LCNB CORP
Form 10-K
March 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

(X)

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

For the fiscal year ended December 31, 2007

( )

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

For the transition period from

to

Commission File Number 000-26121

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio

31-1626393

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

2 North Broadway, Lebanon, Ohio 45036

(Address of principal executive offices, including Zip Code)

(513) 932-1414

(Registrant's telephone number, including area code)

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

Name of each exchange

Title of Each Class

on which registered

None

None

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

COMMON STOCK, NO PAR VALUE

(Title of Class)

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

[ ] Yes [X] No

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

[ ] Yes [X] No

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

[X] Yes [ ] No

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

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

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

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

. [ ] Yes [X] No

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2007, determined using a per share closing price on that date of $14.00 as quoted on the Nasdaq Over-the-Counter Bulletin Board, was $83,526,170.00.

As of February 29, 2008, 6,687,232 common shares were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement included in the Notice of Annual Meeting of Shareholders to be held April 8, 2008, dated March 7, 2008, are incorporated by reference into Part III.

LCNB Corp.

For the Year Ended December 31, 2007

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PART I

Item 1. Business

FORWARD-LOOKING STATEMENTS

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

DESCRIPTION OF LCNB CORP.'S BUSINESS

General Description

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

The predecessor of LCNB Corp., the Bank, was formed as a national banking association in 1877. On May 19, 1999, the Bank became a wholly-owned subsidiary of LCNB. At the close of business on December 20, 2007, Sycamore National Bank (Sycamore) merged with and into the Bank. A Cincinnati, Ohio based commercial bank, Sycamore operated from two offices located on Cincinnati s West side. These two offices became branches of the Bank at the time of the merger. The Bank's main office is located in Warren County, Ohio and 23 branch offices, which includes Sycamore s two offices, are located in Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties, Ohio. In addition, the Bank operates 31 automated teller machines ("ATMs") in its market area. Another branch office, which will include an ATM, is currently being planned for the City of Centerville, Montgomery County, Ohio.

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

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

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

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

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

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

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

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

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

Competition

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

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

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

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

Supervision and Regulation

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

1.

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

2.

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

3.

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

4.

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

5.

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

6.

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

7.

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

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

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

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

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

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

1.

securities underwriting, dealing, and market making;

2.

sponsoring mutual funds and investment companies;

3.

insurance underwriting and agency;

4.

merchant banking activities; and

5.

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

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

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

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

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

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

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

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

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

5. Implemented a risk-based premium system;

6. Required an audit committee to be comprised of outside directors;

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

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

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

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

At December 31, 2007, the Bank was well capitalized based on FDICIA's guidelines.

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

1.

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

2.

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

3.

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

4.

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

5.

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

6.

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

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

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

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

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

Employees

As of December 31, 2007, LCNB, the Bank, and Dakin employed 241 full-time equivalent employees. LCNB is not a party to any collective bargaining agreement. Management considers its relationship with its employees to be very good. Employee benefit programs are considered by Management to be competitive with benefit programs provided by other financial institutions and major employers within LCNB s market area.

Availability of Financial Information

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

Robert C. Haines, II

Executive Vice President, CFO

LCNB Corp.

2 N. Broadway

P.O. Box 59

Lebanon, Ohio 45036

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

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

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

STATISTICAL INFORMATION

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

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

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

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

Investment Portfolio

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

		At December 31,	
	2007	2006	2005
		(Dollars in thousands)	
Securities available for sale:			

U.S. Treasury notes	$ -	1,179	4,126
U.S. Agency notes	14,103	30,493	47,199
U.S. Agency mortgage-backed securities	22,466	22,300	20,858
Municipal securities	50,835	57,149	61,322
Marketable equity securities	19	21	-
Total securities available for sale	87,423	111,142	133,505
Federal Reserve Bank Stock	722	647	647
Federal Home Loan Bank Stock	2,009	2,685	2,534
Total securities	$ 90,154	114,474	136,686

Contractual maturities of debt securities at December 31, 2007, were as follows. Actual maturities may differ from contractual maturities when issuers have the right to call or prepay obligations.

