In thousands)			(In thousands)		
Interest-earning Assets:	**Interest-earning Assets:**						
Loans	Loans	$ 749	2,100	2,849			
Loans							
Loans							
Interest-bearing demand deposits	Interest-bearing demand deposits	(16)	88	72			
Interest-bearing demand deposits							
Interest-bearing demand deposits							
Federal Reserve Bank stock							
Federal Reserve Bank stock							
Federal Reserve Bank stock	Federal Reserve Bank stock	—	—	—			
Federal Home Loan Bank stock	Federal Home Loan Bank stock	47	22	69			
Investment securities:	Investment securities:				Investment securities:		
Equity securities	Equity securities	(5)	23	18			

Debt securities, taxable	Debt securities, taxable	(104)	77	(27)
Debt securities, non-taxable	Debt securities, non-taxable	(34)	12	(22)
Total interest income	Total interest income	637	2,322	2,959
Interest-bearing Liabilities:	**Interest-bearing Liabilities:**			
Interest-bearing Liabilities:				
Interest-bearing Liabilities:				
Interest-bearing demand and money market deposits	Interest-bearing demand and money market deposits	2	1,874	1,876
Savings deposits	Savings deposits	(25)	(5)	(30)
IRA and time certificates	IRA and time certificates	193	1,408	1,601
Short-term borrowings	Short-term borrowings	754	5	759
Long-term debt	Long-term debt	527	104	631
Total interest expense	Total interest expense	1,451	3,386	4,837
Net interest income	Net interest income	$ (814)	(1,064)	(1,878)

Net interest income on a fully taxable-equivalent basis for the three months ended September 30, 2023 March 31, 2024 totaled $13,617,000, $13,933,000, a decrease of $1,878,000 $56,000 from the comparable period in 2022. 2023. Total interest income increased $2,959,000, $6,831,000, which was more than offset by an increase in total interest expense of $4,837,000. $6,887,000.

The $2,959,000 $6,831,000 increase in total interest income was due primarily to a $2,849,000 $6,539,000 increase in loan interest income. The increase in loan interest income was primarily due to a net 58 59 basis point (a basis point equals 0.01%) increase in the average rate earned on the loan portfolio due to higher market rates and secondarily to a $66.6 million $333.2 million increase in average loan balances. Loan balances increased due to organic growth in the loan portfolio and to loans acquired in the merger with Cincinnati Federal.

The $4,837,000 $6,887,000 increase in total interest expense was primarily due to a $1,876,000 $2,672,000 increase in interest expense for interest-bearing demand and money market deposits, a $1,601,000 $2,995,000 increase in interest expense for IRA and time certificates, a $759,000 increase in interest expense for short-term borrowings, and a $631,000 $1,522,000 increase in interest expense for long-term debt. Interest expense on interest-bearing demand and money market deposits increased primarily due to a 137 145 basis point increase in the average rate paid for these deposits and interest secondarily to a $138.8 million increase in average deposit balances. Interest expense on IRA and time certificates increased primarily due to a 251 $184.8 million increase in average deposit balances and to a 207 basis point increase in the average rate paid. Interest expense on short-term borrowings Deposit balances increased primarily due to a $57.3 million increase combination of organic growth and to balances obtained in the average balance outstanding. Interest expense on long-term debt increased primarily due to a $47.6 million increase in the average balance outstanding. merger with Cincinnati Federal.

Interest expense on long-term debt increased primarily due to a $131.2 million increase in the average balance outstanding caused by new FHLB advances, which were used to pay down short-term borrowings, promote loan growth, and increase liquidity.

Increases in market rates during 2022 and 2023 through the first quarter of 2024 were primarily caused by FOMC increases in the Targeted Federal Funds rate. The Targeted Federal Funds rate increased by 425 basis points during 2022 and by an additional 100 basis points during the first nine months of 2023.

Nine Months Ended September 30, 2023 vs. September 30, 2022

The following table presents, for the nine months ended September 30, 2023 and September 30, 2022, average balances for interest-earning assets and interest-bearing liabilities, the income or expense related to each item, and the resulting average yields earned or rates paid.

	Nine Months Ended September 30,					
	2023			2022		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Loans (1)	$ 1,415,719	50,781	4.80 %	$ 1,379,080	43,360	4.20 %
Interest-bearing demand deposits	11,051	453	5.48 %	10,546	109	1.38 %
Federal Reserve Bank stock	4,652	140	4.02 %	4,652	140	4.02 %
Federal Home Loan Bank stock	6,840	317	6.20 %	4,922	130	3.53 %
Investment securities:						
Equity securities	3,698	113	4.09 %	4,484	56	1.67 %
Debt securities, taxable	280,998	3,962	1.89 %	297,162	3,672	1.65 %
Debt securities, non-taxable (2)	24,518	662	3.61 %	27,831	718	3.45 %
Total earnings assets	1,747,476	56,428	4.32 %	1,728,677	48,185	3.73 %
Non-earning assets	200,897			196,750		
Allowance for credit losses	(7,782)			(5,623)		
Total assets	$ 1,940,591			$ 1,919,804		
Interest-bearing demand and money market deposits	$ 522,896	5,140	1.31 %	$ 515,868	762	0.20 %
Savings deposits	396,785	402	0.14 %	451,597	465	0.14 %
IRA and time certificates	210,407	4,675	2.97 %	179,514	1,266	0.94 %
Short-term borrowings	78,916	3,142	5.32 %	12,140	320	3.52 %
Long-term debt	36,878	1,240	4.50 %	15,907	387	3.25 %
Total interest-bearing liabilities	1,245,882	14,599	1.57 %	1,175,026	3,200	0.36 %
Demand deposits	469,580			510,422		
Other liabilities	21,633			22,292		
Equity	203,496			212,064		
Total liabilities and equity	$ 1,940,591			$ 1,919,804		
Net interest rate spread (3)			2.75 %			3.37 %
Net interest income and net interest margin on a taxable-equivalent basis (4)		41,829	3.20 %		44,985	3.48 %
Ratio of interest-earning assets to interest-bearing liabilities	140.26 %			147.12 %		

(1) Includes non-accrual loans.

