



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 3, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

LCNB National Bank
Charter Number 2360

2 North Broadway
Lebanon, Ohio 45036

Office of the Comptroller of the Currency

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Dublin, Ohio 43017-5391

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

- Lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration and supports satisfactory performance.
- A majority of the bank's lending activity occurs within its assessment areas.
- LCNB National Bank's (LCNB) loan-to-deposit ratio is reasonable.
- Responsiveness to community development needs through lending, investments and services is excellent and supports outstanding performance.

Scope of Examination

Our office conducted a full scope Community Reinvestment Act (CRA) examination to assess the bank's record of meeting the credit needs of its entire community, including low- and moderate-income areas. We used intermediate small bank examination procedures to evaluate the bank's Lending Test and Community Development (CD) Test performance. The prior CRA examination was conducted as of July 21, 2008. The Lending Test includes loans originated from January 1, 2010 to December 31, 2011, for small business lending. We expanded the scope of the review to include loans originated from January 1, 2009 to December 31, 2011, for residential real estate lending. A data integrity examination of the bank's home mortgage loans, as reported via the Home Mortgage Disclosure Act Loan Applications Registers (HMDA LARs), and small business CRA loan data was performed in October and December 2012, to determine the accuracy of the bank's data. We found the data to be accurate and reliable. The bank's performance in residential real estate (one-to four-family home loans) and small business (commercial and commercial real estate loans) lending is considered foremost in this CRA examination as these are the bank's primary lending products. For each assessment area (AA), we conducted separate analyses, based upon the availability of census and loan data. We used the 2000 census data to analyze performance, updated as of 2011. The evaluation under the CD Test considered CD loans, investments, and services from July 21, 2008 to December 3, 2012 (evaluation period).

LCNB has designated three assessment areas (AAs), as detailed under the **Description of Assessment Areas** section. The Cincinnati Metropolitan Statistical Areas (MSA) AA is the bank's primary business area. The Cincinnati MSA AA is responsible for 90 percent of loans generated from within the bank's AAs for the lending evaluation period, as well as 94 percent of deposits as of June 30, 2012. In addition, the main office and 21 of the bank's 25 branches are located in the Cincinnati MSA AA. For analysis purposes, we conducted a full scope review of the Cincinnati MSA AA, and limited scope reviews of the Dayton MSA AA and Clinton County AA.

Description of Institution

LCNB is an intrastate community bank, based in Lebanon, Ohio. The main office is located in Warren County, approximately 30 miles north of Cincinnati. LCNB is a wholly owned subsidiary of LCNB Corp., a one-bank financial services holding company, also based in Lebanon.

LCNB is a full-service lender and offers a full range of standard lending and deposit products, including trust services, to accommodate the needs of customers within its AAs. As of September 30, 2012, LCNB reported total assets of \$812 million and Tier 1 capital of \$65 million, or eight percent of total assets. For the same time period, the bank's loan portfolio totaled \$455 million, with net loans representing 56 percent of total assets. As illustrated in Table 1 below and through discussions with management, the bank's primary lending products are commercial/commercial real estate and residential real estate loans. By number, consumer loans made up 53 percent of originated loans, but only totaled five percent of the dollar volume originated. By reviewing home loans and commercial loans, we included approximately 94 percent the dollar volume of originated loans during the evaluation period.

Table 1 – Loan Mix				
Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period		% by Number of Loans Originated/Purchased during evaluation period	
	\$000's	%	# of Loans	%
Home Loans	106,823	45%	903	35%
Consumer Loans	12,611	5%	1,390	53%
Commercial Loans	116,711	49%	277	11%
Agricultural Loans	750	1%	15	1%
Total	236,895	100%	2,585	100%

Source: Bank's record of loans originated during 2010 and 2011.

LCNB's market area consists of a mix of suburban and urban areas. Competition in the bank's assessment area is strong. Dominant competitors in Southwest Ohio include Fifth Third Bank, U.S. Bank, PNC, Huntington, First Financial Bank, JPMorgan Chase, Union Savings Bank, and KeyBank.

LCNB has 25 full-service branches located in Butler, Clermont, Clinton, Hamilton, Montgomery, and Warren counties. No branches are located in low-income census tracts (CTs), three are located in moderate-income CTs, 17 are located in middle-income CTs and five are located in upper-income CTs. (The branch located in Clinton County was in a distressed middle-income census tract for 2010 and 2011.) The bank has drive-through facilities at all offices except three. Additionally, LCNB has 31 ATMs, including at least one at each branch location (except Mason Christian Village) and five stand-alone ATMs (located in middle- and upper-income CTs).

