

SECOND BANCORP INC

Form 8-K

October 22, 2001

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

**FORM 8-K**  
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: October 22, 2001

**Second Bancorp Incorporated**  
(Exact name of registrant as specified in its charter)

|  |                             |                                      |
|--|-----------------------------|--------------------------------------|
| Ohio                                     | 0-15624                     | 34-1547453                           |
| (State of incorporation)                 | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |
| 108 Main Avenue S.W., Warren, Ohio       |                             | 44482-1311                           |
| (Address of principal executive offices) |                             | (Zip Code)                           |

Registrant's telephone number, including area code: 330-841-0123

**Item 5. Other Events**

On October 18, 2001, the Company issued the following press release:

**SECOND BANCORP'S IMPROVED EARNINGS  
TREND CONTINUES**

Warren, Ohio, October 18, 2001 SECOND BANCORP INCORPORATED (Nasdaq SECD ) reported consolidated third quarter 2001 net income of \$4,401,000 compared to \$4,258,000 for the prior quarter and a loss of (\$5,545,000) for third quarter 2000. Year-to-date earnings were \$12.75 million, an increase of \$10.64 million over reported results for last year's first nine months. Diluted earnings per share for the quarter were \$.43 compared to the second quarter's \$.42 and a (\$.55) loss for the year-ago quarter. Per share earnings for the first three quarters of the year were \$1.26 per share versus \$.20 for the same period last year. Third quarter 2000 results were adversely effected by non-recurring restructuring and other charges totaling \$9.02 million on an after-tax basis.

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The Company's key ratios for the third quarter and first nine months of 2001 were similarly improved over the same periods last year. Returns on average assets for the quarter and year-to-date were 1.11% and 1.09% respectively (compared to a negative 1.34% and .18% a year ago) and returns on average equity were 13.87% for the quarter and 13.97% year-to-date (compared to a negative 19.01% and 2.43% respectively last year). Though somewhat weaker than second quarter 2001 performance, the Company's efficiency ratio also improved dramatically over a year ago finishing at 57.89% for the quarter and 58.20% for the first nine months of the year. Second Bancorp's net interest margin for the quarter was 3.49%, significantly stronger than the 3.14% reported a year ago, and incrementally improved over the first two quarters of the year.

Non-interest income (excluding security and trading activity) for the reporting period was \$4.42 million, 4.5% lower than for the second quarter but, for the first three quarters of the year, was well ahead of last year's pace at more than \$13 million. The marginal drop in non-interest income quarter-to-quarter was due largely to a reduction in the market value of the Company's mortgage loan servicing portfolio. Income categories particularly strong during the third quarter and year-to-date were deposit service charges which were 16% and 18% ahead of results for the same periods last year and gains on sale of loans which were \$1.4 million for the quarter and \$3.3 million for the year.

Second Bancorp President and Chief Executive Officer R. L. (Rick) Blossom indicated "We have been able to take advantage of the lowering interest rate environment this year by ramping up efforts in our core mortgage lending business. Wholesale and retail mortgage originations for the year, equally divided between purchase money loans and refinancings, have reached \$356 million and based upon the number of mortgage loan applications in the pipeline, we expect the heightened activity to continue at least through the end of the year. We have, however, meticulously avoided increasing the volume of long term, fixed rate loans on our books through secondary market activity while generally retaining servicing rights on loans that are sold. Though an expected spike in mortgage loan prepayments put a dent in the servicing portfolio, we completed the quarter with more than \$650 million in serviced loans which will continue to make a significant contribution to non-interest income.

Cost controls continued to play an important role in the Company's improving performance. Third quarter non-interest expenses were \$10.08 million, slightly higher than for the prior quarter but 23% lower than third quarter 2000. Year-to-date, non-interest expenses have been held to less than \$30 million, an 11.6% reduction from year-ago levels. Compared to third quarter 2000 results, virtually every non-interest expense category contributed to the drop in operating costs with professional services, amortization of goodwill and other intangibles, and other operating expenses leading the way. The Company's net overhead ratio which measures its ability to efficiently manage its revenue generating businesses, though a bit weaker on a quarter-to-quarter basis, was a strong 1.52% for the first nine months of the year compared to 2.37% for the same period last year.

With the general economic uncertainty facing the country and regional markets, credit quality remains a key consideration for financial institutions. Second Bancorp's quarter-end non-accrual and 90-days past due but accruing loans were improved by 8.4% and 13.3% respectively compared to last quarter but were somewhat weaker than year-ago levels. Net charge-offs for the quarter were substantially unchanged from a year ago at \$1.17 million and were \$2.88 million or .36% of average loans for the year compared to .28% for the same period last year. The Company's loan loss reserve at the end of the quarter was 1.45% of period-end loans, unchanged from the prior quarter and 3 basis points stronger than a year ago.

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Second Bancorp's pending acquisition of Commerce Exchange Corporation announced on July 23, 2001 is scheduled to close later this month. When completed, the transaction will contribute in excess of \$100 million in assets and two retail banking centers enhancing the Company's growing presence in the attractive suburban Cleveland market. Excluding transaction costs, the acquisition is expected to be immediately accretive to Second Bancorp's earnings per share.

The Company also reported that its Board of Directors declared a seventeen cent (\$.17) per share common dividend payable October 31, 2001 to shareholders of record on October 15. That dividend is unchanged from the second quarter of the year and is 6.25% higher than the dividend paid for the third quarter last year.

