

SECOND BANCORP INC

Form 8-K

January 28, 2002

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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: January 25, 2002

**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 January 24, 2002, the Company issued the following press release:

SECOND BANCORP REPORTS  
SOLID FOURTH QUARTER, RECORD EARNINGS FOR 2001

**Warren, Ohio, January 24, 2002** **SECOND BANCORP INCORPORATED** (Nasdaq **SECD** , **SECDP** ) reported solid financial performance for the recently completed fourth quarter and record annual earnings for 2001. Net income for the quarter was \$4,334,000 or \$.43 per diluted share compared to \$4,030,000 or \$.40 per share for the same period last year. Excluding transaction costs associated with the Company's October acquisition of Commerce Exchange Corporation, quarterly earnings would have been \$4,532,000 (\$.45 per diluted share), an increase of 12.5% over a year ago. For the full year, net income was a record \$17,080,000 or \$1.69 per diluted share compared to \$6,134,000 or \$.60 per share in 2000. Earnings for 2000 were adversely effected by a \$9.02 million (after tax) restructuring charge taken in the third quarter of that year.

Key performance measures for the quarter and the year were generally improved over year-ago levels. Returns on average assets (ROA) for the quarter and the year were 1.03% and 1.08% respectively (compared to 1.05% and .39% a year ago) and returns on average equity (ROE) were 13.21% for the quarter and 13.77% for the full year (compared to 14.28% and 5.35% respectively)

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in 2000). Excluding acquisition costs, ROA for the quarter and the full year would have been 1.08% and 1.09% respectively and ROE for the same periods would have been 13.81% and 13.93%. Net interest margin results were mixed finishing the quarter and year at 3.57% and 3.49% respectively compared to 3.65% and 3.46% for the same periods in 2000. The Company's fourth quarter efficiency ratio improved minimally to 60.27% from 60.77% a year ago and was 58.78% for the full year, dramatically stronger than the 70.67% reported for 2000. The Company's net overhead ratio was similarly improved to 1.49% for the quarter (from 1.81% last year) and 1.51% for the year (from 2.23% in 2000).

Second Bancorp Treasurer David L. Kellerman indicated "A couple of the Company's key performance measures were adversely effected by market conditions during the year. Specifically, ROE for the quarter and the year was restrained by increases in balance sheet equity resulting from significant growth in unrecognized gains in the Company's investment portfolio. Sluggishness in the Company's net interest margin reflected, in part, the impact of the Federal Reserve's successive interest rate reductions during 2001. Anticipated stabilization of rates in 2002 will stimulate margin growth this year.

Excluding securities gains and trading results for each period, non-interest income for the quarter and for the year was \$5.8 million and \$18.9 million respectively, dramatic 55% and 71% improvements over year-ago results. The strength in non-interest income was primarily the result of robust secondary market and loan servicing activity in our core mortgage lending business and significant growth in deposit account service charges. Non-interest expenses, while climbing to \$12 million for the fourth quarter, finished 2001 at \$41.9 million, 5.1% lower than a year ago. The increase in fourth quarter expenses was lead by growth in salary and benefit costs. In large part, the higher costs were the result of (i) increased staffing in support of our mortgage loan business to keep pace with accelerating loan and loan servicing activity, (ii) payment of employee incentives tied to improved profitability and loan and fee business generation, and (iii) an unusually large volume of medical and hospital claims under the Company's previously self-funded benefit plan.

Credit quality continues to be a focal point for the Company as recessionary pressures persist. The level of non-performing loans and net charge-offs trended upward during 2001 and were .94% of year-end loans and .47% of average loans for the year respectively. Second Bancorp's loan loss reserve continues to provide adequate coverage for non-performing assets at 1.49% of total year-end loans, seven basis points higher than the reserve a year ago.