Since the last CRA examination in July 2008, LCNB has added two branches. The Centerville Branch was added in September 2008. The Monroe Branch was added in June 2011. In addition, the South Lebanon office and the Autobank changed locations in July 2009, and July 2011, respectively. The Bridgetown Branch closed in December 2011. All were located in middle- or upper-income CTs.

Presently, there are no financial or legal impediments that affect LCNB's ability to help meet the credit needs of its AA. The bank's last CRA examination was conducted as of July 21, 2008, and resulted in a "Satisfactory" rating. The bank's three AAs comply with requirements of the regulation. Please refer to the following section for a description of the AAs and the bank's CRA Public Fund File for additional information.

Description of Assessment Areas

LCNB has designated three AAs: the Cincinnati MSA AA, the Clinton County AA, and the Dayton MSA AA. The AAs are contiguous, meet the requirements of the CRA, and do not arbitrarily exclude any low- or moderate-income areas. The AA with the largest volume is the Cincinnati MSA AA. This AA is the largest geographically and contains 22 of the bank's 25 branches, including the bank's main office.

Competition in the AA is strong with many national banks, savings and loans, mortgage banks, and branches of large financial institutions being located in the AA. As of June 30, 2012, LCNB had approximately a 1.15 percent deposit market share in the Cincinnati MSA AA and was ranked 9th out of 50 financial institutions behind eight larger institutions. For the same time period, the bank had a less than one percent deposit market share in the Dayton MSA AA and a 2.63 percent deposit market share in the Clinton County AA. The source of the deposit market share information is the June 30, 2012 Deposit Market Share Report from the Federal Deposit Insurance Corporation (FDIC).

Community contacts indicated that the AA's economy is fair. The credit needs of the AA include affordable housing and small business lending. According to the contacts, local financial institutions are meeting those needs. Per discussion with management and review of the area and community contacts, the community development needs and opportunities are being adequately served by the local financial institutions.

The **Cincinnati MSA AA** is located in the Cincinnati-Middletown Metropolitan Statistical Area (MSA) 17140 and includes Warren County, Butler County, the north central portion of Clermont County and the western half of Hamilton County. The AA consists of whole CTs, surrounds the branches located in each county, and is contiguous to the other AAs. This AA meets the requirements of the regulation. The AA consists of 196 CTs comprised of 14 low-income CTs (7%), 43 moderate-income CTs (22%), 90 middle-income CTs (46%), 46 upper-income (23%) CTs, and three CTs listed as no income (2%). Per the 2000 census data, the population of the AA is 879,975, with five percent of the population living in low-income, 18 percent in moderate-income, 45 percent in middle-income, and 32 percent in upper-income census tracts. Sixty-seven percent of the housing units in the AA are owner-occupied, with two percent located in low-income geographies, 14 percent located in moderate-income geographies, and the remainder in middle- and upper-income tracts. Eight percent of the households in the AA live below the poverty level, 24 percent receive social security benefits, and two percent receive public assistance. The median housing value is \$116,712; the average median age of housing is 44 years. The weighted average monthly gross rent is \$535.

According to the 2000 U. S. Census Data, the Cincinnati MSA median family income is \$54,771. The HUD (Department of Housing and Urban Development) estimate of the Cincinnati MSA

median family income was \$70,400 for 2011. Approximately 17 percent of the families in the AA are low-income and 18 percent are moderate-income.

According to Ohio Labor Market Information as of November 2012, the seasonally adjusted unemployment rate for the state of Ohio is 6.8 percent and the national seasonally adjusted unemployment rate is 7.7 percent. Unemployment rates for the counties in the AA are all below both the state and national unemployment rates: Warren – 5.6 percent, Butler – 6.0 percent, Clermont – 6.1 percent, and Hamilton – 6.3 percent. Deposits from the AA equaled 94 percent of the bank's total deposits as of June 30, 2012, and loans from the AA equaled approximately 90 percent of total loans during the evaluation period.

The local economy is fair. The AA has a diverse mix of national and international companies across many industries from manufacturing to service industries. Several major employers in the AA include Procter & Gamble Co., Miami University, AK Steel, Cintas Corp., Cincinnati Financial Corporation, and Duke Energy.

Warren County consists of 32 CTs comprised of no low-income, four moderate-income, 12 middle-income, and 15 upper-income CTs, and one CT with no income listed. LCNB has one branch located in a moderate-income CT and 12 branches in middle- and upper-income CTs in this county (13 total). In addition, the five stand-alone ATMs are also located in Warren County in middle- and upper-income CTs.