This announcement contains forward-looking statements that involve risk and uncertainties, including changes in general economic and financial market conditions and the Company's ability to execute its business plans. Although management believes the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

Second Bancorp is a \$1.6 billion financial holding company providing a full range of commercial and consumer banking, trust, insurance and investment products and services to communities in a nine county area of Northeastern and East-Central Ohio through subsidiary Second National Bank's network of 35 retail banking centers.

Additional information about Second Bancorp and information about products and services offered by Second National Bank can be found on the World Wide Web at [www.secondnationalbank.com](http://www.secondnationalbank.com).

CONTACT: Christopher Stanitz, Executive Vice President and Secretary, at 330.841.0234 (phone), 330.841.0489 (fax), or [cstanitz@secondnationalbank.com](mailto:cstanitz@secondnationalbank.com).

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**Second Bancorp Incorporated and Subsidiary  
Financial Highlights  
Quarterly Data**

(Dollars in thousands, except per share data)

|                                | <u>Sept.<br/>2001</u> | <u>June<br/>2001</u> | <u>March<br/>2001</u> | <u>Dec.<br/>2000</u> | <u>Sept.<br/>2000</u> |
|--------------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| <b>Earnings:</b>               |                       |                      |                       |                      |                       |
| Net interest income            | \$12,473              | \$12,298             | \$11,916              | \$12,708             | \$11,606              |
| Provision for loan losses      | 988                   | 1,342                | 761                   | 903                  | 4,843                 |
| Non-interest income            | 4,420                 | 4,630                | 3,972                 | 3,776                | (28)                  |
| Security gains (losses)        | 123                   | (12)                 | 529                   | 98                   | (2,802)               |
| Trading account (losses) gains | (52)                  | 13                   | 58                    | 10                   | (28)                  |
| Non-interest expense           | 10,082                | 9,805                | 10,051                | 10,345               | 13,140                |
| Federal income taxes (benefit) | 1,493                 | 1,524                | 1,475                 | 1,314                | (3,690)               |

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|  |       |       |       |       |         |
|--|-------|-------|-------|-------|---------|
| <b>Income before accounting change</b>             | 4,401 | 4,258 | 4,188 | 4,030 | (5,545) |
| Cumulative effect of accounting change, net of tax | 0     | 0     | (101) | 0     | 0       |

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|                   |         |         |         |         |           |
|-------------------|---------|---------|---------|---------|-----------|
| <b>Net income</b> | \$4,401 | \$4,258 | \$4,087 | \$4,030 | (\$5,545) |
|-------------------|---------|---------|---------|---------|-----------|

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|  |  |  |  |  |  |

**Per share:**

Basic earnings before accounting change

n/a n/a \$0.42 n/a n/a

Basic earnings

0.43 0.42 0.41 0.40 (0.55)

Diluted earnings before accounting change

n/a n/a 0.42 n/a n/a

Diluted earnings

0.43 0.42 0.41 0.40 (0.55)

Common dividends

0.17 0.17 0.17 0.16 0.16

Book value

13.04 12.29 12.20 11.65 11.05

Tangible book value

12.90 12.15 12.04 11.49 10.88

Market value

20.50 22.90 17.50 14.50 14.13

**Weighted average shares outstanding:**

Basic

10,033,365 10,007,904 10,020,097 10,050,177 10,161,386

Diluted

10,117,705 10,103,060 10,046,562 10,069,215 10,161,386

**Period end balance sheet:**

Assets

\$1,609,019 \$1,578,370 \$1,571,831 \$1,546,290 \$1,561,617

Securities

407,004 380,262 377,323 382,098 400,176

Total loans

1,060,778 1,075,039 1,076,284 1,070,089 1,059,530

Reserve for loan losses

15,429 15,609 15,778 15,217 15,040

Deposits

1,057,291 1,059,758 1,061,556 1,036,135 1,084,377

Total shareholders equity

130,766 123,107 121,968 117,197 112,019

Tier I capital

149,171 119,857 117,497 115,315 114,158

Tier I ratio

13.1% 10.4% 10.3% 10.3% 10.2%

Total capital

163,385 134,302 131,768 129,366 128,193

Total capital ratio

14.4% 11.6% 11.5% 11.5% 11.4%

Total risk-adjusted assets

1,135,902 1,155,561 1,141,685 1,124,076 1,122,803

Tier I leverage ratio  
 9.4% 7.6% 7.6% 7.5% 6.9%

**Average balance sheet:**

Assets  
 \$1,582,934 \$1,570,016 \$1,544,368 \$1,541,049 \$1,650,501  
 Earning assets  
 1,494,932 1,483,598 1,453,969 1,452,756 1,552,441  
 Loans  
 1,064,655 1,074,936 1,072,460 1,061,023 1,173,799  
 Deposits  
 1,061,537 1,063,415 1,046,349 1,053,740 1,110,194  
 Shareholders equity  
 126,950 121,840 118,879 112,892 116,702

**Key ratios: (%) (1)**

Return on average assets (ROA)  
 1.11 1.08 1.08 1.05 (1.34)  
 Return on average shareholders  
 equity (ROE) Net interest margin  
 13.87 13.98 14.09 14.28 (19.01)  
 3.49 3.47 3.43 3.65 3.14  
 Net overhead  
 1.53 1.39 1.66 1.81 3.40  
 Efficiency ratio  
 57.89 56.00 60.94 60.77 108.40