(2) Income from tax-exempt securities is included in interest income on a taxable-equivalent basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 21%.

(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 taxable-equivalent basis 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 nine months ended September 30, 2023 as compared to the same period in 2022. 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.

	Nine Months Ended September 30, 2023 vs. 2022 Increase (decrease) attributable to:		
	Volume	Rate	Total
	(In thousands)		
Interest-earning Assets:			
Loans	$ 1,178	6,243	7,421
Interest-bearing demand deposits	5	339	344
Federal Reserve Bank stock	—	—	—
Federal Home Loan Bank stock	64	123	187
Investment securities:			
Equity securities	(11)	68	57
Debt securities, taxable	(208)	498	290
Debt securities, non-taxable	(88)	32	(56)
Total interest income	940	7,303	8,243
Interest-bearing Liabilities:			
Interest-bearing demand and money market deposits	11	4,367	4,378
Savings deposits	(56)	(7)	(63)
IRA and time certificates	253	3,156	3,409
Short-term borrowings	2,582	240	2,822
Long-term debt	661	192	853
Total interest expense	3,451	7,948	11,399
Net interest income	$ (2,511)	(645)	(3,156)

Net interest income on a fully taxable-equivalent basis for the nine months ended September 30, 2023 totaled $41,829,000, a decrease of $3,156,000 from the comparable period in 2022. Total interest income increased $8,243,000, which was more than offset by an increase in total interest expense of $11,399,000.

The $8,243,000 increase in total interest income was due primarily to a $7,421,000 increase in loan interest income. The increase in loan interest income was primarily due to a net 59 basis point increase in the average rate earned on the loan portfolio due to higher market rates and secondarily to a $36.6 million increase in average loan balances.

The $11,399,000 increase in total interest expense was primarily due to a $4,378,000 increase in interest expense for interest-bearing demand and money market deposits, a $3,409,000 increase in interest expense for IRA and time certificates, a $2,822,000 increase in interest expense for short-term borrowings, and an $853,000 increase in interest expense for long-term debt. Interest expense on interest-bearing demand and money market deposits increased primarily due to a 111 basis point increase in the average rate paid for these deposits and interest expense on IRA and time certificates increased primarily due to a 203 basis point increase in the average rate paid. Interest expense on short-term borrowings increased primarily due to a $66.8 million increase in the average balance outstanding. Interest expense on long-term debt increased primarily due to a $21.0 million increase in the average balance outstanding.

Provision and Allowance For Credit Losses

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

The total provision for credit losses is determined based upon management's evaluation as to the amount needed to maintain the allowance for credit losses at a level considered appropriate in relation to the risk of losses inherent in the portfolio. For analysis purposes, the loan portfolio is separated into pools of similar loans. These pools include commercial and industrial loans, owner occupied commercial real estate loans, non-owner occupied commercial real estate loans, real estate loans secured by farms, real estate loans secured by multi-family dwellings, residential real estate loans secured by senior liens on 1-4 family dwellings, residential real estate loans secured by junior liens on 1-4 family dwellings, home equity line of credit loans, consumer loans, loans for agricultural purposes not secured by real estate, construction loans secured by 1-4 family dwellings, construction loans secured by other real estate, and several smaller classifications. Within each pool of loans, LCNB examines a variety of factors to determine the adequacy of the allowance for credit losses, including historic charge-off percentages, overall pool quality, a review of specific problem loans, current economic trends and conditions that may affect borrowers' ability to pay, and the nature, volume, and consistency of the loan pool.

LCNB recorded a provision for credit losses of $125,000 for the first quarter of 2024 and a net recovery of credit losses of $114,000 and $141,000 $57,000 for the three and nine months ended September 30, 2023, respectively. This compares to a recovery of credit losses of $157,000 for the three months ended September 30, 2022 and provision of $269,000 for the nine months ended September 30, 2022. comparable in 2023. The provision for the three and nine months ended September 30, 2023 2024 period included a provision for credit losses on loans of $9,000 $77,000 and $173,000, respectively, more than a provision for off-balance-sheet credit exposures of $48,000. The 2023 net recovery was due to a recovery of $89,000 on off-balance sheet credit exposures, partially offset by a provision for credit losses of $32,000 on loans.