Butler County consists of 73 CTs comprised of four low-income, 21 moderate-income, 31 middle-income, and 16 upper-income CTs, and one CT with no income listed. LCNB has two branches located in a moderate-income CT and four branches in middle- and upper-income CTs in this county (six total).

Clermont County consists of four CTs comprised of no low-income, one moderate-income, two middle-income, and one upper-income CTs. LCNB has one branch located in a middle-income CT in this county.

Hamilton County consists of 87 CTs comprised of 10 low-income, 17 moderate-income, 45 middle-income, and 14 upper-income CTs, and one CT with no income listed. LCNB has two branches located in a middle-income CT in this county.

The **Clinton County AA** includes all nine CTs in Clinton County. Eight of them are distressed middle-income CTs based on unemployment for 2010 and 2011. There is one upper income CT. Deposits from the AA approximate two percent of total deposits as of June 30, 2012, and loans equal about three percent of total loans during the lending evaluation period.

Per the 2000 U.S. Census data, the population of the AA is 40,543, with 88 percent of the population living in middle-income tracts and 12 percent in upper-income tracts. Sixty-four percent of the housing units are owner-occupied, with 87 percent located in middle-income and 13 percent in upper-income tracts. Nine percent of the households in the AA are living below the poverty level, 26 percent receive social security benefits, and two percent receive public assistance. The median housing value is \$96,725; the average median age of housing is 47 years. The weighted average monthly gross rent is \$494.

According to the 2000 U. S. Census Data, the Ohio statewide non-MSA median family income is \$43,801. The HUD estimate of the non-MSA median family income was \$52,900 for 2011.

Approximately 15 percent of the families in the AA are low-income and 17 percent are moderate-income.

The local economy is improving after experiencing significant declines in 2008, with the closure of DHL. DHL had previously employed 8,000 people. According to Ohio Labor Market Information as of November 2012, the seasonally adjusted unemployment rate in Clinton County was 9.4 percent, which is much higher than the state and national levels. Clinton County has a diverse corporate landscape with industries in transportation, manufacturing, as well as education and health services. Major employers include Ahresty Wilmington Corp., R & L Carriers, Showa Corporation/American Showa, Ferno-Washington, Inc., Wilmington College, and the local schools.

The **Dayton MSA AA** is in the Dayton MSA 19380 and consists of 51 CTs comprised of one low-income (2%), six moderate-income (12%), 26 middle-income (51%), and 18 upper-income (35%) CTs. Deposits from the AA approximate four percent of total deposits as of June 30, 2012, and loans equal about seven percent of total loans during the lending evaluation period. The bank adjusted this AA since the last CRA examination to include only a portion of the MSA surrounding the branches, instead of all of Montgomery County. This AA is contiguous to the other AAs, consists of whole CTs, does not arbitrarily exclude any low- or moderate-income area, and meets the requirements of the regulation.

Per the 2000 U.S. Census data, the population of the AA is 198,010, with two percent of the population living in low-income, 13 percent in moderate-income, 41 percent in middle-income, and 44 percent in upper-income tracts. Sixty-three percent of the housing units are owner-occupied, with one percent located in low-income, six percent in moderate-income and the remainder in middle- and upper-income tracts. Eight percent of the households in the AA are living below the poverty level, 27 percent receive social security benefits, and two percent receive public assistance. The median housing value is \$117,573; the average median age of housing is 50 years. The weighted average monthly gross rent is \$569.

According to the 2000 U. S. Census Data, the Dayton MSA median family income is \$51,271. The HUD estimate of the Dayton MSA median family income was \$62,400 for 2011. Fourteen percent of the families in the AA are low-income and 17 percent are moderate-income.

The economy in Montgomery County is fair. The seasonally adjusted unemployment in Montgomery County is 7.0 percent for November 2012, which is slightly higher than the state rate, but lower than the national level. Montgomery County is diverse with major industries including manufacturing, trade/transportation/utilities, professional and business services, education and health services, financial services, and leisure and hospitality. Major employers include Premier Health Partners, Kettering Health Network, Reed Elsevier/LexisNexis, GE Capital, PNC Financial Services Group, University of Dayton, Dayton Power & Light, and Behr Dayton Thermal Products LLC.

Conclusions with Respect to Performance Tests

LENDING TEST

LCNB's lending performance is satisfactory.

Loan-to-Deposit Ratio

- LCNB's loan-to-deposit ratio is reasonable.