**Credit quality:**

Non-accrual loans  
 \$4,273 \$4,666 \$5,163 \$4,699 \$3,821  
 Restructured loans  
 358 38 40 43 45  
 90 day past due and accruing  
 4,693 5,415 3,849 3,238 3,171

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Non-performing loans  
 9,324 10,119 9,052 7,980 7,037  
 Other real estate owned  
 1,322 1,063 918 902 961

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Non-performing assets  
 \$10,646 \$11,182 \$9,970 \$8,882 \$7,998

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Charge-offs  
 \$1,343 \$1,808 \$862 \$939 \$1,528

Recoveries  
 175 297 662 213 348

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Net charge-offs  
 \$1,168 \$1,511 \$200 \$726 \$1,180

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Reserve for loan losses as a percent of period-end loans (%)  
 1.45 1.45 1.47 1.42 1.42  
 Net charge-offs (annualized) as a percent of average loans (%)  
 0.44 0.56 0.07 0.27 0.40  
 Non-performing loans as a percent of loans  
 0.88 0.94 0.84 0.75 0.66  
 Non-performing assets as a percent of assets  
 0.66 0.71 0.63 0.57 0.51



(1) Based on income before accounting change.

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**Second Bancorp Incorporated and Subsidiary  
Consolidated Statements of Income  
Quarterly Data**

(Dollars in thousands, except per share data)

|   | Sept.<br>2001           | June<br>2001 | March<br>2001 | Dec.<br>2000 | Sept.<br>2000 |
|---|-------------------------|--------------|---------------|--------------|---------------|
| <b>INTEREST INCOME</b>  |                         |              |               |              |               |
|   | Loans (including fees): |              |               |              |               |
| Taxable   |                         |              |               |              |               |
| \$21,015  | \$21,751                | \$22,101     | \$23,029      | \$23,367     |               |
| Exempt from federal income taxes  |                         |              |               |              |               |
| 268   | 279                     | 288          | 276           | 285          |               |
| Securities:   |                         |              |               |              |               |
| Taxable   |                         |              |               |              |               |
| 5,471   | 5,302                   | 5,125        | 5,581         | 5,419        |               |
| Exempt from federal income taxes  |                         |              |               |              |               |
| 800   | 775                     | 773          | 773           | 777          |               |
| Federal funds sold and other temp investments                                       |                         |              |               |              |               |
| 326   | 298                     | 191          | 131           | 46           |               |
| <hr/>   |                         |              |               |              |               |
| <hr/>   |                         |              |               |              |               |
| <hr/>   |                         |              |               |              |               |
| <hr/>   |                         |              |               |              |               |
| <hr/>   |                         |              |               |              |               |
| <hr/>   |                         |              |               |              |               |
| Total interest income   |                         |              |               |              |               |
| 27,880  | 28,405                  | 28,478       | 29,790        | 29,894       |               |
| <b>INTEREST EXPENSE</b>   |                         |              |               |              |               |
| Deposits  |                         |              |               |              |               |
| 10,467  | 11,192                  | 11,469       | 11,829        | 12,216       |               |
| Federal funds purchased and securities sold under agreements to repurchase          |                         |              |               |              |               |
| 937   | 1,053                   | 1,187        | 1,560         | 1,440        |               |
| Note Payable  |                         |              |               |              |               |
| 13  | 16                      | 18           | 6             | 0            |               |
| Other borrowed funds  |                         |              |               |              |               |
| 23  | 15                      | 37           | 25            | 46           |               |
| Federal Home Loan Bank advances   |                         |              |               |              |               |
| 3,946   | 3,831                   | 3,851        | 3,662         | 4,586        |               |
| Corporation-obligated manditorily redeemable capital securities of subsidiary trust |                         |              |               |              |               |
| 21  | 0                       | 0            | 0             | 0            |               |

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Total interest expense  
 15,407 16,107 16,562 17,082 18,288

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Net interest income  
 12,473 12,298 11,916 12,708 11,606  
 Provision for loan losses  
 988 1,342 761 903 4,843

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Net interest income after provision for loan losses  
 11,485 10,956 11,155 11,805 6,763

**NON-INTEREST INCOME**

Service charges on deposit accounts  
 1,344 1,273 1,261 1,110 1,163

Trust fees  
 761 749 756 1,012 833

Gain (loss) on sale of loans  
 1,394 1,106 783 490 (3,191)

Trading account (losses) gains  
 (52) 13 58 10 (28)

Security gains (losses)  
 123 (12) 529 98 (2,802)

Other operating income  
 921 1,502 1,172 1,164 1,167

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Total non-interest income  
4,491 4,631 4,559 3,884 (2,858)

**NON-INTEREST EXPENSE**

Salaries and employee benefits  
5,313 5,096 5,194 4,891 5,421  
Net occupancy  
1,001 1,062 1,116 1,040 1,062  
Equipment  
1,038 921 1,049 995 1,044  
Professional services  
320 397 343 651 1,650  
Assessment on deposits and other taxes  
415 405 401 423 423  
Amortization of goodwill and other intangibles  
81 80 81 108 216  
Other operating expenses  
1,914 1,844 1,867 2,237 3,324

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Total non-interest expense  
10,082 9,805 10,051 10,345 13,140

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Income before federal income taxes  
5,894 5,782 5,663 5,344 (9,235)

Income tax expense (benefit)  
 1,493 1,524 1,475 1,314 (3,690)

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Income before accounting change  
 4,401 4,258 4,188 4,030 (5,545)  
 Cumulative effect of accounting change, net of tax  
 (101)

