

LCNB CORP
Form DEF 14A
March 09, 2018

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities and
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

LCNB Corp.

.....
(Name of Registrant as Specified In Its Charter)

N/A

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No fee required.

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1) Title of each class of securities to which transaction applies:

N/A

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2) Aggregate number of securities to which transaction applies:

N/A

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3) Per unit price of other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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3) Filing Party:

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.....

4) Date Filed:

N/A

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LCNB CORP.

P.O. Box 59

Lebanon, Ohio 45036

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

APRIL 24, 2018

TO THE SHAREHOLDERS OF LCNB CORP.:

You are cordially invited to attend the annual meeting of the shareholders of LCNB Corp. to be held on April 24, 2018 at 10:00 a.m. EDT at the Operations Building of LCNB Corp. at 105 North Broadway, Lebanon, Ohio 45036, for the purpose of considering and acting on the following:

1.

Electing Class I directors to serve until the 2021 annual meeting.

2.

Ratifying the appointment of BKD, LLP as the independent registered public accounting firm for the Company.

3.

Transacting such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on March 1, 2018 will be entitled to vote at the meeting.

By Order of the Board of Directors

/s/ Steve P. Foster

Steve P. Foster

President & Chief Executive Officer

March 9, 2018

IMPORTANT

A proxy statement and proxy are submitted herewith. As a shareholder, you are urged to complete and mail the proxy promptly whether or not you plan to attend this annual meeting in person. The proxy is revocable at any time prior to the exercise thereof by written notice to the company, and shareholders who attend the annual meeting may withdraw their proxies and vote their shares personally if they so desire.

PROXY STATEMENT

LCNB CORP.

P.O. Box 59

Lebanon, Ohio 45036

ANNUAL MEETING OF SHAREHOLDERS

April 24, 2018

INTRODUCTION

The enclosed proxy is solicited by the Board of Directors of LCNB Corp. (also referred to as “LCNB” or the “Company”), in connection with the annual meeting of shareholders to be held on April 24, 2018 at 10:00 a.m. EDT at the Operations Building of LCNB located at 105 North Broadway, Lebanon, Ohio 45036, or at any adjournments thereof.

The meeting has been called for the following purposes: (i) electing Class I directors to serve until the 2021 annual meeting; (ii) ratifying the appointment of BKD, LLP as the independent registered public accounting firm for the Company; and (iii) transacting such other business as may properly come before the meeting or any adjournment thereof.

This Proxy Statement and the accompanying notice of meeting are being mailed to shareholders on or about March 12, 2018.

REVOCAION OF PROXIES, DISCRETIONARY

AUTHORITY AND CUMULATIVE VOTING

LCNB Common Shares can be voted at the annual meeting only if the shareholder is represented by proxy or is present in person. Shareholders who execute proxies retain the right to revoke them at any time. Unless so revoked, the shares represented by such proxies will be voted at the meeting and all adjournments thereof. Proxies may be revoked by: (i) written notice to the Secretary of LCNB (addressed to LCNB Corp., P.O. Box 59, Lebanon, Ohio 45036, Attention: Secretary); (ii) by the filing of a later dated proxy prior to a vote being taken on a particular proposal at the meeting; or (iii) in open meeting at any time before it is voted.

Proxies solicited by the Board of Directors (the "Board") will be voted in accordance with the directions given therein. Where no instructions are indicated, properly executed proxies will be voted (i) **FOR** the election of the nominees for Class I directors, and (ii) **FOR** the ratification of the appointment of BKD, LLP as the independent registered public accounting firm for the Company. The proxy confers discretionary authority on the persons named therein to vote with respect to (i) the election of any person as a director where the nominee is unavailable or unable to serve, (ii) matters incident to the conduct of the meeting and (iii) any other business that may properly come before the meeting or any adjournments thereof. At this time, it is not known whether there will be cumulative voting for the election of directors at the meeting. If any shareholder demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively, and in their sole discretion, to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

PERSON MAKING THE SOLICITATION

The enclosed proxy is being solicited by LCNB, and the cost of soliciting proxies will be borne by LCNB. In addition to use of the mails, proxies may be solicited personally or by telephone or facsimile by directors, officers and employees of LCNB who will receive no compensation in addition to their regular compensation.