LCNB's average loan-to-deposit (LTD) ratio for the 17 quarters since the last CRA examination of 70.07 percent is reasonable. As of September 30, 2012, LCNB's LTD ratio was 64.81 percent. A review of 16 financial institutions located within LCNB's AAs revealed a range of average loan-to-deposit ratios from 44.52 percent to 118.47 percent, with an overall average of 80.37 percent. Excluding one outlier of 118.47 percent, the peer average over the 17 quarters for 15 peer institutions was 77.83 percent. LCNB's average loan-to-deposit ratio ranked 13th out of the 16 financial institutions in the AA for loan-to-deposit ratios.

Lending in Assessment Area

- A majority of LCNB's lending activity occurs inside the bank's three AAs and supports satisfactory performance.

We evaluated the bank's record of lending within its three AA's. Our analysis of the bank's lending included residential real estate loans (home purchase, refinancing, and home improvement) and business loans (commercial/commercial real estate) as these are the bank's primary products. Our review revealed that from 2009 to 2011, 89 percent of the number of all residential real estate and business loans were originated within the bank's AAs, which is a majority. Table 2 below details the bank's lending within the AA.

Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	138	91%	14	9%	152	\$ 21,260	86%	\$ 3,521	14%	\$ 24,781
Home Refinance	664	91%	64	9%	728	\$107,610	83%	\$22,131	17%	\$129,741
Home Improvement	92	98%	2	2%	94	\$ 5,100	96%	\$ 190	4%	\$ 5,290
Business Loans	413	84%	77	16%	490	\$ 71,452	76%	\$22,331	24%	\$ 93,783
Totals	1,307	89%	157	11%	1,464	\$205,422	81%	\$48,173	19%	\$253,595

Source: HMDA loans originated from January 1, 2009 through December 31, 2011, and CRA small business loans originated from January 1, 2010 through December 31, 2011.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

- LCNB’s lending to borrowers of different income levels and businesses of different sizes is reasonable and reflects satisfactory performance.
- A significant majority of the bank’s lending activity occurs within the Cincinnati MSA AA. The Cincinnati MSA AA was responsible for approximately 90 percent of the home loans and small loans to businesses originated during the evaluation period. Therefore, more weight was given to the bank’s performance in the Cincinnati MSA AA.

Cincinnati MSA AA

LCNB’s record of lending to borrowers of different income levels and businesses of different sizes within the Cincinnati MSA AA is reasonable and reflects satisfactory performance.

The bank’s distribution of residential real estate loans in the Cincinnati MSA AA reflects reasonable penetration among borrowers of different income levels and supports satisfactory performance. Based upon an analysis of all home loans originated during the evaluation period compared to the 2000 census demographics, LCNB’s percentage of all home loans made to low-income borrowers (10%) is significantly lower than the percentage of low-income families in the AA (17%). Within total home loans, LCNB’s percentage of home improvement loans to low-income borrowers (26%) significantly exceeds the percentage of low-income families in the AA of (17%). However, the bank’s percentages for home purchase and home refinance are significantly lower than the demographic comparator for low-income. A factor which may contribute to the lower penetration to low-income borrowers is that eight percent of the households in the AA live below the poverty level. In addition, these households may experience difficulty meeting the credit underwriting standards for home mortgage loans. The bank’s record in the AA of home loan originations to moderate-income borrowers (22%) exceeds the percentage of moderate-income families (18%) in all categories. See Table 3 for details.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17%	11%	18%	23%	24%	23%	41%	43%
Home Refinance		8%		20%		27%		45%
Home Improvement		26%		31%		23%		20%
Total		10%		22%		26%		42%

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

LCNB’s penetration of small loans to businesses in the Cincinnati MSA AA is reasonable. The review of loan data for the evaluation period revealed that the bank made 68 percent (by number) of their business loans to businesses with annual gross revenues of less than \$1 million, which is slightly above the demographic comparator of 67 percent of businesses in the AA of similar size. See Table 4 for details.

Table 4 – Borrower Distribution of Loans to Businesses in the Cincinnati MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67%	3%	30%	100%
% of Bank Loans in AA by #	68%	23%	9%	100%
% of Bank Loans in AA by \$	50%	43%	7%	100%

Source: CRA small business data from January 1, 2010 through December 31, 2011 and Dunn and Bradstreet.

Limited Scope Review AAs

Clinton County AA

Based on a limited scope review, the bank’s performance in lending to borrowers of different income levels and businesses of different sizes in the Clinton County AA reflects reasonable penetration.