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Net income  
 \$4,401 \$4,258 \$4,087 \$4,030 (\$5,545)

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NET INCOME PER COMMON SHARE:

Basic before accounting change  
 \$0.44 \$0.42 \$0.42 \$0.40 (\$0.55)  
 Basic  
 \$0.43 \$0.42 \$0.41 \$0.40 (\$0.55)  
 Diluted before accounting change  
 \$0.44 \$0.42 \$0.42 \$0.40 (\$0.55)  
 Diluted  
 \$0.43 \$0.42 \$0.41 \$0.40 (\$0.55)  
 Weighted average common shares outstanding:

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Basic

10,033,365 10,007,904 10,020,097 10,050,177 10,161,386

Diluted

10,117,705 10,103,060 10,046,562 10,069,215 10,161,386

Note: Fully taxable equivalent adjustment

\$575 \$568 \$571 \$540 \$547

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**Second Bancorp Incorporated and Subsidiary  
Consolidated Average Balance Sheets  
For the Quarter Ended  
(Dollars in Thousands)**

| <b>ASSETS</b>                                 | <b>Sept.<br/>2001</b> | <b>June 2001</b> | <b>March<br/>2001</b> | <b>Dec. 2000</b> | <b>Sept.<br/>2000</b> |
|---|-----------------------|------------------|-----------------------|------------------|-----------------------|
| Cash and demand balances due from banks       | \$32,340              | \$30,980         | \$33,942              | \$31,139         | \$34,439              |
| Federal funds sold and other temp investments | 37,091                | 27,222           | 12,146                | 7,979            | 2,750                 |
| Trading Account                               | 52                    | 141              | 165                   | 161              | 811                   |
| Securities                                    | 393,134               | 381,299          | 369,198               | 383,593          | 375,081               |
| Loans:  |                       |                  |                       |                  |                       |
| Commercial                                    | 427,029               | 434,445          | 425,127               | 419,442          | 412,356               |
| Consumer                                      | 319,838               | 318,937          | 309,135               | 295,209          | 272,322               |
| Real estate                                   | 317,788               | 321,554          | 338,198               | 346,372          | 489,121               |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| Total loans                                   | 1,064,655             | 1,074,936        | 1,072,460             | 1,061,023        | 1,173,799             |
| Reserve for loan losses                       | 15,464                | 15,743           | 15,594                | 15,129           | 11,578                |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| <br>  |                       |                  |                       |                  |                       |
| Net loans                                     | 1,049,191             | 1,059,193        | 1,056,866             | 1,045,894        | 1,162,221             |
| Premises and equipment                        |                       |                  |                       |                  |                       |

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|                                |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|
| 17,061                         | 17,448 | 17,923 | 17,867 | 18,032 |
| Goodwill and intangible assets |        |        |        |        |
| 7,985                          | 6,471  | 6,067  | 6,111  | 5,416  |
| Other                          |        |        |        |        |
| 46,080                         | 47,262 | 48,061 | 48,305 | 51,751 |

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Total assets  
\$1,582,934 \$1,570,016 \$1,544,368 \$1,541,049 \$1,650,501

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**LIABILITIES AND SHAREHOLDERS EQUITY**

Liabilities:

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Demand deposits (non-interest bearing) |           |           |           |           |
| \$111,635                              | \$110,124 | \$107,260 | \$110,053 | \$112,662 |
| Demand deposits (interest bearing)     |           |           |           |           |
| 90,783                                 | 88,920    | 83,381    | 83,694    | 85,432    |
| Savings                                |           |           |           |           |
| 232,661                                | 234,781   | 242,120   | 252,990   | 265,319   |
| Time deposits                          |           |           |           |           |
| 626,458                                | 629,590   | 613,588   | 607,003   | 646,781   |

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Total deposits



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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| 1,061,537   | 1,063,415 | 1,046,349 | 1,053,740 | 1,110,194 |
| Federal funds purchased and securities sold under agreements to repurchase          |           |           |           |           |
| 112,029   | 111,816   | 109,724   | 126,942   | 117,645   |
| Note payable  |           |           |           |           |
| 967   | 1,000     | 1,000     | 292       | 0         |
| Borrowed funds  |           |           |           |           |
| 2,240   | 1,554     | 2,230     | 1,251     | 2,568     |
| Accrued expenses and other liabilities  |           |           |           |           |
| 10,601  | 10,223    | 9,002     | 6,630     | 9,060     |
| Federal Home Loan Bank advances   |           |           |           |           |
| 267,744   | 260,168   | 257,184   | 239,302   | 294,332   |
| Corporation-obligated manditorily redeemable capital securities of subsidiary trust |           |           |           |           |
| 866   | 0         | 0         | 0         | 0         |

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Total liabilities  
 1,455,984 1,448,176 1,425,489 1,428,157 1,533,799

Shareholders' equity:

|                            |          |          |          |          |
|----------------------------|----------|----------|----------|----------|
| Common stock               |          |          |          |          |
| 37,331                     | 37,046   | 36,945   | 36,936   | 36,962   |
| Treasury shares            |          |          |          |          |
| (14,814)                   | (14,739) | (14,465) | (13,174) | (12,172) |
| Other comprehensive income |          |          |          |          |
| 4,548                      | 2,364    | 1,493    | (3,268)  | (6,957)  |
| Retained earnings          |          |          |          |          |
| 99,885                     | 97,169   | 94,906   | 92,398   | 98,869   |