VOTING SECURITIES

Each of the LCNB common shares (the “Common Shares”) outstanding on March 1, 2018, the record date of the meeting, is entitled to one vote on all matters coming before the meeting. As of March 1, 2018, LCNB had 10,036,837 Common Shares issued and outstanding. Only shareholders of record on the books of the Company on March 1, 2018 will be entitled to vote at the meeting either in person or by proxy. The presence at the meeting of at least a majority of the shares, in person or by proxy, will be required to constitute a quorum at the meeting.

Shareholders of LCNB have cumulative voting rights in connection with the election of directors if notice is given to the president, a vice-president or the secretary of LCNB, not less than 48 hours before the time fixed for holding the meeting, that any shareholder desires that the voting be cumulative. Cumulative voting rights enable a shareholder to cumulate his or her voting power to give one candidate as many votes as the number of directors to be elected multiplied by the number of Common Shares owned by that person, or to distribute his votes on the same principal among two or more candidates as the shareholder sees fit. If any shareholder demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively, and in their sole discretion, to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of December 31, 2017, the wholly-owned subsidiary of LCNB, LCNB National Bank (the “Bank”), beneficially owned 6.33% of LCNB’s Common Shares through the operations of the Bank’s Trust Department. Under Section 13(d) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, a beneficial owner of a security is any person who, directly or indirectly, has or shares voting power or investment power over such security.

The table below further describes the beneficial ownership of Common Shares by the Bank and others.

Name and address	Number of Common Shares	Percentage of
-------------------------	--------------------------------	----------------------

of Beneficial	Beneficially Owned	Common Shares
Owner		
LCNB National Bank 2 North Broadway Lebanon, OH 45036	634,790 (1)	6.33%
FMR, LLC 245 Summer Street Boston, MA 02210	435,696 (2)	4.35%

-

(1)

The Common Shares reflected in this table are held in trust, agency or custodial capacities by LCNB National Bank. In its capacity, LCNB National Bank has sole or shared power to vote and/or dispose of the shares reflected in this table.

(2)

Information is based on a Schedule 13G filed by FMR, LLC (“FMR”) on February 13, 2018 reporting that it is deemed to be the beneficial owner of in excess of 5% of the outstanding Common Shares. FMR reported that it has sole voting power with respect to 47,528 of the indicated shares and sole dispositive power with respect to all 435,696 of the indicated shares, which includes shares beneficially owned by a wholly-owned subsidiary of FMR which acts as investment adviser to various investment companies.

The following table sets forth, as of December 31, 2017, the ownership of Common Shares by management of LCNB, including (i) the Common Shares beneficially owned by each director, nominee for director and named executive officer of LCNB and (ii) the Common Shares beneficially owned by all officers, directors and nominees for director as a group.

Name, Position(s) of Beneficial Owner or Director	Number of Common Shares Beneficially Owned⁽¹⁾	Percent of Common Shares Outstanding
Stephen P. Wilson Chairman of the Board	60,293	0.60%
Steve P. Foster Chief Executive Officer, President and Director	33,489	0.35%
Spencer S. Cropper ⁽²⁾ Director	35,980	0.36%

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George L. Leasure ⁽³⁾	34,590	0.35%
Director, Assistant Secretary		
William H. Kaufman ⁽⁴⁾	73,220	0.73%
Director		
Anne Krehbiel	4,000	0.04%
Director, Secretary		
John H. Kochensparger III	147,860	1.48%
Director		
Valerie S. Krueckeberg	200	(5)
Director		
Robert C. Haines II	2,970	0.03%
Executive Vice President, Chief Financial Officer		

-		
Matthew P. Layer ⁽⁶⁾	10,141	0.10%
Executive Vice President		
Leroy F. McKay	8,325	0.08%
Executive Vice President		
Eric J. Meilstrup	2,806	0.03%
Executive Vice President		
Michael R. Miller	1,000	0.01%
Executive Vice President		
All directors and officers as a group	414,874	4.14%
(13 persons)		

(1)

The Securities and Exchange Commission has defined “beneficial owner” of a security to include any person who has or shares voting power or investment power with respect to any such security or who has the right to acquire beneficial ownership of any such security within 60 days. The number of shares listed for each person includes shares held in the name of spouses, minor children, certain relatives, trusts or estates whose share ownership under the beneficial ownership rules of the Securities and Exchange Commission is to be aggregated with that of the director or officer whose share ownership is shown.