	Amortized Cost	Fair Value	Yield
	(Dollars in thousands)		
U.S. Agency notes:			
Within one year	$ 7,399	7,382	3.82%
One to five years	5,496	5,518	5.08%
Five to ten years	1,197	1,203	5.43%
After ten years	-	-	-%
Total U.S. Agency notes	14,092	14,103	4.45%
Municipal securities (1):			
Within one year	8,485	8,486	4.79%
One to five years	20,401	20,445	5.11%
Five to ten years	7,465	7,559	6.15%
After ten years	14,277	14,345	6.53%
Total Municipal securities	50,628	50,835	5.61%
U.S. Agency mortgage-backed securities	22,697	22,466	4.46%
Totals	$ 87,417	87,404	5.12%

(1)

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

Excluding holdings in U.S. Treasury securities and U.S. Government Agencies, there were no investments in securities of any issuer that exceeded 10% of LCNB's consolidated shareholders' equity at December 31, 2007.

Loan Portfolio

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

	At December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Commercial and industrial	$ 37,325	26,952	27,135	26,390	25,571
Commercial, secured by real estate	159,384	141,863	124,823	107,138	99,461
Residential real estate	193,920	173,890	161,656	159,286	139,305
Consumer, excluding credit cards	43,410	36,471	35,879	34,672	43,283
Agricultural	2,707	2,232	1,978	1,653	1,192
Credit card	-	-	-	-	2,707
Lease financing	-	16	37	253	588
Other loans, including deposit overdrafts	9,114	8,101	7,624	6,708	5,160
Total loans	445,860	389,525	359,132	336,100	317,267
Deferred costs, net	1,027	845	669	490	566
	446,887	390,370	359,801	336,590	317,833
Less allowance for loan losses	2,468	2,050	2,150	2,150	2,150
Loans, net	$ 444,419	388,320	357,651	334,440	315,683

As of December 31, 2007, there were no concentrations of loans exceeding 10% of total loans that are not already disclosed as a category of loans in the above table.

The following table summarizes the commercial and agricultural loan maturities and sensitivities to interest rate change at December 31, 2007:

	(Dollars in thousands)
Maturing in one year or less	$ 28,453
Maturing after one year, but within five years	16,327
Maturing beyond five years	154,636
Total commercial and agricultural loans	$ 199,416
Loans maturing beyond one year:	
Fixed rate	$ 76,144
Variable rate	94,819
Total	$ 170,963

Risk Elements

Generally, a loan is placed on non-accrual status when there is an indication that the borrower's cash flows may not be sufficient to meet payments as they become due, unless the loan is well secured and in the process of collection. Subsequent cash receipts on a non-accrual loan are recorded as a reduction of principal, and interest income is recorded once principal recovery is reasonably assured. The current year's accrued interest on loans placed on non-accrual status is charged against earnings. Previous years' accrued interest is charged against the allowance for loan losses.

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

	At December 31,					
		2007	2006	2005	2004	2003
	(Dollars in thousands)					
Non-accrual loans	$	120	872	785	-	794
Past-due 90 days or more						
and still accruing		247	126	61	165	2,442
Restructured loans		2,222	-	1,717	1,817	-
Total	$	2,589	998	2,563	1,982	3,236

Non-accrual loans at December 31, 2007 consisted of two real estate mortgage loans. Non-accrual loans at December 31, 2006 consisted of a real estate mortgage loan and a home equity line of credit made to the same borrower and one loan secured by farmland. Non-accrual loans at December 31, 2005 consisted of two real estate mortgage loans. Non-accrual loans at December 31, 2003 included a commercial loan in the amount of $564,000, which was paid in full during the second quarter, 2004; a consumer loan in the amount of $146,000; and residential real estate mortgage loans in the amount of $84,000. Interest income that would have been recorded during 2007, 2006, 2005, and 2003 if loans on a non-accrual status at the end of those years had been current and in accordance with their original terms was approximately $5,000, $48,000, $20,000 and $72,000, respectively.