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Total shareholders' equity  
 126,950 121,840 118,879 112,892 116,702

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Total liabilities and shareholders' equity  
\$1,582,934 \$1,570,016 \$1,544,368 \$1,541,049 \$1,650,501

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**Second Bancorp Incorporated and Subsidiary  
Consolidated Balance Sheets**  
(Dollars in thousands)

| September<br>30 | June<br>30 | March<br>31 | December<br>31 | September<br>31 |
|-----------------|------------|-------------|----------------|-----------------|
| 2001            | 2001       | 2001        | 2000           | 2000            |

**ASSETS**

|   |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|
| Cash and due from banks                       | \$32,441 | \$36,024 | \$36,937 | \$35,272 | \$34,079 |
| Federal funds sold and other temp investments | 51,233   | 27,979   | 25,451   | 0        | 8,000    |
| Trading Account                               | 0        | 0        | 238      | 328      | 447      |
| Securities                                    | 407,004  | 380,262  | 377,323  | 382,098  | 400,176  |
| Loans:  |          |          |          |          |          |
| Commercial                                    | 425,149  | 434,416  | 432,633  | 421,229  | 426,407  |
| Consumer                                      | 318,614  | 322,776  | 314,290  | 302,881  | 285,959  |
| Real estate                                   | 317,015  | 317,847  | 329,361  | 345,979  | 347,164  |

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|                              |           |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total loans                  | 1,060,778 | 1,075,039 | 1,076,284 | 1,070,089 | 1,059,530 |
| Less reserve for loan losses | 15,429    | 15,609    | 15,778    | 15,217    | 15,040    |

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|                                |           |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net loans                      | 1,045,349 | 1,059,430 | 1,060,506 | 1,054,872 | 1,044,490 |
| Premises and equipment         | 16,650    | 17,122    | 17,533    | 18,039    | 17,798    |
| Accrued interest receivable    | 10,272    | 9,759     | 10,118    | 11,181    | 10,630    |
| Goodwill and intangible assets | 8,328     | 7,547     | 6,157     | 6,038     | 6,193     |
| Other assets                   | 37,742    | 40,247    | 37,568    | 38,462    | 39,804    |

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|              |             |             |             |             |             |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Total assets | \$1,609,019 | \$1,578,370 | \$1,571,831 | \$1,546,290 | \$1,561,617 |
|--------------|-------------|-------------|-------------|-------------|-------------|

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**LIABILITIES AND SHAREHOLDERS EQUITY**

Deposits:

|                             |           |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Demand non-interest bearing | \$111,539 | \$109,477 | \$105,920 | \$110,045 | \$107,391 |
| Demand interest bearing     | 94,831    | 90,077    | 86,124    | 87,268    | 83,991    |
| Savings                     | 234,601   | 234,314   | 239,661   | 246,056   | 262,024   |
| Time deposits               | 616,320   | 625,890   | 629,851   | 592,766   | 630,971   |

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|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Total deposits  | 1,057,291 | 1,059,758 | 1,061,556 | 1,036,135 | 1,084,377 |
| Federal funds purchased and securities sold under agreements to repurchase          | 110,071   | 117,275   | 119,684   | 129,895   | 116,707   |
| Note payable  | 0         | 1,000     | 1,000     | 1,000     | 0         |
| Other borrowed funds  | 5,745     | 4,981     | 46        | 2,163     | 3,622     |
| Accrued expenses and other liabilities  | 11,185    | 10,802    | 10,986    | 8,167     | 6,020     |
| Federal Home Loan Bank advances   | 267,301   | 261,447   | 256,591   | 251,733   | 238,872   |
| Corporation-obligated mandatorily redeemable capital securities of subsidiary trust | 26,660    | 0         | 0         | 0         | 0         |

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|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Total liabilities   | 1,478,253 | 1,455,263 | 1,449,863 | 1,429,093 | 1,449,598 |
| Shareholders' equity:                                     |           |           |           |           |           |
| Common stock, no par value; 30,000,000 shares authorized; | 37,424    | 37,166    | 36,953    | 36,935    | 36,952    |
| Treasury stock  | (15,072)  | (14,740)  | (14,740)  | (13,947)  | (12,590)  |
| Other comprehensive income                                | 6,850     | 1,810     | 2,950     | 281       | (3,849)   |
| Retained earnings   | 101,564   | 98,871    | 96,805    | 93,928    | 91,506    |

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|                            |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|
| Total shareholders' equity | 130,766 | 123,107 | 121,968 | 117,197 | 112,019 |
|----------------------------|---------|---------|---------|---------|---------|

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Total liabilities and shareholders' equity  
\$1,609,019 \$1,578,370 \$1,571,831 \$1,546,290 \$1,561,617

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Miscellaneous data:

Common shares issued  
10,828,310 10,802,510 10,785,760 10,787,310 10,776,870  
Treasury shares  
801,512 785,000 785,000 730,200 639,920  
Bank owned life insurance (in other assets)  
\$31,041 \$30,645 \$30,270 \$29,895 \$29,527  
Loans serviced for others  
\$652,337 \$565,044 \$487,253 \$472,120 \$462,957  
Mortgage servicing rights  
\$6,560 \$5,688 \$4,261 \$4,065 \$4,102  
Goodwill  
1,014 1,061 1,107 1,154 1,213  
Other intangibles  
754 798 789 819 878

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Total goodwill and intangibles assets  
\$8,328 \$7,547 \$6,157 \$6,038 \$6,193