Second Bancorp President and Chief Executive Officer R. L. (Rick) Blossom stated "Second Bancorp and subsidiary Second National Bank have had a solid year marked by controlled costs, by growth in key businesses lines, especially those generating all-important fee income, and by consistently improving bottom-line earnings. Noteworthy among many positive developments during the year were the acquisition and successful integration of Commerce Exchange Corporation giving us greater access to the attractive suburban Cleveland market. Equally important were the performances of our mortgage loan and deposit generating lines of business. Flexibility and rapid response to changing market conditions allowed the Company's mortgage loan department to recognize and seize opportunities presented by the falling interest rate environment that characterized 2001. Our line-of-business focus on deposits also helped to stabilize the Company's net interest margin during the year and position it for future growth by simplifying product lines and shifting deposit generating initiatives to core deposit growth. These and other efforts have been recognized and rewarded by the securities market pushing the value of our common stock to \$21.61 at year end, up nearly 50% over the course of the year.

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The Company also reported that its Board of Directors declared a seventeen cent (\$.17) per share common dividend payable January 31, 2002 to shareholders of record on January 15. That dividend is unchanged from last quarter and is 6.25% higher than the dividend paid for the fourth quarter of 2000.

**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 \$1.7 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 37 retail banking centers.

Additional information about Second Bancorp and information about products and services offered by Second National Bank can be found on the 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 Subsidiaries Financial Highlights Quarterly Data

(Dollars in thousands, except per share data)

	Dec. 2001	Sept. 2001	June 2001	March 2001	Dec. 2000
<b>Earnings:</b>					
Net interest income	\$ 13,503	\$ 12,473	\$ 12,298	\$ 11,916	\$ 12,708
Provision for loan losses	1,627	988	1,342	761	903
Non-interest income	5,845	4,420	4,630	3,972	3,776
Security gains (losses)	2	123	(12)	529	98
Trading account (losses) gains	0	(52)	13	58	10
Non-interest expense	12,001	10,082	9,805	10,051	10,345
Federal income taxes	1,388	1,493	1,524	1,475	1,314
<b>Income before accounting change</b>	<b>4,334</b>	<b>4,401</b>	<b>4,258</b>	<b>4,188</b>	<b>4,030</b>
Cumulative effect of accounting change, net of tax	0	0	0	(101)	0
<b>Net income</b>	<b>\$ 4,334</b>	<b>\$ 4,401</b>	<b>\$ 4,258</b>	<b>\$ 4,087</b>	<b>\$ 4,030</b>
<b>Per share:</b>					
Basic earnings before accounting change	n/a	n/a	n/a	\$ 0.42	n/a
Basic earnings	0.43	0.43	0.42	0.41	0.40
Diluted earnings before accounting change	n/a	n/a	n/a	0.42	n/a
Diluted earnings	0.43	0.43	0.42	0.41	0.40
Common dividends	0.17	0.17	0.17	0.17	0.16
Book value	12.90	13.04	12.29	12.20	11.65

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Tangible book value	11.10	12.90	12.15	12.04	11.49
Market value	21.61	20.50	22.90	17.50	14.50

## **Weighted average shares outstanding:**

Basic	9,988,137	10,033,365	10,007,904	10,020,097	10,050,177
Diluted	10,075,690	10,117,705	10,103,060	10,046,562	10,069,215