Loans classified as past-due 90 days or more and still accruing interest at December 31, 2007 consisted of twelve consumer loans totaling $89,000 and three residential mortgage loans totaling $158,000. Loans classified as past-due

90 days or more and still accruing interest at December 31, 2006 consisted of six consumer loans totaling $52,000 and two residential mortgage loans totaling $74,000. Loans past-due 90 days or more and still accruing interest at December 31, 2005 consisted primarily of consumer loans. Loans classified as past-due 90 days or more and still accruing interest at December 31, 2004 consisted of consumer loans totaling $104,000 and residential mortgage loans totaling $61,000. Loans past-due 90 days or more and still accruing interest at December 31, 2003 included $2,030,000 of commercial loans that were re-written during 2004 and classified as restructured at December 31, 2004. The remaining balance of loans past-due 90 days or more and still accruing interest at December 31, 2003 consisted of consumer loans totaling $136,000, residential mortgage loans totaling $146,000, and a loan with a balance of $130,000 that was secured by farmland.

Restructured loans at December 31, 2007 consisted of a commercial loan secured by commercial real estate and a matured home equity line of credit currently being paid under a forbearance agreement. The commercial loan secured by commercial real estate has a principal balance of $2,198,000 and is classified as restructured because of LCNB s agreement during the second quarter, 2007 to waive the required principal payments for a period of one year, pending the sale of the underlying collateral property. Restructured loans at December 31, 2005 and 2004 consisted of a commercial loan whose predecessor loans were classified as loans past due 90 days or more and still accruing at December 31, 2003, at which time they had a total balance of $2,030,000. Principal payments of $100,000 and $213,000 were made on these loans in 2005 and 2004, respectively. Information received during the first quarter, 2004, raised uncertainties concerning the collectibility of certain collateral and management transferred the loans to the non-accrual classification, where they remained until they were re-written in October, 2004. All related interest due on the predecessor loans was paid during October, 2004, and the loans were re-written at that time. Such interest was recorded on a cash basis as received. The restructured loan is secured by a combination of mortgages and other collateral. It was not classified as restructured at December 31, 2006 or 2007 because the loan was current and had a market interest rate.

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

At December 31, 2007, there were no material additional loans not already disclosed as non-accrual, restructured, accruing past due 90 days or more, or impaired where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms.

Summary of Loan Loss Experience

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

Components of the Allowance for Loan Losses

The Bank continuously reviews the loan portfolio for credit risk through the use of its lending and loan review functions. Independent loan reviews analyze specified loans and lending functions as a validation that credit risks are appropriately identified and reported to the Loan Committee and Board of Directors. In addition, the Board of Directors   Audit Committee receives loan review reports multiple times throughout each year.

Inputs from all of the Bank s credit risk identification processes are used by management to analyze and validate the adequacy and methodology of the allowance quarterly. The analysis includes three basic components: specific allocations for individual loans, general historical loss allocations for pools of loans based on loss ratios, and allocations based on identified economic and other risk factors which adjust the historical loss ratios. Due to the number, size, and complexity of loans within the loan portfolio, there is always a possibility of inherent undetected losses. This, combined with the possible imprecision of management s assumptions in the evaluation of loans, results in the allowance also having an unallocated component.

Current methodology used by management to estimate the allowance takes into consideration historic categorical trends, current delinquency levels as related to historical levels, portfolio growth rates, changes in composition of the portfolio, the current economic environment, as well as the current allowance adequacy in relation to the portfolio. Management is cognizant that reliance on historical information coupled with the cyclical nature of the economy, including credit cycles, affects the allowance. Management considers all of these factors prior to making any adjustments to the allowance due the subjectivity and imprecision involved in allocation methodology.

As of December 31, 2007 the specific allocation component of the allowance represented 35% of the total allowance as compared to 31% as of December 31, 2006 and 35% as of December 31, 2005. The historical loss allocation component was 16% of the total allowance as of December 31, 2007 as compared to 13% as of December 31, 2006 and 18% as of December 31, 2005. Changes between 2007 and 2006 primarily represent increases due to changes in historical ratios resulting from the Sycamore acquisition coupled with fewer loan loss recoveries in 2007. The decrease from 2005 to 2006 was primarily from fewer loan losses in 2006 than prior years, which lowered the historical ratio.

The economic/other adjustment component of the allowance was 48% of the total allowance as of December 31, 2007 as compared to 51% as of December 31, 2006 and 37% as of December 31, 2005. The decrease from 2006 to 2007 was minimal and primarily a result of improvement to various elements within the loan portfolio. The increase from 2005 to 2006 was due to increased origination volume of indirect auto loans coupled with deterioration in local employment and general regional economic conditions. This increase was partially offset by improvements in internal risk-identified elements within the loan portfolio.