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**Table of Contents**

**Second Bancorp Incorporated and Subsidiary  
Financial Highlights  
Year-to-Date Data**

(Dollars in thousands, except per  
share data)

|  | Sept.<br>2001 | June<br>2001 | March<br>2001 | Dec.<br>2000 | Sept.<br>2000 |
|--|---------------|--------------|---------------|--------------|---------------|
|--|---------------|--------------|---------------|--------------|---------------|

**Earnings:**

|                                |          |          |          |          |          |
|--------------------------------|----------|----------|----------|----------|----------|
| Net interest income            | \$36,687 | \$24,214 | \$11,916 | \$49,377 | \$36,669 |
| Provision for loan losses      | 3,091    | 2,103    | 761      | 7,129    | 6,226    |
| Non-interest income            | 13,022   | 8,602    | 3,972    | 11,009   | 7,233    |
| Security gains (losses)        | 640      | 517      | 529      | (2,399)  | (2,497)  |
| Trading account                | 19       | 71       | 58       | (335)    | (345)    |
| Non-interest expense           | 29,938   | 19,856   | 10,051   | 44,213   | 33,868   |
| Federal income taxes (benefit) | 4,492    | 2,999    | 1,475    | 176      | (1,138)  |

**Income before accounting change**

|  |               |              |              |              |              |
|--|---------------|--------------|--------------|--------------|--------------|
|  | <b>12,847</b> | <b>8,446</b> | <b>4,188</b> | <b>6,134</b> | <b>2,104</b> |
| Cumulative effect of accounting change, net of tax | (101)         | (101)        | (101)        | 0            | 0            |

**Net income**

|  |                 |                |                |                |                |
|--|-----------------|----------------|----------------|----------------|----------------|
|  | <b>\$12,746</b> | <b>\$8,345</b> | <b>\$4,087</b> | <b>\$6,134</b> | <b>\$2,104</b> |
|--|-----------------|----------------|----------------|----------------|----------------|



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|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Per share:**

Basic earnings before accounting change

\$1.28 \$0.84 \$0.42 n/a n/a

Basic earnings

1.27 0.83 0.41 0.60 0.20

Diluted earnings before accounting change

1.27 0.84 0.42 n/a n/a

Diluted earnings

1.26 0.83 0.41 0.60 0.20

Common dividends

0.51 0.34 0.17 0.64 0.48

Book value

13.04 12.29 12.20 11.65 11.05

Tangible book value

12.90 12.15 12.04 11.46 10.88

Market value

20.50 22.90 17.50 14.50 14.13

**Weighted average shares outstanding:**

Basic

10,021,471 10,013,966 10,020,097 10,247,025 10,294,922

Diluted

10,087,935 10,079,973 10,046,562 10,271,548 10,318,413

**Period end balance sheet:**

Assets

\$1,609,019 \$1,578,370 \$1,571,831 \$1,546,290 \$1,561,617

Securities

407,004 380,262 377,323 382,098 400,176

Total loans

1,060,778 1,075,039 1,076,284 1,070,089 1,059,530

Reserve for loan losses

15,429 15,609 15,778 15,217 15,040

Deposits

1,057,291 1,059,758 1,061,556 1,036,135 1,084,377

Total shareholders equity

130,766 123,107 121,968 117,197 112,019

Tier I capital

149,171 119,857 117,497 115,315 114,158

Tier I ratio

13.1% 10.4% 10.3% 10.3% 10.2%

Total capital

163,385 134,302 131,768 129,366 128,193

Total capital ratio

14.4% 11.6% 11.5% 11.5% 11.4%

Total risk-adjusted assets

1,135,902 1,155,561 1,141,685 1,124,076 1,122,803

Tier I leverage ratio  
 9.4% 7.6% 7.6% 7.5% 6.9%

**Average balance sheet:**

Assets  
 \$1,565,914 \$1,557,263 \$1,544,368 \$1,584,016 \$1,598,443  
 Earning assets  
 1,477,650 1,468,866 1,453,969 1,488,334 1,500,280  
 Loans  
 1,070,655 1,073,705 1,072,460 1,107,948 1,123,704  
 Deposits  
 1,057,156 1,054,929 1,046,349 1,091,441 1,104,100  
 Shareholders equity  
 122,586 120,368 118,879 114,652 115,243

**Key ratios: (%) (1)**

Return on average assets (ROA)  
 1.09 1.08 1.08 0.39 0.18  
 Return on average shareholders equity (ROE)  
 13.97 14.03 14.09 5.35 2.43  
 Net interest margin  
 3.47 3.45 3.43 3.46 3.41  
 Net overhead  
 1.52 1.52 1.66 2.23 2.37  
 Efficiency ratio  
 58.20 58.36 60.94 70.67 74.31

**Credit quality:**

Non-accrual loans  
 \$4,273 \$4,666 \$5,163 \$4,699 \$3,821  
 Restructured loans  
 358 38 40 43 45  
 90 day past due and accruing  
 4,693 5,415 3,849 3,238 3,171

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Non-performing loans  
 9,324 10,119 9,052 7,980 7,037  
 Other real estate owned  
 1,322 1,063 918 902 961

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Non-performing assets  
 \$10,646 \$11,182 \$9,970 \$8,882 \$7,998

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Charge-offs  
 \$4,013 \$2,670 \$862 \$4,059 \$3,120

Recoveries  
 1,134 959 662 978 765

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Net charge-offs  
 \$2,879 \$1,711 \$200 \$3,081 \$2,355

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Reserve for loan losses as a percent of period-end loans (%)  
 1.45 1.45 1.47 1.42 1.42  
 Net charge-offs (annualized) as a percent of average loans (%)  
 0.36 0.32 0.07 0.28 0.28  
 Non-performing loans as a percent of loans  
 0.88 0.94 0.84 0.75 0.66  
 Non-performing assets as a percent of assets  
 0.66 0.71 0.63 0.57 0.51

(1) Based on income before accounting change.