(2)

Does not include 80,242 shares held in a Family Limited Partnership in which Mr. Cropper owns 38.165% interest. Includes 3,000 shares held by Mr. Cropper’s spouse.

(3)

Includes 34,590 shares held in trust.

(4)

Includes 33,200 shares held in trust, 16,800 shares held jointly with Mr. Kaufman’s spouse, and 6,200 shares owned by Mr. Kaufman’s spouse.

(5)

Represents less than 0.01%.

(6)

Includes 323 shares held by Mr. Layer's spouse.

ITEMS OF BUSINESS TO BE VOTED ON BY SHAREHOLDERS

PROPOSAL 1. ELECTION OF DIRECTORS

LCNB's Regulations provide that its business shall be managed by a Board of Directors of not less than five nor more than fifteen persons. LCNB's Amended Articles of Incorporation divide such directors into three classes as nearly equal in number as possible and set their terms at three years. The Board of Directors currently has eight members, with Class I having three members, Class II having three members, and Class III having two members.

Assuming that at least a majority of the issued and outstanding common shares are present at the meeting so that a quorum exists, the nominees for Class I directors of LCNB receiving the most votes will be elected as directors.

The Board of Directors has nominated:

Stephen P. Wilson

Spencer S. Cropper

John H. Kochensparger III

The nominees have been nominated to serve as Class I directors until the 2021 annual meeting of shareholders and until their respective successors are elected and qualified. Mr. Wilson, Mr. Cropper and Mr. Kochensparger are incumbent directors whose present terms will expire at the 2018 annual meeting.

Please see the narrative under the heading "Director and Nominee Qualifications" beginning on page 9 of this Proxy Statement for additional discussion of the qualifications of each director nominee and continuing director.

It is intended that Common Shares represented by the accompanying form of proxy will be voted **FOR** the election of the nominees, unless contrary instructions are indicated as provided on the proxy card. If you do not wish your shares to be voted for particular nominees, please so indicate on the proxy card. If one or more of the nominees should at the time of the meeting be unavailable or unable to serve as a director, the shares represented by the proxies will be voted to elect the remaining nominees and any substitute nominee or nominees designated by the Board of Directors. The Board of Directors knows of no reason why any of the nominees will be unavailable or unable to serve. At this time,

it is not known whether there will be cumulative voting for the election of directors at the meeting. If any shareholder properly demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively and in their sole discretion to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

The following table sets forth information concerning the nominees for the Class I directors of LCNB.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term To Expire</u>
Stephen P. Wilson	67	Ohio State Senator, Chairman of the Board of LCNB	Director, Chairman of the Board	1982	2021
Spencer S. Cropper	45	Certified Public Accountant for Stolle Properties, Inc.	Director	2006	2021
John H. Kochensparger III	73	Formerly President, CEO and Director of First Capital Bancshares, Inc., and Citizens National Bank of Chillicothe	Director	2013	2021

*The Board of Directors recommends that shareholders vote **FOR** the election of the nominees.*

PROPOSAL 2. RATIFICATION OF THE APPOINTMENT OF BKD, LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY

The Audit Committee of the Board of Directors of the Company has selected BKD, LLP (“BKD”), 312 Walnut Street, Suite 3000, Cincinnati, Ohio, as the Company’s independent registered public accounting firm to perform the audit of the Company’s financial statements and internal controls over financial reporting for the fiscal year ending December 31, 2018. BKD, LLP was the Company’s independent registered public accounting firm for the fiscal year ended December 31, 2017 and has served the Company in that role since 2014.

Representatives from BKD are expected to attend the 2018 annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

We are asking our shareholders to ratify the selection of BKD as the Company’s independent registered public accounting firm. Although ratification of the appointment is not required by law, the Company’s Regulations, or otherwise, the Board is submitting the selection of BKD to our shareholders for ratification as a matter of good corporate practice. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and our shareholders.