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

		At December 31,									
		2007		2006		2005		2004		2003	
		Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
		(Dollars in thousands)									
Commercial and industrial	$	3408.37%		547	8.97%	161	9.64%	135	9.80%	4209.62%	
Commercial, secured by real estate		1,23335.75%		723	36.43%	1,056	34.76%	695	31.88%	64931.35%	
Residential real estate		38848.49%		310	44.64%	240	45.01%	21	47.39%	43.91%	
Consumer		4599.74%		362	9.36%	462	9.99%	690	10.32%	67616.64%	
Agricultural		0.61%		-	0.57%	-	0.55%	-	0.49%	0.38%	
Credit card		-	-%	-	-%	-	-%	-	-%	4210.85%	
Lease financing		-	-%	-	-%	-	0.01%	-	0.07%	0.07%	
Other loans, including deposit overdrafts		72.04%		14	0.03%	10	0.04%	36	0.05%	0.18%	
Unallocated		41		94		221		573		363	
Total	$	2,468100.00%		2,050	100.00%	2,150	100.00%	2,150	100.00%	2,150100.00%	

This allocation is made for analytical purposes. The total allowance is available to absorb losses from any category of the portfolio. Increased allocations for December 31, 2007, are generally due to the higher loan volume created by the acquisition of Sycamore National Bank. The decrease in the commercial and industrial category at December 31, 2007 is due to additional collateral obtained on a loan, combined with a partial pay-down in that loan s principal balance. Both actions allowed for a reduction in the potential loss allocated to that loan. The increase in the commercial, secured by real estate category at December 31, 2007 is largely due to an increased loss allocation on the loan currently classified as restructured. The decrease in the commercial, secured by real estate category at December 31, 2006 is due to improvements in credit quality, primarily reflecting the reclassification of the loan that was included in the restructured category at December 31, 2005 and 2004. The increase in the allocation to the commercial, secured by real estate category at December 31, 2005 reflects growth in the portfolio and an increase in the dollar volume of loans assigned to the higher-risk classifications of substandard or doubtful. The increase in the allocation to the residential real estate category at December 31, 2005 reflects an increase in non-accrual loans and foreclosures at LCNB, an increase in residential second mortgage and home equity loans with high (90% or more) loan-to-value ratios, and an increase in bankruptcies and foreclosures in the Southwestern Ohio economy in general. The decrease in the allocation to the consumer loan category at December 31, 2005 reflects decreased delinquencies. The decrease in the allocation to the commercial and industrial category at December 31, 2004 reflects decreased delinquencies. There is not an allocation to the credit card category for 2007, 2006, 2005, or 2004 because this portfolio was sold during the first quarter, 2004.

Deposits

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

The following table presents the contractual maturity of time deposits of $100,000 or more at December 31, 2007:

	(Dollars in thousands)
Maturity within 3 months	$ 13,825
After 3 but within 6 months	13,364
After 6 but within 12 months	10,053
After 12 months	33,023
	$ 70,265

Return on Equity and Assets

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

Item 1A. Risk Factors

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

LCNB s earnings are significantly affected by market interest rates.

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

Increases in general interest rates could have a negative impact on LCNB s results of operations by reducing the ability of borrowers to repay their current loan obligations. Some residential real estate mortgage loans, most home equity line of credit loans, and approximately 59.9% of LCNB s commercial loans have adjustable rates. Borrower inability to make scheduled loan payments due to a higher loan cost could result in increased loan defaults, foreclosures, and write-offs and may necessitate additions to the allowance for loan losses. In addition, increases in the general level of interest rates may decrease the demand for new consumer and commercial loans, thus limiting LCNB s growth and profitability. A general increase in interest rates may also result in deposit disintermediation, which is the flow of deposits away from banks and other depository institutions into direct investments that have the potential for higher rates of return, such as stocks, bonds, and mutual funds.   If this occurs, LCNB may have to rely more heavily on borrowings as a source of funds in the future, which could negatively impact its net interest margin.

Banking competition in Southwestern Ohio is intense.