The provision for credit losses on loans during the 2024 period includes an increase in the allowance for a loan that was individually evaluated for the first time. This increase was largely offset by a recovery of credit losses on off-balance sheet credit exposures of $123,000 and $313,000 for the same respective three- and nine-month periods in 2023. The provision for credit losses on loans includes an increase in the allowance for individually evaluated loans resulting from loans that were evaluated for the first time. In the pooled real estate mortgage loan categories for the nine months ended September 30, 2023, there was a provision for commercial and industrial loans, largely offset by recoveries in the commercial and category. The residential real estate categories. The allowance for commercial and industrial loans increased largely due to an increase in outstanding balances and to an increase in the qualitative part of the loss rate. The residential real estate mortgage loan category had a recovery primarily due to decreases in loss rates, reflecting a change in the forecasted period from one quarter with a one quarter reversion to the long-term historical average to a forecasted period of two quarters with a four quarter reversion period. Off-balance sheet credit exposures had recoveries losses primarily due to a decrease in commitments outstanding loss rates partially reflecting a change in qualitative factors and to decreases a decrease in loan balances largely due to a transfer to the loss rates. loans held for sale category.

Calculating an appropriate level for the allowance and provision for credit losses involves a high degree of management judgment and is, by its nature, imprecise. Revisions may be necessary as more information becomes available.

Net charge-offs for the three and nine months ended September 30, 2023 March 31, 2024 totaled $34,000 and $83,000, respectively, $45,000, compared to net charge-offs of $32,000 and $131,000 $16,000 for the same respective three and nine-month periods period in 2022. 2023.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Non-Interest Income

A comparison of non-interest income for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 is as follows (in thousands):

		Three Months Ended September 30,			Nine Months Ended September 30,			Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,
		2023	2022	Difference	2023	2022	Difference	2024	2023	Difference
Fiduciary income	Fiduciary income	$1,736	1,513	223	5,263	4,851	412			
Service charges and fees on deposit accounts	Service charges and fees on deposit accounts	1,397	1,706	(309)	4,324	4,658	(334)			

Net losses from sales of debt securities, available-for-sale							
Bank-owned life insurance income	Bank-owned life insurance income	282	269	13	830	803	27
Gains from sales of loans		29	—	29	38	188	(150)
Other operating income		134	93	41	350	159	191
Net gains from sales of loans							
Other operating income (loss)							
Total non-interest income	Total non-interest income	$3,578	3,581	(3)	10,805	10,659	146

Reasons for changes include:

- Fiduciary income increased primarily due to increases in the fair values of trust and brokerage assets managed, on which fees are based. The increases in fair value are due to the opening of new Wealth Management customer accounts and to an increase in the market values of managed assets.
- Service charges and fees on deposit accounts decreased primarily due to decreases in most several fee categories, including fees received from check cards, overdraft fees, ATM usage fees, and deposit accounts account fees in general. LCNB reduced overdraft fees from $35 per occurrence to $25 effective November 1, 2023.
- Gains Net losses from sales of debt securities during 2024 reflect losses recognized on the sale of municipal securities with an amortized cost basis of approximately $9.8 million.
- Net gains from sales of loans decreased during the nine month-period primarily increased due to a lower higher volume of residential real estate loans sold. loan sales.
- Other operating income increased decreased primarily because of realized and unrealized net gains on equity securities due to a partial recovery an increase in market values. amortization of capitalized mortgage servicing rights, which amortization is netted for accounting purposes against fee income recognized from the servicing of sold residential mortgage loans.

Non-Interest Expense

A comparison of non-interest expense for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 is as follows (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
	Three Months Ended March 31,	
	Three Months Ended March 31,	

		Three Months Ended March 31,								
		2023	2022	Difference	2023	2022	Difference	2024	2023	Difference
Salaries and employee benefits	Salaries and employee benefits	$ 7,044	7,062	(18)	21,454	21,291	163			
Equipment expenses	Equipment expenses	397	398	(1)	1,175	1,234	(59)			
Occupancy expense, net	Occupancy expense, net	805	790	15	2,367	2,300	67			
State financial institutions tax	State financial institutions tax	396	439	(43)	1,189	1,312	(123)			
Marketing	Marketing	223	215	8	735	845	(110)			
Amortization of intangibles	Amortization of intangibles	113	113	—	336	365	(29)			
FDIC insurance premiums, net	FDIC insurance premiums, net	224	137	87	663	397	266			
Contracted services	Contracted services	671	613	58	1,978	1,902	76			
Other real estate owned, net		1	5	(4)	3	(874)	877			
Merger-related expenses										
Merger-related expenses										
Merger-related expenses	Merger-related expenses	302	—	302	742	—	742			
Other non-interest expense	Other non-interest expense	2,068	2,578	(510)	6,205	7,297	(1,092)			
Total non-interest expense	Total non-interest expense	$12,244	12,350	(106)	36,847	36,069	778			

Reasons for changes include:

- Salaries and employee benefits increased in 2024 due to overall wage and benefit increases, an increased number of employees due to the acquisition of Cincinnati Federal, higher sales commissions, and higher health insurance costs.
- Amortization of intangibles increased due to the amortization of core deposit intangibles recognized from the acquisition of Cincinnati Federal.
- FDIC insurance premiums increased because due to a higher assessment base, partially reflecting increased assets resulting from the acquisition of a two basis point Cincinnati Federal, and to an increase in the FDIC's initial base deposit insurance assessment rate that took effect at the beginning of 2023. charged.
- Other real estate owned Contracted services increased during the nine-month period because the 2022 period benefited from an $889,000 gain recognized on the sale of other real estate owned. higher fees paid for LCNB's loan operations system, outside data services, and recruitment firm services. The increases reflect LCNB's continuing commitment to human and technology resources to meet increasing customer needs.
- Merger-related expenses reflect costs incurred in connection with the acquisition of Cincinnati Bancorp, Inc., which closed in on November 1, 2023, and with the fourth quarter acquisition of 2023. Eagle Financial Bancorp, Inc., which closed on April 12, 2024.
- Other non-interest expense decreased in 2023 primarily increased due to the absence general increases in a number of losses recognized during the 2022 periods on the sale of two decommissioned office buildings, one recognized during the second quarter 2022 and the other recognized during the third quarter 2022. The 2023 nine-month

period also benefited from a $425,000 gain recognized on the sale of LCNB's Hunter property located in Franklin, Ohio. miscellaneous accounts.