The bank’s overall distribution of residential real estate loans in this AA reflects reasonable penetration. The bank made 3% of their home loans to low-income borrowers during the evaluation period compared to the demographic comparator of 15%, which represents poor penetration. However, the bank only made a total of 35 home loans in this AA during the evaluation period. The bank’s distribution of home loans to moderate-income borrowers (18%) exceeds the demographics of the AA (17%). The bank exceeded the demographic for moderate-income borrowers for home refinance (23%), but did not make any home improvement loans to moderate-income borrowers. A contributing factor to the low penetration to low-income borrowers is that nine percent of the households in the AA live below the poverty level and may not meet the credit underwriting standards for home mortgage loans. In addition, 29 percent of the occupied units are rental units, which suggest a large portion of the population is opting to rent instead of purchasing a home. DHL also closed in 2008, and had a significant impact on the local economy in the AA, with the county continuing to experience higher than state/national unemployment rates. See Table 5 for details.

Table 5 – Borrower Distribution of Residential Real Estate Loans in the Clinton County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	15%	0%	17%	13%	24%	12%	44%	75%
Home Refinance		4%		23%		32%		41%
Home Improvement		0%		0%		50%		50%
Total		3%		18%		29%		50%

Source: HMDA loans originated from January 1, 2009 to December 31, 2011; 2000 U.S. Census data, updated as of 2011.

LCNB’s penetration of small loans to businesses in the Clinton County AA is reasonable and reflects satisfactory performance. The review of loan data for the evaluation period revealed that the bank made 56 percent by number, but 72 percent by dollar, of their business loans to businesses with annual gross revenues of less than \$1 million. Based on the dollar amount of small business loans, the bank’s performance is higher than the demographic comparator of 69 percent of businesses in the AA of similar size and is overall reasonable. See Table 6 for details.

Table 6 – Borrower Distribution of Loans to Businesses in the Clinton County AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69%	3%	28%	100%
% of Bank Loans in AA by #	56%	11%	33%	100%
% of Bank Loans in AA by \$	72%	24%	4%	100%

Source: CRA small business data from January 1, 2010 through December 31, 2011, and Dunn and Bradstreet.

Dayton MSA AA

Based on a limited scope review, the bank’s performance in lending to borrowers of different incomes and businesses of different sizes in the Dayton MSA AA is poor.

The bank’s overall distribution of residential real estate loans in the Dayton MSA AA is poor. Overall, the total percentage of home loans to low-income borrowers (10%) is less than the percentage of low-income families in the AA (14%). The percentage of loans to moderate-income borrowers (7%) is significantly less than the percentage of families in the AA (17%) and represents poor penetration. While the record of home purchase originations to low- and moderate-income borrowers exceeds the percentages of low- and moderate-income families in the AA, during the evaluation period, LCNB only originated one home refinance and no home improvement loans to low- or moderate-income borrowers. A factor contributing to the lower penetration to low-income borrowers is that eight percent of the households in the AA live below the poverty level and may not meet the credit underwriting standards for home mortgage loans.

In addition, LCNB made only 32 loans during the evaluation period and 31 percent of the occupied units are rental units, which suggest a large portion of the population is opting to rent instead of purchasing a home. See Table 7 for details.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase		18%		18%		9%		55%
Home Refinance	14%	5%	17%	0%	22%	16%	47%	79%
Home Improvement		0%		0%		0%		0%
Total		10%		7%		13%		70%

Source: HMDA loans originated from January 1, 2009 to December 31, 2011; 2000 U.S. Census data, updated as of 2011.

LCNB’s distribution for small loans to businesses in the Dayton MSA AA is reasonable. The review of loan data for the evaluation period revealed that 55 percent of loans originated in this AA were to businesses with revenues of \$1 million or less. This level is less than the percentage of businesses that reported revenue under \$1 million (66%) in the AA; however, it is reasonable given the bank’s overall limited presence in the Dayton MSA area. See Table 8 for details.

Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66%	4%	30%	100%
% of Bank Loans in AA by #	55%	28%	17%	100%
% of Bank Loans in AA by \$	41%	37%	22%	100%

Source: CRA small business data from January 1, 2010 through December 31, 2011 and Dunn and Bradstreet.

Geographic Distribution of Loans

- LCNB's geographic distribution of loans reflects poor dispersion to the low- and moderate-income census tracts within the AA.

Cincinnati MSA AA

Lending to geographies of different income levels in the Cincinnati MSA AA reflects poor dispersion. Of the 196 census tracts in the AA, there are 14 low-income (7%) and 43 moderate-income tracts (22%). The majority of the bank’s lending occurs in this AA. In 2007, the bank acquired Sycamore National Bank and expanded their AA to include this acquisition. The July 2008 CRA evaluation took into account that the bank had only been in part of the AA for a short period of time. Since then, LCNB has had more than five years to penetrate loans in this AA.