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

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

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

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

LCNB has 24 offices located in Warren, Butler, Clinton, Clermont, Hamilton, and Montgomery Counties in Southwestern Ohio. As a result of this geographic concentration, LCNB s results are heavily influenced by economic conditions in this area. A deterioration in economic conditions or a natural or manmade disaster in Southwestern Ohio or Ohio in general could have a material adverse impact on the ability of borrowers to make scheduled loan payments, the fair value of underlying loan collateral, the ability of depositors to maintain or add to deposit balances, the demand for trust and brokerage services, and the demand for other products and services offered by LCNB.

The allowance for loan losses may be inadequate.

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

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

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

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

<u>LCNB is subject to environmental liability risk associated with lending activities.</u>

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

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

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

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

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

LCNB may fail to realize the anticipated benefits of the merger with Sycamore.

LCNB and Sycamore may not be able to integrate their operations without encountering difficulties, including the loss of key employees and customers, the disruption of ongoing business or possible inconsistencies in standards, controls, procedures and policies. Additionally, in determining that the merger is in the best interests of LCNB and Sycamore, both the LCNB and the Sycamore Boards of Directors considered enhanced earnings opportunities. There can be no assurance, however, that any enhanced earnings will result from the merger.

Future growth and expansion opportunities may contain risks.

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

LCNB s controls and procedures may fail or be circumvented.

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

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

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

Risk factors related to LCNB s trust business.

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

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

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

Risk factors related to Dakin Insurance Agency, Inc.

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

The Bank conducts its business from the following offices:

	Name of Office	Address		
1.	Main Office	2 North Broadway Lebanon, Ohio 45036	Owned	
2.	Auto Bank	36 North Broadway Lebanon, Ohio 45036	Owned	
3.	Bridgetown Office	6383 Bridgetown Road Cincinnati, Ohio 45248	Leased	
4.	Colerain Township Office	3209 West Galbraith Road Cincinnati, Ohio 45239	Owned	
5.	Columbus Avenue Office	730 Columbus Avenue Lebanon, Ohio 45036	Owned	
6.	Fairfield Office	765 Nilles Road Fairfield, Ohio 45014	Leased	
7.	Goshen Office	6726 Dick Flynn Blvd. Goshen, Ohio 45122	Owned	
8.	Hamilton Office	794 NW Washington Blvd. Hamilton, Ohio 45013	Owned	
9.	Hunter Office	3878 State Route 122 Franklin, Ohio 45005	Owned	
10.	Loveland Office	500 Loveland-Madeira Road Loveland, OH 45140	Owned	(2)
11.	Maineville Office	7795 South State Route 48 Maineville, Ohio 45039	Owned	(2)
12.	Mason/West Chester Office	1050 Reading Road	Owned	(2)

		Mason, Ohio 45040	
13.	Mason Christian Village Office	Mason Christian Village 411 Western Row Road Mason, Ohio 45040	Leased
14.	Middletown Office	4441 Marie Drive Middletown, Ohio 45044	Owned

	Name of Office	Address	
15.	Oakwood Office	2705 Far Hills Avenue Oakwood, Ohio 45419	(3)
16.	Okeana Office	6225 Cincinnati-Brookville Road Okeana, Ohio 45053	Owned
17.	Otterbein Office	Otterbein Retirement Community State Route 741 Lebanon, Ohio 45036	Leased
18.	Oxford Office	30 West Park Place Oxford, Ohio 45056	(1) (3)
19.	Rochester/Morrow Office	Route 22-3 at 123 Morrow, Ohio 45152	Owned
20.	South Lebanon Office	209 East Forest Street South Lebanon, Ohio 45065	Leased
21.	Springboro/Franklin Office	525 West Central Avenue Springboro, Ohio 45066	Owned
22.	Warrior Office	Lebanon High School 1916 Drake Road Lebanon, Ohio 45036	Leased
23.	Waynesville Office	9 North Main Street Waynesville, Ohio 45068	Owned
24.	Wilmington Office	1243 Rombach Avenue Wilmington, Ohio 45177	Owned

(1)

Excess space in this office is leased to third parties.

(2)

A Dakin office is located in this office.

(3)

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

An additional office is currently planned for 9605 Dayton-Lebanon Pike, Centerville, Ohio 45458.