Income Taxes

LCNB's effective tax rate for the three and nine months ended September 30, 2023 March 31, 2024 was 18.9% and 18.2% 14.0%, respectively, compared to 18.3% and 17.9% 17.8% for the respective three and nine months ended September 30, 2022 March 31, 2023. The difference between the statutory rate of 21% and the effective tax rates is primarily due to tax-exempt interest income from municipal securities, tax-exempt earnings from bank-owned life insurance, tax-exempt earnings from LCNB Risk Management, Inc., and tax credits and losses related to investments in affordable housing tax credit limited partnerships. The effective tax rate for 2024 was lower due tax-exempt items not decreasing in proportion to the overall decrease in earnings.

Financial Condition

A comparison of balance sheet line items at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is as follows (dollars in thousands):

	September 30, 2023	December 31, 2022	Difference $	Difference %	March 31, 2024		December 31, 2023	Diffe
ASSETS:								
Total cash and cash equivalents	$ 43,422	22,701	20,721	91.28 %				
Total cash and cash equivalents					$ 32,951		39,723	(6,7
Investment securities:								
Equity securities with a readily determinable fair value, at fair value	1,254	2,273	(1,019)	(44.83) %	1,334	1,336	1,336	(2)
Equity securities without a readily determinable fair value, at cost	2,099	2,099	—	— %	3,666	3,666	3,666	—
Debt securities, available-for-sale, at fair value	274,500	289,850	(15,350)	(5.30) %	262,786	276,601	276,601	(13,815)
Debt securities, held-to-maturity, net, at cost	19,006	19,878	(872)	(4.39) %	16,746	16,858	16,858	(112)
Federal Reserve Bank stock, at cost	4,652	4,652	—	— %	5,774	5,086	5,086	688

Federal Home Loan Bank stock, at cost	Federal Home Loan Bank stock, at cost	7,583	4,415	3,168	71.76 %	Federal Home Loan Bank stock, at cost	16,469	15,176	15,176	1,293	
Loans, net	Loans, net	1,450,472	1,395,632	54,840	3.93 %	Loans, net	1,645,797	1,712,946	1,712,946	(67,149)	
Loans held for sale						Loans held for sale	75,581		—		75,5
Premises and equipment, net	Premises and equipment, net	33,288	33,042	246	0.74 %	Premises and equipment, net	36,690	36,302	36,302	388	
Operating lease right-of-use assets	Operating lease right-of-use assets	6,093	6,525	(432)	(6.62) %	Operating lease right-of-use assets	5,838	6,000	6,000	(162)	
Goodwill	Goodwill	59,221	59,221	—	— %	Goodwill	79,559	79,509	79,509	50	
Core deposit and other intangibles	Core deposit and other intangibles	1,351	1,827	(476)	(26.05) %	Core deposit and other intangibles	8,903	9,494	9,494	(591)	
Bank-owned life insurance	Bank-owned life insurance	45,128	44,298	830	1.87 %	Bank-owned life insurance	50,165	49,847	49,847	318	
Interest receivable	Interest receivable	8,087	7,482	605	8.09 %	Interest receivable	9,115	8,405	8,405	710	
Other assets	Other assets	25,512	25,503	9	0.04 %	Other assets	31,777	30,643	30,643	1,134	
Total assets	Total assets	$1,981,668	1,919,398	62,270	3.24 %	Total assets	$2,283,151	2,291,592	2,291,592	(8,441)	
LIABILITIES:	**LIABILITIES:**										
LIABILITIES:											
LIABILITIES:											
Deposits:	Deposits:										
Deposits:											
Deposits:											
Non-interest-bearing											
Non-interest-bearing											
Non-interest-bearing	Non-interest-bearing	$ 453,146	505,824	(52,678)	(10.41) %	$	435,580	462,267	462,267	(26,687)	(26,6
Interest-bearing	Interest-bearing	1,163,744	1,099,146	64,598	5.88 %	Interest-bearing	1,422,913	1,362,122	1,362,122	60,791	
Total deposits	Total deposits	1,616,890	1,604,970	11,920	0.74 %	Total deposits	1,858,493	1,824,389	1,824,389	34,104	
Short-term borrowings	Short-term borrowings	30,000	71,455	(41,455)	(58.02) %	Short-term borrowings	10,000	97,395	97,395	(87,395)	
Long-term debt	Long-term debt	112,641	19,072	93,569	490.61 %	Long-term debt	162,638	113,123	113,123	49,515	
Operating lease liabilities	Operating lease liabilities	6,317	6,647	(330)	(4.96) %	Operating lease liabilities	6,123	6,261	6,261	(138)	
Accrued interest and other liabilities	Accrued interest and other liabilities	14,471	16,579	(2,108)	(12.71) %	Accrued interest and other liabilities	12,234	15,121	15,121	(2,887)	
Total liabilities	Total liabilities	1,780,319	1,718,723	61,596	3.58 %	Total liabilities	2,049,488	2,056,289	2,056,289	(6,801)	
SHAREHOLDERS' EQUITY:	**SHAREHOLDERS' EQUITY:**										
SHAREHOLDERS' EQUITY:											
SHAREHOLDERS' EQUITY:											
Common shares											
Common shares											