It is intended that the common shares represented by the accompanying form of proxy will be voted **FOR** the resolution ratifying the appointment of BKD as the Company’s independent registered public accounting firm, unless contrary instructions are indicated as provided on the proxy card. If you do not wish your shares to be voted for the resolution, please so indicate on the proxy card.

The Board of Directors recommends that shareholders vote **FOR** the following resolution:

“RESOLVED, that action by the Audit Committee appointing BKD, LLP, as the Company’s independent registered public accounting firm to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending December 31, 2018 is hereby ratified, confirmed and approved.”

DIRECTORS AND EXECUTIVE OFFICERS

Except for the beneficial ownership by the Bank of 6.33% of LCNB’s Common Shares previously discussed in this Proxy Statement, to LCNB’s knowledge, no director, officer or affiliate of LCNB is the owner of record or beneficially of more than 5% of LCNB’s Common Shares, or any associate of any such director, officer, affiliate of LCNB or security holder, is an adverse party to LCNB or any of its subsidiaries or has a material interest that is adverse to LCNB or any of its subsidiaries.

The following table sets forth information concerning the directors, nominees for director and executive officers of LCNB. Included in the table is information regarding each person’s principal occupation or employment during the past five years.

<u>Name, Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term to Expire</u>
Stephen P. Wilson, 67	Ohio Congressman, Chairman of the Board of LCNB	Director, Chairman of the Board	1982	2018
Steve P. Foster, 65	Banker, President and CEO of the Bank	Director, President and CEO	2005	2019
Spencer S. Cropper, 45	Certified Public Accountant for Stolle Properties, Inc.	Director	2006	2018
William H. Kaufman,	Attorney at Law, Kaufman	Director	1982	2020

74	& Florence			
John H. Kochensparger III	Former President, CEO and Director of First Capital Bancshares, Inc., and Citizens National Bank of Chillicothe	Director	2013	2018
73				
Anne E. Krehbiel,	Attorney at Law, Krehbiel Law Office	Director, Secretary	2010	2019
62				
George L. Leasure,	Chairman and Director of GMi Companies	Director, Assistant Secretary	1994	2020
83				
-				

<u>Name, Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term to Expire</u>
Valerie S. Krueckeberg, 48	Certified Public Accountant	Director	2016	2019
Robert C. Haines II, 45	Banker	Executive Vice President, Chief Financial Officer	N/A	N/A
Matthew P. Layer, 55	Banker	Executive Vice President	N/A	N/A
Eric J. Meilstrup, 50	Banker	Executive Vice President, Cashier	N/A	N/A
Michael R. Miller, 60	Banker	Executive Vice President, Trust Officer	N/A	N/A
Bradley A. Ruppert, 42	Banker	Executive Vice President, Chief Investment Officer	N/A	N/A

Director and Nominee Qualifications

The Nominating Committee of our Board of Directors considers candidates to fill new directorships created by expansion and vacancies that may occur and makes recommendations to the Board of Directors with respect to such candidates. There is currently one Class III vacancy on the Board of Directors. The Board intends to fill the Class III vacancy upon consummation of the acquisition of Columbus First Bancorp, Inc., while also increasing the size of the Board by one to accommodate an additional Class II director. Each such vacancy will be filled with a former

Columbus First Bancorp, Inc. director. The Board has not adopted a policy with respect to minimum qualifications for directors, rather the Nominating Committee evaluates each individual in the context of the board as a whole and with the objective of recommending a group of persons that can best implement our business plan, perpetuate our business and represent shareholder interests. The committee, in making its nominations, considers all relevant qualifications of candidates for board membership, including, among other things, factors such as an individual's business experience, industry knowledge and experience, financial background, breadth of knowledge about issues affecting the Company, public company experience, regulatory experience, diversity, current employment and other board memberships, and whether the candidate will be independent under the listing standards of the NASDAQ Stock Market ("NASDAQ"). In some cases, the Nominating Committee may require certain skills or attributes, such as financial or accounting experience, to meet specific Board needs that arise from time to time. In the case of incumbent directors whose terms of office are set to expire, the committee also reviews such director's overall service to the Company during his or her term and any relationships and transactions that might impair such director's independence.