Ten of the 14 low-income tracts and 17 of the 43 moderate-income tracts are in Hamilton County, with the majority of these tracts east of the Sycamore Branch. The majority of the rest of the low-and moderate-income tracts are in Butler County.

The geographic distribution of home loans reflects poor dispersion. During the evaluation period, LCNB did not originate any home loans in low-income geographies in the Cincinnati MSA AA. The bank's lack of home loan originations in the low-income geographies is reasonable given the limited number of owner-occupied units in the AA (2%). The bank's geographic distribution for home loans in moderate-income geographies is significantly less than the percentage of owner-occupied units in the moderate-income geographies (3% vs. 14%). In total, the bank made 24 out of 818 (3%) one-to-four-family home mortgage loans in moderate-income census tracts during the evaluation period. Seventy-five percent of the home mortgages were refinance loans. As outlined in Table 9 below, LCNB made four percent of home purchase, three percent of home refinance, and four percent of home improvement loans in moderate-income tracts. The levels are significantly lower than the 14 percent demographic comparator for owner-occupied housing. Of note, 28 percent of the occupied units in the AA are occupied rental units, which suggest a large portion of the population is opting to rent instead of purchasing a home. Per discussions with bank management, overall loan demand has been low due to the state of the economy and this may have contributed to the lower level of lending in these tracts. LCNB advertises their products and services to all areas, including the low- and moderate-income areas. Competition for loans in this AA is strong. The bank was also able to maintain prior levels of lending activity without relaxing its underwriting standards, per discussion with management. See Table 9 for details.

Table 9 – Geographic Distribution of Residential Real Estate Loans in the Cincinnati MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans
Home Purchase	2%	0%	14%	4%	49%	63%	35%	33%
Home Refinance		0%		3%		56%		41%
Home Improvement		0%		4%		59%		37%
Total		0%		3%		57%		40%

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

The geographic distribution of small loans to businesses in the Cincinnati MSA AA is reasonable. The bank's percentage of small loans to businesses in low-income geographies (1%) is near the percentage of businesses in those geographies (3%). The bank's percentage of small loans to businesses in moderate-income geographies (11%) is lower than the percentage of businesses in moderate-income geographies (15%). As stated above, overall loan demand has been low due to the economy during this evaluation period. Although the bank's percentage of small loans to businesses is less than the demographics of the area, the overall distribution is reasonable. See Table 10 for details.

Table 10 – Geographic Distribution of Loans to Businesses in the Cincinnati MSA AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans
Business Loans	3%	1%	15%	11%	43%	56%	39%	32%

Source: CRA small business data from January 1, 2010 through December 31, 2011 and Dunn and Bradstreet.

We weighted residential real estate lending slightly more than business lending in our analysis of the geographic distribution in the AA because the bank had originated a much larger volume by number of mortgage loans with a comparable dollar amount (to business lending). In addition, in the Cincinnati MSA AA, the percentage of small loans to businesses in low- and moderate-income geographies was reasonable, but was less than the area demographic comparators. Analysis of the limited scope AAs is consistent with the performance of the Cincinnati MSA AA.

Limited Scope Review AAs

Clinton County AA

The Clinton County AA does not contain any low- or moderate-income census tracts; therefore, analysis of geographic distribution of this AA would not be meaningful.

Dayton MSA AA

The bank's performance in the Dayton MSA AA is consistent with the overall performance of the Cincinnati MSA AA tested under the full-scope review. Since the 2008 CRA evaluation, the bank adjusted the Dayton MSA AA to include a portion of the MSA surrounding the branches in this AA, instead of all Montgomery County as was identified in the last CRA evaluation.

Based on the limited scope review, the geographic distribution of home loans in the Dayton MSA AA reflects poor dispersion. During the evaluation period, LCNB originated only 12 home purchase and 20 home refinance loans in the Dayton MSA AA. The bank did not originate any home loans in low- or moderate-income geographies during the evaluation period in this AA. See Table 11 for details.

Table 11 – Geographic Distribution of Residential Real Estate Loans in the Dayton MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of Owner occupied Housing	% of Number of Loans
Home Purchase	1%	0%	6%	0%	44%	42%	49%	58%
Home Refinance		0%		0%		15%		85%
Home Improvement		0%		0%		0%		0%
Total		0%		0%		25%		75%

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

The geographic distribution of small loans to businesses in the Dayton MSA AA reflects reasonable dispersion. The bank did not originate any small loans to businesses in the Dayton MSA AA's low-income geographies during the evaluation period. However, the percentage of small loans to businesses in moderate-income geographies (21%) significantly exceeds the percentage of businesses in those geographies (13%). See Table 12 for details.