Common shares	Common shares	144,865	144,069	796	0.55 %		174,082	173,637	173,637	445	4
Retained earnings	Retained earnings	143,211	139,249	3,962	2.85 %	Retained earnings	139,050	140,017	140,017	(967)	
Treasury shares, at cost	Treasury shares, at cost	(56,015)	(52,689)	(3,326)	6.31 %	Treasury shares, at cost	(56,015)	(56,015)	(56,015)	—	
Accumulated other comprehensive loss, net of taxes	Accumulated other comprehensive loss, net of taxes	(30,712)	(29,954)	(758)	2.53 %	Accumulated other comprehensive loss, net of taxes	(23,454)	(22,336)	(22,336)	(1,118)	
Total shareholders' equity	Total shareholders' equity	201,349	200,675	674	0.34 %	Total shareholders' equity	233,663	235,303	235,303	(1,640)	
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$1,981,668	1,919,398	62,270	3.24 %	Total liabilities and shareholders' equity	$2,283,151	2,291,592	2,291,592	(8,441)	

Reasons for changes include:

- Available-for-sale debt securities decreased due to maturities, paydowns, sales, calls, and decreases in market valuation. There Purchases of new securities were no security purchases minimal during 2023. 2024.
- Federal Home Loan Bank stock increased Net loans decreased primarily due the transfer of loans totaling approximately $64.9 million to the purchase of additional stock to support additional short-term borrowings and long-term debt, partially offset by the FHLB's repurchase of excess stock. held for sale category.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

- Net Loans held for sale represent a portfolio of loans increased primarily due that are scheduled to be sold with servicing rights to an investor during the origination of new loans, partially offset by payments and payoffs received from borrowers. Also offsetting the increase was a $2.3 million increase in the allowance for credit losses primarily due to adoption of ASC 326. second quarter 2024.
- Total deposits increased slightly during the first nine three months of 2023. 2024. There was, however significant movement from non-interest-bearing deposits to interest-bearing deposits during 2023 and 2024, reflecting the increase in market rates.
- Long-term debt increased due to additional advances from the FHLB of Cincinnati. The new debt was used to pay down short-term borrowings and to support an increase growth in liquidity and the loan portfolio growth. portfolio.
- Accrued interest and other liabilities decreased due to a combination of decreases in accrued bonuses and a decrease in LIHTC liabilities due to funding payments made during the first nine months quarter of 2023, 2024, partially offset by an increase in accrued interest payable on deposits and borrowings.
- Treasury shares increased because of the repurchase of 199,913 shares of common stock during the first nine months of 2023, which represents almost 1.8% of the shares outstanding at December 31, 2022.
- Accumulated other comprehensive loss, net of taxes increased because of continuing declines in the market valuation of LCNB's available-for-sale debt security investments.

Regulatory Capital

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. LCNB's and the Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

In addition to the minimum capital requirements, a financial institution needs to maintain a Capital Conservation Buffer composed of Common Equity Tier 1 Capital of at least 2.5% above its minimum risk-weighted capital requirements to avoid limitations on its ability to make capital distributions, including dividend payments to shareholders and certain discretionary bonus payments to executive officers. A financial institution with a buffer below 2.5% is subject to increasingly stringent limitations on capital distributions as the buffer approaches zero.

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

	Minimum Requirement	Minimum Requirement with Capital Conservation Buffer	To Be Considered Well-Capitalized
Ratio of Common Equity Tier 1 Capital to risk-weighted assets	4.5 %	7.0 %	6.5 %
Ratio of Tier 1 Capital to risk-weighted assets	6.0 %	8.5 %	8.0 %

Ratio of Total Capital (Tier 1 Capital plus Tier 2 Capital) to risk-weighted assets	8.0 %	10.5 %	10.0 %
Leverage Ratio (Tier 1 Capital to adjusted quarterly average total assets)	4.0 %	N/A	5.0 %

As of the most recent notification from their regulators, the Bank and LCNB 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 or LCNB's category.

Federal banking regulatory agencies allow an optional phase-in period of three years for banks to absorb the impact to regulatory capital of implementing CECL. LCNB has elected not to exercise this option and the full impact of adopting ASC 326 is included in regulatory capital as of September 30, 2023.

LCNB CORP. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

A summary of the Bank's regulatory capital and capital ratios follows (dollars in thousands):

		September 30, 2023	December 31, 2022
	March 31, 2024		
Regulatory Capital:	Regulatory Capital:		
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity			
Shareholders' equity	Shareholders' equity	$210,202	213,052
Goodwill and other intangibles	Goodwill and other intangibles	(59,841)	(60,177)
Accumulated other comprehensive loss, net	Accumulated other comprehensive loss, net	30,709	29,945
Tier 1 risk-based capital	Tier 1 risk-based capital	181,070	182,820
Eligible allowance for credit losses	Eligible allowance for credit losses	8,197	5,646
Total risk-based capital	Total risk-based capital	$189,267	188,466
Capital ratios:	Capital ratios:		
Common Equity Tier 1 Capital to risk-weighted assets	Common Equity Tier 1 Capital to risk-weighted assets	11.72 %	11.94 %