While the Company does not have a formal diversity policy for Board membership, the Board seeks directors who represent a mix of backgrounds and experiences that will enhance the quality of the Board's deliberations and decisions. The Nominating Committee considers, among other factors, diversity with respect to viewpoint, skills, experience and community involvement in its evaluation of candidates for Board membership. Such diversity considerations are discussed by the Nominating Committee in connection with the general qualifications of each potential nominee.

Class I Directors (Terms Expire in 2018)

Stephen P. Wilson is the Chairman of LCNB Corp. and LCNB National Bank. He joined the LCNB staff in 1975 and the LCNB Board of Directors in 1982. He previously served as Chief Executive Officer of LCNB and the Bank from 1992-2015. He is a Past Chairman of the American Bankers Association and a former board member of the Federal Reserve Bank of Cleveland. Mr. Wilson serves on the Appraisal Committee, Trust Investment Committee, Bond Committee, Bank Building Committee, Loan Committee, and the Pension Committee.

In 2017, Mr. Wilson accepted an appointment to fulfill an unexpired term in the Ohio State Senate and now represents the Ohio 7th District as an Ohio Senator. He is a board member and treasurer of AAA Cincinnati, Chairman of the Board of Harmon Civic Trust, Vice Chair of Warren Co. Port Authority, a trustee of Miami University, a trustee of the Ralph J. Stolle Countryside YMCA, Board member of the Warren County Foundation, and a member of the Area Progress Council. He is an active member of the Otterbein United Methodist Church.

Through his extensive tenure on the Board and as a former executive with the Company, Mr. Wilson has developed unique insights into the business activities of the Company and its subsidiary and provides the Board with information as to the operations of each, identifying near and long-term challenges and opportunities for the Company.

Spencer S. Cropper is employed by Stolle Properties, Inc., a subsidiary of the Ralph J. Stolle Company, and currently serves on the company's Board of Directors. He joined the LCNB Board of Directors in 2006. Mr. Cropper serves on the Audit Committee, the Bond Committee, the Pension Committee, the Loan Committee, and the Nominating and Compensation Committee.

Mr. Cropper is a Certified Public Accountant, a member of the Ohio Society of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He is an investor in and serves on the Board of Advisors of a Private Equity Limited Partnership who primarily focuses on providing mezzanine financing. He services on the Board of Directors for the Ralph J. Stolle Countryside YMCA, as well as the Boards of Trustees for the Ralph J. Stolle Countryside YMCA, the Warren County Foundation, and the Bethesda Foundation, Inc.

Mr. Cropper brings to the Board relevant experience in accounting and financial matters.

John H. Kochensparger III previously served as a member of the board of directors of First Capital Bancshares Inc. and Citizens National Bank of Chillicothe, Ohio for 22 years, and served as Chairman of the board for 10 years. Mr. Kochensparger was self-employed as an independent manufacturer's representative for companies relating to the golf industry. He also serves as Vice President of the National Golf Salesmen Association. He brings 27 years of banking and management

experience to the Board. Mr. Kochensparger serves on the Compensation Committee, the Nominating Committee, the Trust Committee and the Building Committee.

Class II Directors (Terms Expire in 2019)

Steve P. Foster is President and Chief Executive Officer of both LCNB Corp. and LCNB National Bank. He joined the LCNB staff in 1977 and has served as internal auditor, branch manager, and loan officer. He started the Information Technology Department and, more recently, served as Chief Financial Officer. He was elected to the LCNB Board of Directors in 2005 and serves on the Trust Investment Committee, the Building Committee, the Bond Committee, the Pension Committee, and the Loan Committee. On December 28, 2015, he was appointed as Chief Executive Officer of LCNB and the Bank.

Through his long management tenure with the Company and the Bank, Mr. Foster provides the Board with information gained from direct management of the operations of the Company and the Bank. Further, in his leadership positions in financial areas, he has developed business knowledge and understanding across our operations.