Table 12 – Geographic Distribution of Loans to Businesses in the Dayton MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans
Business Loans	2%	0%	13%	21%	31%	15%	54%	64%

Source: CRA small business data from January 1, 2010 through December 31, 2011 and Dunn and Bradstreet.

Responses to Complaints

LCNB has not received any complaints about its performance in helping to meet the assessment area credit needs during the evaluation period.

COMMUNITY DEVELOPMENT TEST

LCNB's community development performance demonstrates excellent responsiveness to community development needs in its AAs through community development (CD) lending, qualified investments and CD services which are reflective of outstanding performance. Performance in the Cincinnati MSA AA is excellent. Performance in the Clinton County AA and the Dayton MSA AA is adequate. The evaluation period for CD loans, investments and services was from July 21, 2008 to year-to-date December 3, 2012.

The overall rating of outstanding reflects the bank's responsiveness in the primary AA. The Cincinnati MSA AA accounts for 94 percent of the total deposits as of June 30, 2012, and 90 percent of loans by number (home mortgage, small loans to businesses, and small loans to farms reported via HMDA and CRA data for 2010 and 2011). Therefore, more weight was given to activities within the Cincinnati MSA AA than either the Clinton or Dayton AAs. Overall, the bank has excellent responsiveness through CD loans, qualified investments, and CD services, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

Number and Amount of Community Development Loans

LCNB's responsiveness to CD lending is excellent and reflects outstanding performance. During this evaluation period, the bank made various CD loans to different organizations in all three AAs.

Cincinnati MSA AA

LCNB's responsiveness to CD lending needs in the Cincinnati MSA AA is excellent. Throughout the evaluation period, the bank has made four eligible CD loans for \$12,189,559 within this AA. One of the loans in the amount of \$1,800,000 was for the construction of a childcare center for Warren County Community Services, which provides community services targeted to low- and moderate-income individuals in Warren County. Another loan was made for \$7,020,000 to Dispensing Systems, LLC to fund the construction/permanent financing of a manufacturing facility. Dispensing Systems received this loan as a part of the Small Business Association's 504 CDC (Community Development Corporation) Program and expects to create 100+ new jobs. In addition, LCNB made a loan for \$2,869,559 to provide affordable housing in a moderate-income tract and purchased a loan for \$500,000 that provides funding for medical services in a moderate-income tract (loan made through an investment in a Solomon Hess SBA Loan Fund).

Clinton County AA

LCNB's responsiveness to CD lending needs in the Clinton County AA is adequate. LCNB made one CD loan in the Clinton County AA during the review period. LCNB made a loan for \$1,200,000 to Three M Real Estate Ventures of Ohio LLC to provide affordable housing for low- and moderate-income individuals.

Dayton MSA AA

LCNB's responsiveness to CD lending needs in the Dayton MSA AA is adequate. LCNB made a loan to Dayton Mailing Service for \$500,000 to help retain/create 40 jobs.

Number and Amount of Qualified Investments

LCNB's qualified investment activity is excellent. The bank previously received credit for three mortgage-backed securities, which remain in the bank's investment portfolio at a book value of \$1.1 million. In addition, the bank also received prior credit for a \$500,000 investment in the CRA Qualified Investment Fund, which also remains in the bank's investment's portfolio. During the evaluation period, the bank made three additional CRA qualified investment purchases. Two were additional mortgage-backed security purchases, with a cost of over \$2.4 million. Of that amount, \$2.0 million of the mortgages was to low- and moderate-income families within the Cincinnati and Dayton MSA AAs. The other qualified investment was a \$500,000 investment in the CRA Qualified Investment Fund. The primary investment strategy of the fund is to invest in high-credit quality fixed income securities that support community development activities; the bank's investment in this fund is primarily in their AA.

Cincinnati MSA AA

LCNB's investment activity in the Cincinnati MSA AA is excellent. The bank made donations to approximately 28 different organizations totaling \$107,400 in this AA during the evaluation period. The donations were to various organizations that serve the needs of low- and moderate-income families such as the United Way, YMCA, Warren County Community Services, Child Advocacy Center, and many others. The bank also provided donations for scholarship funds for the Ohio Foundation of Independent Colleges and Miami University Foundation for students from low- or moderate-income families.