	March 31, 2024	December 31, 2023
Capital ratios:		
Common Equity Tier 1 Capital to risk-weighted assets	10.34 %	10.17 %

Tier 1 Capital to risk-weighted assets	Tier 1 Capital to risk-weighted assets	11.72 %	11.94 %	Tier 1 Capital to risk-weighted assets	10.34 %	10.17 %
Total Capital to risk-weighted assets	Total Capital to risk-weighted assets	12.25 %	12.31 %	Total Capital to risk-weighted assets	10.94 %	10.75 %
Leverage	Leverage	9.32 %	9.72 %	Leverage	8.08 %	8.05 %

Qualifications for community banking organizations to use a simplified measure of capital adequacy approach include having a tier 1 leverage ratio of greater than 9%, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the Community Bank Leverage Ratio framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. LCNB qualifies to use the simplified measure, but did not opt in for the September 30, 2023 March 31, 2024 regulatory capital calculations.

Liquidity

LCNB Corp. depends on dividends from the Bank for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. National Federal banking law limits the amount of dividends the Bank may pay to the sum of retained net income for the current year plus retained net income for the previous two years. Prior approval from the OCC, the Bank's primary regulator, is necessary for the Bank to pay dividends in excess of this amount. If dividends exceed net profit for a year, a bank is generally not required to carry forward the negative amount resulting from such excess if the bank can attribute the excess to the preceding two years. If the excess is greater than the bank's previously undistributed net income for the preceding two years, prior OCC approval of the dividend is required and a negative amount would be carried forward in future dividend calculations. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes

At December 31, 2023, the bank had paid $650,000 in excess of the previous two years' Bank net income to the holding company due to an $8.75 million dividend for the acquisition of CNNB. In addition, the February 2024 dividend payment was also in excess of the previous two years' Bank net income. The Company does not expect the excess dividend will be able to pay anticipated dividends to LCNB without needing to request approval. The Bank is not aware of result in any reasons why it would not receive such approval, if required. adverse supervisory action by the OCC.

Effective liquidity management ensures that cash is available to meet the cash flow needs of borrowers and depositors, as well as meeting pay dividends to shareholders, and meet LCNB's operating cash needs. Primary funding sources include customer deposits with the Bank, short-term and long-term borrowings from the Federal Home Loan Bank, short-term and overnight line of credit arrangements totaling $85.0 million with three correspondent banks, and interest and repayments received from LCNB's loan and investment portfolios.

LCNB's depositors include consumers, businesses, non-profit organizations, and public entities such as municipalities, school districts, and county governments. A diverse portfolio of deposit products includes checking accounts, savings accounts, IRAs, and certificates of deposits of various maturities. Management closely monitors local deposit rates offered by various institutions and adjusts rates as needed. Deposit funding levels and the related interest costs are reviewed regularly and compared to alternate sources of funding, primarily long- and short-term borrowings. LCNB has not entered the brokered CD market, but monitors it as a potential alternative funding source. LCNB's does not have a concentration in any deposit sector.
Total remaining borrowing capacity with the Federal Home Loan Bank at September 30, 2023 March 31, 2024 was approximately $61.1 million $118.8 million. Additional borrowings of approximately $80.0 million $85.0 million were available through overnight line of credit arrangements with correspondent banks at September 30, 2023 and another $5.0 million was available through a revolving line of credit arrangement with a correspondent bank. banks.

The Bank Term Funding Program ("BTFP") is an emergency lending program created by the Federal Reserve in March 2023 in response to two bank failures that occurred that month and was designed to provide emergency liquidity to depository institutions. The BTFP offers loans of up to one year in length to depository institutions that pledge U.S. Treasury securities, agency securities, mortgage-backed securities, and other qualifying securities as collateral for the loans. The BTFP is scheduled to discontinue on March 11, 2024 unless renewed by the Federal Reserve. To date, LCNB management has chosen not to participate in the BTFP, but monitors the program as a potential future funding source.

Management closely monitors the level of liquid assets available to meet ongoing funding needs. It is management's intent to maintain adequate liquidity so that sufficient funds are readily available at a reasonable cost. See NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES of this document for information on LCNB's commitments to extend credit and fund unused lines of credit. LCNB experienced no liquidity or operational problems as a result of current liquidity levels. Management believes LCNB has the ability to generate and obtain adequate amounts of liquidity to meet its requirements in the short and long-term.

Commitments to extend credit at March 31, 2024 totaled $302.1 million and are more fully described in Note 10 - Commitments and Contingent Liabilities to LCNB's condensed consolidated financial statements. Since many commitments to extend credit may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Item 3. 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 primarily uses a combination of Interest Rate Sensitivity Analysis ("IRSA") and Economic Value of Equity ("EVE") analysis for measuring and managing interest rate risk. IRSA is used to estimate the effect on net interest income ("NII") 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. The base projection uses a current interest rate scenario. As shown below, the September 30, 2023 March 31, 2024 IRSA indicates that an increase in interest rates will have a negative effect on NII and a decrease in interest rates will have a positive effect on NII. The changes in NII for all rate assumptions are within LCNB's acceptable ranges.