Anne E. Krehbiel joined the Board in 2010. Ms. Krehbiel is an attorney, who received her law degree from the University of Cincinnati in 1980, and has practiced law in Lebanon, Ohio since 1989. Ms. Krehbiel founded her own law firm, Krehbiel Law Offices, in 1998. She is certified as an Estate Planning, Trust and Probate Law Specialist. Ms. Krehbiel serves on the Audit Committee, the Building Committee, Bond Committee, Loan Committee, the Nominating Committee and the Compensation Committee.

Ms. Krehbiel serves on a number of organizations including: Harmon Civic Trust; the Warren County Bar Association, of which she is a former president; the Warren County Foundation Board of Trustees; and Lebanon Rotary International. She also volunteers as a high school swimming official in Southwestern Ohio.

Ms. Krehbiel brings to the Board relevant experience in legal matters, valuable insights and business experience from running her own law firm, prior bank experience and an extensive involvement in the communities served by the Company and its subsidiaries.

Valerie S. Krueckeberg joined the Board in 2016. Ms. Krueckeberg is a practicing Certified Public Accountant, providing a variety of finance and accounting advisory and consulting services to clients. Prior to starting her own firm, she was a Partner at KPMG LLP. She has previously served as a Board member and Audit Committee chairperson for Kenra, Ltd, Board member and Interim Executive Director of The Children's Theatre of Cincinnati, Inc., and Interim Controller for Medpace, Inc.

Ms. Krueckeberg is the current chairperson for The Ohio CPA Foundation Board of Trustees and is a member of the Ohio Society of Certified Public Accountants and the American Institute of Certified Public Accountants. She serves on the Miami University Accountancy Advisory Group, and is an active volunteer for Mason City Schools.

Ms. Krueckeberg brings to the Board extensive experience in public accounting and financial matters.

Class III Directors (Terms Expire in 2020)

George L. Leasure joined the Board in 1994. He founded GMi Companies (formerly Ghent Mfg., Inc.) in 1976 and now serves as its Chairman and a director. The company manufactures markerboards, easels and related products. Mr. Leasure serves on the Bond Committee, the Loan Committee, the Compensation Committee, the Nominating Committee, and the Trust Investment Committee.

Mr. Leasure is active in many Warren County civic and charitable organizations including serving on the Board of Trustees for the Countryside YMCA, the Warren County Foundation Board and as a member of the Area Progress Council.

Mr. Leasure's executive and management experience have equipped him to contribute to the Board's oversight of management and business activities.

William H. Kaufman is an attorney and senior partner of Kaufman and Florence Law Office located in Lebanon. He began his legal career as an attorney with the law firm of Young and Jones, whose office was located in the Bank building.

Mr. Kaufman joined the LCNB Board of Directors in 1982 and serves on the Bond, Loan, and Bank Building Committee's. He also oversees all day-to-day legal matters and real estate closings for the Bank.

Mr. Kaufman provides the Board with relevant experience in legal matters and, through his long tenure on the board, an institutional knowledge of the operations of the Company and its subsidiaries.

Board of Directors Independence

Each year, the Board reviews the relationships that each director has with the Company and with other parties. Only those directors who do not have any of the categorical relationships that preclude them from being independent within the meaning of applicable NASDAQ Rules and who the Board affirmatively determines have no relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director are considered to be independent directors. The Board has reviewed a number of factors to evaluate the independence of each of its members. These factors include its members' current and historic relationships with the Company and its competitors, suppliers and customers; their relationships with management and other directors; the relationships their current and former employers have with the Company; and the relationships between the Company and other companies of which the Company's Board members are directors or executive officers. After evaluating these factors,

the Board has determined that all of the directors, with the exception of Steve P. Foster, are independent directors of the Company within the meaning of applicable NASDAQ Rules.

Board Leadership Structure and Role in Risk Oversight

The Board currently separates the position of Chairman of the Board from the position of Chief Executive Officer. Steve P. Foster serves as our President and Chief Executive Officer and Stephen P. Wilson serves as Chairman of the Board. As the oversight responsibilities of the Board of Directors have expanded over the years, the Board has determined that it is beneficial to have an independent Chairman with the sole job of leading the Board, while allowing the President/CEO to focus his efforts on the day-

to-day management of the Company. The Board believes that it is important to have the President/CEO as a director. The Company aims to foster an appropriate level of separation between these two distinct levels of leadership of the Company. In addition to the Chairman, leadership is also provided through the respective chairs of the Board's various committees. However, no single leadership model is right for all companies and at all times. The Board recognizes that, depending on the circumstances, other leadership models, such as a combined Chief Executive Officer and Chairman of the Board position, might be appropriate. Accordingly, the Board periodically reviews its leadership structure.