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

Item 3. Legal Proceedings

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

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

None

PART II

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

LCNB had approximately 735 registered holders of its common stock as of December 31, 2007. The number of shareholders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder. The common stock is currently traded on the Nasdaq Over-The-Counter Bulletin Board service under the symbol "LCNB". Several market-makers facilitate the trading of the shares of common stock. Trade prices for shares of LCNB Common Stock, reported through registered securities dealers, are set forth below. Trades have occurred during the periods indicated without the knowledge of LCNB. The trade prices shown below are interdealer without retail markups, markdowns or commissions. The prices shown for 2006 and the first and second quarters of 2007 have been restated to reflect a 100% stock dividend, accounted for as a stock split, paid on May 10, 2007.

		2007		2006	
		High	Low	High	Low
First Quarter	$	18.475	15.000	19.100	18.625
Second Quarter		17.000	13.050	19.500	18.000
Third Quarter		14.500	12.500	19.785	18.125
Fourth Quarter		13.950	11.000	18.650	17.875

The following table presents cash dividends per share declared and paid in the periods shown. Prices for 2006 and the first quarter of 2007 have been restated to reflect the stock dividend mentioned above. The dividend for the second quarter, 2007 was declared after the stock dividend.

		2007	2006
First Quarter	$	0.155	0.15
Second Quarter		0.155	0.15
Third Quarter		0.155	0.15
Fourth Quarter		0.155	0.15
Total	$	0.620	0.60

It is expected that LCNB will continue to pay dividends on a similar schedule, to the extent permitted by business and other factors beyond management's control. LCNB depends on dividends from its subsidiaries for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. National banking law limits the amount of dividends the Bank may pay to the sum of retained net income, as defined, for the current year plus retained net income for the previous two years. Prior approval from the OCC, the Bank s primary regulator, would be necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated dividends to LCNB without needing to request approval.

On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two phases of which continue. The shares purchased will be held for future corporate purposes.

Under the "Market Repurchase Program" LCNB was originally authorized to purchase up to 200,000 shares of its stock, as restated for the stock dividend paid in May, 2007, through market transactions with a selected stockbroker. On November 14, 2005, the Board of Directors extended the Market Repurchase Program by increasing the shares authorized for repurchase to 400,000 total shares, as restated for the stock dividend. Through December 31, 2007, 290,444 shares, as restated for the stock dividend, have been purchased under this program. No shares were purchased under the Market Repurchase Program during the three months ended December 31, 2007.

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

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

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	35,214	$ 16.57	164,786
Equity compensation plans not approved by security holders	-	-	-
Total	35,214	$ 16.57	164,786

The graph below provides an indicator of cumulative total shareholder returns for LCNB as compared with the Nasdaq Composite and the SNL Midwest OTC-BB and Pink Sheet Banks. This graph covers the period from December 31, 2002 through December 31, 2007. The cumulative total shareholder returns included in the graph reflect the returns for the shares of common stock of LCNB. The information provided in the graph assumes that $100 was invested on December 31, 2002 in LCNB common stock, the Nasdaq Composite, and the SNL Midwest OTC-BB and Pink Sheet Banks and that all dividends were reinvested.

[INSERT PERFORMANCE GRAPH]

Item 6. Selected Financial Data

The following represents selected consolidated financial data of LCNB for the years ended December 31, 2003 through 2007 and are derived from LCNB's consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 8 of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk included in Items 7 and 7A, respectively, of this Form 10-K, and are qualified in their entirety thereby and by other detailed information elsewhere in this Form 10-K.

	For the Years Ended December 31,					
		2007	2006	2005	2004	2003
	(Dollars in thousands, except ratios and per share data)					
Income Statement:						
Interest income	$	31,991	30,548	27,602	25,648	27,437
Interest expense		13,838	12,233	9,032	7,368	8,680
Net interest income		18,153	18,315	18,570	18,280	18,757
Provision for loan losses		266	143	338	489	658
Net interest income after provision for loan losses		17,887	18,172	18,232	17,791	18,099
Non-interest income		8,346	8,345	7,956	7,659	6,797
Non-interest expenses		18,344	17,838	17,243	16,404	15,725
Income before income taxes		7,889	8,679	8,945	9,046	9,171
Provision for income taxes		1,935	2,165	2,240	2,450	2,434
Net income	$	5,954	6,514	6,705	6,596	6,737
Basic and diluted earnings per share (1)	$	0.94	1.00	1.01	0.98	0.99
Dividends declared per share (1)	$	0.62	0.60	0.58	0.56	0.53
Balance Sheet:						
Securities	$	90,154	114,474	136,686	116,495	153,901
Loans, net		444,419	388,320	357,651	334,440	315,683
Total assets		604,058	548,215	539,501	522,251	523,608