Rate Shock Scenario in Basis Points	Rate Shock Scenario in Basis Points	Amount	$ Change in NII	% Change in NII	Limits	Rate Shock Scenario in Basis Points	Amount		$ Change in NII		% Change in NII	Limits
	(Dollars in thousands)						(Dollars in thousands)					
Up 300	Up 300	59,964	(3,194)	(5.06)%	20 %	Up 300	$ 60,241	(4,937)	(4,937)	(7.57)	(7.57) %	20 %
Up 200	Up 200	60,968	(2,190)	(3.47)%	15 %	Up 200	61,834	(3,344)	(3,344)	(5.13)	(5.13) %	15 %
Up 100	Up 100	61,881	(1,277)	(2.02)%	10 %	Up 100	63,329	(1,849)	(1,849)	(2.84)	(2.84) %	10 %
Base	Base	63,158	—	— %	— %	Base	65,178	—	—	—	— %	— %
Down 100	Down 100	63,518	360	0.57 %	10 %	Down 100	66,137	959	959	1.47	1.47 %	10 %
Down 200	Down 200	64,348	1,190	1.88 %	15 %	Down 200	67,547	2,369	2,369	3.63	3.63 %	15 %
Down 300	Down 300	65,157	1,999	3.17 %	20 %	Down 300	68,969	3,791	3,791	5.82	5.82 %	20 %

IRSA shows the effect on NII during a one-year period only. A more long-range model is the EVE analysis, which shows the estimated present value of future cash inflows from interest-earning assets less the present value of future cash outflows for interest-bearing liabilities for the same rate shocks. As shown below, the September 30, 2023 March 31, 2024 EVE analysis indicates that an increase in interest rates of 200 or 300 basis points will have a negative effect on the EVE and an increase in interest rates of 100 basis points or a decrease in interest rates will have a positive effect on the EVE. The changes in the EVE for all upward rate shocks are within LCNB's acceptable ranges. The changes in the EVE for all downward rate shocks are outside LCNB's acceptable ranges as shown below. Management has determined the downward shifts to be acceptable due to the positive nature of the results.

Rate Shock Scenario in Basis Points	Rate Shock Scenario in Basis Points	Amount	$ Change in EVE	% Change in EVE	Limits	Rate Shock Scenario in Basis Points	Amount		$ Change in EVE		% Change in EVE	Limits
	(Dollars in thousands)											
Up 300												
Up 300												
Up 300	Up 300	136,743	(14,441)	(9.55)%	25 %		$131,574	(29,639)	(29,639)	(18.38)	(18.38) %	25 %
Up 200	Up 200	147,303	(3,881)	(2.57)%	20 %	Up 200	147,070	(14,143)	(14,143)	(8.77)	(8.77)%	20 %
Up 100	Up 100	157,254	6,070	4.01 %	15 %	Up 100	161,752	539	539	0.33	0.33 %	15 %
Base	Base	151,184	—	— %	— %	Base	161,213	—	—	—	— %	— %
Down 100	Down 100	174,669	23,485	15.53 %	15 %	Down 100	188,844	27,631	27,631	17.14	17.14 %	15 %
Down 200	Down 200	182,618	31,434	20.79 %	20 %	Down 200	201,876	40,663	40,663	25.22	25.22 %	20 %
Down 300	Down 300	191,607	40,423	26.74 %	25 %	Down 300	220,862	59,649	59,649	37.00	37.00 %	25 %

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 NII 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.

LCNB CORP. AND SUBSIDIARIES

Item 4. Controls and Procedures

a) **Disclosure controls and procedures.** The Chief Executive Officer and the Chief Financial Officer have carried out an evaluation of the effectiveness of LCNB's disclosure controls and procedures that ensure that information relating to LCNB required to be disclosed by LCNB in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to LCNB's management, including its principal executive officer and principal financial officer, as appropriate, in order to allow timely decisions to be made regarding required disclosures. Based upon this evaluation, these officers have concluded that, as of September 30, 2023 March 31, 2024, LCNB's disclosure controls and procedures were effective.

b) **Changes in internal control over financial reporting.** During the period covered by this report, 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.

LCNB CORP. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Except for routine litigation incidental to its business, LCNB is not a party to any material pending legal proceedings and none of its property is the subject of any material proceedings.

Item 1A. Risk Factors

In addition to the following, readers Readers should carefully consider the risk factors previously disclosed in Part I, Item 1A. Risk Factors in LCNB's Form 10-K for the year ended December 31, 2022 December 31, 2023.

Risks Related to Recent Events Impacting the Financial Services Industry
Recent events impacting the financial services industry, including the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank, have led to a decrease in confidence in banks among consumer and commercial depositors, other counterparties and investors, as well as caused significant disruption, volatility, and reduced valuations of equity and other securities of banks and bank holding companies in the capital markets. These events are occurring during a period of continued rises to interest rates which, among other things, have resulted in unrealized losses in longer-duration securities and loans held by banks, increased competition for bank deposits, and the possibility of an increase in the risk of a potential recession. These recent events have, and could continue to have, an adverse impact on the market price and volatility of LCNB's common stock.

These recent events may also result in potentially adverse changes to laws and/or regulations governing banks and bank holding companies or result in the imposition of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on LCNB's business. LCNB may be impacted by concerns from depositors, investors, and other counterparties regarding the soundness or creditworthiness of other financial institutions, which could cause substantial and cascading disruption within the financial markets and increase Company expenses.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the period covered by this report, LCNB did not sell any of its securities that were not registered under the Securities Act.

On February 27, 2023, LCNB's Board of Directors authorized a new Issuer Stock Repurchase Plan Agreement (the "Plan"). Under the terms of the Plan, LCNB is authorized to repurchase up to 500,000 of its outstanding common shares. The Plan replaced and superseded LCNB's prior Issuer Stock Repurchase Plan Agreement, which was adopted on May 27, 2022.