The Board of Directors is responsible for consideration and oversight of risks facing the Company and is responsible for ensuring that material risks are identified and managed appropriately. Several oversight functions are delegated to committees of the Board with such committees regularly reporting to the full Board the results of their respective oversight activities. For example, the Audit Committee meets periodically with management in order to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. As part of this process, the Audit Committee reviews management's risk-assessment process and reports its findings to the full Board. Also, the Compensation Committee periodically reviews the most important enterprise risks to ensure that compensation programs do not encourage excessive risk-taking. Additional review or reporting on enterprise risks is conducted as needed or as requested by the Board or Board committees.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

LCNB has engaged and intends to continue to engage in the lending of money through the LCNB National Bank, its wholly-owned subsidiary, to various directors and officers of the Company. These loans to such persons were made in the ordinary course of business and in compliance with applicable banking laws and regulations, on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability or other unfavorable features.

In addition to those banking transactions conducted in the ordinary course, the Bank was involved in the related transactions described below. Each of these transactions was made on terms similar to those that could have been negotiated with an unaffiliated third party.

The Bank retained the law firm of Kaufman & Florence during 2017 for legal services in connection with various matters arising in the course of the Bank's business. William H. Kaufman, a director of LCNB, is a partner in Kaufman & Florence. Additionally, customers of the Bank are charged for certain legal services provided by Mr. Kaufman's firm in the preparation of various documents. The approximate amount billed by Kaufman & Florence for legal services during 2017 was \$151,000. The Bank contemplates using Mr. Kaufman's firm in the future on similar terms, as needed.

The Company does not have a written process of approval and ratification of related party transactions. However, the Company does adhere to an unwritten policy, whereby before the Company or the Bank enters into any transaction for which the value of the transaction is expected to be at least \$120,000, and an interested party in the transaction is a director, executive officer, an immediate family member of a director or officer, or a shareholder owning 5% or greater of the Company's outstanding stock, the disinterested Board of Directors must review and approve the transaction. In reviewing the potential transaction, the directors will consider the fairness of the transaction to the Company, whether the transaction would or could compromise the interested party's independence and judgment, the best interests of the Company, and such other factors determined advisable by the Board of Directors. In

2017, the Board of Directors reviewed and approved of the related party transaction with Mr. Kaufman's firm, as described above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires LCNB's officers and directors and persons who own more than 10% of a registered class of LCNB's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required to furnish LCNB with copies of all Section 16(a) forms they file. Based solely on LCNB's review of the section 16(a) forms received by it and by statements of officers and directors concerning their compliance with the applicable filing requirements, the officers, directors and greater than 10% beneficial owners of LCNB have complied with all applicable filing requirements.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

In the fiscal year ended December 31, 2017, the Board of Directors met on 8 occasions. No director attended less than 75% of the aggregate of the total number of meetings of the Board and the committees on which he served. The Company encourages its directors to attend the Annual Meeting of the Shareholders, and in 2017, all of the directors attended the meeting. Directors do not receive any compensation from LCNB for their service on the Board of Directors of LCNB. However, each director of LCNB also serves as a director of LCNB National Bank, the banking subsidiary of LCNB, which meets once per month, for which each is compensated at a rate of \$14,000 annually. In addition, non-employee directors who serve on committees of the Board of Directors receive \$150 for each committee meeting attended. Further, the directors participate like the employees of the Company in the Non-Equity Incentive Plan of the Company, and thus receive cash compensation based upon the success of the Company over the previous year. In 2017, the directors each received compensation under this plan equal to 9.5% of their annual base compensation and committee meeting fees earned during 2017.

The table below summarizes all compensation paid to the directors of LCNB for their services as directors during fiscal year 2017.