Total deposits	535,929	478,615	481,475	463,900	463,033
Short-term borrowings	1,459	15,370	1,031	1,269	633
Long-term debt	5,000	-	2,073	2,137	4,197
Total shareholders' equity	56,528	50,999	52,022	52,296	52,448
Selected Financial Ratios					
and Other Data:					
Return on average assets	1.08%	1.19%	1.25%	1.29%	1.31%
Return on average equity	11.41%	12.48%	12.80%	12.56%	12.64%
Equity-to-assets ratio	9.36%	9.30%	9.64%	10.01%	10.02%
Dividend payout ratio	66.67%	60.00%	57.43%	57.14%	53.54%
Net interest margin, fully-					
taxable equivalent	3.77%	3.84%	3.99%	4.02%	4.09%

(1)

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

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

Introduction

The following is management's discussion and analysis of the consolidated financial condition and consolidated results of operations of LCNB. It is intended to amplify certain financial information regarding LCNB and should be read in conjunction with the Consolidated Financial Statements and related Notes and the Financial Highlights contained in the 2007 Annual Report to Shareholders.

Forward-Looking Statements

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

Acquisitions

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

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

The transaction, which was accounted for under the purchase accounting method, included the recognition of approximately $343,000 of core deposit intangibles and goodwill of $5,742,000. The goodwill represents the excess of the purchase price over the fair value of identifiable net assets, including the core deposit intangible. The core deposit intangible is being amortized on a straight-line basis over 6 years. Goodwill is not amortized, but is instead subject to an annual review for impairment. Sycamore s results of operations are included in the consolidated financial results of LCNB from the acquisition date.

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

Overview

LCNB earned $5,954,000 in 2007, compared to $6,514,000 in 2006 and $6,705,000 in 2005. Basic and diluted earnings per share for 2007, 2006, and 2005 were $0.94, $1.00, and $1.01, respectively.

Net interest income for 2007, 2006, and 2005 was $18,153,000, $18,315,000, and $18,570,000, respectively. Net interest income for 2007 was $162,000 lower than net interest income for 2006 primarily due a decrease in the taxable equivalent net interest margin from 3.84% for 2006 to 3.77% for 2007. Net interest income decreased $255,000 during 2006 as compared to 2005 primarily due to a decrease in the taxable equivalent net interest margin from 3.99% for 2005 to 3.84% for 2006, partially offset by an increase in average interest earning assets.

Total non-interest income grew from $7,956,000 for 2005 to $8,345,000 for 2006 and $8,346,000 for 2007. Primary drivers of the 2006 increase were trust income, primarily from growth in trust and brokerage assets managed, increases in service charges and fees, and increases in insurance agency income.

Total non-interest expense also increased annually from 2005 to 2007. Total non-interest expense for 2005 was $17,243,000, $17,838,000 for 2006, and $18,344,000 for 2007. Normal salary and wage increases and increased employee benefit costs comprised a significant portion of this increase.

Net Interest Income

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

	Years ended December 31,								
	2007			2006			2005		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
Loans (1)	$ 394,760	$ 27,066	6.86%	$ 375,247	$ 25,284	6.74%	$ 346,826	$ 22,279	6.42%
Federal funds sold and interest-bearing demand deposits	13,175	654	4.96	8,961	458	5.11	12,503	375	3.00
Federal Reserve Bank Stock	650	39	6.00	647	39	6.03	647	39	6.03
Federal Home Loan Bank Stock	1,852	124	6.70	2,590	150	5.79	2,455	123	5.01
Investment securities:									
Taxable	49,838	2,229	4.47	65,413	2,650	4.05	74,873		