**Table of Contents**

**Second Bancorp Incorporated and Subsidiary  
Consolidated Statements of Income  
Year-to-Date Data**

(Dollars in thousands, except per share data)

|   | <u>Sept.<br/>2001</u>   | <u>June<br/>2001</u> | <u>March<br/>2001</u> | <u>Dec.<br/>2000</u> | <u>Sept.<br/>2000</u> |
|---|-------------------------|----------------------|-----------------------|----------------------|-----------------------|
| <b>INTEREST INCOME</b>  |                         |                      |                       |                      |                       |
|   | Loans (including fees): |                      |                       |                      |                       |
| Taxable   |                         |                      |                       |                      |                       |
| \$64,867  | \$43,852                | \$22,101             | \$90,819              | \$67,790             |                       |
| Exempt from federal income taxes  |                         |                      |                       |                      |                       |
| 835   | 567                     | 288                  | 1,014                 | 738                  |                       |
| Securities:   |                         |                      |                       |                      |                       |
| Taxable   |                         |                      |                       |                      |                       |
| 15,898  | 10,427                  | 5,125                | 20,970                | 15,389               |                       |
| Exempt from federal income taxes  |                         |                      |                       |                      |                       |
| 2,348   | 1,548                   | 773                  | 3,209                 | 2,436                |                       |
| Federal funds sold and other temp investments                                       |                         |                      |                       |                      |                       |
| 815   | 489                     | 191                  | 286                   | 155                  |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| <hr/>   |                         |                      |                       |                      |                       |
| Total interest income   |                         |                      |                       |                      |                       |
| 84,763  | 56,883                  | 28,478               | 116,298               | 86,508               |                       |
| <b>INTEREST EXPENSE</b>   |                         |                      |                       |                      |                       |
| Deposits  |                         |                      |                       |                      |                       |
| 33,128  | 22,661                  | 11,469               | 46,236                | 34,407               |                       |
| Federal funds purchased and securities sold under agreements to repurchase          |                         |                      |                       |                      |                       |
| 3,177   | 2,240                   | 1,187                | 5,540                 | 3,980                |                       |
| Note Payable  |                         |                      |                       |                      |                       |
| 47  | 34                      | 18                   | 25                    | 19                   |                       |
| Other borrowed funds  |                         |                      |                       |                      |                       |
| 75  | 52                      | 37                   | 172                   | 147                  |                       |
| Federal Home Loan Bank advances   |                         |                      |                       |                      |                       |
| 11,628  | 7,682                   | 3,851                | 14,948                | 11,286               |                       |
| Corporation-obligated manditorily redeemable capital securities of subsidiary trust |                         |                      |                       |                      |                       |
| 21  | 0                       | 0                    | 0                     | 0                    |                       |

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Total interest expense  
 48,076 32,669 16,562 66,921 49,839

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Net interest income  
 36,687 24,214 11,916 49,377 36,669  
 Provision for loan losses  
 3,091 2,103 761 7,129 6,226

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Net interest income after provision for loan losses  
 33,596 22,111 11,155 42,248 30,443

**NON-INTEREST INCOME**

Service charges on deposit accounts  
 3,878 2,534 1,261 4,406 3,296  
 Trust fees  
 2,266 1,505 756 3,898 2,886  
 Gain (loss) on sale of loans  
 3,283 1,889 783 (2,001) (2,491)  
 Trading account gains (losses)  
 19 71 58 (335) (345)  
 Security gains (losses)  
 640 517 529 (2,399) (2,497)  
 Other operating income  
 3,595 2,674 1,172 4,706 3,542

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Total non-interest income  
13,681 9,190 4,559 8,275 4,391

**NON-INTEREST EXPENSE**

Salaries and employee benefits  
15,603 10,290 5,194 20,817 15,926

Net occupancy  
3,179 2,178 1,116 4,191 3,151

Equipment  
3,008 1,970 1,049 3,985 2,990

Professional services  
1,060 740 343 3,476 2,825

Assessment on deposits and other taxes  
1,221 806 401 1,684 1,261

Amortization of goodwill and other intangibles  
242 161 81 555 447

Other operating expenses  
5,625 3,711 1,867 9,505 7,268

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Total non-interest expense  
29,938 19,856 10,051 44,213 33,868

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Income before federal income taxes  
17,339 11,445 5,663 6,310 966

Income tax expense (benefit)  
 4,492 2,999 1,475 176 (1,138)

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Income before accounting change  
 12,847 8,446 4,188 6,134 2,104  
 Cumulative effect of accounting change, net of tax  
 (101) (101) (101)

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Net income  
 \$12,746 \$8,345 \$4,087 \$6,134 \$2,104

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**NET INCOME PER COMMON SHARE:**

Basic before accounting change  
 \$1.28 \$0.84 \$0.42 \$0.60 \$0.20  
 Basic  
 \$1.27 \$0.83 \$0.41 \$0.60 \$0.20  
 Diluted before accounting change  
 \$1.27 \$0.84 \$0.42 \$0.60 \$0.20  
 Diluted  
 \$1.26 \$0.83 \$0.41 \$0.60 \$0.20  
 Weighted average common shares outstanding:



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Basic

10,021,471 10,013,966 10,020,097 10,247,025 10,294,922

Diluted

10,087,935 10,079,973 10,046,562 10,271,548 10,318,413

Note: Fully taxable equivalent adjustment

\$1,714 \$1,139 \$571 \$2,175 \$1,635

**Table of Contents**

**Second Bancorp Incorporated and Subsidiary  
Consolidated Average Balance Sheets  
For the Year-to-date period ended:  
(Dollars in Thousands)**

| ASSETS  | Sept.<br>2001 | June 2001 | March<br>2001 | Dec. 2000 | Sept.<br>2000 |
|---|---------------|-----------|---------------|-----------|---------------|
| Cash and demand balances due from banks           | \$32,415      | \$32,453  | \$33,942      | \$33,787  | \$34,676      |
| Federal funds sold                                |               |           |               |           |               |
| 25,578 19,726 12,146 4,682 3,575                  |               |           |               |           |               |
| Trading Account                                   |               |           |               |           |               |
| 119 153 165 754 953                               |               |           |               |           |               |
| Securities  |               |           |               |           |               |
| 381,298 375,282 369,198 374,950 372,048           |               |           |               |           |               |
| Loans:  |               |           |               |           |               |
| Commercial  |               |           |               |           |               |
| 428,874 429,812 425,127 408,163 404,376           |               |           |               |           |               |
| Consumer  |               |           |               |           |               |
| 316,009 314,063 309,135 258,847 246,638           |               |           |               |           |               |
| Real estate                                       |               |           |               |           |               |
| 325,772 329,830 338,198 440,938 472,690           |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| Total loans                                       |               |           |               |           |               |
| 1,070,655 1,073,705 1,072,460 1,107,948 1,123,704 |               |           |               |           |               |
| Reserve for loan losses                           |               |           |               |           |               |
| 15,600 15,669 15,594 12,398 11,481                |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| <br>  |               |           |               |           |               |
| Net loans   |               |           |               |           |               |
| 1,055,055 1,058,036 1,056,866 1,095,550 1,112,223 |               |           |               |           |               |
| Premises and equipment                            |               |           |               |           |               |

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|                                |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|
| 17,474                         | 17,684 | 17,923 | 18,272 | 18,408 |
| Goodwill and intangible assets |        |        |        |        |
| 6,848                          | 6,270  | 6,067  | 5,739  | 5,614  |
| Other                          |        |        |        |        |
| 47,127                         | 47,659 | 48,061 | 50,282 | 50,946 |

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Total assets  
\$1,565,914 \$1,557,263 \$1,544,368 \$1,584,016 \$1,598,443

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**LIABILITIES AND SHAREHOLDERS EQUITY**

Liabilities:

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Demand deposits (non-interest bearing) |           |           |           |           |
| \$109,689                              | \$108,700 | \$107,260 | \$112,185 | \$112,901 |
| Demand deposits (interest bearing)     |           |           |           |           |
| 87,722                                 | 86,166    | 83,381    | 86,818    | 87,867    |
| Savings                                |           |           |           |           |
| 236,486                                | 238,430   | 242,120   | 266,863   | 271,521   |
| Time deposits                          |           |           |           |           |
| 623,259                                | 621,633   | 613,588   | 625,575   | 631,811   |

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Total deposits

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| 1,057,156   | 1,054,929 | 1,046,349 | 1,091,441 | 1,104,100 |
| Federal funds purchased and securities sold under agreements to repurchase          |           |           |           |           |
| 111,198   | 110,776   | 109,724   | 118,070   | 115,091   |
| Note payable  |           |           |           |           |
| 989   | 1,000     | 1,000     | 292       | 293       |
| Borrowed funds  |           |           |           |           |
| 2,008   | 1,890     | 2,230     | 2,532     | 2,961     |
| Accrued expenses and other liabilities  |           |           |           |           |
| 9,948   | 9,616     | 9,002     | 8,381     | 8,969     |
| Federal Home Loan Bank advances   |           |           |           |           |
| 261,737   | 258,684   | 257,184   | 248,648   | 251,786   |
| Corporation-obligated manditorily redeemable capital securities of subsidiary trust |           |           |           |           |
| 292   | 0         | 0         | 0         | 0         |

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Total liabilities  
 1,443,328 1,436,895 1,425,489 1,469,364 1,483,200  
 Shareholders' equity:

|                              |          |          |          |          |
|------------------------------|----------|----------|----------|----------|
| Common stock                 |          |          |          |          |
| 37,109                       | 36,996   | 36,945   | 36,957   | 36,964   |
| Treasury shares              |          |          |          |          |
| (14,674)                     | (14,603) | (14,465) | (10,878) | (10,107) |
| Net unrealized holding gains |          |          |          |          |
| 2,813                        | 1,931    | 1,493    | (7,354)  | (8,726)  |
| Retained earnings            |          |          |          |          |
| 97,338                       | 96,044   | 94,906   | 95,927   | 97,112   |

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Total shareholders' equity  
 122,586 120,368 118,879 114,652 115,243

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Total liabilities and shareholders' equity  
\$1,565,914 \$1,557,263 \$1,544,368 \$1,584,016 \$1,598,443

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 22, 2001

Second Bancorp Incorporated

/s/ David L. Kellerman

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David L. Kellerman, Treasurer

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