

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 File Number)	(IRS Employer 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.</u>	<u>June</u>	<u>March</u>	<u>Dec.</u>	<u>Sept.</u>
	2001	2001	2001	2000	2000
<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)	


**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  
 13.87 13.98 14.09 14.28 (19.01)  
 equity (ROE) Net interest margin  
 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. 2001	June 2001	March 2001	Dec. 2000	Sept. 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/>					
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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)**

ASSETS	Sept. 2001	June 2001	March 2001	Dec. 2000	Sept. 2000
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
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
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 30	June 30	March 31	December 31	September 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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**Second Bancorp Incorporated and Subsidiary  
Financial Highlights  
Year-to-Date Data**

(Dollars in thousands, except per  
share data)

	Sept. 2001	June 2001	March 2001	Dec. 2000	Sept. 2000
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**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. 2001</u>	<u>June 2001</u>	<u>March 2001</u>	<u>Dec. 2000</u>	<u>Sept. 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
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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. 2001	June 2001	March 2001	Dec. 2000	Sept. 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					
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					
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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