Name	Director Compensation		Total (\$)
	Fees Earned or Paid		
	in Cash	Non-Equity Incentive Plan Compensation	
	(\$) ⁽¹⁾	(\$) ⁽²⁾	
Stephen P. Wilson	\$15,650	\$1,487	\$16,315
Steve P. Foster	\$14,000	\$1,330	\$15,330

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Spencer S. Cropper	\$14,900	\$1,415	\$16,315
William H. Kaufman	\$14,000	\$1,330	\$15,330
John H. Kochensparger III	\$16,550	\$1,572	\$18,122
Anne E. Krehbiel	\$14,900	\$1,415	\$16,315
Valerie S. Krueckeberg	\$14,900	\$1,415	\$16,315
George L. Leasure	\$16,550	\$1,572	\$18,122

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(1)

The compensation paid to the directors of LCNB includes committee fees as follows: S. Cropper, \$900; J. Kochensparger \$2,550; A. Krehbiel, \$900; V. Krueckeberg, \$900; G. Leasure, \$2,550; and Mr. Wilson, \$1,650. Mr. Kaufman and Mr. Foster are not independent directors and do not receive committee fees.

(2)

The directors, in addition to their base and committee fees, receive a cash award that corresponds to the Bank's Non-Equity Incentive Plan. The percentage awarded to the officers is used to calculate the directors' cash award that year. The award is paid in the following year. This percentage is multiplied by the directors' base fee plus the committee fee to arrive at the award. The percentage used for the award paid in 2017 was 9.5%.

The Company has an Audit Committee that serves in a dual capacity as the Audit Committee of the Bank. During 2017, the members of the Audit Committee were Spencer S. Cropper (Chair), Anne E. Krehbiel, and Valerie S. Krueckeberg. The Audit Committee met a total of 6 times in 2017. All of the members of the Audit Committee meet the definition of independent director set forth in NASDAQ Listing Rule 5605(a)(2). Valerie S. Krueckeberg served as the financial expert as defined by the Sarbanes-Oxley Act and NASDAQ Listing Rule 5605(a)(2). The Audit Committee is responsible for engaging independent auditors, reviewing with the independent auditors the plans and results of the audit, and reviewing the adequacy of the Bank's internal accounting controls. The Board of Directors of the Company has adopted a written charter for the Audit Committee. The Audit Committee Charter is available online at <https://www.lcnbcorp.com/govdocs>.

The Bank also has a Building Committee, Appraisal Committee, Nominating Committee, Trust Committee, Bond Committee, Pension Committee, and Loan Committee. Each of these committees meet as needed. The Building Committee reviews the facility needs and repair and improvement issues of the Bank and its branch and other office buildings. The members of the Building Committee are Stephen P. Wilson, Anne E. Krehbiel, Steve P. Foster, John H. Kochensparger III, and William H. Kaufman. The Appraisal Committee reviews the appraisals conducted by the Bank's real estate appraisers to ensure that the appraisals are consistent and accurate. The members of the Appraisal Committee are Stephen P. Wilson, Peter Berninger, Matt Layer and Timothy Sheridan. The Trust Committee reviews the various trusts accepted by the Trust Department of the Bank, reviews trust investments and advises the trust officers in department operations. The members of the Trust Committee are Stephen P. Wilson, Steve P. Foster, Michael R. Miller, George L. Leasure, John H. Kochensparger III, S. Diane Ingram, Melanie K. Crane, Bradley A. Ruppert, Amy R. Kobes, Traci Hammiel, Michael D. Nusbaum, Myra A. Frame and Jackie Manley. The Bond Committee reviews the adequacy of the Bank's blanket bond coverage and recommends any changes in coverage to the Board of Directors of the Bank. The Bond Committee consists of the entire Board of Directors of the Bank. The Pension Committee reviews the Bank's defined benefit pension plan. The members of the Pension Committee are Stephen P. Wilson, Spencer S. Cropper, Steve P. Foster, Eric Meilstrup and Robert C. Haines II. The Loan Committee reviews the lending procedures of the Bank and reviews and approves requests for loans in excess of the established lending authority of the officers of the Bank. The Loan Committee consists of the entire Board of Directors of the Bank.

During 2017, the Nominating Committee consisted of all five of the Company's independent dire