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<b>Period end balance sheet:</b>					
Assets	\$ 1,680,356	\$ 1,609,019	\$ 1,578,370	\$ 1,571,831	\$ 1,546,290
Securities	417,496	407,004	380,262	377,323	382,098
Total loans	1,121,892	1,060,778	1,075,039	1,076,284	1,070,089
Reserve for loan losses	16,695	15,429	15,609	15,778	15,217
Deposits	1,123,131	1,057,291	1,059,758	1,061,556	1,036,135
Total shareholders equity	128,299	130,766	123,107	121,968	117,197
Tier I capital	137,395	149,171	119,857	117,497	115,315
Tier I ratio	11.3%	13.1%	10.4%	10.3%	10.3%
Total capital	152,550	163,385	134,302	131,768	129,366
Total capital ratio	12.6%	14.4%	11.6%	11.5%	11.5%
Total risk-adjusted assets	1,210,858	1,135,902	1,155,561	1,141,685	1,124,076
Tier I leverage ratio	8.2%	9.4%	7.6%	7.6%	7.5%
<b>Average balance sheet:</b>					
Assets	\$ 1,685,148	\$ 1,582,934	\$ 1,570,016	\$ 1,544,368	\$ 1,541,049
Earning assets	1,574,906	1,494,932	1,483,598	1,453,969	1,452,756
Loans	1,100,573	1,064,655	1,074,936	1,072,460	1,061,023
Deposits	1,109,855	1,061,537	1,063,415	1,046,349	1,053,740
Shareholders equity	131,262	126,950	121,840	118,879	112,892
<b>Key ratios: (%) (1)</b>					
Return on average assets (ROA)	1.08	1.11	1.08	1.08	1.05
Return on average shareholders equity (ROE)	13.81	13.87	13.98	14.09	14.28
Net interest margin	3.57	3.49	3.47	3.43	3.65
Net overhead	1.49	1.53	1.39	1.66	1.81
Efficiency ratio	58.74	57.89	56.00	60.94	60.77
<b>Credit quality:</b>					
Non-accrual loans	\$ 5,004	\$ 4,273	\$ 4,666	\$ 5,163	\$ 4,699
Restructured loans	258	358	38	40	43
90 day past due and accruing	5,304	4,693	5,415	3,849	3,238
Non-performing loans	10,566	9,324	10,119	9,052	7,980
Other real estate owned	1,399	1,322	1,063	918	902
Non-performing assets	\$ 11,965	\$ 10,646	\$ 11,182	\$ 9,970	\$ 8,882
Charge-offs	\$ 2,458	\$ 1,343	\$ 1,808	\$ 862	\$ 939
Recoveries	219	175	297	662	213
Net charge-offs	\$ 2,239	\$ 1,168	\$ 1,511	\$ 200	\$ 726
Reserve for loan losses as a percent of period-end loans (%)	1.49	1.45	1.45	1.47	1.42
Net charge-offs (annualized) as a percent of average loans (%)	0.81	0.44	0.56	0.07	0.27
Non-performing loans as a percent of loans	0.94	0.88	0.94	0.84	0.75
Non-performing assets as a percent of assets	0.71	0.66	0.71	0.63	0.57

(1) Based on income before accounting change and excludes merger costs.

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

(Dollars in thousands, except per share data)

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	<u>Dec. 2001</u>	<u>Sept. 2001</u>	<u>June 2001</u>	<u>March 2001</u>	<u>Dec. 2000</u>
<b>Earnings:</b>					
Net interest income	\$50,190	\$36,687	\$24,214	\$11,916	\$49,377
Provision for loan losses	4,718	3,091	2,103	761	7,129
Non-interest income	18,867	13,022	8,602	3,972	11,009
Security gains (losses)	642	640	517	529	(2,399)
Trading account gains (losses)	19	19	71	58	(335)
Non-interest expense	41,939	29,938	19,856	10,051	44,213
Federal income taxes	5,880	4,492	2,999	1,475	176
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<b>Income before accounting change</b>	<b>17,181</b>	<b>12,847</b>	<b>8,446</b>	<b>4,188</b>	<b>6,134</b>
Cumulative effect of accounting change, net of tax	(101)	(101)	(101)	(101)	0
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<b>Net income</b>	<b>\$17,080</b>	<b>\$12,746</b>	<b>\$ 8,345</b>	<b>\$ 4,087</b>	<b>\$ 6,134</b>
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**Per share:**

Basic earnings before accounting change	\$ 1.72	\$ 1.28	\$ 0.84	\$ 0.42	n/a
Basic earnings	1.70	1.27	0.83	0.41	0.60
Diluted earnings before accounting change	1.71	1.27	0.84	0.42	n/a
Diluted earnings	1.69	1.26	0.83	0.41	0.60
Common dividends	0.68	0.51	0.34	0.17	0.64
Book value	12.90	13.04	12.29	12.20	11.65
Tangible book value	11.10	12.90	12.15	12.04	11.46
Market value	21.61	20.50	22.90	17.50	14.50

**Weighted av**