Clinton County AA

LCNB's investment activity in the Clinton County AA is adequate. The bank made four donations consisting of four scholarships to the Ohio Foundation of Independent Colleges totaling \$6,300 which benefited the Clinton County AA. The scholarships were designated for a student from a low- or moderate-income family.

Dayton MSA AA

LCNB's investment activity in the Dayton MSA AA is adequate. The bank made seven donations to three organizations totaling \$19,000 during the evaluation period. The Dayton MSA AA donations consisted of scholarship contributions to Sinclair Community College Foundation totaling \$2,000, contributions of \$15,000 to the Levin Family Foundation to support health fairs for low- and moderate-income individuals in Montgomery County, and two donations to the Learning Tree Farm totaling \$2,000 to provide community development services to low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

CD services provided by the bank represent excellent responsiveness and demonstrate outstanding performance.

Bank personnel provide technical assistance and financial expertise throughout all three AAs. Bank employees volunteer their time and financial expertise for financial literacy programs in area schools including Real World Real Money, Junior Achievement, Teach Children to Save, and Get Smart About Credit. In addition, LCNB has a branch at Lebanon High School which employs high school students and provides hands on banking experience. LCNB's America's

Promise, Little Red Wagon program, collects nonperishable food items, school supplies, and winter hats and mittens for low- and moderate-income individuals/families in all the AAs.

The bank offers various services to meet the needs of low- to moderate-income families throughout its branch network, including free checking accounts, as well as the Interest on Lawyers Trust Account program (IOLTA), which generates funds used to support civil legal aid for individuals or families living in poverty. The bank also originates loans in amounts of less than \$1,000, which has been identified in the past as a credit need for low-to moderate-income individuals within its communities. In addition, LCNB personnel refer customers that have experienced hardship and who need assistance keeping their home from foreclosure to the Save the Dream Program. Save the Dream provides customers with payment assistance on mortgage payments and tax delinquencies. LCNB currently has one customer enrolled in the program and four more customers that have begun the application process. Furthermore, bank employees support the broad community by providing financial services, such as volunteering to teach in classrooms and allowing students to tour the bank.

In addition, LCNB currently has three customers enrolled in the Home Affordable Refinance Program (HARP) which assists customers in obtaining a new, more affordable, more stable mortgage. LCNB also has three customers enrolled in the Home Affordable Modification Program (HAMP) which assists customers who are employed but are struggling to meet monthly mortgage payments.

Cincinnati MSA AA

LCNB's responsiveness to CD needs of the Cincinnati MSA AA through CD services is excellent. LCNB's delivery systems are accessible to geographies and individuals throughout the AA. No branches have been closed in low- or moderate-income geographies. Based on 2000 census data, there were three branches located in moderate-income tracts. Based the 2010 census data, LCNB now has four branches located in moderate-income tracts.

The bank's officers and employees serve on boards at numerous local social service and community organizations providing financial and technical expertise as needed. Chairman of the Board and Chief Executive Officer Steve Wilson serves on the Board at the Warren County Foundation as Chair. The role of the foundation is to administer public funds to charities including those which benefit low- and moderate-income individuals and geographies. Chairman Steve Wilson also serves on the Loeb Foundation in a representative capacity for the bank. The Loeb Foundation provides community services to low- and moderate-income individuals. In addition, multiple other LCNB employees serve on boards including the Warren County Metropolitan Housing, Hamilton County Development, United Way, and YMCA (local scholarship funds for low- and moderate-income individuals), among others.

Clinton County AA

LCNB's performance for CD services in the Clinton County AA is adequate. There is only one branch with an ATM in the AA, located in a distressed middle-income CT as of 2010/2011.

Dayton MSA AA

LCNB's performance for CD services in the Dayton MSA AA is adequate. There are two branches located in the Dayton MSA AA, both of which are located in upper-income CTs. Senior Executive Vice President Bernard Wright, Jr. is the Chairperson of the Board of Trustees for Sinclair Community College. The college is located in Dayton in a low-income census tract,

according to the 2000 census data. LCNB provides scholarship funds to low- and moderate-income individuals at Sinclair Community College.

Responsiveness to Community Development Needs

LCNB demonstrates excellent responsiveness to the CD needs of the communities it serves through CD lending, investments, and services. This is driven primarily by the bank's performance in the Cincinnati MSA AA. While the performance in the Dayton MSA AA and the Clinton County AA is adequate, the bank's focus and predominant activity remains within the Cincinnati MSA AA.

Though there were no needs identified during interviews with our community contacts, LCNB has made loans and donations to entities that subsidize affordable housing, provide medical, childcare, and education services of low- and moderate-income individuals, in addition to assisting with other community development opportunities.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.