Under the Plan, LCNB may purchase common shares through various means such as open market transactions, including block purchases and privately negotiated transactions. The number of shares repurchased and the timing, manner, price and amount of any repurchases are determined at LCNB's discretion. Factors include, but are not limited to, share price, trading volume, and general market conditions, along with LCNB's general business conditions. The Plan may be suspended or discontinued at any time and does not obligate LCNB to acquire any specific number of its common shares.

As part of the Plan, LCNB entered into a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The 10b5-1 trading plan permits common shares to be repurchased at times that LCNB might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions. The 10b5-1 trading plan is administered by an independent broker and is subject to price, market volume, and timing restrictions.

The following table sets forth information relating to repurchases made under the February 27, 2023 plan during the three months ended September 30, 2023 March 31, 2024:

Period	Total Number of Shares Purchased	Average Price Paid Per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July January 1 - 31, 2023 2024	—	$	—	—	315,047
August February 1 - 31, 2023 29, 2024	—	$	—	—	315,047
September March 1 - 30, 2023 31, 2024	—	$	—	—	315,047

LCNB CORP. AND SUBSIDIARIES

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

LCNB CORP. AND SUBSIDIARIES

Item 5. Other Information

None.

During the three months ended March 31, 2024, none of our directors or officers informed us of the adoption, modification, or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

LCNB CORP. AND SUBSIDIARIES

Item 6. Exhibits

Exhibit No.	Exhibit Description
2.1	Agreement and Plan of Merger dated as of May 17, 2023 by and between LCNB Corp. and Cincinnati Bancorp, Inc. - incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 18, 2023, Exhibit 2.1.
2.2	Agreement and Plan of Merger dated as of November 28, 2023 by and between LCNB Corp. and Eagle Financial Bancorp, Inc. - incorporated by reference to the Registrant's Current Report on Form 8-K filed on November 29, 2023,Exhibit 2.1.
3.1	Amended and Restated Articles of Incorporation of LCNB Corp., as amended. (This document represents the Amended and Restated Articles of Incorporation of LCNB Corp. in compiled form incorporating all amendments. The compiled document has not been filed with the Ohio Secretary of State.) - incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, Exhibit 3.1.
3.2	Code of Regulations of LCNB Corp. – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, Exhibit 3(ii).
10.1	LCNB Corp. Ownership Incentive Plan – incorporated by reference to Registrant's Form DEF 14A Proxy Statement pursuant to Section 14(a), dated March 15, 2002, Exhibit A (000-26121).
10.2	LCNB Corp. 2015 Ownership Incentive Plan - incorporated by reference to Registrant's Form DEF 14A Proxy Statement pursuant to Section 14(a), dated March 13, 2015, Exhibit A (001-35292)
10.3	Form of Option Grant Agreement under the LCNB Corp. Ownership Incentive Plan – incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2005, Exhibit 10.2.
10.4	Nonqualified Executive Retirement Plan – incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009, Exhibit 10.4.
10.5	Form of Restricted Share Grant Agreement under the LCNB Corp. 2015 Ownership Incentive Plan - incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2015, Exhibit 10.7.
10.6	Form of Business Loan Agreement for the revolving line of credit between LCNB Corp. and Bankers' Bank - incorporated by reference to Registrant's Form 8-K filed on June 21, 2022, Exhibit 10.1.
10.7	Form of Business Loan Agreement for the term loan between LCNB Corp. and Bankers' Bank - incorporated by reference to Registrant's Form 8-K filed on June 21, 2022, Exhibit 10.2.
14.1	LCNB Corp. Code of Business Conduct and Ethics - incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2018, Exhibit 14.1.
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from LCNB Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 is formatted in Extensible Business Reporting Language: (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Income, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Shareholders' Equity, (v) the Consolidated Condensed Statements of Cash Flows, and (vi) the Notes to Consolidated Condensed Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

LCNB CORP. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements 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.

November 8, 2023 May 10, 2024 | /s/ Eric J. Meilstrup

Eric J. Meilstrup

Chief Executive Officer and President

November 8, 2023 May 10, 2024 | /s/ Robert C. Haines, II

Robert C. Haines, II

Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

In connection with the Quarterly Report of LCNB Corp. on Form 10-Q for the period ending September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Meilstrup, Chief Executive Officer of LCNB Corp., certify that:

1) I have reviewed this quarterly report on Form 10-Q of LCNB Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Eric J. Meilstrup

Eric J. Meilstrup

Chief Executive Officer and President

November 8, 2023 May 10, 2024

Exhibit 31.2

CERTIFICATIONS

In connection with the Quarterly Report of LCNB Corp. on Form 10-Q for the period ending September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Haines, II, Executive Vice President and Chief Financial Officer of LCNB Corp., certify that:

1) I have reviewed this quarterly report on Form 10-Q of LCNB Corp.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert C. Haines, II

Robert C. Haines, II
Executive Vice President and
Chief Financial Officer
November 8, 2023 May 10, 2024

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LCNB Corp. (the "Company") on Form 10-Q for the period ending September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Eric J. Meilstrup, Chief Executive Officer, and Robert C. Haines, II, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric J. Meilstrup

Eric J. Meilstrup
Chief Executive Officer and President

/s/ Robert C. Haines, II

Robert C. Haines, II
Executive Vice President and Chief Financial Officer

Date: November 8, 2023 May 10, 2024

DISCLAIMER